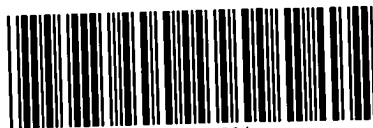


Essity Operations Manchester Limited
Annual report and financial statements
for the year ended 31 December 2022

Registered number: 04119442

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Essity Operations Manchester Limited
Annual report and financial statements
for the year ended 31 December 2022
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Essity Operations Manchester Limited

Company information

Directors

P A Bailey

A D Richards (appointed 12 December 2022)

K J Starr

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

BNP Paribas

10 Harewood Avenue

London

NW1 6AA

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2022

Review of business and future developments

The company manufactures disposable hygiene products which are sold primarily to fellow group company, Essity UK Limited.

Market conditions remain very competitive across the company's business units. The company continues to focus on innovation and operational efficiency improvement programmes to remain competitive.

Increases in energy and raw material costs during the second half of 2021 continued into 2022 so cost of sales continued to be significantly impacted. Increases in costs were compensated by increases in sales prices, but there has been a lag between cost increases and price increases so gross profit and gross margin have remained lower than in recent years.

Whilst an increase in Revenue has been generated in 2022, these cost increases and inflationary increases in distribution costs and administrative expenses have had a significant negative impact on operating margin and operating profit for the year.

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:

	2022	2021
Current Ratio – current assets divided by current liabilities	0.40	0.65
External Current Ratio – 3rd party current assets divided by 3rd party current liabilities	1.15	0.75
Gross Margin - the ratio of gross profit to revenue expressed as a percentage	0.5%	0.0%
Pre-tax profit Margin – the ratio of the profit before tax to revenue expressed as a percentage	-3.8%	-3.5%

Dividends

The directors do not propose the payment of a dividend (2021: £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.

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2022 (continued)

Financial risk management (continued)

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 by hedging the part of its transaction exposure that corresponds to booked trade accounts payables. See Note 1 Significant accounting policies, Accounting for derivatives used for hedging purposes on page 22 for the accounting policy for cash flow hedges relating to 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 via a price hedging mandate designating a hedge corridor with minimum and maximum levels expressed as a percentage of forecasted future consumption, with minimum and maximum levels varying across future consumption for the current year and the following two years. See Note 1 Significant accounting policies, Accounting for derivatives used for hedging purposes on page 22 for the accounting policy for cash flow hedges relating to energy costs.

Statement by the directors in performance of their statutory duties in accordance with Section 172(1) of the 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 5 and 6 for more details regarding employee engagement.

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2022 (continued)

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

Demand for sustainable solutions is increasing among customers and consumers. Sustainability is a strategic priority for the Essity group. The company actively contributes towards Essity's targets to reduce resource consumption, reduce water usage and for responsible sourcing.

Essity subjects its suppliers to stringent demands and works throughout the supply chain to guarantee 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 code of conduct ensures responsible sourcing, following the Essity group's global supplier standard.

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 promoting the success of the company is held as part of the overall strategy of the Essity group.

Decisions made during the year

After consultation with employees, the company changed the pension provider for all employees benefitting from the defined contribution scheme, to increase flexibility, ensure better value for money and to harmonise benefits across the Essity group companies within UK. The level of company contributions was not changed by the new arrangements.

By Order of the Board



Paul Bailey
Company secretary
18 December 2023

Essity Operations Manchester Limited

Director's report for the year ended 31 December 2022

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2022.

Principal activities

The principal activity of the company is the manufacture, distribution and sale of paper based hygiene products.

Future developments

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

Dividends

See the Strategic report on page 2 for information on dividends.

Financial risk management

See the Strategic report on page 2 and 3 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
A D Richards (appointed 12 December 2022)
K J Starr
D P R Minney (resigned 28 October 2022)

Directors' indemnities

The directors have the benefit of Directors and Officers liability insurance, which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. This indemnity, applicable to the directors of the company, was in force throughout this financial year and is currently in force. In addition, a qualifying pension scheme indemnity provision was in force for the benefit of trustees of the SCA UK Pension Plan. Neither of these indemnities provide cover where the person has acted fraudulently or dishonestly.

