asaleo care

everyday life

Annual Report 2017

everyday moments

In so many ways, we make it easier for hygiene, health and wellbeing to be part of everyday life.

everyday care

We're proud of what we do to make lives better, day by day, moment by moment.

Contents

Using the finest material, Deeko Collection provides deluxe styling for any relaxed gourmet occasion.

Tork's sleek Xpressnap dispenser in walnut wood offers napkins one at a time to improve hygiene and reduce usage.

Libra Invisible Sports pads, launched in 2017, take the worry out of working out and feature Roll.Press.Go discrete disposal.

Committed to keeping babies happy in their nappy for over 40 years, Treasures Comfort are quick drying with a comfy fit.

TENA Men is the No. 1 brand in the Australian market and the best performing product in its category.

One of the best known and loved brands, Sorbent toilet and facial tissue has been made locally in Australia for more than 65 years.

There's hardly a moment in the day when someone in the family doesn't reach for an Asaleo Care product. We take a holistic approach; it's not just about making great products to address our customers' needs. It's also about listening, educating and informing about hygiene and health solutions.

Handee Ultra paper towel has a long history in Australia and New Zealand, and has grown to become a market leader among consumers for its strength and quality.

Tork SmartOne mini toilet roll dispenser is an efficient and robust system with one at a time sheet dispensing to reduce consumption.

Made in Kawerau, NZ for nearly 65 years, Purex is a soft, strong and sustainable toilet tissue.

TENA is dedicated to the idea that incontinence can be improved or better managed and it shouldn't stop people from leading a full and happy life.

Libra is the only Feminine Hygiene brand made in Australia. Roll.Press.Go wrappers with self-sealing edges make disposal neat and hygienic, anywhere, anytime.

From paper towels in workplaces around the world to napkin dispensers in restaurant dining rooms, Tork is a leader in workplace hygiene.

Financial highlights FY17

STATUTORY

Financial performance
FY17 NPAT of $57.2 million (FY16: $59.0 million)

Earnings per share
10.5 cents per share (FY16: 10.5 cents per share)

Capital management
Sale and leaseback of Springvale manufacturing site with gross proceeds of $22.4 million. Completion of the on-market share buy-back program with $4.5 million being spent to purchase 2.8 million shares.

Free cash flow
$85.8 million achieved in FY17 evidencing continued solid cash flow generation.

Dividend
Declaration of 6 cents per share final 40% franked dividend for FY17. Total FY17 dividend declared of 10 cents per share.

UNDERLYING*

Financial performance
FY17 EBITDA of $124.3 million, down 4.9% compared to FY16 EBITDA of $130.7 million.

Earnings per share
10.9 cents per share delivered, down 5% from FY16 (11.5 cents per share).

Net debt/leverage
Leverage of 2.25 x EBITDA even after factoring in the $99.5 million spent on the on-market share buy-back in FY15, FY16 and FY17.

Underlying earnings per share
10.9
cents

Total FY17 dividends per share
10 cents
Partially franked

Share buy-back
100% complete
Leverage at 2.25 times

Return on invested capital
11.7%
Strong capital returns

* **Underlying financial information:** As a result of non-recurring expenditure in FY16 and FY17, underlying financial information is included in this report.

NON-IFRS FINANCIAL INFORMATION Throughout this report, Asaleo Care has included certain non-IFRS financial information. This information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. Asaleo Care uses these measures to assess performance of the business and believes that this information is useful to investors.

The following non-IFRS measures have not been audited but have been extracted from Asaleo Care Group's audited Financial Statements:

- **EBITDA:** Earnings Before Interest, Tax and Depreciation and Amortisation.
- **EBIT:** Earnings Before Interest and Tax.
- **Maintenance capital expenditure:** cash flow expenditure aimed at preserving the condition of the fixed asset base.
- **Growth capital expenditure:** cash flow expenditure aimed at improving the fixed asset base in order to improve financial performance.

Chairman and CEO letter

We are pleased to invite all shareholders to attend Asaleo Care's fourth Annual General Meeting to be held on 23 April 2018 at the offices of PricewaterhouseCoopers, starting at 10am. The meeting will provide an opportunity to discuss all matters relating to the Company's activities. The following is a brief report on the recently completed year.

2017 saw your Company deliver strong earnings growth in the Tissue Segment, but it was a challenging year in the Personal Care Segment. In the face of price-driven competition in the retail environment, increased energy costs and adverse foreign exchange, underlying EBITDA was down 4.9 per cent on last year to $124.3 million. Underlying NPAT declined eight per cent to $59.4 million and underlying Earnings per Share was lower by 5.2 per cent to 10.9 cents per share.

Your Company has a track record of strong capital management and this continued in 2017 with solid cash flow generation of $85.8 million. Contributing to this was the sale and leaseback of the Springvale manufacturing site with gross proceeds of $22.4 million, and an inventory reduction program.

We also successfully completed the on-market share buy-back program with 60.3 million shares bought back at an average price of $1.65 per share for a total of $99.5 million. At the same time, we reduced net debt from $295.2 million at the end of 2016 to $279.1 million at 31 December 2017. The Company ended the year at a comfortable leverage level of 2.25 times.

Tissue segment results were pleasing with EBITDA 8.5 per cent higher to $69.2 million, with lower production costs helping to offset adverse energy costs, while small gains in pulp and raw material prices were largely offset by adverse FX movements. Our Professional Hygiene, or Business to Business (B2B) segment, had solid sales and EBITDA growth against last year as a result of winning new customer contracts.

Personal Care EBITDA decreased 17.7 per cent to $55.1 million, primarily in Feminine Care and Baby Care, while Incontinence Care continued to perform strongly, with the healthcare channel being the highlight.

We continue to believe in the future growth opportunities for the Company based on its strong foundation and our dedicated and committed employees.

Within Personal Care, Feminine Care revenue declined in the face of aggressive price discounting by competitors when our Libra brand was on Every Day Pricing (EDP) for a large part of the year. In November, we exited EDP and now have the flexibility to compete on price as and when necessary. Pleasingly, our market share has since increased.

Baby Care had a difficult second half caused by quality issues associated with commissioning the upgraded nappy machine in New Zealand, and the loss of private label business. The quality issues have been rectified and we are now again producing a high quality nappy.

This year, we launched two major product innovations unique to the Australian and New Zealand markets – Libra Roll.Press.Go and a new Treasures nappy. We are confident that these product enhancements, which are based on consumers' input and changing needs, will provide us with stronger, long-term growth benefits. Both brands have been proudly manufactured locally for nearly 40 years – Libra is produced in Australia at our Springvale, Victoria plant and Treasures in New Zealand at our Te Rapa facility.

Our strong cash generation allows us to reinvest in the business, and importantly, to distribute excess cash to shareholders through dividends as well as the completed share buy-back. Since listing in 2014, the Company has returned $267 million to shareholders, and the full year dividend in 2017 has been maintained at 10 cents per share.

Chairman and CEO letter

Nothing is more important than the health and safety of our people and the communities in which we operate. Everyone at Asaleo Care is committed to improving our safety performance, and in 2017, we achieved a better result than the prior year on all key measures. While we are pleased with this result, we remain diligent in our efforts toward further reducing safety risks, incidents, and injuries.

To attract and retain our great people, we work hard to build a high performing and collaborative culture, and to provide opportunities to grow and succeed. Our shared values – pride, integrity and courage – and our focus on a more diverse workplace, guide our behaviours and decisions.

Greater diversity in our workplace, which more closely reflects the diverse nature of our customers and consumers, improves our ability to solve key business problems and to harness new ideas and innovation that will build an even stronger and better company. In 2017, we introduced our Workplace Flexibility policy to accommodate the needs of all employees and to create a more diverse workforce.

Our people share a commitment to participating in our communities through educational programs and our donations and voluntary work with Foodbank and Ronald McDonald House Charities. In the coming year, we plan to extend our involvement with both of these outstanding charities, including offering more volunteer opportunities for our people. We're also recognised for providing aid in times of disaster including last year's Bay of Plenty floods in New Zealand. As a leading Personal Care and Hygiene company, we also play our part in contributing to local and national economies through employment and investment in our operations, as well as through taxes and payments to suppliers and local service industries.

Sustainability is crucial to our growth and success. By managing sustainably, we improve our processes, reduce our operating costs, minimise our impact on the environment, and create value for our customers, our shareholders, our communities and our employees. It is pleasing that, for the third consecutive year, Asaleo Care was recognised for corporate sustainability leadership in the Dow Jones Sustainability Australia Index (DJSI).

In the coming year, while your Company will face significant cost increases from pulp and energy, we have plans to mitigate some of these increases from continued innovation, quality improvements, cost savings and go-to-market strategies. The timing and effective execution of these initiatives are critical to delivering our outlook for 2018 of Underlying EBITDA in the range of $113 million to $119 million.

We also announced in February that after seven years with the Company, our Chief Executive Officer and Managing Director, Mr Peter Diplaris, has decided to step down and will leave the Company on 22 May 2018. During his time with the Company, Peter assembled a high calibre executive team that has delivered solid growth in earnings and profitability, a substantial capital investment program and listing of the Company on the ASX in 2014. The Directors extend their thanks to Peter for his outstanding contribution and wish him well for the future.

