Essity Operations Manchester Limited

Annual report and financial statements

for the year ended 31 December 2020

Registered number: 04119442

Essity Operations Manchester Limited

Annual report and financial statements

for the year ended 31 December 2020

Contents

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
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Bedfordshire
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Independent auditors
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Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2020

Review of business and future developments
The company manufactures disposable hygiene products which are being sold primarily to its sister company, Essity UK Limited.

Market conditions remain very competitive. Restructuring of manufacturing operations and the continued focus on innovation and operational efficiency improvement programmes has had a positive impact enabling costs in 2020 to be controlled to remain competitive.

The global economy in 2020 was significantly impacted by the pandemic outbreak of Coronavirus (COVID-19), which started in China and quickly spread over Europe and the United States. The economic impact of COVID-19 has been severe and has impacted the global economy in 2020, however the overall performance of the company throughout 2020 and into 2021 has not been significantly impacted.

UK Production facilities
Covid-19 safe working practices were adopted quickly in 2020. As a result, no production time has been lost due to Covid-19. With safe working practices still in existence, no disruption to production is expected.

Office based employees
Office based employees were required to work from home, except where not possible, in advance of government advice to do so. Business operations and engagement with customers and suppliers have not been adversely affected by home working.

While the vast majority of employees continue to work from home, all offices have been set up with Covid-19 safe working conditions. Management continue to monitor the situation with regards to office-based employees returning to the office environment to ensure that business operations are not disrupted.

Market conditions
The company as a whole has seen a positive impact from Covid-19 and is not expecting any significant negative impacts looking forward.

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:

	2020	2019
Current Ratio – current assets divided by current liabilities	**0.3**	0.3
External Current Ratio – 3rd party current assets divided by 3rd party current liabilities	**1.0**	1.1
Gross Margin - the ratio of gross profit to turnover expressed as a percentage	**7.1%**	7.4%
Pre-tax profit Margin – the ratio of the profit before tax to turnover expressed as a percentage	**6.3%**	4.6%

Dividends
The directors do not propose the payment of a dividend (2019 £nil).

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.

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.

Financial risk management (continued)

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.

Statement by the directors in performance of their statutory duties in accordance with Section 172(1) Companies Act 2006

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so having regard to the matters set out in section 172 (1) (a) to (f) below.

The company is part of the Essity group and as such, the directors of the company benefit from and contribute to Essity's global vision, Beliefs and Behaviours and Code of Conduct and apply these in promoting the success of the company.

The likely consequences of any decision in the long term

Essity's vision is "Dedicated to improving well-being through leading hygiene and health solutions". Using a sustainable business model and a focus on profitable growth, Essity strives to achieve group targets relating to organic sales growth, profitability and sustainability and to generate long-term value creation. The directors, through operational business units, ensure strategic decisions are taken with Essity's vision and targets in focus.

The interests of the company's employees

The company aims to provide an open, healthy and respectful workplace based on fair and responsible principles. With regards to safety, the company has a vision for zero accidents. The directors promote personal responsibility for health and safety, and ensure managers promote a safety culture that is embedded throughout the company.

We place value on having a diverse workforce and our aspiration is to help every employee reach their full potential. We engage in a fair and open dialogue with all employees and their representatives. Please see the Directors' Report on pages 7 and 8 for more details regarding employee engagement.

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2020 (continued)

Statement by the directors in performance of their statutory duties in accordance with Section 172(1) Companies Act 2006 (continued)

The need to foster the company's business relationships with suppliers, customers and others
Essity's Code of Conduct leads all employees to behave in a manner which will foster professional and constructive relationships with suppliers, customers and other stakeholders.

The company's products improve everyday life through Essity innovation and marketing teams developing solutions based on a unique insight into the needs, challenges and expectations of our customers and consumers. We break barriers through bold marketing of sensitive products

The impact of the company's operations on the community and the environment
The company engages with local communities through charitable donations and encouraging employees to generate opportunities to involve each site in its local community.

The company actively contributes towards Essity's targets to reduce resource consumption, reduce water usage and for responsible sourcing.

The desirability of the company maintaining a reputation for high standards of business conduct
The company aims to conduct all its business fairly and build relationships based upon honesty and integrity. Employees receive training in Essity's Code of Conduct to ensure high standards of business conduct.

The need to act fairly as between members of the company
The company is ultimately a 100% subsidiary of its ultimate parent company and controlling party, Essity Aktiebolag (publ), a company incorporated in Sweden. The directors regard to promote the success of the company is held as part of the overall strategy of the Essity group.

