

Chairman and CEO Letter

We are looking forward to meeting with shareholders at Asaleo Care's fifth Annual General Meeting on 30 April 2019, commencing at 10:00 am at the offices of PriceWaterhouseCoopers. The meeting will provide an opportunity to discuss the Company's activities and meet the Directors and executive management team.

Financial results impacted by record high wood pulp and energy costs

Asaleo Care has an enviable portfolio of market leading brands that have delivered strong cash returns to our shareholders since our ASX listing back in 2014. However, 2018 was a year of significant challenges, with historically high input costs and continuing market competition. Pulp costs year-on-year were up \$27 million, whilst energy costs were \$6 million higher.

Total underlying group EBITDA of \$80.6 million was down 35 per cent on 2017. Retail EBITDA was down 21.1 per cent to \$36.4 million with increased pulp costs on our Consumer Tissue business the key driver.

During the year, we renewed our focus on our consumers and customers and created new growth opportunities. Key retailers agreed to add a number of our new products, as range additions in Tissue and Personal Care categories. A major private label tissue contract was secured which commenced in the last quarter of 2018.

Market share for our Feminine Care business stabilised with the investment in trade spend, which saw volume share rise in the second half compared to the prior corresponding period. Baby Care continues to be challenged by heightened competitive activity in New Zealand.

The successful launch of new Tena products, *Night Pants and Lights*, drove strong performance in the Incontinence Retail category with revenue rising 4.8 per cent.

In our B2B segment, EBITDA decreased 12.4 per cent to \$45.1 million. Although Incontinence Healthcare performed strongly and growth in our Professional Hygiene proprietary systems continued, EBITDA was impacted by higher pulp costs of approximately \$12 million.



Asaleo Care has an enviable portfolio of market leading brands that have delivered strong cash returns to our shareholders since our ASX listing in 2014.

We invested in a major quality upgrade for our Sorbent brand and, in our Business-to-Business (B2B) segment, we commenced a major capital project in New Zealand, investing \$25 million that will deliver cost savings, quality improvements and extend our B2B product range.

With the reduced profit in 2018, we focused on cutting net debt which was reduced by \$16.7 million from 31 December 2017.

Strong and decisive action taken in 2018

This year marked a turning point for your Company.

In July, we announced that we would undertake an in-depth strategic review of the whole business. Our aim was to design and implement the most efficient structure and business model for sustainable long-term growth and to maximise our return on invested capital.

It was clear strong and decisive action was required this year to ensure the long-term success of our brands.

The decision to divest Australian Consumer Tissue business

Following the review, we made the decision to divest our Australian Consumer Tissue business, which includes Sorbent toilet and facial tissue, Handee Ultra paper towel, and Deeko serviettes and disposable tableware.

The sale to Solaris Paper for \$180 million, significantly strengthens our balance sheet, reduces net debt and earnings volatility and improves the Company's leverage ratio. Following completion of the transaction, our leverage ratio will be at the bottom of our target range of 1.5 to 2.5 times by the end of 2019.

We will retain our cost competitive consumer tissue business in New Zealand and the Pacific Islands, which includes Purex toilet tissue, Sorbent toilet and facial tissue, Handee Ultra towel, and Orchid and Viti brands for toilet, towel and facial tissue, and serviettes.

The transaction also improves the Company's balance of business portfolio. Over half of our future revenue and EBITDA will be generated from the B2B channel which has grown strongly over recent years and where Asaleo Care is a market leader in Australasia. Cash generation will also be stronger, as the Australian Consumer Tissue business has historically consumed some 30 per cent of the Group's capital spending and working capital holdings.

The sale is expected to be completed by the end of the first quarter of 2019.

Refocusing and reinvesting in higher margin, higher growth brands

One of the major benefits of the sale is the ability it provides us to refocus and reinvest in our core higher margin, higher growth brands. In the coming year, it is our intention to reinvest in our brands Libra, Tena and Tork through innovation, marketing, people and in-store support.

As part of the strategic review, we secured an in-principle agreement for a five-year extension to our Trade Mark and Technology Licensing Agreement (TMTLA) with Essity to 2027. The agreement provides technology, marketing and sales rights, and a pipeline to world-leading research, development and innovation for the Tork and Tena brands.