Mr Sid Takla, Chief Operating Officer (COO), will take on the additional responsibility of interim Chief Executive Officer from 22 May 2018, pending an extensive search to be undertaken to appoint a new CEO and Managing Director. As part of the Company's succession planning, Sid was appointed COO in May 2017 after holding numerous finance and operational roles within the Company. As COO, Sid has been working closely with Peter, including having direct responsibility for Supply Chain in addition to the Company's B2B division. Sid will be a candidate for the permanent role.

On behalf of the Directors and the executive management team, we thank all our employees for your dedication and for putting our customers first. We also thank our customers, consumers, shareholders and other stakeholders for your support and commitment to Asaleo Care, and we look forward to seeing you at our forthcoming Annual General Meeting.

Harry Boon
Chairman

Peter Diplaris
CEO and Managing Director

Company overview

Quality, trusted brands with a proud heritage

Asaleo Care is a leading Australasian personal care and hygiene company. The Company manufactures, markets, distributes and sells essential, everyday consumer products including nappies, toilet paper and wipes, facial tissues, tampons, pads and liners, paper towels, serviettes and disposable tableware.

Our popular products are recognised, market-leading household brands like Sorbent and Purex, Handee Ultra, Libra, TENA, Tork, Deeko, Treasures, Viti and Orchid.

Asaleo Care has a proud heritage of more than 60 years and was listed on the Australian Securities Exchange in June, 2014. Today, with 1,000 employees, our manufacturing and distribution footprint extends across five manufacturing sites and 11 distribution centres in Australia, New Zealand and Fiji.

5 Manufacturing facilities

11 Distribution centres

Summary of products

Business and % contribution	Product category	Key brands	Products	Manufacturing facilities
Personal Care				
44.3% of FY17 EBITDA	Feminine Care	**Libra**	Pads, tampons, liners and ancillary products (e.g. wipes, washes and heat patches)	Springvale, Australia
	Incontinence Care	**TENA**	Incontinence pads, pants and liners	Springvale, Australia
	Baby Care	**Treasures**	Nappies, nappy pants and wipes	Te Rapa, New Zealand
Route to Market	*(Customer list is not exhaustive)*			
Retailers	Coles, Foodstuffs, Metcash, Pharmacy, Progressive Enterprises, Woolworths, Costco			
Distributors	Bunzl, OfficeMax, WINC			
Healthcare	Hospitals, aged care facilities, community care			
Webshops				
Tissue				
55.7% of FY17 EBITDA	Consumer Tissue	**Sorbent** **Purex** **Handee Ultra** **Deeko** **Orchid** **Viti**	Toilet tissue, facial tissues, paper towel, serviettes and disposable tableware	Box Hill, Australia Kawerau, New Zealand Nakasi, Fiji
	Professional Hygiene	**Tork**	Hand towel, toilet tissue, napkins, soap, facial tissues and other hygiene-based accessories	Kawerau, New Zealand Box Hill, Australia
Route to Market	*(Customer list is not exhaustive)*			
Retailers	Coles, Foodstuffs, Metcash, Pharmacy, Progressive Enterprises, Woolworths			
Distributors	Bunzl, OfficeMax, WINC			

Our Business Strategy

Asaleo Care manufactures, markets, distributes and sells essential, everyday consumer products.

To produce many of our products, we import sustainable fibre sources and convert them locally in Australia, New Zealand and Fiji to manufacture our Tissue and Personal Care products including tampons, pads and liners, toilet paper, facial tissues, paper towels, serviettes and nappies. Through our relationship with Essity (formerly SCA), we also import products under the Tork and TENA brands for the business-to-business and retail markets.

Since our listing on the Australian Securities Exchange in 2014, Asaleo Care has had an organic growth strategy which is comprised of four areas.

Our strategy focuses on product development and innovation, extending the range and availability of our products and services, entering new but adjacent market segments, innovating within our distribution channels and implementing sustainable cost reduction and efficiency initiatives.

We do this by demonstrating a difference through market-leading product innovation such as new product features, packaging and marketing that adds value for our customers and consumers.

Innovations like Libra's Roll.Press.Go on the pads range and new, core technology to improve our Treasures nappy, or Purex's advertising campaign that highlights sustainable manufacturing in New Zealand – all demonstrate our growth strategy.

We look to extend our range and coverage by diversifying our products within our customer base, maintaining our branded product sales and seeking new customer opportunities within our core markets.

This year, we capitalised on major growth opportunities within our regions. From our Fiji operations, we leveraged our local manufacturing to export products throughout the Pacific Islands region. We identified opportunities to build on our leadership in healthcare in New Zealand and Australia.

The quality of our brands is strong and today, our branded products make up to around 97 per cent of our total sales.

As we innovate within our distribution channels, sales through our online stores for Treasures nappies, TENA incontinence products, and Libra Feminine Hygiene continue to increase.

Importantly, we maintain an intense focus on improving efficiency and productivity whether it's through reducing energy usage or improving the performance of our manufacturing facilities, we work hard to get the best quality, value and benefit for our customers, our consumers and our shareholders.

Our suppliers

Our suppliers play a key role in helping us create and produce our products. We actively engage local and overseas suppliers to work closely with us in providing their goods and services which further creates employment and business opportunities for the local community. Pulp, finished goods, freight services, packaging, engineering, business services and utilities are our key procurement categories.

Over time, we have developed a large and diversified supplier base. No individual supplier represents more than 10 per cent of the Company's total cost base. Our major suppliers are assessed on sustainability, financial viability, quality and safety performance. Using our responsible sourcing program as a framework, we review the practices of our suppliers on human rights and labour standards, health and safety, environmental management and business integrity.

Our relationship with Essity (formerly SCA)

Essity is a major shareholder of Asaleo Care and has entered into a number of commercial arrangements with Asaleo Care including our agreements for the supply and purchase of Personal Care and Professional Hygiene products, and licensing of certain trademarks, technology and intellectual property.

Asaleo Care pays Essity an annual royalty for the exclusive license to use specific brands, including TENA and Tork, technology and other intellectual property in Australia, New Zealand and specified countries in the Pacific region.

A company of brands

Asaleo Care's portfolio includes leading brands of essential, everyday consumer products in Australia, New Zealand and the Pacific. Many are heritage brands, recognised and trusted by consumers for more than 60 years.

In Australia, New Zealand and Fiji, our core consumer brands are Sorbent, Libra, Handee Ultra, Deeko and TENA offering toilet and facial tissue, wipes, paper towels, tampons, pads, liners, serviettes and a tableware range.

We're also well known for our popular brands Purex toilet tissue and Treasures nappies in New Zealand, and in Fiji, Viti toilet tissue and Orchid toilet and facial tissue, serviettes and kitchen towels.

Our business-to-business brands Tork and TENA in Australia, New Zealand and the Pacific Islands for professional hygiene and incontinence are leading brands within their categories.

Innovation and product development are critical to building our brands. We are well known for bringing new ways to extend – and sometimes, revolutionise – our brand categories. And some of our brands have been doing this for many decades.

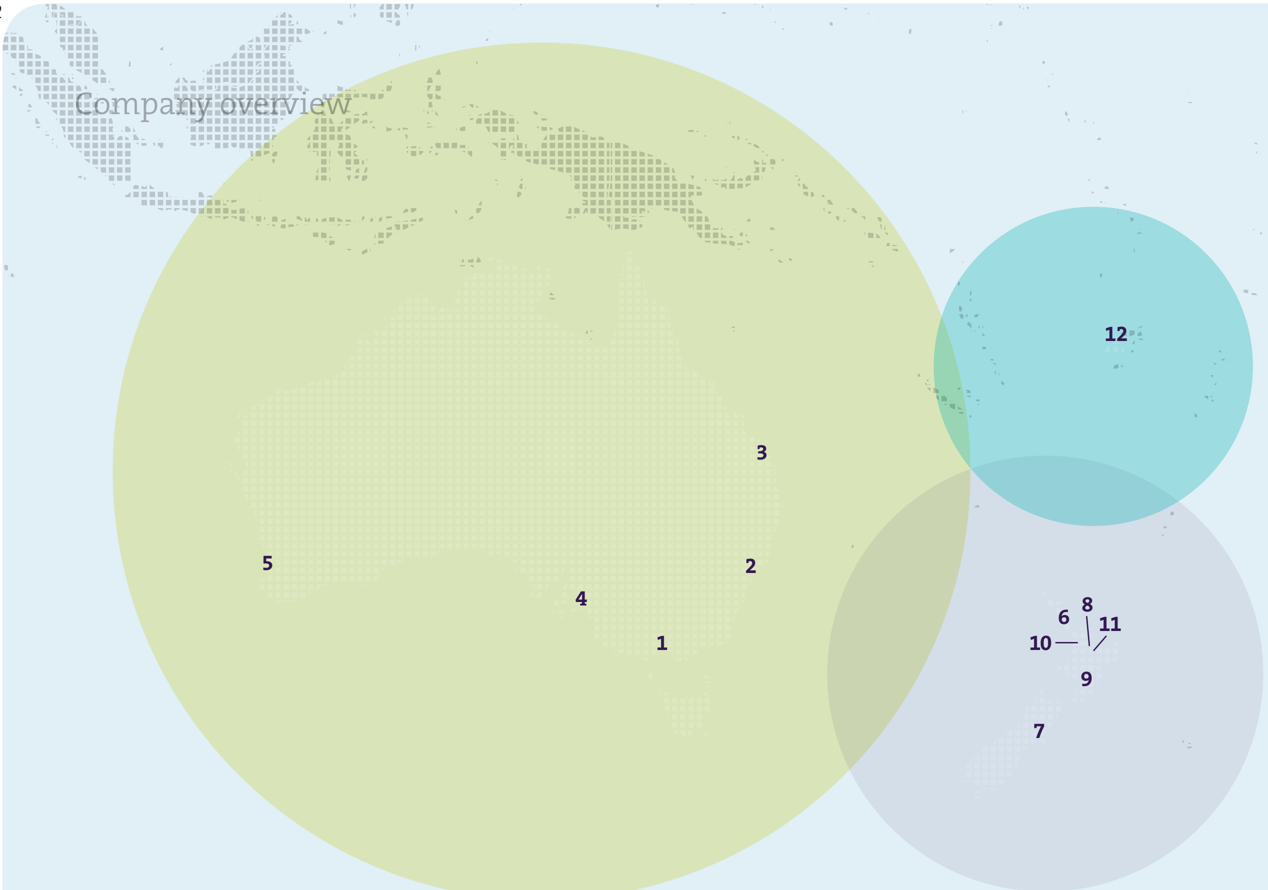
Brands like Sorbent, Australia's first crepe toilet paper sold in pre-wrapped, branded paper, which just celebrated 65 years and Libra, the only Feminine Hygiene product manufactured in Australia that launched the Roll.Press.Go innovation in 2017.