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.

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 2022 (continued)

Employees (continued)

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 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 has made a loss in 2021 and 2022 and has net liabilities at the balance sheet date.

However, 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 continues to trade profitably and remains in a strong position.

The directors have received confirmation that the intermediate parent company, Essity Group Holding BV, intends to support the company until 31 December 2024.

The directors, having reviewed the company's current performance, forecasts and in consideration of group financing arrangements including the intermediate parent company's parental support letter confirming the parent company's financial support for the company until 31 December 2024, 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 2022 (continued)

Streamlined Energy and Carbon Reporting

Energy consumption and Emissions

	2022	2021
Scope 1 - Gas use in buildings (MWh)	147,194	152,076
Scope 2 - Electricity use in buildings (MWh)	75,331	76,651
Total energy (MWh)	222,525	228,727
Scope 1 Emissions (tCO ₂ e)	27,016	28,008
Scope 2 Emissions (tCO ₂ e)	14,567	16,275
Total Emissions (tCO₂e)	41,583	44,283

Emissions Intensity

In order to facilitate year on year comparison of emissions taking into account fluctuations in activity levels the company has calculated the intensity ratio of emissions per tonne of finished product and per revenue. This is based on total finished products of 46.556 Ktonnes (2021: 49.962 Ktonnes) and revenue of £126,376,000 (2021: £94,020,000).

	2022	2021
Scope 1 and 2 Emissions per tonne of finished product (tCO ₂ e per production tonne)	0.893	0.886
Scope 1 and 2 Emissions per revenue (tCO ₂ e per £million)	329	471

Energy efficiency action taken

As a global hygiene and health company, Essity plays a leading role in driving change to reduce the company's climate impact. In 2021 Essity group updated its sustainability targets and committed to reach net zero greenhouse gas emissions by 2050 for the entire value chain in line with science based targets. On the road to net zero, the target for 2030 is a 35% reduction its scope 1 and 2 emissions (compared to 2016).

Essity has joined the UN Global Compact's "Business Ambition for 1.5°C". The climate targets are aligned with the ambitions of the Paris Agreement to reduce global warming. The initiative is supported by the CDP, World Resources Institute (WRI), WWF and UN Global Compact.

Essity group will achieve the net-zero target and reduce its environmental impact by placing greater emphasis on energy efficiency, removal of fossil fuels, and increased use of renewable energy. Further information on Essity group's sustainability targets and key action areas can be found in the annual sustainability report

essity.com/investors/reports/reportdetails/annual-reports/annual-and-sustainability-report-2022

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2022 (continued)

Streamlined Energy and Carbon Reporting (continued)

Essity has a global company wide energy monitoring and reduction process, which is used by all the company's manufacturing site. This process compares energy usage across the Essity group globally and provides proven energy saving techniques for the individual sites to invest in.

In 2022 the company has undertaken the following energy efficiency measures.

- Hoods realignment to close hood gap to reduce heat venting.
- Modified paper machine to achieve a higher moisture content in finished product. Reducing drying demand.
- New scanner installed with more accurate moisture online reading and response.

Methodology used for carbon footprint calculations

All Essity UK tissue mills are regulated under UK ETS Regulations, Climate Change Agreement Scheme (CCA) and the Energy Savings Opportunity Scheme (ESOS). Each of these schemes requires the company to regularly monitor its energy usage and look for energy reduction opportunities.

Carbon emissions for fossil fuels usage is calculated using the UK ETs methodology and this has been verified by an external verification company for manufacturing sites. For distribution sites where gas is used for heating, emissions are calculated using the 2021 government GHG conversion factors. For electricity consumption applied conversion factor of 0.21233 kg CO₂e/KWh.

The information on energy consumption data was derived from Essity's internal energy reports and includes an overview of consumption figures for gas and electricity.

The energy data is aligned with the 2019 UK Government Environmental Reporting Guidelines and meets the minimum requirements of SECR.

