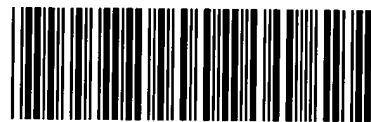


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Essity UK Limited  
(Formerly SCA Hygiene Products UK Limited)  
Annual report and financial statements  
for the year ended 31 December 2017

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Essity UK Limited  
(Formerly SCA Hygiene Products UK Limited)  
Annual report and financial statements  
for the year ended 31 December 2017  
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**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Directors and advisers**

**Directors**

P A Bailey  
K J Starr  
A Richards  
C Rydebrink

**Company secretary and registered office**

P A Bailey  
Southfields Road  
Dunstable  
Bedfordshire  
LU6 3EJ

**Independent auditors**

Ernst & Young LLP  
400 Capability Green  
Luton  
LU1 3LU

**Solicitors**

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

**Bankers**

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

# Essity UK Limited

## (Formerly SCA Hygiene Products UK Limited)

### Strategic report for the year ended 31 December 2017

#### Review of business and future developments

Raw material prices continue increased during the year and market conditions remain very competitive. The UK vote to leave the EU had a detrimental effect on sterling which has resulted in an increase in costs to the Company. The company continues to focus on innovation and operational efficiency improvement programmes to enable us to stay competitive. We expect market conditions to remain the same for 2018.

#### 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.

This has been further considered within the financial risk management section.

#### 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:

	2017	2016
Current Ratio – current assets divided by current liabilities	2.4	2.2
External Current Ratio – 3rd party current assets divided by 3rd party current liabilities	1.2	1.1
Gross Margin - the ratio of gross profit to turnover expressed as a percentage	32.6%	36.0%
Pre Tax Profit Margin – the ratio of the profit before tax to turnover expressed as a percentage	11.0%	15.6%

#### 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 UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

### **Strategic report for the year ended 31 December 2017 (continued)**

#### *Currency risk – transaction exposure*

The company has export revenues and 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.

#### *Credit risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Credit checks are carried out on major customers where information about the customers' financial position is obtained from various credit rating companies. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a continual basis by the credit manager.

#### *Liquidity risk and cash management*

The company actively maintains a mixture of long term and short term debt finance that is designed to ensure that the company has sufficient available funds for operation and planned expansion. This is maintained in the short term by the Essity UK cash pooling facility and in the longer term with Essity Holding UK Limited, the ultimate parent company in the UK.

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 policies and procedures that set out the specific guidelines that must be followed to manage the interest rate risk. The directors monitor these interest rate risks periodically. The exposure to interest rate risk is minimal as this is monitored by a central group treasury function, which is responsible for identifying and managing interest rate exposure.

#### *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.

#### **Results and dividends**

The results of the company show a profit on ordinary activities before taxation of £80,563,000 (2016: profit of £116,566,000). An interim dividend of £nil was paid during the year (2016: £150,000,000). The directors do not propose the payment of a final dividend (2016: £nil).

By order of the board



Paul Bailey

**Company secretary**

28 September 2018

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

### **Directors' report for the year ended 31 December 2017**

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2017.

#### **Principal activities**

The principal activities of the company are the manufacture, distribution and sale of soft tissue products and disposable hygiene products.

#### **Future developments**

With effect from 2 January 2018 the name of the company was changed from SCA Hygiene Products UK Limited to Essity UK Limited.

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

#### **Dividends**

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

#### **Financial risk management**

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

#### **Directors**

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

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

#### **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.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Directors' report for the year ended 31 December 2017 (continued)**

**Employees (continued)**

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.

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 is profitable and has net assets and net current assets at the balance sheet date. As noted above this is expected to continue to be the case for the foreseeable future.

**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 UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Directors' report for the year ended 31 December 2017 (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.