Handee Ultra paper towel, first launched in New Zealand more than 50 years ago, is still a market leader there and in Australia. Treasures nappies and Purex toilet tissue are strong and growing iconic brands.

Through our close relationship with Essity, we leverage global research, product development and manufacturing excellence.

We are constantly looking for ways to provide solutions to consumers' problems – even simple innovations like handles on bulk packs, finding more hygienic ways to dispose of pads, or offering a better skin solution to people with incontinence.

It's about making our products better for our customers and consumers, year in and year out.



At Asaleo Care, we make it easier for hygiene, health and wellbeing to be part of everyday life, and central to everything we do is our ethos of *Taking Care*.

Australia
551 employees

New Zealand
381 employees

Fiji
92 employees

1
Distribution centre
Melbourne

Manufacturing facilities

Box Hill
Product Categories
Consumer Tissue and Professional Hygiene
Brands
Sorbent, Handee, Purex, Deeko and Tork

Springvale
Product Categories
Feminine Care and Incontinence Care
Brands
Libra and TENA

2
Distribution centre
Sydney

3
Distribution centre
Brisbane

4
Distribution centre
Adelaide

5
Distribution centre
Perth

6
Distribution centre
Auckland

7
Distribution centre
Christchurch

8
Distribution centre
Tauranga

9
Distribution centre
Palmerston North

10
Manufacturing facility
Te Rapa
Product Categories
Baby Care
Brands
Treasures, Giggles and Drypers

11
Manufacturing facility
Kawerau
Product Categories
Consumer Tissue and Professional Hygiene
Brands
Sorbent, Handee, Purex, Deeko and Tork

12
Distribution centre
Labasa

Distribution centre
Nadi

Manufacturing facility
Nakasi
Product Categories
Consumer Tissue and Professional Hygiene
Brands
Orchid and Viti

Manufacturing and logistics

Asaleo Care is a local, long-term manufacturer in Australia, New Zealand and Fiji which offers a strong advantage to our customers.

By manufacturing in country and with our extensive logistics network, we provide customers with greater flexibility in managing inventory levels and improved speed-to-market in release of new products and enhancements.

Dedicated customer service teams located within Australia, New Zealand and Fiji help make it easy to do business with us. We listen closely to our customers and understand their local needs and the needs of their consumers.

As well as being a major employer, many employees live in the community where they work. We are part of the local communities where we operate and contribute to the local economy through wages and employee benefits, payments to suppliers and local service industries, and taxes.

Our goal to create greater shareholder value and safely improve our operations never stops. In 2017, we maintained our focus on improving manufacturing efficiency and productivity, and reducing costs.

Waste reduction and operations excellence led to higher performance in 2017

During 2017, we successfully reduced the level of finished goods which enabled us to significantly reduce our third-party external storage requirements. This program optimised finished goods levels, improved working capital and delivered an increase in incremental cash flow.

Machine efficiency records were set during the year through focused improvement activities and the introduction of an Operations Excellence program.

At our Kawerau site, for example, two production lines achieved significant performance improvement without compromise to safety, product quality or equipment reliability. Throughput rose more than 20 per cent on the line that makes Tork branded paper towel and changeover time was cut by approximately 75 per cent on the wide winder for rolled toilet and towel products.

We will be leveraging the knowledge and methodology of these successful improvements across our other sites in the coming year.

BOX HILL, VICTORIA AUSTRALIA

Our largest manufacturing facility which produces toilet paper, kitchen towel, folded napkins and facial tissues. Brands manufactured here include Sorbent, Purex, Handee, Tork and Deeko. The operation has two paper machines with an annual production capacity of approximately 61,000 tonnes and eight converting machines with an annual capacity of 63,000 tonnes.

SPRINGVALE, VICTORIA AUSTRALIA

Feminine Care and Incontinence Care products under the Libra and TENA brands are manufactured here. Asaleo Care is the only Australian manufacturer of feminine hygiene products, sold through our Libra brand. At Springvale, we have an annual capacity to produce up to 1.2 billion pieces across pads, liners and tampons.

KAWERAU, NEW ZEALAND

Our second largest manufacturing site produces toilet paper and both rolled and folded towel products under the Sorbent, Purex, Handee and Tork brands. Kawerau has an annual capacity of approximately 59,000 tonnes on two paper machines and approximately 62,000 tonnes on eight converting machines.

TE RAPA, NEW ZEALAND

Baby Care products are manufactured here under the Treasures, Giggles and Drypers brands and sold in Australia, New Zealand and across the Pacific. The Te Rapa site has the capacity to produce more than 150 million nappies (diapers) per annum.

NAKASI, FIJI

Consumer Tissue and Professional Hygiene products are converted here and sold under the Orchid and Viti brands across the Pacific region.

LOGISTICS

Distribution Centres are located in Australia (Sydney, Brisbane, Melbourne, Adelaide and Perth), New Zealand (Auckland, Christchurch, Tauranga and Palmerston North) and Fiji (Labasa and Nadi).

In Fiji at our Nakasi facility, the upgrade on the winder resulted in record tonnage and output in 2017 for a 10 per cent improvement over the previous year's record. A specification change in production of the slimline folded towel led to a five per cent increase in throughput.

Our efficiency program also extended to employees who received multi-skilling training at all manufacturing sites. To improve the effectiveness of our equipment, original equipment manufacturers provided training on specific production processes and maintenance.

A major challenge for manufacturing during 2017 was the machine upgrade project at two of our production sites: Te Rapa, New Zealand for the new Treasure nappies, and Springvale, Victoria for the new Libra Roll.Press.Go. feminine hygiene products. Initial quality issues during the ramping up of production in Te Rapa were addressed and current production is now exceeding expected quality standards.

Box Hill celebrates 65 years of manufacturing

Our Box Hill site celebrated 65 years of manufacturing the Sorbent brand. While the Sorbent brand has been loved over the years by Australians, generations of families have manufactured the iconic brand with two long-serving employees marking 45 years on the Sorbent lines.

We continue investing to maintain and upgrade our manufacturing assets to improve safety, quality and efficiency and reduce waste. At Box Hill, building on our earlier major capital Tissue investment, we invested in one of our paper machines to improve its drying capability which increased machine safety and energy efficiency, and provided improved process and product control.

Logistics – close attention to what customers want

During the year, we redesigned our New Zealand logistics network, including the introduction of pick-to-voice technology to enable direct-to-store delivery capability. This delivery capability provides us with a better understanding of our end consumers' requirements and greater control of inventory levels across our end-to-end supply chain.

In Australia, we installed pick-to-voice technology to reduce case picking costs and integrated a new Distribution Centre in Adelaide to service our business-to-business customers in the Northern Territory and South Australian markets. By being in closer proximity to these markets, we can reduce internal shipping costs and provide improved customer service.

Tight cost control and strong safety focus

Controllable costs were strictly managed in the face of wrising electricity, gas and pulp prices during the year. Energy, water and waste reductions helped offset some of the increased costs.

Significant safety performance improvements were achieved in 2017 with a lowering in the Injury Frequency Rate. While this is a positive improvement, one injury is one too many. The Company has a clear safety strategy in place that we all work toward to manage risks. We remain committed and vigilant in keeping our employees and our work environment safe.

In the coming year, we will further invest in our employees and their safety and in our manufacturing assets. We remain focused on improving our manufacturing efficiency to ensure the quality and consistency of our current and planned product innovations.

We are part of the local communities where we operate and contribute to the local economy through wages and employee benefits, payments to suppliers and local service industries, and taxes.

Designed by women for women

Libra is the only Feminine Hygiene brand made in Australia. Roll.Press.Go, launched in 2017, is Libra's latest innovation and unique to the Australasian market.

Year in review
Personal Care

Asaleo Care is a market leader in Personal Care. The business markets and distributes an innovative range of Feminine, Baby and Incontinence Care products that make a positive difference to the health and wellbeing of people of all ages. Our essential products include pads, tampons, liners, nappies and wipes available through popular, trusted brands like Libra, TENA, Treasures, Drypers and Giggles.