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

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

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2022 (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 in accordance with FRS 101 and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements of FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- state whether applicable UK Accounting Standards, including FRS 101, 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

By order of the board



Paul Bailey
Company secretary
18 December 2023

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 2022 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 2022 and of its loss 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 December 2024.

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:

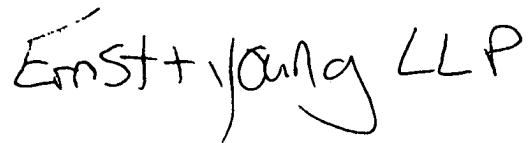
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those related to the reporting framework (United Kingdom Generally Accepted Accounting Practice and the Companies Act 2006) and the relevant direct and indirect tax compliance regulations in the United Kingdom. In addition, the company must comply with the operational and employment laws and regulations including health and safety regulations, environmental regulations and data protection.
- 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 corroborated our enquiries through review of meeting minutes and any correspondence received from regulatory bodies. We further checked the application of accounting standards adopted and evidence of non-compliance with the above laws and regulations.
- 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.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Kester Rogers (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

18 December 2023

Essity Operations Manchester Limited

Income Statement for the year ended 31 December 2022

		2022	2021
	Note	£'000	£'000
Revenue	2	126,376	94,020
Cost of sales		(125,714)	(94,006)
Gross profit		662	14
Administrative expenses		(9,509)	(7,841)
Other expenses		(224)	(186)
Other income	3	6,950	6,632
Operating loss	6	(2,121)	(1,381)
Finance costs	7	(2,707)	(1,885)
Loss before income tax		(4,828)	(3,266)
Income tax credit/(expense)	8	1,260	(808)
Loss for the financial year		(3,568)	(4,074)

All activities are in respect of continuing operations.

Essity Operations Manchester Limited

Statement of comprehensive income for the year ended 31 December 2022

		2022	2021
	Note	£'000	£'000
Loss for the financial year	19	(3,568)	(4,074)
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on pension scheme	20	(117,694)	135,450
Impact of asset ceiling on pension surplus	20	119,694	(142,073)
Movement on deferred tax relating to pension scheme	16	(380)	1,258
Items that may be reclassified to profit or loss:			
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	19	(603)	7,880
Transferred to profit or loss for the period	19	(6,713)	(916)
Movement on deferred tax relating to cash flow hedges	16	1,365	(1,323)
Other comprehensive (loss)/income for the year		(4,331)	276
Total comprehensive loss for the year		(7,899)	(3,798)

Essity Operations Manchester Limited

Statement of financial position as at 31 December 2022

	Note	2022 £'000	2021 £'000
Fixed Assets			
Intangible assets	9	7,586	6,400
Property, plant and equipment	10	56,935	55,695
		64,521	62,095
Current assets			
Inventories	12	15,030	9,418
Trade and other receivables	13	25,962	42,462
		40,992	51,880
Creditors – amounts falling due within one year	14	(101,478)	(80,094)
Net current liabilities		(60,486)	(28,214)
Total assets less current liabilities		4,035	33,881
Creditors – amounts falling due after more than one year	15	(1,594)	(22,350)
Provisions for liabilities	16	(7,435)	(8,626)
Net (liabilities)/assets		(4,994)	2,905
Equity			
Ordinary shares	18	155,000	155,000
Cash flow hedge reserve	19	433	6,384
Retained earnings	19	(160,427)	(158,479)
Total shareholder's (deficit)/funds		(4,994)	2,905

The financial statements on pages 14 to 39 were approved by the board of directors on 18 December 2023 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 2022