By Order of the Board

Paul Bailey
Company secretary
30 March 2022

Essity Operations Manchester Limited

Director's report for the year ended 31 December 2020

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

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 3 and 4 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	

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.

Our diversity makes us strong and creates an inclusive, inviting and harmonious workplace where individuality is appreciated by everyone.

As such incoming applications are selected based on professional qualifications and working values regardless of disability, ethnicity, religion, gender, sexual identity, nationality or age.

The vision for all Essity employees is that irrespective of background, everyone can thrive. Therefore, our aims are that employees feel a sense of belonging, are treated with dignity, respect and kindness by default and have the same opportunities for career progression as each other.

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2020 (continued)

Employees (continued)
Essity has a zero tolerance policy for behaviour not aligned to our core values and employees are empowered to speak out, where this is experienced or observed. Employees can expect to work within a safe environment, where we aim for a policy of zero-accidents and Essity Directors promote a culture of personal health, safety and wellness. Our commitments in these areas are supported by comprehensive policies and programmes that employees are actively engaged in.

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 company was profitable in 2020 and is in a zero position for net third party current assets at the balance sheet date.

As a result of applying an asset ceiling to the company's pension surplus at 31 December 2020, the company has net liabilities of £83.3 million at 31 December 2020. The company has issued share capital of £90 million in December 2021, satisfied in full by a reduction in intercompany liabilities to ensure that the company can return to a net asset position.

The directors have received confirmation that the ultimate parent company, Essity Aktiebolag (publ)., intends to support the company at least until 31 March 2023.

The company has seen a positive impact from Covid-19 and is not expecting any significant negative impacts looking forward.

The company has access to significant cash reserves which are administered by the Essity group treasury function through its cash pool, which could be drawn upon by the company if needed. The Group remains in a strong position and, like the UK business, continues to trade well through the pandemic.

The directors, having reviewed the company's current performance, forecasts and in consideration of group financing arrangements, including specific consideration of the current Coronavirus outbreak, consider that the company has sufficient resources to continue in operation and meet its liabilities as they fall due. Accordingly, the directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

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.

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2020 (continued)

Streamlined Energy and Carbon Reporting

Energy use type	FY 2020 Consumption	FY 2020 emissions (tCO2)
Gas use in buildings (MWh)	166,960	30,733
Total Scope 1	**166,960**	**30,733**
Electricity use in buildings (MWh)	83,418	19,270
Total Scope 2	**83,418**	**19,270**
Total	**250,378**	**50,003**

In order to facilitate year on year comparison of emissions taking into account fluctuations in activity level the compny has calculated the intensity ratio of emissions per PM production tonne and per UK revenue. This is based on total PM production of 45Ktonnes and £98m revenue for the year to 31 December 2020.

	Emissions per PM production tonne (tCO2 per production tonne)	Emissions per turnover (tCO2 per £million)
Scope 1 and 2	1.111	510

Energy efficiency action taken

Essity has a company-wide energy monitoring and reduction process, which is used by all the UK manufacturing sites. This process compares energy usage across all the Essity sites worldwide and provides proven energy saving techniques for the individual sites to invest in.

The site is ISO 50001 certified and its programme and results are externally reviewed against the requirements of the standard.

In the year 2019/2020, the company has undertaken the following energy efficiency measures:

It is Essity's practice when replacing motors that high efficiency models are purchased. These motors are categorised by IE1 to IE 5, with IE5 being the most efficient to replace.

- Yankee Economiser 1000
- LED lighting (continued implementation)
- Site exterior photocell lighting control
- Paper making process stabilisation
- Paper making moisture profile study

Methodology used for carbon footprint calculations

The Paper Industry is classed as energy intensive and is therefore regulated under the European Union Emissions Trading scheme (EU ETs) Regulations, Climate Change Agreement Scheme (CCA) and the Energy Savings Opportunity Scheme (ESOS). All Essity tissue mills are regulated under these schemes. Each of these schemes requires the company to regularly monitor its energy usage and look at opportunities to reduce energy.

Carbon Dioxide emissions for fossil fuel usage is calculated using the EUETs methodology. The calculation is verified by an external verification company. Carbon emissions from electricity usage are calculated using the published UK annual emissions carbon factor for electricity generation. For 2020 this was 231 g/KWhr.