Financial Review – Personal Care

A$ million	**Underlying 2017**	Underlying 2016	Growth %
Revenue	**169.1**	182.7	(7.5%)
EBITDA	**55.1**	66.9	(17.7%)
EBITDA Margin	**32.6%**	36.6%	(4.0pp)

Note: A reconciliation is provided between the reported results and the statutory result on page 39.

2017 Highlights

- Roll.Press.Go unique innovation in pad disposal launched on Feminine Hygiene market with Libra product range refresh
- TENA's new website, targeted at consumers, increases e-commerce sales
- New Treasures Comfort nappy launched with core technology innovation to improve fit and comfort
- TENA Men tops the product category as the No. 1 brand in the male pads market

We are the only Australian manufacturer of Feminine Hygiene products, which are sold under the Libra brand. Our channels to market include traditional retailers, distributors, care institutions and our online web shops for TENA, Treasures and Libra.

For the Personal Care business, 2017 marked a year of change and innovation. Major innovations were introduced in the Libra Feminine Hygiene and Treasures Baby Care brands.

A new digital platform for the TENA brand was launched and the business saw a leadership change with Caitlin Patterson joining the Company in June 2017 to lead the Consumer Marketing business.

It was also a challenging year characterised by an intensely price competitive marketplace, quality issues with the new nappy innovation and adverse currency impacts.

Personal Care revenue for 2017 declined 7.5 per cent to $169.1 million due to lower sales from Feminine Care and Baby Care. EBITDA declined 17.7 per cent, resulting in Personal Care EBITDA of $55.1 million.

Intense price competition while locked into fixed Every Day Pricing (EDP) in major retail accounts made Asaleo Care's pricing uncompetitive. This impacted sales volumes and resulted in lower revenue for the Company's Feminine Care range. Asaleo Care chose to exit EDP arrangements in November to refocus its efforts on driving share and value growth through alternative sales strategies. Since returning to promotional pricing, volumes have risen and we are confident the Libra brand is returning to growth.

Baby Care sales saw a decline in the second half of the year due to the loss of private label contracts and initial quality issues on the upgraded nappy machine. These manufacturing issues have been resolved and we are now producing a much higher quality nappy.

While revenue for the Incontinence Retail division was in-line with the previous year, Incontinence Health Care had strong sales growth in 2017 due to new contract wins, strong promotional activity in the pharmacy channels and organic growth.

This sales growth helped to partially offset the decline in EBITDA for Feminine and Baby Care, along with lower costs for sales, marketing and administration expenses.

The main contributors to the decline in EBITDA were lower sales for Feminine Care and Baby Care, higher costs caused by an unfavourable foreign exchange rate for materials purchased in USD and EUR and increased advertising and promotion investment to support the new Roll.Press.Go innovation.

Libra – designed by women for women

Made locally in Australia for close to 40 years, all Libra products are designed by women for women.

In 2017, Libra launched Roll.Press.Go, its latest innovation and unique to the Australia and New Zealand markets for Libra Ultra Thins and Invisibles pads. With its self-sealing edges to make disposal neat and hygienic, anywhere at any time, Roll.Press.Go is only available through the Libra brand.

This year also marked the biggest relaunch of the Libra brand in 15 years with a new visual identity and brand positioning, *Designed by Women for Women*, rolled out across the brand portfolio.

New TV commercials, product sampling and a new website www.lovelibra.com.au supported the launch of Roll.Press.Go and Libra brand repositioning.

The Libra Sport range for use in active wear was introduced during the year. The Libra Sport Invisible pads featuring Roll.Press.Go have been well received by customers and consumers.

In 2018, Libra will celebrate its 40th anniversary as the only feminine hygiene product manufactured in Australia.

Treasures – new design for better comfort and fit

Under the Treasures brand, Asaleo Care has been manufacturing and distributing premium quality nappies for Kiwi babies for more than 40 years. Produced at the Company's Te Rapa, New Zealand facility, Treasures is the only brand of open nappy manufactured in New Zealand for the local market.

Our commitment to provide the best quality nappy led us to invest in world leading technology to make a better, more compact and efficient absorbency pad that is more comfortable for baby and less bulky.

In the commissioning phase of the new nappy equipment, we determined further enhancements were required to ensure a higher level of absorbency. With the refinements implemented in the fourth quarter of 2017, we are now again manufacturing a high quality nappy.

A new, information-rich website www.treasures.co.nz covering topics from pregnancy and child birth to recipes and providing a product sales facility, was launched in the second half of 2017. The brand has a long-term partnership with Hairy Maclary, the hero of New Zealand's popular children's picture book created by Lynley Dodd.

The Te Rapa facility also manufactures the Drypers and Giggles range of open nappies for the Fiji, Papua New Guinea and Pacific region markets.

Delivering highest quality products and expertise in incontinence

Our brands are trusted and well known for their quality. For many people, our TENA products can be life changing by giving greater confidence and dignity and allowing a more active lifestyle. For care givers, our aim is to offer products that make managing incontinence easy and as comfortable as possible for those who are being cared for.

TENA is the number one retail brand for Incontinence products in Australia and a leading brand in New Zealand. TENA holds a strong and growing position within the healthcare industry. The TENA brand was first introduced in Australia in 1995 and is known for its product innovation, quality and reliability.

TENA performed well in 2017 with solid growth in the healthcare channel underpinned by strong marketing activity and winning new business.

For TENA retail, Australian sales, particularly in the Pharmacy sales channel, continued to see further growth. During the year, the brand launched its first night wear product for bladder weakness, TENA night pants, which offers greater absorbency with a close fit similar to regular underwear.

Growing demand for TENA healthcare

With an ageing society, more people have greater care needs whether they live at home with loved ones or in professional residential care.

For healthcare professionals, TENA Incontinence products and support services are provided through residential and community care facilities, retirement villages and hospitals. TENA's dedicated healthcare team, from the medical and aged care industries and experienced care givers, offers best practice incontinence services and expertise.

The TENA team works closely with healthcare professionals across Australia and New Zealand to help advance the understanding and knowledge about incontinence management.

In 2017, a new website, www.tenaprofessional.com.au, was launched and provides access to case studies, news updates, demonstrations, a product selector and samples. Through TENA's online Continence Management System, aged care facilities are able to allocate the right product to the right person, generate orders based on resident allocations and provide accurate usage reports.

During the year, improvements were made across the range of TENA pants including softer material, additional elastic threads for a better, tighter fit and improved leg cuffs. In 2018, larger sizes will be added to the range to meet the needs of all consumers.

Maintaining skin integrity is also a challenge for healthcare professionals working with older people who suffer from incontinence. TENA provides an integrated solution that combines innovative continence care and skin care products. TENA Skincare product sales grew strongly in 2017 with positive feedback from Residential Care customers and a high uptake from consumers who have trialled the product.