	Called up share capital £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2021	65,000	919	(149,216)	(83,297)
Loss for the financial year	-	-	(4,074)	(4,074)
Actuarial gains recognised in the pension scheme	-	-	135,450	135,450
Impact of asset ceiling on pension surplus	-	-	(142,073)	(142,073)
Movement on deferred tax relating to pension scheme	-	-	1,258	1,258
Cash flow hedges:				
Result from remeasurement of derivatives recognized in equity	-	7,880	-	7,880
Transferred to profit or loss for the period	-	(916)	-	(916)
Movement on deferred tax relating to cash flow hedges	-	(1,323)	-	(1,323)
Total comprehensive income/(expense) for the year	-	5,641	(9,439)	(3,798)
Reclassification	-	(176)	176	-
Ordinary share capital issued	90,000	-	-	90,000
As at 31 December 2021	155,000	6,384	(158,479)	2,905
As at 1 January 2022	155,000	6,384	(158,479)	2,905
Loss for the financial year	-	-	(3,568)	(3,568)
Actuarial losses on pension scheme	-	-	(117,694)	(117,694)
Impact of asset ceiling on pension surplus	-	-	119,694	119,694
Movement on deferred tax relating to pension scheme	-	-	(380)	(380)
Cash flow hedges:				
Result from remeasurement of derivatives recognized in equity	-	(603)	-	(603)
Transferred to profit or loss for the period	-	(6,713)	-	(6,713)
Movement on deferred tax relating to cash flow hedges	-	1,365	-	1,365
Total comprehensive expense for the year	-	(5,951)	(1,948)	(7,899)
As at 31 December 2022	155,000	433	(160,427)	(4,994)

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022

1 Significant 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 limited by shares and is incorporated and domiciled 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. All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound ("£'000s"), unless otherwise stated.

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, as modified by the derivative financial assets and financial liabilities measured at fair value through other comprehensive income or profit or loss, and in accordance with the Companies Act 2006.

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, as the company is a member of a group where the parent prepares publicly available consolidated financial statements:

- 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)

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Exemptions (cont)

- 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.
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

Going concern

The company has made a loss in 2021 and 2022 and has net liabilities at the balance sheet date.

However, 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 continues to trade profitably and remains in a strong position.

The directors have received confirmation that the intermediate parent company, Essity Group Holding BV, intends to support the company until 31 December 2024.

The directors, having reviewed the company's current performance, forecasts and in consideration of group financing arrangements including the intermediate parent company's parental support letter confirming the parent company's financial support for the company until 31 December 2024, 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.

New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the company's financial statements.

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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Emissions rights

Emission allowances relating to CO₂ 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 income statement as income in pace with CO₂ 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 the income statement. 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.

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost, or valuation, of property, plant and equipment, 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	3.33-33

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.

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the assets recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Leases

When a contract 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 statement of financial position. The right-of-use asset is measured at cost and includes the following:

- the value of the amount of the lease liability
- lease payments made on or before the commencement date, after deductions for any benefits received in conjunction with signing the lease
- initial direct fees
- an estimate of expenses expected to be paid to restore the asset to the condition as stipulated in the terms of the lease

The right-of-use asset is recognised in the statement of financial position under the heading Fixed 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 following lease payments:

- fixed fees, less any incentive receivables
- variable lease payments due to an index or rate
- amounts expected to be paid in accordance with residual value guarantees
- the exercise price for a purchase option, if Essity is reasonably certain of exercising the option
- financial penalties to be paid on termination of the lease, if the lease term reflects that Essity will utilize this option

The lease liabilities are recognised in the statement of financial position under the headings Creditors – amounts falling due within one year and Creditors – amounts falling due after more than one year.

Lease payments are normally discounted using the company's incremental borrowing rate as the implicit rate of the lease cannot be readily determined in most cases. The incremental borrowing rate used is determined on the basis of the contract currency of the agreement and the length of the lease.

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 Finance costs.

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.

Inventories

Inventories 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 inventory.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Trade receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

During this process the probability of non-payment of the trade debtors and intra-group debtors is assessed. The expected loss rates are based on the Company's historical credit losses adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers and fellow group undertakings.

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. Refer to Page 20 for the accounting policy for the provision for CO₂ emissions.

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.

Accounting for derivatives used for hedging purposes

All derivatives are initially and continuously measured at fair value in the balance sheet. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below. When using hedge accounting, the relationship between the hedging 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 recognized directly in profit or loss.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

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 energy affect cost of sales.

Revenue from contracts with customers

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.

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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Taxation (continued)

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.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted 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.