For further information on sustainability please refer to Essity's annual sustainability report:

https://www.essity.com/sustainability/

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2020 (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

Paul Bailey
Company secretary
30 March 2022

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

Opinion

We have audited the financial statements of Essity Operations Manchester Limited for the year ended 31 December 2020 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 22 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 2020 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. 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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 March 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9 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.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant to be those relating to United Kingdom General Accepted Accounting Practice, the Companies Act 2006, and the relevant tax compliance regulations in the jurisdictions in which the company operates. In addition, the company must comply with operational and employment laws and regulations including health and safety regulations, environmental regulations and GDPR.

- We understood how the company is complying with those frameworks by making enquiries of senior finance personnel and gaining an understanding of the entity level controls of the company in respect of these areas and the controls in place to reduce the opportunity for fraudulent transactions.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We considered the procedures and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and gained an understanding as to how those procedures and controls are implemented and monitored. We determined there to be a risk of management override in relation to posting of non-standard manual journals in respect of revenue. To address the risk of management override, we have used data analytics and obtained the entire population of journals for the year, and identified specific transactions for further investigation based on certain criteria. We understood the transactions identified for testing and agreed them to source documentation.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures included obtaining and reading board and management meeting minutes and relevant approval documents, enquiries of senior finance personnel and agreement of samples of transactions throughout the audit to supporting source documentation.

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.

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

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.

Ernst & Young LLP

Adrian Bennett (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
31 March 2022

Essity Operations Manchester Limited

Income Statement for the year ended 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Turnover	1	**91,697**	98,858
Cost of sales		**(85,177)**	(91,535)
Gross profit		**6,520**	7,323
Other operating charges	2	**(7,579)**	(7,813)
Other operating income	3	**6,182**	6,840
Operating profit	6	**5,123**	6,350
Interest receivable and similar income	7	**-**	47
Interest payable and similar charges	8	**(1,945)**	(2,250)
Other finance income	18	**2,983**	405
Profit on ordinary activities before taxation		**6,161**	4,552
Tax on profit on ordinary activities	9	**(3,921)**	(164)
Profit for the financial year		**2,241**	4,388

All activities are in respect of continuing operations.

Essity Operations Manchester Limited

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Profit for the financial year	20	**2,241**	4,388
Actuarial (losses)/gains on pension scheme	18	**(82,245)**	98,481
Impact of asset ceiling on pension surplus	18	**(107,291)**	-
Movement on deferred tax relating to pension scheme	17	**35,214**	(16,742)
Cash flow hedges	20	**1,842**	(1,765)
Movement on deferred tax relating to cash flow hedges	17	**(343)**	331
Current tax charge relating to cash flow hedges	20	**(11)**	(11)
Other comprehensive (loss)/income for the year		**(152,834)**	80,294
Total comprehensive (loss)/income for the year		**(150,593)**	84,682

Essity Operations Manchester Limited

Statement of financial position as at 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Non-current assets			
Intangible assets	10	**5,923**	5,967
Tangible assets	11	**50,189**	48,353
Right of use assets	21	**3**	7
		56,115	54,327
Current assets			
Stocks	12	**8,207**	7,952
Debtors: amounts falling due within one year	13	**30,657**	30,890
Cash at bank and in hand		**-**	33
		38,864	38,875
Total assets		**94,979**	93,202
Current liabilities			
Trade and other payables	14	**150,880**	127,192
Provisions	15	**643**	662
		151,523	127,854
Non-current liabilities			
Amounts owed to group companies	16	**22,186**	22,130
Deferred tax liabilities	17	**4,567**	29,987
		26,753	52,117
Total liabilities		**178,276**	179,971
Net liabilities excluding pension surplus		**(83,297)**	(86,769)
Pension surplus	18	**-**	154,065
Net (liabilities)/assets including pension surplus		**(83,297)**	67,296
Capital and reserves			
Called up share capital	19	**65,000**	65,000
Cash flow hedge reserve		**919**	(569)
Retained earnings		**(149,216)**	2,865
Total equity		**(83,297)**	67,296

The financial statements on pages 14 to 42 were approved by the board of directors on 30 March 2022 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 2020