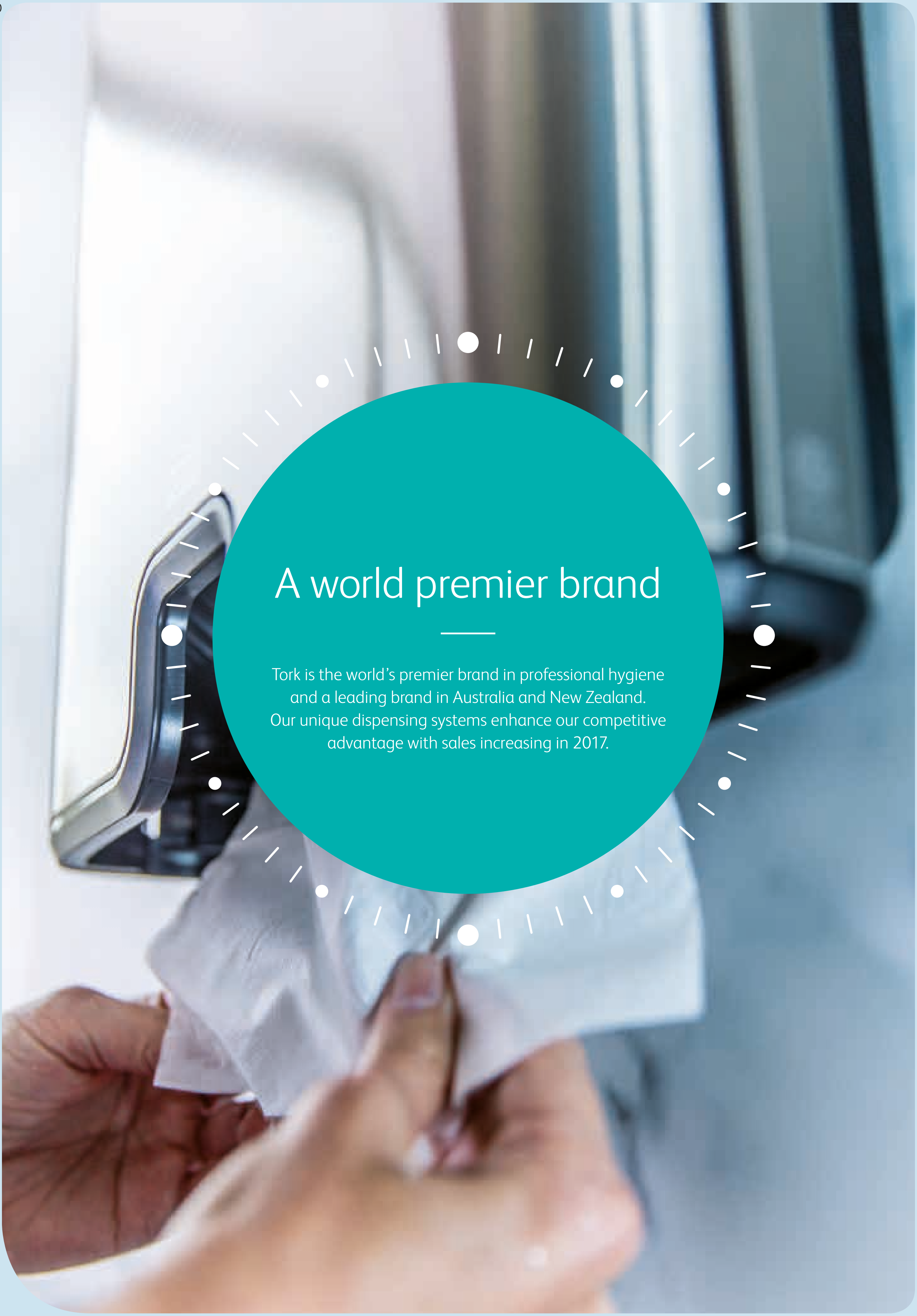
TENA retail

Bladder weakness is not only associated with ageing; it can often be caused by other conditions such as surgery, pregnancy and childbirth, immobility, or prostate cancer. One in three women and one in 10 men are affected by incontinence in Australia.

In Australia and New Zealand, TENA is sold through major retail channels including leading supermarkets and pharmacies. Retail consumers can access a new digital platform that offers an easy, discreet way to order product samples tailored to individual needs.

TENA Men is the number one brand in the male pads market in Australia and in 2017, was the best performing product in the men's category with value and volume growth. The TENA pants segment grew by nearly 2.5 per cent in value and close to 5.5 per cent in volume, led by the launch of TENA night pants, the introduction of the Pants Plus XL into pharmacies and the growth of the heavy Incontinence TENA pants segment.

In addition to the male pant range, three other high performing products in 2017 were our value packs, liners and the TENA InstaDRY maxi pads.



A world premier brand

Tork is the world's premier brand in professional hygiene and a leading brand in Australia and New Zealand. Our unique dispensing systems enhance our competitive advantage with sales increasing in 2017.

Year in review
Tissue

The Company's Tissue segment includes the Consumer Tissue and Professional Hygiene product categories and our Fiji operation. Our Consumer Tissue products are well-recognised everyday essential brands which are marketed and sold as Sorbent, Purex, Handee Ultra, Deeko, Orchid and Viti through major retail stores and other channels.

Our Professional Hygiene products, including hand towels, toilet tissue, serviettes, soaps, facial tissues and other hygiene accessories, are primarily sold under the Tork brand to the hospitality sector, schools, hospitals, offices and industrial companies.

Financial Review – Tissue

A$ million	**Underlying 2017**	Underlying 2016	Growth %
Revenue	**416.7**	423.2	(1.5%)
EBITDA	**69.2**	63.8	8.5%
EBITDA Margin	**16.6%**	15.1%	1.5pp

Note: A reconciliation is provided between the reported results and the statutory result on page 39.

2017 Highlights

Purex strengthens its market position in New Zealand underpinned by well received *Made in Kawerau* advertising campaign

Australia's iconic Sorbent brand celebrates 65 years of manufacturing

Deeko Collection – a new range of premium occasion tableware – launched

New customer contracts and improved product mix led to strong growth for Tork Professional Hygiene

Solid growth in Tissue

The 2017 year saw improved earnings performance in our Tissue business with EBITDA growing 8.5 per cent or $5.4 million to $69.2 million, compared to FY16.

Favourable production performance and reduced costs for sales, marketing distribution and administration contributed to the growth in EBITDA in 2017, as follows:

- Favourable production performance across New Zealand and Australia with lower wages/salaries due to reduced headcount, strict cost control and improved manufacturing costs more than offsetting higher energy costs.
- Pulp and raw material pricing movements were largely offset by foreign exchange movements.
- Lower distribution spending through reduced volume, rate reductions and more efficient pallet utilisation.
- Lower sales, marketing and administrative expenses as a result of lower headcount and tight control over discretionary spending.

Consumer Tissue

Every day, our Consumer Tissue products are used by people across Australia, New Zealand and the Pacific whether at home or away. Our essential products include toilet tissue, facial tissues, paper towels, serviettes and disposable tableware and are sold under the well-known, trusted brands of Sorbent, Purex, Handee Ultra and Deeko in the Australian and New Zealand markets. We also have a large market presence in Fiji with our Orchid and Viti products.

Purex strengthens its market position in New Zealand

Purex is a market leader in New Zealand's toilet tissue product category. In 2017, Purex advertising extended its brand message, *Soft on you, Soft on our environment,* with a new television advertising campaign and website. The *Made in Kawerau* campaign, which features local employees, highlights Purex's environmentally-friendly credentials, manufacturing using geothermal steam and the beauty of Kawerau, New Zealand.

Consumer Tissue New Zealand saw Purex sales grow in both revenue and volume by nearly five per cent which provided favourable product mix.

On the strength of Purex's sales growth, the brand successfully gained the opportunity to be reintroduced and ranged by a leading Australian retailer.

Sorbent celebrates 65 years of manufacturing

This year, Sorbent, one of Australia's most enduring and loved brands, celebrated its 65th anniversary. The Sorbent name was first inspired by its most important brand feature – absorbency – and it has been a household staple in Australia since first launched in 1952.

Sorbent toilet and facial tissues are manufactured at the Company's sites in Box Hill, Victoria, Australia and Kawerau, New Zealand. Sorbent flushable wipes complete the product range.

Consumer toilet tissue sales in Australia were lower in 2017 as a result of reduced price promotion activity in key categories and rationalisation of the product range by a major retailer.

Deeko launches new premium tableware

Deeko is the leading branded tableware in Australia and New Zealand. The brand offers a wide selection of disposable products for everyday and seasonal entertaining. The Deeko range of serviettes, plates, cups, cutlery and straws is featured in bright, vibrant colours for creating attractive settings with ease and convenience.

In 2017, the range launched Deeko Collection, a new premium range tableware. The new Collection features a linen style napkin and plate range offering superior strength and deluxe styling. The popular Deeko Collection is sold exclusively in one of Australia's largest supermarket chains and during the year increased its in-store shelf presence as a result of its success.

Orchid and Viti in Fiji

In Fiji, Orchid and Viti are trusted names in quality hygiene products essential for everyday life. The Orchid and Viti range of products includes toilet tissue, facial tissue, serviettes, garbage bags and kitchen towels.

Handee Ultra

Handee Ultra paper towel is a market leader in Australia and New Zealand known for its combination of strength, thickness and absorbency. Specially selected fibres within the paper towel are made to interlock, creating both greater strength and a sponge-like structure for maximum absorption. The popular *Good Sheet* advertising campaign continued in 2017. The campaign takes a humorous approach to everyday spills while demonstrating Handee Ultra's superior strength and absorbency.

Celebrating 65 years of Sorbent

Rolly finds Purex the perfect balance of strength and softness

Professional Hygiene

Tork is the world's premier brand in professional hygiene and a leading brand in Australia and New Zealand.

Our business-to-business channel continues to grow and this trend will enable us to further diversify our customer base and sales channels. Strong sales growth was achieved through winning new contracts, and selling a value-added proposition that resonates with customers by delivering usage savings and servicing improvements.

In 2017, our Professional Hygiene business-to-business segment grew by five per cent over the previous year. Sales of our unique proprietary dispensing systems increased and now represent approximately 32 per cent of total sales for the segment.

We further diversified our channels and customer base by expanding our Professional Hygiene market geographically with our market entry of Tork products into the Pacific Islands, Guam, Saipan and Papua New Guinea.

The potential for Tork products in these markets is significant as their standard of living increases, population grows and economies develop.

In addition to supporting regional growth, we focused our efforts on educational health and hygiene programs in tertiary and secondary schools and through community groups in these countries. Our SmartOne dispenser further reinforces good health and hygiene at schools and community centres. SmartOne toilet paper dispenser is designed with a unique centre-pull system that reduces toilet tissue consumption by up to 40 per cent and is suitable for demanding washroom environments with high traffic.

Data-driven cleaning launched through Tork EasyCube

Tork is renowned for its unique dispensing systems which set it apart from others in the marketplace. Tork EasyCube is an intelligent digital cleaning management solution for public washrooms. Using sensor-connected dispensers, EasyCube provides real-time data on washroom visitor numbers and dispenser refill levels.

In 2017, a number of large, high profile institutions worldwide introduced EasyCube to maximise cleaning efficiency, reduce customer complaints and boost engagement with cleaning staff. In New Zealand, two successful customer pilots were run during the year and we expect to launch the new technology into this region in 2018.

Solving customer problems through product innovation and providing the best customer service are two cornerstone principals of the Tork Professional Hygiene business. For the second year running, Asaleo Care was awarded Supplier of the Year for its customer service by Reward Hospitality, a leading hospitality supplier, and Lyreco, a world leader in workplace supply solutions.

A new brand campaign, *You Deserve Better*, was initiated in 2017 to reinforce our brand advantages of efficiency, quality and convenience.

Tork continued its support of the Future Generations initiative with the Forest Stewardship Council® (FSC®) which educates primary school children about sustainable forestry.