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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

1 Significant accounting policies (continued)

Employee benefits(continued)

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

Critical accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires directors to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The company makes certain estimates and assumptions regarding 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 20 for the disclosures of the defined benefit pension scheme.

Impairment of non-financial assets

The company evaluates goodwill for impairment. Assessment for impairment involves comparing the book value of an asset with its recoverable amount (the higher of value in use and fair value less costs to sell). Value-in-use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty. See note 9 for the disclosures of the intangible assets including goodwill.

Critical judgements in applying the entity's accounting policies

The critical judgements, apart from those involving estimations, that are applied in the preparation of the financial statements are discussed below:

Impairment of non-financial assets: relevant projected future cash flows

Management exercises judgement in determining the relevant projected future cash flows generated by the asset or cash-generating unit impacted by internal transfer pricing when evaluating the impairment of non-financial assets. Management considered whether to use future cash flows directly generated under current arrangements or future cash flows that make notional adjustments to reflect arm's length amounts. The projected future cash flows used in the value-in-use calculations are those generated under current arrangements as these future cash flows reflect the manner in which the group has organised its activities and operational synergies from shared resources.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

2 Revenue

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

	2022	2021
	£'000	£'000
United Kingdom	120,027	91,542
Rest of Europe	6,349	2,478
	126,376	94,020

All revenue is derived from one class of business, which is from the sale of finished products, primarily to fellow subsidiary companies, which are subsequently sold externally from the fellow subsidiary companies.

Assets related to contracts with customers are included under Note 13 Trade and other receivables, in trade receivables and amounts owed by group undertakings.

3 Other operating income

	2022	2021
	£'000	£'000
Costs charged to SCA UK Pension Plan	6,208	5,902
Costs charged to other group companies	286	388
Rental income	362	263
Revenue from sales of CO2 Emissions rights	-	53
Other external income	94	26
	6,950	6,632

4 Directors' emoluments

The directors received £nil remuneration from the company during the year (2021: £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 other 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:

	2022	2021
	£'000	£'000
Aggregate emoluments for qualifying services	581	668
Aggregate value of company contributions to pension schemes	40	39
	621	707

The aggregate emoluments paid to the highest paid director in the year amounted to £260,000 (2021: £326,000). In addition, contributions made by the company to the pension scheme on behalf of the highest paid director were £nil (2021: £nil), and the amount at the end of the year of the highest paid director's accrued pension was £nil (2021: £nil).

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

5 Employee information

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

By activity	2022 Number	2021 Number
Production and distribution	187	191
Administration	3	3
	190	194

	2022 £'000	2021 £'000
Staff costs (for the above persons):		
Wages and salaries	8,476	7,533
Social security costs	846	734
Other pension costs	2,907	2,892
	12,229	11,159

6 Operating loss

	2022 £'000	2021 £'000
Operating loss is stated after charging/(crediting):		
Depreciation charge for the year on property, plant and equipment	4,969	4,239
Amortisation charge on intangible assets	2	2
Depreciation charge on right-of-use assets	-	3
Inventory recognised as an expense	85,055	60,629
Exchange losses	201	40

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 £47,000 (2021: £45,000).

7 Finance Costs

	2022 £'000	2021 £'000
On liabilities to group companies	2,707	1,885

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

8 Income Tax

Tax charge included in the income statement

	2022 £'000	2021 £'000
Current tax:		
United Kingdom corporation tax on loss for the year		
- Current tax on loss	(294)	(1,995)
- Adjustments in respect of prior year	145	(65)
Total current tax credit	(149)	(2,060)
Deferred tax:		
- Origination and reversal of timing differences	(600)	1,391
- Effect of increase in tax rate on opening liability	(70)	1,440
- Prior year adjustment	(441)	37
Total deferred tax (credit)/charge (note 17)	(1,111)	2,868
Tax (credit)/charge	(1,260)	808

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

	2022 £'000	2021 £'000
Deferred tax:		
- Origination and reversal of temporary differences	(1,010)	65
- Effect of increase in tax rate on opening liability	25	-
Total tax (credit)/charge included in other comprehensive expense/income	(985)	65