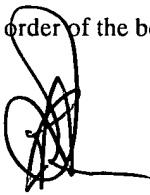
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), 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**  
28 September 2018



# Essity UK Limited

## Independent auditor's report to the members of Essity UK Limited

### Opinion

We have audited the financial statements of Essity UK Limited (Formerly SCA Hygiene Products UK Limited) for the year ended 31 December 2017 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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

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

# **Essity UK Limited**

## **Independent auditor's report to the members of Essity UK Limited (continued)**

### **Other information**

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

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

# Essity UK Limited

## Independent auditor's report to the members of Essity UK Limited (continued)

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

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

### Use of our report

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



Chris Nobbs (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Luton  
28 September 2018

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Income Statement for the year ended 31 December 2017**

	Note	2017 £'000	2016 £'000
<b>Turnover</b>	1	<b>729,692</b>	747,261
Cost of sales		(491,880)	(478,013)
<b>Gross profit</b>		<b>237,812</b>	269,248
Distribution costs		(74,634)	(72,541)
Administrative expenses		(83,956)	(80,795)
Other operating expenses		(545)	(614)
Other operating income		610	-
<b>Operating profit</b>	4	<b>79,287</b>	115,298
Interest receivable and similar income	5	1,310	1,617
Interest payable and similar charges	6	(21)	(67)
Other finance expense	21	(13)	(282)
<b>Profit on ordinary activities before taxation</b>		<b>80,563</b>	116,566
Tax on profit on ordinary activities	7	(15,361)	(23,918)
<b>Profit for the financial year</b>	19	<b>65,202</b>	92,648

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents.

All results are in respect of continuing operations.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Statement of comprehensive income for the year ended 31 December 2017**

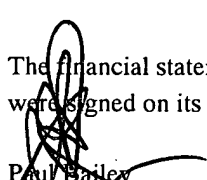
	Note	2017 £'000	2016 £'000
Profit for the financial year	19	65,202	92,648
Actuarial losses on pension scheme	21	(3,293)	(888)
Movement on deferred tax relating to pension scheme	16	420	(19)
Transfer of Pension Scheme	21	-	1,002
Cash flow hedges	19	(1,191)	8,130
Movement on deferred tax relating to cash flow hedges	16	(261)	138
Movement on deferred tax relating to cash flow hedges	16	31	-
Other comprehensive (expense)/income for the year		(4,294)	8,363
<b>Total comprehensive income for the year</b>		<b>60,908</b>	<b>101,011</b>

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Statement of financial position as at 31 December 2017**

	Note	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Intangible assets	8	8,502	8,486
Tangible assets	9	161,743	152,622
		<b>170,245</b>	161,108
<b>Current assets</b>			
Stocks	11	44,573	41,885
Debtors: amounts falling due after more than one year	12	37,876	37,375
Debtors: amounts falling due within one year	12	443,277	398,704
Cash at bank and in hand		664	1,356
		<b>526,390</b>	479,320
Creditors: amounts falling due within one year	13	(231,400)	(212,899)
<b>Net current assets</b>		<b>294,990</b>	266,421
<b>Total assets less current liabilities</b>		<b>465,235</b>	427,529
Creditors: amounts falling due after more than one year	14	(4)	(12,485)
Provisions for liabilities	15	(12,904)	(10,037)
<b>Net assets excluding pension surplus/deficit</b>		<b>452,327</b>	405,007
Pension surplus/(deficit)	21	12,777	(811)
<b>Net assets including pension surplus/deficit</b>		<b>465,104</b>	404,196
<b>Capital and reserves</b>			
Called up share capital	18	288,325	288,325
Hedge accounting reserve	19	3,342	4,763
Profit and loss account	19	173,437	111,108
<b>Total shareholders' funds</b>	20	<b>465,104</b>	404,196

The financial statements on pages 10 to 39 were approved by the board of directors on 28 September 2018 and were signed on its behalf by:

  
Paul Bailey  
Director

Essity UK Limited is registered in England and Wales under company number 03226403.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Statement of changes in equity for the year ended 31 December 2017**