	Called up share capital	Cash flow hedge reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
As at 1 January 2019 (Restated)	65,000	876	(83,262)	(17,386)
Profit for the financial year	-	-	4,388	4,388
Actuarial gain recognised in the pension scheme	-	-	98,481	98,481
Movement on deferred tax relating to pension scheme	-	-	(16,742)	(16,742)
Cash flow hedges	-	(1,765)	-	(1,765)
Movement on deferred tax relating to cash flow hedges	-	331	-	331
Current tax charge relating to cash flow hedges	-	(11)	-	(11)
Total comprehensive income/(expense)	-	(1,445)	86,127	84,682
As at 31 December 2019 (Restated)	**65,000**	**(569)**	**2,865**	**67,296**
As at 1 January 2020	**65,000**	**(569)**	**2,865**	**67,296**
Profit for the financial year	-	-	2,241	2,241
Actuarial losses on pension scheme	-	-	(82,245)	(82,245)
Impact of asset ceiling on pension surplus	-	-	(107,291)	(107,291)
Movement on deferred tax relating to pension scheme	-	-	35,214	35,214
Cash flow hedges	-	1,842	-	1,842
Movement on deferred tax relating to cash flow hedges	-	(343)	-	(343)
Current tax charge relating to cash flow hedges	-	(11)	-	(11)
Total comprehensive income/(expense)	**-**	**1,488**	**(152,081)**	**(150,593)**
As at 31 December 2020	**65,000**	**919**	**(149,216)**	**(83,297)**

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.

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:
    - paragraph 79(a)(iv) of IAS 1
    - paragraph 73(e) of IAS 16 Property, plant and equipment
    - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

Statement of accounting policies (continued)

Exemptions (cont)
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.

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.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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.

Leases
When an agreement is entered into, the company must first consider whether the contract is, or contains, a lease. A contract is, or contains, a lease if:

- it contains an identified asset
- the lessee is entitled to essentially all the economic benefits arising from the use of the identified asset
- the lessee is entitled to control the use of the asset.

On the commencement date of the lease, a right-of-use asset and a liability are recognised in the balance sheet. The right-of-use asset is measured at cost and recognised in the balance sheet within non-current assets. The asset is depreciated on a straight-line basis over the shorter period of the assets anticipated useful life and the lease term.

The lease liability is measured at the present value of the future lease payments and recognised within creditors. When making lease payments, the contribution is allocated between interest expense and amortisation of the outstanding lease liability.

In the Income statement, depreciation of the right-of-use asset is recognised in operating profit while interest expense is recognised within Interest payable and similar charges.

The company has decided to apply the exemption rules for short-term leases and leases where the underlying asset has a low value. These leases are not included in the right-of-use asset or the lease liability. Lease payments for these contracts are expensed on a straight-line basis over the useful life.

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.

Statement of accounting policies (continued)

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
The company applies IFRS 15 Revenue from Contracts with Customers that regulates revenue recognition and disclosure requirements for commercial agreements (contracts) with customers. The standard pertains to commercial agreements with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently.

Revenue recognition
The company generates revenues from the sale of products, primarily to fellow subsidiary companies, which are work in progress towards finished products for Essity to sell, for example to the retail sector, industries and the healthcare sector. The company's contracts with customers primarily comprise framework agreements without established minimum volumes, which means that a binding contract according to IFRS 15 criteria does not arise until the customer places an order.

Performance obligations and timing of revenue recognition
The company's performance obligations in the contracts involve providing the goods specified in the contracts. The performance obligations are satisfied and the revenue recognized when control of the products is passed to the customer. The timing of when control is passed to the customer is determined by the terms of delivery (Incoterms) applied in the contract. For most supply contracts, control is passed when the goods have been delivered to the customer's warehouse and the customer thereby can control the use and receive the benefits of the goods. Invoicing is normally done in connection with, or directly after, delivery and recognized at a specific point in time, no revenue is recognized over time. Essity has chosen to apply the practical expedient in IFRS 15 not to disclose the remaining performance obligations that have a term of less than one year.

Determination of transaction price
The transaction price comprises the fixed price of the quantity of goods sold. Customers have only limited rights to return products and historically returned volumes have been low. The company essentially grants customers no right of return except when the products are faulty. Past experience is used to estimate the share of returns at the time of sale and revenue is only recognized for products that are not expected to be returned.

Trade receivables
Once the goods and services have been delivered and control has been passed to the customer, a trade receivable is recognized since this is the point in time when the consideration becomes unconditional, only the passage of time is required for payment to be made.

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.

Other Operating Income
Other Operating Income includes revenue from all other operating activities which are not related to the principal activities of the company such as costs charged to Pension Plan, Rental income and exchange gains.

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. If the plan is in surplus, an assets ceiling is applied based on recoverability of the surplus. 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.