Tork is used across many industries

Leading the way with Tork EasyCube

Diverse and inclusive

By embracing our differences, we harness new ideas and innovation to build a stronger and better company.

People and culture

At Asaleo Care, we proudly make some of the highest quality health and hygiene products available today. We're committed to making it easier for hygiene health and wellbeing to be a part of everyday life. What sets us apart is a very strong ethos of taking care. We take care of each other, our customers and consumers, our shareholders, and the communities where we work and live, and the environment.

For us, taking care means listening and understanding the needs of others, developing solutions and new, innovative products to meet those needs, and always delivering value. We live what we believe in and our values – Integrity, Courage and Pride – reflect this.

Our employees have told us they appreciate the personal growth opportunities available at Asaleo Care and the chance to make a meaningful difference. We encourage our people to be creative and passionate about what they do and what they want to achieve – always seeking new challenges to make our Company better.

Improving and growing are unending

We are focused on continuously improving everything we do whether it's how we make our products, strengthen our brands or develop our people.

Asaleo Care has an enviable portfolio of leading, trusted brands of essential everyday products. Our brands drive our marketing and sales initiatives across the Company and allow us to make informed decisions around investment, priorities and strategic direction.

This year, we launched our *Marketing Excellence* program to further develop our marketing team, a core capability for our business. In 2018, we will invest in the program to further hone the team's skills and develop new marketing opportunities for our brands.

Advancing the capability of our sales force is just as important. Our sales force takes ownership of the brands they manage and work collaboratively with marketing and other teams to deliver the best solutions and value to our customers. New sales development initiatives are planned for 2018 to ensure our sales force is equipped to deliver growth to our business.

Succession planning is part of our ongoing talent management at the Company. In 2017, we extended our succession plans and strengthened our future leadership capability by transferring many of our senior leaders into new roles and expanding their responsibilities.

At the top leadership level, two new executives were appointed to the Executive Leadership Team: Caitlin Patterson as Executive General Manager, Consumer Marketing in June and Lyndal York, as Chief Financial Officer who commenced in November.

Building a strong and inclusive workplace

Diversity and inclusion are at the heart of every successful, high performing organisation. We are all different and by embracing our differences, we can harness new ideas and innovation that will build an even stronger and better company.

As a Company, we are committed to creating opportunities for women in leadership roles and have set clear targets to do so. In 2017, changes to our policies and approach to recruitment and workplace practices were made to eliminate potential roadblocks to women in leadership.

During the year, we were proud to achieve our Diversity and Inclusion targets, to increase female representation on the Senior Leadership Team to 33 per cent and appoint at least two female members to the Executive Lead Team, one year in advance. For 2018, we will further grow our pipeline of talented women leaders with a particular focus on occupational areas which will benefit from greater diversity such as manufacturing and supply operations.

Working flexibly is one of the building blocks that helps us create a more inclusive and diverse workplace. It also enables us to retain people with the skills we want and need, and attract new talent to Asaleo Care.

During the year, we launched our Workplace Flexibility guidelines, including leadership training, across the Company to provide a consistent and transparent approach to working flexibly.

A new parental leave program, with a focus on women, was introduced to provide and encourage career continuity for our female employees. Our parental leave program helps support women at Asaleo Care to return to work, enabling them to maintain the momentum and trajectory of their career.

Attracting new talent through Graduate recruitment

Our Graduate Intake program gives us the opportunity to attract dynamic, young, motivated graduates who bring innovative ideas and the latest thinking to our business.

Operating for three years, the program offers Graduates a 24-month rotation across their areas of discipline and includes extensive mentoring and development support. At completion of the program, Graduates often transition into key positions within the Company.

In 2017, we offered Graduate positions in Engineering and Consumer Sales and extended the program into New Zealand.

Creating a better, connected future through technology

The world of work is changing. Social and technological changes have transformed the way we work. It's important that Asaleo Care is part of those changes. Being connected is a regular part of our lives. In order to meet the needs of our customers, consumers and other important stakeholders, it's vital we embrace technology and equip our employees with the capabilities to take advantage of the new world of work.

In 2018, we will emphasise the importance of our people being ready for these changes, taking ownership of their performance and development, and creating strong career building blocks for the future world of work. Our leaders will foster and nurture this work and our people will be provided with technology that enables them to take control of their development and career.

We're also enhancing our technology to drive engagement and collaboration and enable our people to better connect with all of their stakeholders through the variety of social media platforms as well as regular online channels.

Graduate Julika Gunanayagam works in our business to business segment

Making a positive difference

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

Health, safety and sustainability

Together with our employees, we make a positive difference to improve the environment and respond to important social needs. It's vital that the resources we use to produce our products are sourced and managed responsibly and that we operate our business safely, ethically, honestly and transparently.

We continually seek ways to improve our performance in health and safety and in managing the social, environmental and economic impacts of our business. The growth and future of our business depends on it.

We've always recognised this. '*Taking Care*' is at the heart of everything we do at Asaleo Care.

Whether it's focusing on reducing energy and water use, checking the safety process of a work colleague, or volunteering to pack boxes or prepare meals at our sponsored charities, our approach to health, safety and sustainability is grounded in our values of integrity, courage and pride.

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

Occupational health and safety

At Asaleo Care, nothing is more important than the safety of our people.

Our commitment is to provide a safe, healthy work environment at our sites for all employees, contractors and visitors. It is our aim to ensure everyone who works and visits Asaleo Care will leave as healthy and safely as they arrived.

Safety performance improved

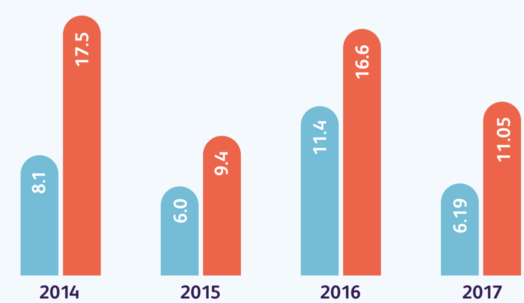
During the last year, our people worked hard to improve our safety performance and learn how to prevent safety incidents from reoccurring.

For 2017, our Lost Time Injury Frequency Rate (LTIFR) improved significantly, dropping by approximately 46 per cent to 6.19 incidents per million hours worked.

Our Total Injury Frequency Rate (TIFR) also improved, lowering by approximately 33 per cent to 11.05. The TIFR measures the number of lost time, medically treated and restricted work injuries per million hours worked.

Incident reporting is one of the most effective ways of reducing risk and is strongly encouraged and supported by our leaders. Many operations achieved sustained 'serious injury free' periods during the year which demonstrates the healthy culture of reporting injuries, hazards and near misses makes an important difference.

While we are encouraged by our improved result, more must be done. We remain firm in our drive to further improve our safety performance and culture and achieve our vision of *safe and healthy every day, everyone in every way.*



Safety performance

Auditing launched to help identify safety gaps

During the year, we continued to embed our vision for health and safety guided by the objectives of our Health and Safety Strategy. Our Occupational Health and Safety (OHS) Management System has oversight from our Management, Executive and Board. Our OHS Management System focuses on identifying risks present at our worksites and implementing controls to mitigate or eliminate them. System compliance is confirmed through internal and independent external audits.

Audits are vital in allowing us to identify any gaps or problems before an incident occurs. In 2017, we launched a new OHS Management System Audit to test the application and effectiveness of our OHS Management System.

Procedures to support our high safety standards

In 2017, we continued to improve our OHS Management System and redeveloped key procedures for Purchasing and Storage of Goods, Workplace Exposure and Health Monitoring and Storage Racking, and Contractor Management.

Each of our sites develops annual OHS plans, aligned to our OHS strategy, to reduce safety risks. In 2017, a number of safety improvements were made at our sites including:

- Reduced high risks in electrical and fire, traffic and pedestrian interaction, and confined spaces
- Assessed key causes of injuries and undertook injury prevention improvements at all sites, including repairs to damaged concrete and providing material handling equipment to reduce hazardous manual handling
- Employed a physiotherapist on-site at Box Hill, Victoria to provide early intervention to reduce occurrence and severity of repetitive strain injuries
- Improved contractor on-boarding and monitoring processes to ensure effective management of OHS hazards
- Implemented a fatigue management program at the Box Hill site during implementation of an operational improvement project
- Improved guarding to reduce access to moving parts on plant equipment
- Improved working at height access at multiple sites
- Provided support for engineers and contractors during the nappy production site relocation and equipment upgrade at Te Rapa, New Zealand.

Sustainability

Sound management practices based on sustainability and good governance

Sustainability is crucial to our growth and success, and central to the management of our Company. By managing sustainably, we improve our processes, reduce our operating costs, minimise our impact on the environment, and create value for our customers, our shareholders, our communities and our employees.

For the third year running, we have been recognised for corporate sustainability leadership in the Dow Jones Sustainability Australia Index (DJSI) in the Personal Products sector. DJSI Australia highlights the top 65 companies or 30 per cent of the ASX200 based on economic, environmental and social sustainability criteria.

Further information about our approach to Sustainability, including key issues such as supply chain management and human rights, responsible forestry, and resource scarcity and climate change, is available at www.asaleocare.com.

Our paper machines have the capacity to make about 120,000 tonnes of paper annually

Managing our key sustainability issues

We incorporate financially relevant sustainability practices into our business to improve our capacity to operate in a competitive and changing commercial environment that supports long-term value for our shareholders.