	Called up share capital £'000	Hedge Reserve £'000	Profit and loss account £'000	Total share holders' funds £'000
As at 1 January 2016	288,325	(3,505)	168,365	453,185
Profit for the financial year	-	-	92,648	92,648
Other comprehensive income (Total as per SOCIE)	-	8,268	95	8,363
<b>Total comprehensive income</b>	-	<b>8,268</b>	<b>92,743</b>	<b>101,011</b>
Dividend paid	-		(150,000)	(150,000)
<b>As at 31 December 2016</b>	<b>288,325</b>	<b>4,763</b>	<b>111,108</b>	<b>404,196</b>
As at 1 January 2017	288,325	4,763	111,108	404,196
Profit for the financial year	-	-	65,202	65,202
Other comprehensive expense (Total as per SOCIE)	-	(1,421)	(2,873)	(4,294)
<b>Total comprehensive income</b>	-	<b>(1,421)</b>	<b>62,329</b>	<b>60,908</b>
<b>As at 31 December 2017</b>	<b>288,325</b>	<b>3,342</b>	<b>173,437</b>	<b>465,104</b>

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK 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. 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 in the statement of accounting policies.

#### **Changes in accounting policy and disclosures**

There are no changes to the accounting standards impacting the current year.

IFRS 15, ‘Revenue recognition’ will be implemented in 2018 but the directors do not believe this will have a material impact on the results.

#### **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)



# Essity UK Limited

## (Formerly SCA Hygiene Products UK Limited)

### Statement of accounting policies (continued)

#### Exemptions (continued)

- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, ‘Presentation of financial statements’:
  - 10(d), (statement of cash flows)
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position)
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, ‘Statement of cash flows’
- Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, ‘Related party disclosures’ (key management compensation)
- The requirements in IAS 24, ‘Related party disclosures’ to disclose related party transactions entered into between two or more members of a group

#### Intangible assets

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

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

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

Patents and licences represent the patents pursuant to any Patent Application and licences under any trademark licensing agreement. Patents and licences are eliminated by amortisation through the profit and loss account over 20 years on a straight-line basis, which is considered by the directors to be the useful economic life of these assets.

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

### **Statement of accounting policies (continued)**

#### **Fixed asset investments**

Fixed asset investments are stated at cost less any provision for impairment in value.

#### **Royalties**

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

#### **Tangible fixed assets and depreciation**

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

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

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

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

#### **Finance and operating leases**

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

#### **Stocks**

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

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

### **Statement of accounting policies (continued)**

#### **Debtors**

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit and loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **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 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.

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

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

#### **Emissions rights**

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

#### **Turnover**

Turnover, which excludes value-added tax less any discounts, represents the amounts derived from the provision of goods and services to customers during the year. Turnover is recognised on transfer of title to the customer.

#### **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.

# **Essity UK Limited**

## **(Formerly SCA Hygiene Products UK Limited)**

### **Statement of accounting policies (continued)**

#### **Taxation (continued)**

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.

#### **Exceptional items**

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

#### **Employee benefits**

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

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

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past-service costs are recognised immediately in the income statement.

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

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Statement of accounting policies (continued)**

**Going concern**

The company is profitable and has net assets and net current assets at the balance sheet date. As noted above this is expected to continue to be the case for the foreseeable future.

**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 20 for the disclosures of the defined benefit pension scheme.

**Key sources of estimation uncertainty**

Management have estimated the recoverability of its trade receivables and made provisions accordingly. Estimations are also made with regard to accrued customer discounts and allowances which are typically driven by volume.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017**

**1 Turnover**

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

	2017	2016
	£'000	£'000
United Kingdom	683,808	710,531
Rest of Europe	44,410	36,730
Rest of the world	1,474	-
	<b>729,692</b>	<b>747,261</b>

Principally all of the profit and net assets of the business are in the United Kingdom. The company operates one class of business.

**2 Directors' emoluments**

	2017	2016
	£'000	£'000
Aggregate emoluments for qualifying services	488	596
Aggregate value of company contributions to defined benefit scheme	153	101
	<b>641</b>	<b>697</b>

The aggregate emoluments paid to the highest paid director in the year amounted to £176,000 (2016: £274,000) In addition contributions made by the company to the pension scheme on behalf of the highest paid director were £51,000 (2016: £42,000), and the amount at the end of the year of the highest paid director's accrued pension was £32,000 (2016: £76,000)

The number of directors who were members of the defined benefit scheme is 3 (2016: 3).

