Financial Review Summary

FY18 Results versus FY17

A$ MILLION	CONTINUING UNDERLYING 2018[1]	CONTINUING UNDERLYING 2017[1]	CHANGE %
Revenue[2]	**407.8**	**415.4**	(1.8%)
EBITDA	**81.5**	**97.6**	(16.5%)
Depreciation	**(15.7)**	**(15.4)**	1.9%
EBIT	**65.8**	**82.2**	(20.0%)
Net Finance Costs[2]	**(14.8)**	**(11.3)**	(31.0%)
Profit Before Tax	**51.0**	**70.9**	(28.1%)
Tax Expense	**(14.0)**	**(20.6)**	32.0%
NPAT	**37.0**	**50.3**	(26.4%)
Statutory (NLAT)/NPAT	**(108.7)**	**57.2**	(290.0%)

1. Refer to page 42 for a reconciliation between the FY18 and FY17 Statutory and Underlying result.
2. Revenue excludes interest income, which is recognised within Net Finance Costs.

Revenue: Was (1.8%) lower in FY18, which was mainly driven by the Retail segment (-5.2%), slightly offset with growth in the Business to Business (B2B) segment (+1.2%).

The Retail segment was impacted by lower Feminine and Baby Care sales offset with growth in Incontinence Care, Pacific Islands and Consumer Tissue New Zealand. Feminine Care was impacted by lost share throughout 2017 due to increased price discounting by competitors while we were on Every Day Pricing (EDP). Since coming off EDP in the fourth quarter of 2017, Asaleo Care has increased trade spend to support market share. This has led to stabilisation of market share in 2018. The volume in the second half of 2018 was higher than in second half 2017. Feminine Care revenue was also impacted by the loss of a low margin export contract in the first quarter of 2018. Baby Care sales decline was due to loss of private label contracts, exiting of the Australia business and new brands entering the market at the same time as the 2017 quality issues. The new and improved product is now fully in market, however heightened competitive activity has made it difficult for the Treasures brand to regain share. Incontinence Retail has grown year on year by 4.8% through launch of new products in major grocery channels. The online distribution channel has also seen growth of over 40% on last year. Consumer Tissue New Zealand grew through increased promotional activity and product improvement particularly for Purex and Handee.

Growth in revenue in B2B was attributable primarily to Incontinence Healthcare. Professional Hygiene had modest growth despite the loss of a low margin private label contract. Branded sales grew by 1.3% with our high margin hero system products now contributing 34% of total Professional Hygiene revenue. Major contracts were also renewed during the year. Incontinence Healthcare delivered solid top line growth with Australia up 5.2% and New Zealand up 7.6% on last year. Innovative higher margin products delivered strong growth year on year coupled with the full year impact of major contracts won during 2017.

EBITDA: Decline of (16.5%), with $81.5 million EBITDA in FY18, compared with $97.6 million in FY17. Key drivers for EBITDA decline include:

- Lower revenue in FY18 was a key contributor driven by Retail performance.
- Production costs were impacted by significantly higher pulp costs. These costs were slightly offset with favourable foreign exchange on US$ denominated purchases.
- Increased distribution expenses through higher crude oil prices, logistics rates for long distance distribution, slightly offset with lower volume.

These drivers of the lower EBITDA were slightly offset with reduced advertising and promotional expenditure, with launch of Libra Roll.Press.Go innovation occurring in 2017.

EBIT: $65.8 million achieved in FY18 compared with $82.2 million in the corresponding period. The FY18 EBIT decline is consistent with the EBITDA decline as the FY18 depreciation expense has remained consistent with FY17.

Net Finance Costs: An increase of (31.0%) which was due to average drawn debt being higher in FY18 compared with FY17 and higher effective interest rate in FY18 of 4.3% compared to 3.5% in FY17.

NPAT: FY18 Underlying NPAT was $37.0 million, which represents a decline of (26.4%) compared with FY17 of $50.3 million.

Balance Sheet

A$ MILLION	CONTINUING OPERATIONS 2018	DISCONTINUING OPERATIONS 2018	TOTAL OPERATIONS 2018	TOTAL OPERATIONS 2017	% CHANGE
Cash and cash equivalents	**67.4**	–	**67.4**	**30.2**	123%
Trade Receivables	**13.0**	**0.6**	**13.6**	**21.5**	(37%)
Inventories	**107.3**	**49.2**	**156.5**	**167.5**	(7%)
Other current assets	**12.7**	**2.6**	**15.3**	**6.2**	147%
Tax assets	**6.7**	**5.4**	**12.1**	–	
Property, plant and equipment	**138.6**	**121.0**	**259.6**	**342.0**	(24%)
Intangible assets	**134.5**	–	**134.5**	**187.7**	(28%)
Total Assets	**480.2**	**178.8**	**659.0**	**755.1**	(13%)
Payables and provisions	**100.9**	**46.4**	**147.3**	**107.2**	37%
Other current liabilities	**0.6**	–	**0.6**	**1.8**	(67%)
Interest bearing liabilities	**325.7**	–	**325.7**	**307.5**	6%
Other non-current liabilities	**0.4**	–	**0.4**	**0.6**	(33%)
Deferred tax liabilities	**20.3**	–	**20.3**	**41.7**	(51%)
Total Liabilities	**447.9**	**46.4**	**494.3**	**458.8**	8%
Net Assets	**32.3**	**132.4**	**164.7**	**296.3**	(44%)