Statement of accounting policies (continued)

Employee benefits (continued)

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 ultimate parent company, Essity Aktiebolag (publ)., intends to support the company at least until 31 March 2023.

As a result of applying an asset ceiling to the company's pension surplus at 31 December 2020, the company has net liabilities of £83.3 million at 31 December 2020. The company has issued share capital of £90 million in December 2021, satisfied in full by a reduction in intercompany liabilities to ensure that the company can return to a net asset position.

The company has seen a positive impact from Covid-19 and is not expecting any significant negative impacts looking forward.

The company has access to significant cash reserves which are administered by the Essity group treasury function through its cash pool, which could be drawn upon by the company if needed. The Group remains in a strong position and, like the UK business, continues to trade well through the pandemic.

The directors, having reviewed the company's current performance, forecasts and in consideration of group financing arrangements, including specific consideration of the current Coronavirus outbreak, consider that the company has sufficient resources to continue in operation and meet its liabilities as they fall due. Accordingly, the directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

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.

Statement of accounting policies (continued)

Prior year adjustments

i. Defined benefit pension scheme

In preparation of the financial statements for the year ended 31 December 2020, management have reviewed the valuation of the Defined Benefit Obligation (DBO) in previous years. It was discovered that no allowance had been made at 31 December 2018 for GMP equalisation as a result of a high court ruling on 26 October 2018. As such, a prior period adjustment is required to recognise the increase in the DBO, and resultant reduction in pension surplus recognised in the statement of financial position.

The error has been corrected by restating the affected financial statements for the prior period as below.

Statement of financial position (extract)

	31 December 2018	Increase/ (Decrease)	1 January 2019 (Restated)	31 December 2019	Increase/ (Decrease)	31 December 2019 (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Deferred tax liabilities	(9,036)	1,024	(8,012)	(31,095)	1,108	(29,987)
Net liabilities excluding pension surplus	**(40,701)**	**1,024**	**(39,677)**	**(87,877)**	**1,108**	**(86,769)**
Pension surplus	28,313	(6,022)	22,291	160,582	(6,517)	154,065
Net (liabilities)/assets including pension surplus	**(12,388)**	**(4,998)**	**(17,386)**	**72,705**	**(5,409)**	**67,296**
Retained earnings	78,264	4,998	83,262	(8,274)	5,409	(2,865)
Total equity	**12,388**	**4,998**	**17,386**	**(72,705)**	**5,409**	**(67,296)**

Income statement (extract)

	2019	Increase/ (Decrease)	2019 (Restated)
	£'000	£'000	£'000
Operating profit	**6,350**	**-**	**6,350**
Other finance income	**900**	**(495)**	**405**
Profit on ordinary activities before taxation	**5,047**	**(495)**	**4,552**
Tax on profit on ordinary activities	**(248)**	**84**	**(164)**
Profit for the financial year	**4,799**	**(411)**	**4,388**

Statement of accounting policies (continued)

Prior year adjustments(continued)

ii. Reclassification of income

In preparation of the financial statements for the year ended 31 December 2020, the directors have reviewed the classification of Pension administration costs charged to the SCA UK Pension plan in the Income statement. This income has previously been recognised as Turnover: The directors have considered the nature of this income and considered that this should have been recognised as other operating income. The directors consider that this treatment would also be correct for the comparative year ended 31 December 2019.

Accordingly, for the year ended 31 December 2019, Turnover has been restated from £105,291,000 to £98,858,000, and Other operating income has been restated from £406,000 to £6,840,000.

There is no impact on the profit for the financial year ended 31 December 2019, the Statement of financial position at 31 December 2019 or on the retained earnings of the company at 31 December 2019 from this restatement.

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

1 Turnover

All turnover is derived from one class of business, which is from the sale of products, primarily to fellow subsidiary companies, which are work in progress towards finished products for Essity group companies.

See Note 13 for amounts due from external customers, in Trade debtors, and amounts due from other group companies derived from turnover.

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

	2020	Restated 2019
	£'000	£'000
United Kingdom	**84,825**	92,352
Rest of Europe	**6,756**	5,055
Rest of the world	**116**	1,451
	91,697	98,858

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

2 Other operating charges

	2020	2019
	£'000	£'000
Administrative expenses	**7,341**	7,621
Selling expenses	**238**	192
	7,579	7,813

3 Other operating income

	2020	Restated 2019
	£'000	£'000
Costs charged to SCA UK Pension Plan	**5,890**	6,434
Compensation receivable	**-**	221
Rental income	**254**	135
Exchange gains	**38**	50
	6,182	6,840

4 Directors' emoluments

The directors received £nil remuneration from the company during the year (2019: £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 non-trading entities in the group. The directors did not receive any emoluments in respect of their services to the company.