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2021: 19%). The actual tax charge for the year is higher (2021: higher) than the standard rate for the reasons set out in the following reconciliation:

	2022 £'000	2021 £'000
Loss before taxation	(4,828)	(3,266)
Loss multiplied by the standard rate of corporation tax 19% (2020: 19%)	(917)	(621)
Effects of:		
- Expenses not deductible for tax purposes	23	17
- Remeasurement of deferred tax - change in UK tax rate	(296)	1,440
- Adjustments in respect of prior year	(70)	(28)
Tax (credit)/charge	(1,260)	808

Finance Act 2021 was substantively enacted on 24th May 2021. The Act included legislation to increase the main rate of Corporation Tax to 25% from 1 April 2023. Consequently, deferred tax on temporary differences expected to reverse after that date have been recognised at a rate of 25% (2021: 25%).

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

9 Intangible assets

	Emission rights £'000	Patents/ licence £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2022	1,209	50	5,169	6,428
Additions	2,200	-	-	2,200
Disposals	(1,012)	-	-	(1,012)
At 31 December 2022	2,397	50	5,169	7,616
Accumulated amortisation				
At 1 January 2022	-	28	-	28
Charge for the year	-	2	-	2
At 31 December 2022	-	30	-	30
Net book amount				
As at 31 December 2022	2,397	20	5,169	7,586
As at 31 December 2021	1,209	22	5,169	6,400

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

10 Property, plant and equipment

	Freehold land and improvements £'000	Buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2022	7,161	20,128	83,701	15,045	126,035
Additions	38	1,568	3,022	1,613	6,241
Disposals	-	(29)	(325)	-	(354)
Reclassifications	299	2,570	7,597	(10,466)	-
At 31 December 2022	7,498	24,237	93,995	6,192	131,922
Accumulated depreciation					
At 1 January 2021	740	11,825	57,775	-	70,340
Charge for the year	59	844	4,066	-	4,969
Disposals	-	(19)	(303)	-	(322)
At 31 December 2022	799	12,650	61,538	-	74,987
Net book amount					
At 31 December 2022	6,699	11,587	32,457	6,192	56,935
At 31 December 2021	6,421	8,303	25,926	15,045	55,695

The value of freehold land not depreciated as at 31 December 2022 was £5,740,000 (2021: £5,740,000).

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

11 Financial assets and liabilities

i. Financial assets

	2022	2021
	£'000	£'000
The company has the following derivative financial instruments:		
Energy price swaps – cash flow hedges	5,617	8,243
Foreign exchange forward contracts – held for trading	62	11
	5,679	8,254
Analysed as:		
Maturing within one year	4,560	7,065
Maturing after more than one year	1,119	1,189
	5,679	8,254

ii. Financial liabilities

	2022	2021
	£'000	£'000
The company has the following derivative financial instruments:		
Energy price swaps – cash flow hedges	5,053	363
Foreign exchange forward contracts – held for trading	-	57
	5,053	420
Analysed as:		
Maturing within one year	3,459	399
Maturing after more than one year	1,594	21
	5,053	420

Derivative financial instruments reflect the change in fair value of energy price swaps designated as cash flow hedges to hedge forecast energy consumption and foreign exchange forward contracts held for trading to hedge trade receivables and payables in Euros and US Dollars.

Cash flow hedges are prepared for energy price risks in connection with purchases of electricity and gas. For cash flow hedges, hedges are prepared whereby critical terms match the hedged item. For the cash flow hedges prepared, this means that the change in fair value of the hedging instruments and the change in the hedged item are very highly correlated. Any ineffectiveness could, for example, be due to the time or the amount of the forecast cash flow mismatching with the cash flow of the derivative. £nil (2021: £nil) was recognized in profit or loss as ineffectiveness concerning the cash flow hedges.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

12 Inventories

	2022	2021
	£'000	£'000
Raw materials and consumables	8,334	4,167
Work in progress	2,419	1,506
Engineering stores	4,277	3,745
	15,030	9,418