Based on the recommendations from the ASX Corporate Governance Council, we have conducted a materiality assessment and determined our key sustainability issues as:

- Supply chain management, including human rights
- Responsible forestry
- Resource scarcity and the impact of climate change
- Community engagement and partnerships on page 34
- Economic performance (discussed in the Financial Statements section of this report)
- Occupational health and safety performance on page 29

Supply chain management and human rights

Our local and international suppliers provide goods and services to our operations, customers and consumers. We work closely with our suppliers to improve their management and ethical practices, including human rights.

Asaleo Care is committed to respecting human rights and eliminating compulsory and child labour within our supply chain. We expect our suppliers to make the same commitment. To help identify, assess and manage ethical standards within our supply chain, we use the Supplier Ethical Data Exchange (Sedex) platform.

Since 2015, we have targeted key suppliers to participate in our responsible sourcing program. In 2017, the number of active suppliers in the program increased by four per cent to now include 92 active suppliers. These suppliers represent 54 per cent of the Company's total procurement spending, an increase of four per cent in coverage since 2016 and eight per cent since 2015.

Our responsible sourcing program is consistent with the Ethical Trading Initiative Base Code and national and international laws. Many of our products are FSC certified goods, which means we are assured that those products are free from any direct or indirect involvement in activities that violate the traditional and human rights in forestry operations, as required by the International Labour Organization (ILO) Convention 169.

Responsible forestry – core to our sustainability strategy

Responsible forestry practices are at the core of our sustainability strategy. We rely on sustainable sources of pulp and pulp-based products to manufacture our goods and support responsible forestry through our policies, sourcing practices and product offerings.

To manage this issue, we take a multi-pronged approach which includes Chain of Custody (COC) certification, Environmental Choice New Zealand (ECNZ) licensing and assurance, and source of origin due diligence.

Our COC accreditation delivers traceable and responsible products to consumers and customers in a transparent and credible way. All our manufacturing facilities and trading operations are covered by our multi-site FSC COC certificate. Our Box Hill site also holds a Program for Endorsement of Forest Certification (PEFC)™ COC certificate. All of our pulp and paper reel purchases in 2017 adhered to our Responsible Forestry and Fibre Sourcing Policy.

Responsible Forestry is also a key consideration when sourcing external finished goods for our brands. We are committed to only purchasing products and materials that originate from legally harvested, non-controversial sources.

We expect the same commitment and approach from our suppliers, and have incorporated our Responsible Forestry Due Diligence Program into our procurement process. Program activities include supplier self-assessment questionnaires and declarations, and proof of origin and COC documentation.

During the year, 30 of our suppliers, representing 77 per cent of our relevant suppliers, were screened based on these criteria.[1] This represents an eight per cent increase in the number of suppliers participating in the program since 2015.

In addition to our procurement due diligence program, we have many of our own finished products independently certified. In 2017, we provided 290 COC certified products, 110 more than in 2015. As well, the responsible forestry credentials of 73 products manufactured by the Company were independently assessed and assured under ECNZ to be managed sustainably.[2]

1 Source of origin due diligence is not performed on packaging that is not regulated under the *Illegal Logging Prohibition Act* 2012 (Cth.) or items for internal consumption.
2 ECNZ's Sanitary Paper Products Standard, EC-13-15.

Purex – the Environmental Choice

We don't just talk about Purex being environmentally responsible. We have proof.

As a business, we take our environmental responsibilities seriously. So much so that we decided to get our performance checked independently to see how we shaped up according to best practise international standards.

We are now the first toilet tissue manufacturer in New Zealand with a proven claim – also known as an Environmental Product Declaration (EPD) – on renewable energy.

The study investigated every stage of a Purex toilet roll's lifecycle and we discovered some amazing facts.

From forest to flush, most of the energy needed to harvest, make and transport a Purex toilet roll comes from renewable sources. In the case of Purex Mega six rolls, 73 per cent of the energy used to manufacture the rolls is renewable.

So how we do it...

It all starts with 100 per cent responsible forests where our pulp logs are grown. The pulp logs come from environmentally sustainable plantations which are properly protected for future generations.

Once our local and international suppliers have made our raw materials, we can get started on making the toilet tissue at our local site in Kawerau, New Zealand.

Both the pulp suppliers and our tissue manufacturing site use a lot of renewable energy. At Kawerau, local geothermal steam goes directly into the manufacturing process. That means we don't have to make steam using a conventional natural gas boiler.

We're also the only tissue paper manufacturer that actually makes the paper in New Zealand. It's a big part of what makes Purex so special.

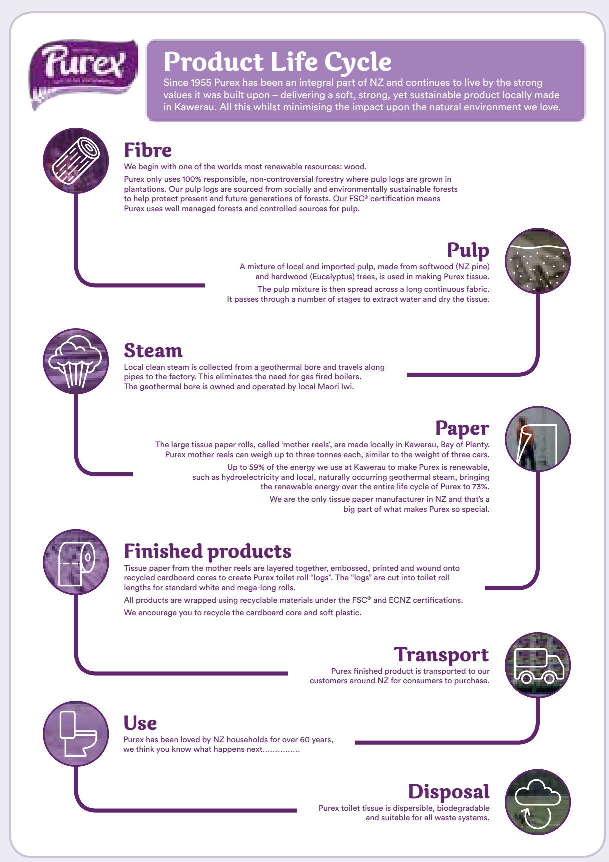
We turn the paper in Purex toilet rolls, package it and ship it to our customers all around New Zealand for consumers to purchase.

Why is using renewable energy important?

Using renewable energy instead of fossil fuels means we have a smaller carbon footprint. It limits the release of greenhouse gases that can lead to climate change.

So by using Purex, you're not only supporting sustainable manufacturing. You're also backing the renewable energy we use to get the job done.

Purex – Soft On You, Soft On Our Environment.



Resource scarcity and the impact of climate change

Air quality, energy and water are also resources of high significance to our manufacturing operations. It is vital we manage the use of these resources in a responsible way across our operations. We have put in place strict policies and procedures to prevent pollution from our sites.

Our sustainability data reporting system enables us to monitor and manage resource efficiency, emissions and waste levels at our sites either individually, by country or company-wide. We also use the system to assess the long-term benefits of new projects on resource efficiency and emissions. From this, we can better assess our future energy requirements, emissions and water use of our capital projects.

Our renewable energy and efficiency initiatives are also aimed at reducing our greenhouse gas emissions. In particular, our tissue manufacturing site at Kawerau, New Zealand manufactures its products using geothermal steam, a renewable energy source.

Our other New Zealand based manufacturing and operational sites also benefit from the country's low-emissions electricity generation network.

Geothermal steam makes up 14.2 per cent of our total energy consumption. Additionally, 9.3 per cent of Asaleo Care's total energy consumption was sourced from electricity generated from renewable energy sources in New Zealand.[3] Our share of renewable energy across the Group due to our operations in New Zealand alone was 23.7 per cent.

Group environmental performance data

	Unit	2017	2016	2015	% Change (2017 v 2015)[8]
Energy Consumption					
Geothermal steam	GJ	259,898	254,510	270,258	(3.7)%
Fossil fuels[4]: natural gas, diesel, gasoline, LPG	GJ	926,569	1,004,228	1,034,930	(10.5)%
Electricity	GJ	642,533	692,480	706,521	(9.1)%
Total energy consumption	**GJ**	**1,829,000**	**1,951,218**	**2,011,709**	**(9.1)%**
Energy from direct use of geothermal steam	**% of total**	**14.2**	**13.0**	**13.4**	**0.8 p.p.***
Energy from New Zealand electricity purchases	**% of total**	**11.4**	**10.7**	**10.7**	**0.7 p.p.***
GHG Emissions to Air[5]					
Scope 1 (direct) GHG emissions (CO2-e)	tonne	48,563	52,466	54,007	(10.1)%
Scope 2 (indirect) GHG emissions (CO2-e)	tonne	140,610	156,208	172,844	(18.6)%
Total Scope 1 + 2 GHG emissions (CO2-e)	**tonne**	**189,173**	**208,674**	**226,851**	**(16.6)%**
Fresh Water Usage[6]					
Municipal supply	m3	1,031,594	1,129,869	1,150,118	(10.3)%
	% of total	40.2	45.2	45.0	(4.8) p.p. *
Surface water	m3	1,536,151	1,367,591	1,403,133.00	9.5%
	% of total	59.8	54.8	55.0	4.8 p.p.*
Total fresh water usage	**m3**	**2,567,745**	**2,497,460**	**2,553,251**	**0.6%**
Discharge to Water[7]					
Biological Oxygen Demand (BOD)	tonne	166	139	130	27.7%

Note: Data in this table covers Asaleo Care's manufacturing, distribution centre and sales operations, unless otherwise specified.