The aggregate emoluments for the company's directors, paid by Essity UK Limited was:

	2020	2019
	£'000	£'000
Aggregate emoluments for qualifying services	**687**	724
Aggregate value of company contributions to pension schemes	**35**	29
	722	753

5 Employee information

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

	2020	2019
	Number	Number
By activity		
Production and distribution	**177**	170
Administration	**2**	1
	179	171

	2020	2019
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	**7,475**	7,380
Social security costs	**732**	706
Other pension costs	**2,835**	2,426
	11,042	10,512

Essity Operations Manchester Limited

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

6 Operating Profit

	2020	2019
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation charge for the year on owned tangible fixed assets	**4,338**	4,214
Inventory recognised as an expense	**56,430**	62,608
Exchange gains	**(50)**	(50)

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 £43,000 (2019: £43,000).

7 Interest receivable and similar income

	2020	2019
	£'000	£'000
On amounts owed by group undertakings	**-**	47

8 Interest payable and similar charges

	2020	2019
	£'000	£'000
On amounts owed to group undertakings	**1,945**	2,250

Essity Operations Manchester Limited

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

9 Tax on profit on ordinary activities

Tax charge included in the income statement

	2020 £'000	Restated 2019 £'000
Current tax:		
United Kingdom corporation tax on profit for the year		
- Current tax on profit	**(5,520)**	(5,410)
- Adjustments in respect of prior year	**(10)**	10
Total current tax credit	**(5,530)**	(5,400)
Deferred tax:		
- Origination and reversal of timing differences	**6,732**	6,315
- Rate change	**2,750**	(673)
- Prior year adjustment	**(31)**	(78)
- Pension costs in excess of relief	**-**	-
Total deferred tax charge (note 17)	**9,451**	5,564
Tax on profit on ordinary activities	**3,921**	164

Tax (credit)/charge included in other comprehensive loss/income

	2020 £'000	2019 £'000
Current tax	**11**	11
Deferred tax:		
- Origination and reversal of temporary differences	**(34,871)**	16,411
Total tax (credit)/charge included in other comprehensive loss/income	**(34,860)**	16,422

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 19% (2019: 19%). The actual tax charge for the year is higher (2019: lower) than the standard rate for the reasons set out in the following reconciliation:

	2020	Restated 2019
	£'000	£'000
Profit on ordinary activities before taxation	**6,161**	4,552
Profit on ordinary activities multiplied by the standard rate of corporation tax 19% (2019: 19%)	**1,171**	865
Effects of:		
- Expenses not deductible for tax purposes	**41**	30
- Deferred tax effect of reduction in main rate of Corporation Tax	**2,750**	(663)
- Adjustments in respect of prior year	**(41)**	(68)
Tax charge	**3,921**	164

The Finance Act 2016, which was enacted on 15 September 2016 included legislation to reduce the main rate of Corporation Tax from 19% to 17% from 1 April 2020. Consequently deferred tax was recognised at a rate of 17% in the prior year. In the UK Budget of 11th March 2020 the rate applicable from 1st April 2020 was set at 19%, this change was substantively enacted on 17th March 2020.

After the balance sheet date, it was announced that the UK's main rate of corporation tax applicable from 1 April 2023 will increase from 19% to 25%. This change was not substantively enacted at the balance sheet date and hence the impact has not been reflected in the measurement of deferred tax balances at the year-end.

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

10 Intangible assets

	Emission rights	Patents/ licence	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2020	798	24	5,169	5,991
Additions	730	-	-	730
Disposals	(798)	-	-	(798)
Reclassifications from tangible assets	-	26	-	26
At 31 December 2020	**730**	**50**	**5,169**	**5,949**
Accumulated amortisation				
At 1 January 2020	-	24	-	24
Charge for the year	-	2	-	2
At 31 December 2020	**-**	**26**	**-**	**26**
Net book amount				
As at 31 December 2020	**730**	**24**	**5,169**	**5,923**
As at 31 December 2019	**798**	**-**	**5,169**	**5,967**