Key balance sheet movements since December 2017 were:

- **Receivables:** Decrease due to implementation of an additional accounts receivable securitisation facility during 2018.
- **Inventories:** Finished goods and work in progress were lower due to a program to reduce inventory to target optimal levels. Offsetting this was an increase in value of inventory due to higher pulp pricing.
- **Other Current Assets:** Increase due to $7.5m payment into escrow related to the sale of the Australian Consumer Tissue business.
- **Property, plant and equipment:** Decreased due to the impairment of Tissue Australia and Personal Care New Zealand at 30 June 2018. Accelerated depreciation for assets associated with the Kawerau site upgrade also impacted this balance.
- **Intangible assets:** Decreased due to impairment of goodwill and brands for Tissue Australia and Personal Care New Zealand.
- **Payables and provisions:** Increase is mainly attributable to trade payables through timing of payments to suppliers as we transition the sale of the Consumer Tissue Australia business.
- **Interest bearing liabilities:** Increase is offset with increase in cash balance. Overall net debt has decreased by $16.7m. Refer to Financial Indebtedness on page 41.
- **Deferred taxes:** Decrease in net deferred tax liability due to impairment that occurred during the year which reduced future tax benefits.

Free Cash flow

A$ MILLION	2018	2017	CHANGE %
Underlying EBITDA[1]	**80.6**	**124.3**	(35.2%)
Changes in working capital	**27.3**	**6.5**	320%
Maintenance capital expenditure	**(17.2)**	**(20.9)**	(17.7%)
Financing	**(12.7)**	**(10.6)**	19.8%
Taxation	**(1.2)**	**(18.5)**	(93.5%)
Other/Non recurring	**(12.0)**	**(17.2)**	(30.2%)
Free Cash Flow	**64.8**	**63.6**	1.9%

1. EBITDA is on a reported basis, i.e. includes discontinued operations

Total free cash flow increased by $1.2 million compared with the prior year.

Key drivers of the movement are:

- **EBITDA:** A (35.2%) decline in FY18 driven by decline in both Retail and Business to Business segments as well as Consumer Tissue Australia.
- **Changes in working capital:** Increase of 27.3 million during FY18 mainly attributable to increased accounts payable through timing of payments to suppliers as we transition the sale of the Consumer Tissue Australia business. Finished goods and work in progress inventory were lower due to reaching target optimal levels. Accounts receivable was lower due to an additional debtor financing facility being implemented in FY18.
- **Maintenance capital expenditure:** Reduction in FY18 in light of the strategic review that was underway throughout the year.
- **Financing:** Higher financing cost relates to both higher average debt levels in FY18 and a higher effective interest rate compared to FY17.
- **Other:** Includes non-recurring expenditure, non-cash items and foreign exchange movements on opening cash.

Financial Indebtedness

A$ MILLION	2018	2017
Interest payable	**2.2**	0.8
Non-current interest bearing liabilities[1]	**327.5**	308.5
Total debt	**329.7**	309.3
Cash and cash equivalents	**67.3**	30.2
Net debt	**262.4**	279.1
Leverage (Net debt/Underlying EBITDA)	**3.25**	2.25

1. Excludes capitalised borrowing costs; 31 December 2018 of ($1.8) million and 31 December 2017 of ($1.0) million

Leverage: 31 December 2018 is 3.25x which is outside of our target range of 1.5x to 2.5x. Proceeds from the sale of Consumer Tissue Australia will be used to lower debt. The leverage ratio will then reduce to be within the target range.

Total debt: Asaleo Care has two main debt facilities. In June 2018 we renegotiated and extended our revolving cash facilities. Facility A commitment of $157.5 million was extended until 31 July 2021, Facility B was extended until 31 July 2023 and Facility C was extended until 31 July 2022. In addition, we issued Senior Notes for $110 million. Series A note is for $85 million and expires on 26 June 2025 and Series B note is for $25 million and expires on 26 June 2028.

Cost of debt: All up cost of debt in FY18 was 4.3% compared to FY17 of 3.5%.