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

13 Trade and other receivables

	Note	2022	2021
		£'000	£'000
Amounts falling due within one year			
Trade receivables		773	1,093
Amounts owed by group undertakings		16,558	29,095
Other receivables		2,952	4,020
Derivative financial instruments	11	4,560	7,065
		24,843	41,273
Amounts falling due after more than one year			
Derivative financial instruments	11	1,119	1,189
		25,962	42,462

Amounts owed by group undertakings comprise:

- i) An amount of £13,466,000 (2021: £15,684,000) due from other Essity group companies derived from revenue from contracts with customers, receivable in January and February 2023.
- ii) Group relief receivable of £2,145,000 (2021: £11,866,000)
- iii) An amount of £684,000 (2021: £1,498,000) due from Essity Treasury AB for the settlement of energy price swap contracts which matured in December 2022, receivable in January 2023
- iv) Other trade related amounts due from other group companies of £263,000 (2021: £47,000)

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

14 Creditors: amounts falling due within one year

	Notes	2022 £'000	2021 £'000
Trade creditors		8,495	7,082
Amounts owed to group undertakings		81,708	60,308
Other creditors		7,816	12,305
Derivative financial instruments	11	3,459	399
		101,478	80,094

Amounts owed to group undertakings comprise:

- i) Amounts owed to Essity Treasury AB as follows.
 - £74,247,000 (2021: £54,011,000) which represents an overdrawn balance in the Essity group cash pool. This balance has no fixed date of repayment and interest is payable at the 6-month GBP LIBOR rate plus 1.10%.
 - £934,000 (2021: £1,451,000), a balance designated in Euros, which represents an overdrawn balance in the Essity group cash pool. This balance has no fixed date of repayment and interest is payable at the 6-month EURIBOR rate plus 1.10%.
 - £2,448,000 (2021: £424,000), a balance designated in US Dollars, which represents an overdrawn balance in the Essity group cash pool. This balance has no fixed date of repayment and interest is payable at the 6-month USD LIBOR rate plus 1.10%.
- ii) Trading balances due to other group companies of £4,079,000 (2021: £4,422,000)

15 Creditors: amounts falling due after more than one year

	Note	2022 £'000	2021 £'000
Amounts owed to group undertakings		-	22,329
Derivative financial instruments	11	1,594	21
		1,594	22,350

Amounts owed to group undertakings comprise:

- i) An amount owed to Essity UK Limited of £nil (2021: £22,329,000) 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%.

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Notes to the financial statements for the year ended 31 December 2022 (continued)

16 Provisions for liabilities

	CO ₂ emissions £'000	Deferred tax provision £'000	Total £'000
At 1 January 2022	1,126	7,500	8,626
Amounts credited to the income statement	-	(1,111)	(1,111)
Amounts credited to other comprehensive income	-	(985)	(985)
CO ₂ emissions for the year	2,031	-	2,031
Amount utilised	(1,126)	-	(1,126)
At 31 December 2022	2,031	5,404	7,435

CO₂ emissions

The emissions provision for each year is expected to be utilised in April of the following year.

17 Deferred tax liabilities

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

	2022 £'000	2021 £'000
Deferred tax assets due within 12 months	-	-
Deferred tax liabilities due within 12 months	155	1,520
Total deferred tax due within 12 months	155	1,520
	2022 £'000	2021 £'000
Deferred tax assets due after more than 12 months	-	(1)
Deferred tax liabilities due after more than 12 months	5,249	5,981
Total deferred tax due after more than 12 months	5,249	5,980
	2022 £'000	2021 £'000
Total liability	5,404	7,500

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

17 Deferred tax liabilities (continued)

	Accelerated capital allowances	Pension	Cash flow hedges	Other	Total
	£'000	£'000	£'000	£'000	£'000
At January 2021	4,016	-	174	377	4,567
Charged to the income statement	1,447	1,258		163	2,868
Credited to other comprehensive income	-	(1,258)	1,323	-	65
At 31 December 2021	5,463	-	1,497	2,037	7,500
At 1 January 2022	5,463	-	1,497	540	7,500
Credited to the income statement	(780)	(380)	-	49	(1,111)
Credited to other comprehensive income	-	380	(1,365)	-	(985)
At 31 December 2022	4,683	-	132	589	5,404

There are no unused tax losses or unused tax credits.