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

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

11 Tangible fixed assets

	Freehold land and improvements	Buildings	Plant and machinery	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January 2020	6,792	20,441	79,574	4,001	110,808
Additions	47	-	582	5,600	6,229
Disposals	-	-	(50)	-	(50)
Reclassifications	312	218	3,065	(3,621)	(26)
At 31 December 2020	**7,151**	**20,659**	**83,171**	**5,980**	**116,961**
Accumulated depreciation					
At 1 January 2020	629	10,900	50,926	-	62,455
Charge for the year	60	753	3,525	-	4,338
Disposals	-	-	(21)	-	(21)
At 31 December 2020	**689**	**11,653**	**54,430**	**-**	**66,772**
Net book amount					
At 31 December 2020	**6,462**	**9,006**	**28,741**	**5,980**	**50,189**
At 31 December 2019	6,163	9,541	28,648	4,001	48,353

The value of freehold land not depreciated as at 31 December 2020 was £5,740,000 (2019: £5,740,000).

12 Stocks

	2020	2019
	£'000	£'000
Raw materials and consumables	**3,246**	3,749
Work in progress	**1,800**	1,282
Engineering stores	**3,161**	2,921
	8,207	7,952

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

13 Debtors

	2020	2019
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**1,843**	2,171
Amounts owed by group undertakings	**26,061**	26,501
Other taxation and social security	**1,171**	1,453
Other debtors	**125**	-
Prepayments and accrued income	**1,457**	765
	30,657	30,890

Amounts owed by group undertakings include:

i) The fair value of gains on contracts at the balance sheet date relating to currency of £13,000 (2019: £11,000) and relating to energy of £971,000 (2019: £2,000).

ii) An amount owed by Essity Treasury AB of £nil (2019: £278,000) on which interest is receivable at the 6 month GBP LIBOR rate.

iii) Group relief receivable of £10,917,000 (2019: £11,600,000)

iv) An amount of £14,126,000 (2019: £14,576,000) due from other Essity group companies derived from revenue from contracts with customers.

All other amounts owed by group undertakings are interest free trading balances.

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

14 Trade and other payables

	2020	2019
	£'000	£'000
Lease liabilities	**2**	6
Trade creditors	**7,175**	6,111
Amounts owed to group undertakings	**138,716**	116,203
Accruals and deferred income	**4,987**	4,872
	150,880	127,192

Amounts owed to group undertakings include:

i) Amounts owed to Essity Treasury AB as follows.

- £131,949,000 (2019: £113,185,000) on which interest is payable at the 6-month GBP LIBOR rate plus 1.10%.
- £1,655,000 (2019: £nil), a balance designated in Euros, on which interest is payable at the 6-month Euribor rate plus 1.10%.
- £1,751,000 (2019: £nil), a balance designated in US Dollars, on which interest is payable at the 6-month USD LIBOR rate plus 1.10%.

ii) The fair value of losses on contracts at the balance sheet date relating to currency of £130,000 (2019: £10,000) and relating to energy of £33,000 (2019: £959,000).

All other amounts owed to group undertakings are trading balances.

15 Provisions for liabilities

	Emission rights	**Total**
	£'000	**£'000**
At 1 January 2020	662	**662**
Emissions for the year	643	**643**
Utilised during the year	(662)	**(662)**
At 31 December 2020	643	**643**

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 2020 (continued)

16 Non-current liabilities

	2020	2019
	£'000	£'000
Amounts owed to group undertakings	**22,186**	22,130
	22,186	22,130

Amounts owed to group undertakings comprise:

i) An amount owed to Essity UK Limited of £22,186,000 (2019: £22,027,000) 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 £1,000 (2019: £105,000).

17 Deferred tax

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

	Accelerated capital allowances £'000	**Other £'000**	**Total £'000**
At January 2019 (Restated)	3,795	4,217	**8,012**
Charged/(credited) to the income statement	(130)	5,694	**5,564**
Charged to other comprehensive income	-	16,411	**16,411**
At 31 December 2019 (Restated)	**3,665**	**26,322**	**29,987**
At January 2020	3,665	26,322	**29,987**
Charged to the income statement	351	9,100	**9,451**
Credited to other comprehensive income	-	(34,871)	**(34,871)**
At 31 December 2020	**4,016**	**551**	**4,567**

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.

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.