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**3 Employee information**

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

	<b>2017</b>	2016
	<b>Number</b>	Number
<b>By activity</b>		
Production and distribution	<b>944</b>	970
Sales and marketing	<b>299</b>	303
Administration	<b>67</b>	67
	<b>1,310</b>	1,340
	<b>2017</b>	2016
	<b>£'000</b>	£'000
<b>Staff costs (for the above persons):</b>		
Wages and salaries	<b>51,442</b>	49,981
Social security costs	<b>5,339</b>	5,620
Other pension costs	<b>9,029</b>	7,995
	<b>65,810</b>	63,596



**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**4 Operating profit**

	2017	2016
	£'000	£'000
Operating profit is stated after charging:		
Services provided by the company's auditors:		
Fees payable for the audit – this company	171	203
Fees payable for the audit – subsidiaries and associates of this company	41	70
Fees payable for other services– tax compliance	-	56
Fees payable for other services	-	19
Depreciation charge for the year on tangible fixed assets:		
Owned assets	11,491	18,794
Assets held under finance leases and hire purchase contracts	-	38
Loss on disposal of tangible fixed assets	545	528
Amortisation of intangible fixed assets	-	23
Cost of stocks recognised as an expense	390,064	367,436
Including: -write-down of stocks to net realisable value	386	-
-reversals of impairments in stocks	(189)	-
Foreign currency exchange (gains)/losses	(610)	87
Operating lease charges	3,426	3,548

**5 Interest receivable and similar income**

	2017	2016
	£'000	£'000
On amounts owed by group undertakings	1,310	1,617

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**6 Interest payable and similar charges**

	2017	2016
	£'000	£'000
On hire purchase contracts and finance leases	-	28
On Corporation Tax	-	7
On amounts owed to group undertakings	21	32
	<b>21</b>	<b>67</b>

**7 Tax on profit on ordinary activities**

**Tax charge included in the income statement**

	2017	2016
	£'000	£'000
<b>Current tax:</b>		
United Kingdom corporation tax on profit for the year		
- Current tax expense on profit	12,855	22,593
- Adjustments in respect of prior year	129	-
<b>Total current tax expense</b>	<b>12,984</b>	<b>22,593</b>
<b>Deferred tax:</b>		
- Origination and reversal of timing differences	3,132	1,711
- Rate change	(366)	(386)
- Prior year adjustment	(389)	-
- Pension costs in excess of relief	-	-
<b>Total deferred tax charge (note 15)</b>	<b>2,377</b>	<b>1,325</b>
<b>Tax on profit on ordinary activities</b>	<b>15,361</b>	<b>23,918</b>

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**7 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 19.25% (2016: 20.0%). The actual tax charge for the year is lower (2016: higher) than the standard rate for the reasons set out in the following reconciliation:

	2017	2016
	£'000	£'000
Profit on ordinary activities before tax	<b>80,529</b>	116,566
Profit on ordinary activities multiplied by the standard rate of corporation tax 19.25% (2016: 20.0%)	<b>15,502</b>	23,313
Effects of:		
- Expenses not deductible for tax purposes	<b>485</b>	5,068
- Capital allowances more than depreciation	-	126
- Change in the standard rate of tax	<b>(366)</b>	-
- Adjustments in respect of prior year	<b>(260)</b>	-
- Other short term timing differences	-	(4,589)
<b>Tax charge</b>	<b>15,361</b>	23,918

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

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**8 Intangible fixed assets**

	<b>Emission rights</b>	<b>Patents and licences</b>	<b>Goodwill</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 1 January 2017	643	645	48,046	49,334
Additions	769	-	-	769
Disposals	(753)	-	-	(753)
<b>At 31 December 2017</b>	<b>659</b>	<b>645</b>	<b>48,046</b>	<b>49,350</b>
<b>Accumulated amortisation</b>				
At 1 January 2017	-	645	40,203	40,848
Charge for the year	-	-	-	-
<b>At 31 December 2017</b>	<b>-</b>	<b>645</b>	<b>40,203</b>	<b>40,848</b>
<b>Net book amount</b>				
<b>At 31 December 2017</b>	<b>659</b>	<b>-</b>	<b>7,843</b>	<b>8,502</b>
At 31 December 2016	643	-	7,843	8,486

The goodwill was generated on the acquisition of the Prudhoe site in 1996 (£38,765,000), on the acquisition of the AM Paper Group in 1999 (£9,136,000) and goodwill transferred in from another group company relating to the acquisition of the trade and assets of Oliver Marketing in 2001 (£145,000).