18 Share capital

	2022	2021
	£'000	£'000
Authorised		
15,500,000,101 (2021: 15,500,000,101) ordinary shares of £0.01 each	155,000	155,000
Allotted and fully paid		
15,500,000,101 (2021: 15,500,000,101) ordinary shares of £0.01 each	155,000	155,000

All shares rank pari passu for dividend rights and provide the holder with one vote.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

19 Reserves

	Cash flow hedge reserve £'000	Retained earnings £'000	Total reserves £'000
At 1 January 2022	6,384	(158,479)	(152,095)
Loss for the financial year	-	(3,568)	(3,568)
Actuarial losses on pension scheme	-	(117,694)	(117,694)
Impact of asset ceiling on pension surplus	-	119,694	119,694
Movement on deferred tax relating to pension scheme	-	(380)	(380)
Cash flow hedges:			
Result from remeasurement of derivatives recognized in equity	(603)	-	(603)
Transferred to profit or loss for the period	(6,713)	-	(6,713)
Movement on deferred tax relating to cash flow hedges	1,365	-	1,365
At 31 December 2022	433	(160,427)	(159,994)

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.

20 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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

20 Post-employment benefits (continued)

(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.

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 2022	At 31 December 2021
	%	%
Rate of increase in pensions	3.30%	3.10%
Rate of increase for deferred pensions	3.50%	3.25%
Salary increase	-	-
Discount rate	4.77%	1.89%
Inflation assumptions (RPI)	3.50%	3.25%

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 2022	31 December 2021
	Number of years	Number of years
Longevity at age 65 for current pensioners		
- Men	21.6	21.5
- Women	24.7	24.6
Longevity at age 65 for future pensioners		
- Men	23.3	23.2
- Women	26.4	26.3

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Notes to the financial statements for the year ended 31 December 2022 (continued)

20 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities:

	Fair value of plan assets £'000	Defined benefit obligation £'000	Impact of asset ceiling £'000	Total £'000
At 1 January 2022	1,324,732	(1,075,368)	(249,364)	-
Service cost	(2,000)	-	-	(2,000)
Interest expense	-	(20,324)	(4,713)	(25,037)
Benefits paid	(51,000)	51,000	-	-
Actuarial losses	(443,839)	326,145	-	(117,694)
Interest Income on plan assets	25,037	-	-	25,037
Change in asset ceiling	-	-	119,694	119,694
At 31 December 2022	852,930	(718,547)	(134,383)	-

Pension surplus

In 2021, 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 and an asset ceiling applied.

The total contributions to the defined benefit scheme in 2023 is expected to be £nil (2022: £nil), due to the funding level of the pension scheme meeting the criteria for nil contributions in line with the scheme's schedule of contributions.

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

	2022 £'000	2021 £'000
Current service cost	2,000	2,000

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

20 Post-employment benefits (continued)

The fair value of plan assets were:

	2022	2021
	£'000	£'000
Equities	39,270	133,884
Corporate Bonds	360,487	422,714
Other Debt Instruments	441,401	697,940
Cash/Property	11,772	70,194
Total market value of assets	852,930	1,324,732

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
		£'000	£,000
Discount rate	0.5% pa	(44,129)	47,016
Salary growth rate	0.5% pa	-	-
Pension growth rate	0.5% pa	33,159	(31,696)
Life expectancy	1 year	24,099	(23,317)

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 £907,000 (2021: £892,000). Contributions totalling £nil (2021: £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 2022 (continued)

21 Leases

The income statement shows the following amounts relating to leases:

	2022	2021
	£'000	£'000
Expense relating to short-term leases (included in administrative expenses)	76	34
Expense relating to leases of low-value assets (included in administrative expenses)	-	5

The total cash outflow for leases was £185,000 (2021: £41,000)

22 Immediate and ultimate 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 2022. Copies of these financial statements for the year ended 31 December 2022 may be obtained from the following address:

Essity
Southfields Road
Dunstable
Bedfordshire
LU6 3EJ