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

18 Post-employment benefits (continued)

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 5 April 2019 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	At 31 December 2020	At 31 December 2019
	%	%
Rate of increase in pensions	**2.90%**	2.90%
Rate of increase for deferred pensions	**3.00%**	2.90%
Salary increase	**-**	-
Discount rate	**1.37%**	2.07%
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 2020	31 December 2019
	Number of years	Number of years
Longevity at age 65 for current pensioners		
- Men	**21.4**	22.1
- Women	**24.5**	24.3
Longevity at age 65 for future pensioners		
- Men	**23.1**	24.2
- Women	**26.3**	26.5

18 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities:

	Fair value of plan assets	Defined benefit obligation	Impact of asset ceiling	Total
	£'000	£'000	£'000	£'000
At 1 January 2020	**1,253,299**	**(1,099,234)**	**-**	**154,065**
Service cost	(2,000)	-	-	(2,000)
Interest expense	-	(22,725)	-	(22,725)
Benefits paid	(52,000)	52,000	-	-
Employer contributions	34,488	-	-	34,488
Actuarial gains/(losses)	14,322	(96,567)	-	(82,245)
Interest Income on plan assets	25,708	-	-	25,708
Change in asset ceiling	-	-	(107,291)	(107,291)
At 31 December 2020	**1,273,817**	**(1,166,526)**	**(107,291)**	**-**

Pension surplus

The directors undertook a study in relation to a potential scheme that had been expected to be used to secure the benefits of the pension surplus that had been recognised in previous periods. As a result of new information from this study the directors concluded that it was no longer appropriate to recognise the pension asset and therefore it was derecognised during the period and an asset ceiling applied.

At 31 December 2020, the total contributions to the defined benefit schemes in 2021 were expected to be £33,750,000 (2020: £33,750,000). However, due the funding level of the pension scheme meeting the criteria for nil contributions in line with the scheme's schedule of contributions at 31 March 2021, contributions in 2021 were £8,622,000.

Total amount recognised as an expense/(income) in the Income Statement:

	2020	2019
	£'000	£'000
Current service cost	**2,000**	1,600
Interest income	**(2,983)**	(900)
	(983)	700

Essity Operations Manchester Limited

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

18 Post-employment benefits (continued)

The fair value of plan assets were:

	2020	2019
	£'000	£'000
Equities	**489,070**	437,876
Corporate Bonds	**307,401**	382,256
Other Debt Instruments	**357,820**	320,364
Cash/Property	**119,526**	112,803
Total market value of assets	**1,273,817**	1,253,299

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is shown in the following table as an increase/(decrease) in the liability:

	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5% pa	(99,714)	109,034
Salary growth rate	0.5% pa	-	-
Pension growth rate	0.5% pa	78,622	(73,657)
Life expectancy	1 year	59,394	(56,516)

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 £835,000 (2019: £826,000). Contributions totalling £nil (2019: £nil) were payable to the funds at the year end.

19 Called-up share capital

	2020	2019
	£'000	£'000
Authorised		
6,500,000,101 (2019: 6,500,000,101) ordinary shares of £0.01 each	**65,000**	65,000
Allotted and fully paid		
6,500,000,101 (2019: 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 Reserves

	Cash flow hedge reserve	**Retained earnings**	**Total reserves**
	£'000	**£'000**	**£'000**
At 1 January 2020	**(569)**	**2,865**	**2,296**
Profit for the financial year	-	**2,241**	**2,241**
Actuarial losses on pension scheme	-	**(82,245)**	**(82,245)**
Impact of asset ceiling on pension surplus	-	**(107,291)**	**(107,291)**
Movement on deferred tax relating to pension scheme	-	**35,214**	**35,214**
Cash flow hedges	**1,842**	-	**1,842**
Movement on deferred tax relating to cash flow hedges	**(343)**	-	**(343)**
Current tax charge relating to cash flow hedges	**(11)**	-	**(11)**
At 31 December 2020	**919**	**(149,216)**	**(148,297)**

The cash flow hedge reserve reflects deferred gains and losses on energy price swaps and foreign exchange forward contracts, where the contracts meet the criteria for hedge accounting. Such gains and losses are recognised in the income statement when the related hedged item is charged to income.

21 Leases

The carrying amounts of right-of-use assets are set out below.

	Motor vehicles £'000
Cost or valuation	
At 1 January 2020	7
Additions	-
Depreciation	(4)
At 31 December 2020	**3**

The carrying amounts of lease liabilities are set out below.

	Lease liabilities £'000
Cost or valuation	
At 1 January 2020	6
Additions	-
Payments	(4)
At 31 December 2020	**2**

22 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 2020. Copies of these financial statements for the year ended 31 December 2020 may be obtained from the following address:

Southfields Road, Dunstable, Bedfordshire, LU6 3EJ