**Essity UK Limited**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**9 Tangible fixed assets**

	Freehold land and improvements £'000	Buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2017	10,736	66,692	259,469	8,109	345,006
Additions	-	608	2,603	20,945	24,156
Disposals	(185)	(2,004)	(15,237)	-	(17,426)
Reclassifications	-	451	2,603	(3,054)	-
<b>At 31 December 2017</b>	<b>10,551</b>	<b>65,747</b>	<b>249,438</b>	<b>26,000</b>	<b>351,736</b>
<b>Accumulated depreciation</b>					
At 1 January 2017	2,216	32,753	157,415	-	192,384
Charge for the year	201	278	11,012	-	11,491
Disposals	(68)	(766)	(13,048)	-	(13,882)
Reclassifications	-	-	-	-	-
<b>At 31 December 2017</b>	<b>2,349</b>	<b>32,265</b>	<b>155,379</b>	<b>-</b>	<b>189,993</b>
<b>Net book amount</b>					
<b>At 31 December 2017</b>	<b>8,202</b>	<b>33,482</b>	<b>94,059</b>	<b>26,000</b>	<b>161,743</b>
At 31 December 2016	8,520	33,939	102,054	8,109	152,622

The value of freehold land not depreciated as at 31 December 2017 was £6,568,000 (2016: £6,668,000).

There were no assets held under finance leases and capitalised at 31 December 2016 or 31 December 2017.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**10 Fixed asset investments**

				<b>Interest in subsidiary undertakings</b>
				<b>£'000</b>
<b>Cost and net book amount:</b>				
<b>At 1 January 2017 and 31 December 2017</b>				
				-
<b>Subsidiary undertaking</b>	<b>Country of incorporation</b>	<b>Description of shares held</b>	<b>Proportion held by the company</b>	<b>Principal activity</b>
SCA Hygiene Products (NI) Limited	England	Ordinary	100%	Non-trading

**11 Stocks**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials and consumables	<b>5,975</b>	4,949
Work in progress	<b>4,968</b>	4,331
Finished goods and goods for resale	<b>25,304</b>	24,678
Engineering stores	<b>8,326</b>	7,927
	<b>44,573</b>	41,885

The difference between purchase price or production cost of stocks and their replacement cost is not material.

**Essity UK Limited**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**12 Debtors**

	2017	2016
	£'000	£'000
<b>Amounts falling due within one year:</b>		
Trade debtors	107,055	102,700
Amounts owed by group undertakings	329,736	292,082
Deferred tax	1	277
Prepayments and accrued income	6,485	3,645
	<b>443,277</b>	<b>398,704</b>
<b>Amounts falling due after one year:</b>		
Deferred tax	375	502
Amounts owed by group undertakings	31,701	36,873
	<b>37,876</b>	<b>37,375</b>
	<b>481,153</b>	<b>436,079</b>

The balances owed by group undertakings are all unsecured, interest free and have no fixed date of repayment, except:

- (i) An amount due from Essity Operations Manchester Ltd of £31,072,000 (2016: £31,072,000 due from SCA Hygiene Products Manchester Limited) with no fixed date of repayment on which interest is receivable at 0.5% over the Natwest Bank base rate.
- (ii) An amount due from Essity Treasury AB of £227,012,000 (2016: £187,157,000 due from SCA Capital NV) with no fixed date of repayment on which interest is receivable at the Natwest Bank base rate.