In 2019, we expect the Company's underlying EBITDA from continuing operations to be in the range of \$80 million to \$85 million under the new lease accounting standard. This compares to \$90.6 million in 2018 under that standard. The reduction is driven by our commitment to invest significantly to support the long-term growth of our brands.



Safety is most important

Beyond all else, the safety of our employees, contractors and visitors to our sites is always our most important priority.

For 2018, our safety performance largely remained unchanged compared to the previous year. This follows a notable improvement made in 2017. Everyone at Asaleo Care is committed to improving our safety performance and we will continue to work towards reducing safety risks, incidents and injuries.

Recognised for our sustainability track record

Only by operating safely, sustainably, ethically and transparently can we grow and prosper, and create value for our employees, shareholders and the communities where we live and work.

Together with our employees, we are making a positive contribution to improve the environment and respond to important social needs.

We ensure that the resources we use to produce our products are sourced sustainably and managed responsibly. This year, we committed to purchase pulp and paper reels consistent with No Deforestation, No Peat, No Exploitation (NDPE) policies adopted by the forestry and palm oil industries.

The Company has also been a signatory of the Australian Packaging Covenant (APC) for nearly a decade with progress reported regularly.

This year marked the fifth consecutive year Asaleo Care has been recognised for its corporate sustainability leadership in the Dow Jones Sustainability Australia Index (DJSI).

Everyone at Asaleo Care is committed to improving our safety performance and we will continue to work towards reducing safety risks, incidents and injuries.

Making a positive economic and social contribution

Asaleo Care and our people are proud of the contribution we make in our communities and through our corporate charities, Ronald McDonald House Charities and Foodbank.

This year, our employees volunteered approximately 500 hours to help Foodbank provide food relief throughout Victoria.

In addition to our employees volunteering, the Company sponsored two of Foodbank's Farms to Families pop up markets and donated essential personal hygiene products to 600 women and their families affected by domestic violence.

This year, the number of women in senior leadership positions rose to 44 per cent, up from 21 per cent the year previous.

We have had a long-standing partnership with Ronald McDonald House Charities and provide a monetary donation annually to the charity in Australia and New Zealand. This year, the Company also donated Sorbent toilet tissue to supply its 18 houses across Australia which accommodates more than 10,000 families every year.

We are also recognised for our disaster relief assistance and this year was no exception. Asaleo Care employees volunteered their time to donate essential products to help the community during the widespread flooding in Labasa, Fiji and more recently, in Townsville and its surrounding vicinity.

Through our community educational programs about puberty, hygiene and elderly care coupled with product donations and support, we aim to provide opportunities to improve health and wellbeing.

Creating a diverse and talented workplace

We know diversity and inclusion are at the heart of successful, high performing organisations. By unlocking the potential of our people, and encouraging a diversity of experience, knowledge and ideas to be heard, we are building an even stronger and better company that can thrive and grow.

This year, the number of women in senior leadership positions rose to 44 per cent, up from 21 per cent the year previous. By focusing on the best available talent within the Company and the marketplace, Asaleo Care has been able to substantially improve gender representation in senior leadership positions.

We believe investing in our future generation is important and the right thing to do as a business. This year, we employed six new graduates in engineering and sales. The exposure they gained from the variety of work, and access to senior leadership and mentoring provides a valuable opportunity to grow and develop their careers.

Succession planning and new CEO

This year also marked an important transition in leadership with the appointment in October of Sid Takla as the new CEO and Managing Director. Sid worked closely with the Board and Executive Team in leading the strategic review and positioning the Company for long-term sustainable growth. His appointment is the result of careful, comprehensive CEO succession planning over a number of years. The Board of Directors has great confidence in Sid and the management team that he leads.

We are deepening relationships with our customers and working in new ways to create greater value for them and our consumers. We are building a stronger, more collaborative culture grounded in our values – Pride, Integrity and Courage – that guide our decisions. There is a new energy within the Company as we are unified in reshaping and forging a new and prosperous future.

On behalf of the Directors and the executive management team, we thank employees for your loyalty and dedication, particularly in a period of change and transition. We thank our shareholders, our customers and consumers and other stakeholders for your support and commitment to Asaleo Care and its future. We would also like to thank our Directors for their insight and guidance over what has proven to be a watershed year for the Company.

We look forward to meeting and speaking with you at our forthcoming Annual General Meeting.



Harry Boon
Chairman



Sid Takla
CEO and Managing Director