The fair value of any gains on contracts at the balance sheet date relating to currency is £nil (2016: £228,000) and relating to energy is £3,058,000 (2016: £2,610,000). These figures are disclosed in the Amounts owed by group undertakings above.

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**13 Creditors: amounts falling due within one year**

	2017	2016
	£'000	£'000
Trade creditors	32,386	35,455
Corporation tax payable	2,815	14,766
Amounts owed to group undertakings	106,395	80,409
Taxation and social security	12,128	13,927
Other creditors	1,568	1,707
Accruals and deferred income	76,108	66,635
	<b>231,400</b>	<b>212,899</b>

The amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment, except an amount owed to Essity Operations Limited of £2,654,000 (2016: £2,654,000) on which interest is payable at 0.5% over the Natwest Bank base rate.

The fair value of any losses on contracts at the balance sheet date relating to currency is £81,000 (2016: £nil) and relating to energy is £7,000 (2016: £25,000). These figures are disclosed in the Amounts owed to group undertakings above.

**14 Creditors: amounts falling due after more than one year**

	2017	2016
	£'000	£'000
Amounts owed to group undertakings	4	12,485
	<b>4</b>	<b>12,485</b>

The fair value of any losses on energy contracts at the balance sheet date is £4,000 (2016: £nil). These figures are disclosed in the Amounts owed to group undertakings above.



**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**15 Provisions for liabilities**

	Deferred Tax	CO2 Emissions	Restructuring provision	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	8,939	589	509	10,037
Profit and loss account charges for the year	(479)	-	3,690	3,211
Statement of Comprehensive Income	2,263	-	-	2,263
Emissions for the year	-	625	-	625
Utilised during the year	-	(589)	(2,643)	(3,232)
<b>At 31 December 2017</b>	<b>10,723</b>	<b>625</b>	<b>1,556</b>	<b>12,904</b>

**Emissions**

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

**Restructuring provision**

The restructuring provision relates to projects to restructure the manufacturing operations of the company. The largest of these projects relate to the closure of paper machines at the Stubbins site. This provision is expected to be utilised by June 2019.

**Essity UK Limited**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**16 Deferred tax**

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

	2017 £'000	2016 £'000
Deferred tax assets due within 12 months	(1)	(277)
Deferred tax liabilities due within 12 months	93	47
<b>Total deferred tax due within 12 months</b>	<b>92</b>	<b>(230)</b>

	2017 £'000	2016 £'000
Deferred tax assets due after more than 12 months	(375)	(502)
Deferred tax liabilities due after more than 12 months	10,630	8,892
<b>Total deferred tax due after more than 12 months</b>	<b>10,255</b>	<b>8,390</b>

	2017 £'000	2016 £'000
<b>Total liability</b>	<b>10,347</b>	<b>8,160</b>

Deferred tax	Accelerated capital allowances	Other	Total
At 1 January 2016	8,761	(1,807)	6,954
Reclassification	7	(7)	-
Charged / credited to the income statement	(361)	1,686	1,325
Credited directly to other comprehensive income	-	(119)	(119)
At 1 January 2017	8,407	(247)	8,160
Reclassification			
Charged to the income statement	(383)	2,760	2,377
Credited directly to other comprehensive income	-	(190)	(190)
At 31 December 2017	8,024	2,324	10,347

**Essity UK Limited**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**17 Financial commitments**

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

	2017	2016
	£'000	£'000
Not later than one year	2,336	3,308
Later than one and not later than five years	1,768	3,558
Later than five years	1,842	1,679
	<b>5,946</b>	<b>8,545</b>

**18 Called up share capital**

	2017	2016
	£'000	£'000
<b>Authorised</b>		
305,000,000 (2016: 305,000,000) ordinary shares of £1 each	<b>305,000</b>	305,000
<b>Allotted and fully paid</b>		
288,325,190 (2016: 288,325,190) ordinary shares of £1 each	<b>288,325</b>	288,325

**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 £1 ordinary shares.

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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**19 Profit and loss account**

	£'000
At 1 January 2017	115,871
Profit for the financial year	65,168
Actuarial losses on pension scheme (note 21)	(3,293)
Movement on deferred tax relating to pension scheme (note 15)	420
Hedge reserve	(1,191)
Movement on deferred tax relating to hedge reserve (note 15)	31
Movement on deferred tax relating to hedge reserve e- adjustment relating to prior period (note 15)	(261)
<b>At 31 December 2017</b>	<b>176,745</b>
Pension scheme surplus (note 21)	12,777
<b>Profit and loss reserve excluding pension scheme surplus</b>	<b>163,968</b>

**20 Capital commitments**

At 31 December 2017 the company had contracted for but not provided for future capital expenditure amounting to £5,220,000 (2016: £3,045,000).

**Essity UK Limited**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**21 Post-employment benefits**

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

**Defined benefit scheme**

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

The risks of the scheme are as follows:

**(a) Asset volatility**

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

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

**(b) Changes in bond yields**

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

**(c) Life expectancy**

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

**(d) Inflation risk**

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

**Essity UK Limited**  
**(Formerly SCA Hygiene Products UK Limited)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**21 Post-employment benefits (continued)**

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

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
	<b>%</b>	<b>%</b>
Rate of increase in pensions	<b>2.90%</b>	2.90%
Rate of increase for deferred pensions	<b>2.90%</b>	2.90%
Salary increase	<b>3.00%</b>	3.00%
Discount rate	<b>2.64%</b>	2.37%
Inflation assumptions (RPI)	<b>3.00%</b>	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:

	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>Number of years</b>	<b>Number of years</b>
Longevity at age 65 for current pensioners		
- Men	<b>21.9</b>	22.1
- Women	<b>24.0</b>	24.7
Longevity at age 65 for future pensioners		
- Men	<b>24.0</b>	24.3
- Women	<b>26.3</b>	27.0

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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**21 Post-employment benefits (continued)**

**Reconciliation of scheme assets and liabilities:**

	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 January 2017</b>	334,913	(335,724)	(811)
Service cost	(300)	(5,852)	(6,152)
Member contributions	46	-	46
Interest expense	-	(10,039)	(10,039)
Benefits paid	(9,400)	9,400	-
Employer contributions	22,178	-	22,178
Transfer in	-	822	822
Actuarial gains/(losses)	32,967	(36,260)	(3,293)
Actual return on plan assets	10,026	-	10,026
<b>At 31 December 2017</b>	<b>390,430</b>	<b>(377,653)</b>	<b>12,777</b>

The total contributions to the defined benefit schemes in 2018 are expected to be £17,200,000 (2017: £12,887,000).

**Total cost recognised as an expense:**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current service cost	<b>6,106</b>	5,280
Interest expense	<b>13</b>	282
	<b>6,119</b>	5,562

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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**21 Post-employment benefits (continued)**

The fair value of plan assets were:	<b>2017</b>	2016
	<b>£'000</b>	£'000
Equities	<b>236,210</b>	199,273
Corporate Bonds	<b>119,081</b>	105,498
Other – Cash/property	<b>35,139</b>	30,142
<b>Total market value of assets</b>	<b>390,430</b>	334,913

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

	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decreases in assumption</b>
Discount rate	0.5% pa	(34,644)	38,272
Salary growth rate	0.5% pa	4,957	(4,961)
Pension growth rate	0.5% pa	24,164	(22,800)
Life expectancy	1 year	15,124	(14,485)

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 year) 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 year.

**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 £2,877,000 (2016: £2,715,000). Contributions totalling £244,000 (2016: £261,000) were payable to the funds at the year end.



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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**22 Immediate and ultimate parent undertaking and controlling party**

The company is a subsidiary of Essity Group Holding BV (formerly SCA Group Holding BV), a company registered in the Netherlands. By virtue of their shareholding, the ultimate parent company and controlling party of the company is Essity Aktiebolag (publ), a company incorporated in Sweden. The immediate parent company is Essity Holding UK Limited (formerly SCA UK Holdings 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 2017. Copies of these financial statements for the year ended 31 December 2017 may be obtained from the following address:

Southfields Road  
Dunstable  
Bedfordshire  
LU6 3EJ