3 New Zealand Energy Quarterly, January – September 2017 (MBIE: www.med.govt.nz), electricity from renewable energy sources equated to 81.9% of total electricity generation.
4 Direct fuel combustion from stationary and transport energy purposes. Excludes third-party logistics transport activities.
5 Global Warming Potentials used for this report are sourced from the Australian National Greenhouse Accounts (NGA) Factors (August 2016), New Zealand Guidance for Voluntary Corporate Greenhouse Gas Reporting (December 2016), New Zealand Emissions Trading Scheme (effective from the 2013 reporting year) and Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report (AR4) (2007). All documents are in alignment.
6 Fresh water usage is reported for manufacturing sites only (i.e. Kawerau, Te Rapa, Box Hill, Springvale and Nakasi).
7 BOD is reported for Asaleo Care's Paper Mills only (i.e. Kawerau and Box Hill sites).
8 New Zealand Energy Quarterly, January – September 2016 (MBIE: www.med.govt.nz), electricity from renewable energy sources equated to 84.0% of total electricity generation.
* p.p. represents percentage point movement

Community engagement and partnerships

As a leader in Personal Care and Hygiene, we have a responsibility and an opportunity to make a positive economic and social contribution to the communities where we operate.

Where we operate, we employ local people whenever possible, and purchase goods and services, and pay taxes that helps support local and regional economies. Many of our employees live as well as work in the communities near our facilities and also contribute to local economies.

Through our CARES program, we have two charitable, not-for-profit partnerships – Ronald McDonald House Charity and Foodbank. CARES complements these partnerships with employee volunteering, and monetary and product donations aligned to our major brands.

We also aim to provide opportunities to improve the health and wellbeing through educational programs. Our Libra and Treasures brands offer support and information to young women, new mothers and parents. *Girl Empowered*, which educates young women about puberty, sexuality and reproductive healthcare is supported by Libra through Medical Services Pacific.

Asaleo Care is also known for volunteering and providing aid during times of disaster. This year, our Company and our employees provided assistance during the floods in New Zealand's Bay of Plenty region. Our team on the ground worked closely with our customers and suppliers to ensure supply of our product would not be disrupted by the flooding.

Volunteering at Foodbank


Supporting *Girl Empowered* educational program for young women


New Zealand employees prepare dinner at Ronald McDonald House

Encouraging Soft Plastic Recycling

Asaleo Care supports recycling in New Zealand schools through the 2017 Tread Lightly Caravan's Soft Plastics Recycling Program.

The program works with 16 selected schools in the Auckland region.

Each school receives a large soft plastics recycling bin. Smaller bins are provided for each of the classrooms along with posters and flyers to help students and teachers sort the soft plastics correctly.

As General Manager Katie Jones from the Tread Lightly Caravan explains: "Soft plastic bags are not collected for recycling by councils because they can contaminate the recycling process. New Zealanders use over 1.6 billion plastic bags in the home every year. There is a huge demand from schools to be part of the soft plastics recycling program. It's really exciting to be able to offer this opportunity to 16 Auckland schools this year."

The program takes all soft plastic bags – particularly soft plastics often found in children's lunch boxes such as biscuit wrappers, chip bags and muesli bar wrappers.

Soft plastics collected across New Zealand are sent to Australia to be converted into park benches, bollards, tree guards and fitness circuits for playgrounds.

Products are available for purchase on the website www.recycling.kiwi.nz/soft-plastics.

Children at Dominion Road (above) and Dawson Road (right) schools participate in Tread Lightly Caravan's soft plastics recycling program supported by Asaleo Care.

Financial review summary

FY17 results versus FY16

A$ million	Underlying 2017[1]	Underlying 2016[1]	Change %
Revenue[2]	585.8	605.9	(3.3%)
EBITDA	124.3	130.7	(4.9%)
Depreciation	(28.7)	(28.9)	0.7%
EBIT	95.6	101.8	(6.1%)
Net Finance Costs[2]	(11.3)	(10.6)	(6.6%)
Profit Before Tax	84.3	91.3	(7.6%)
Tax Expense	(24.9)	(26.7)	6.6%
NPAT	59.4	64.6	(8.0%)
Statutory NPAT	**57.2**	**59.0**	**(3.0%)**

1 Refer to page 39 for a reconciliation between the FY17 and FY16 Statutory and Underlying result.
2 Revenue excludes interest income, which is recognised within Net Finance Costs.

Revenue: Decline of 3.3%, which was primarily attributable to the Personal Care segment declining 7.5%. Feminine Care was impacted by a price competitive marketplace whereby Asaleo Care's products were uncompetitive. Increased discounting by competitors widened the price premium of Asaleo Care's products in-store. Asaleo Care's ability to promote on price was impacted by Every Day Pricing (EDP) strategy. Asaleo Care exited EDP on key segments with key retailers in November 2017, so it now has the flexibility to compete on price when necessary. Exiting EDP impacted price with a more expensive promotional program on average than in FY16. Asaleo Care also invested more in price to support its market position in pharmacy channels, and smaller retailers throughout Australia and in New Zealand. Baby Care revenue decline was due to loss of private label contracts and quality issues on new nappy products. These issues have now been fixed with a higher quality nappy being produced. Offsetting the Feminine and Baby Care revenue decline was the Incontinence category which experienced revenue growth in FY17 due to increased sales volumes specifically in the Healthcare channel.

Tissue revenue was 1.5% down on FY16. Professional Hygiene delivered solid year on year revenue growth of 4.5% driven by new contract wins and continued focus on high margin proprietary systems. Consumer Tissue sales were impacted by the loss of $4 million in private label sales, and reduced promotional activity on branded sales in key categories compared to the previous year.

EBITDA: Decline of 4.9%, with $124.3 million EBITDA in FY17, compared with $130.7 million in FY16. Key drivers for EBITDA decline include:

- Lower revenue in FY17 with Personal Care having the largest impact.
- Increased advertising and promotional expenditure to support launch of Libra Roll.Press.Go innovation and new Treasures nappy.
- Favourable production performance and lower labour and salaries particularly in Tissue helped offset the decline in revenue and higher advertising expenditure. This was partially offset by increased energy. Small upsides in pulp and raw material prices were largely offset by foreign exchange movements.
- Logistics spend was also lower with lower sales volumes, favourable rates, and other cost out initiatives including more efficient pallet utilisation. Sales, marketing and administrative expenses were also down due to reduction in labour and salaries and tight cost control on overheads.

EBIT: $95.6 million achieved in FY17 compared with $101.8 million in FY16. The FY17 EBIT decline is consistent with the EBITDA decline as the FY17 depreciation expense is in line with FY16.

Net Finance Costs: An increase of 6.6%, due to higher average debt in FY17 following the share buyback and a slightly higher effective interest rate in FY17 of 3.5% compared to 3.4% in FY16.

NPAT: FY17 Underlying NPAT was $59.4 million, down 8.0% on FY16 of $64.6 million.

Balance sheet

A$ million	2017	2016	% Change
Cash and cash equivalents	30.2	30.3	(0.3%)
Inventories	167.5	164.7	1.7%
Other current assets	27.7	29.0	(4.5%)
Property, plant and equipment	342.0	358.5	(4.6%)
Intangible assets	187.7	190.8	(1.6%)
Total Assets	**755.1**	**773.3**	**(2.4%)**
Payables and provisions	107.2	99.5	7.7%
Other current liabilities	1.8	4.2	(57.2%)
Interest bearing liabilities	307.5	323.7	(5.0%)
Other non-current liabilities	0.6	0.7	(14.3%)
Deferred tax liabilities	41.7	37.8	10.3%
Total Equity	**296.3**	**307.4**	**(3.6%)**
Total Liabilities and Equity	**755.1**	**773.3**	**2.4%**

Key balance sheet movements since December 2016 were:

- **Inventories:** Increase due to higher raw materials and work in progress, slightly offset with reduced finished goods. Higher raw materials and WIP driven by holding lower levels at December 16 due to planned factory shuts in Tissue and Baby manufacturing facilities early in FY17. Decrease in finished goods was due to inventory reduction program in 1H17 offset with inventory builds for upcoming activity in early 2018 and a higher proportion of imported products in line with growth in the B2B business. All inventory types were also impacted by higher pulp and energy pricing.
- **Property, plant and equipment:** Sale of the Springvale manufacturing facility and a devaluation in the NZ$ on the New Zealand asset base slightly offset with capital expenditure for the year $31.4 million exceeding FY17 depreciation expenditure of $28.7 million.
- **Intangible assets:** Represents local brands and goodwill from the 2012 joint venture transaction, with the decrease due to the devaluation of the NZ$ in FY17. There was no impairment of intangible assets.
- **Payables and provisions:** Higher balance reflects increased raw materials, work in progress and imported finished goods inventory holdings at December 2017, increased utility and operational accruals, coupled with timing of accounts payable.
- **Interest bearing liabilities:** Reduction due primarily to the sale of Springvale site.
- **Equity:** Approximately 2.8 million shares acquired as part of the on-market share buy-back program has decreased equity. Retained profits of $6.0 million (2016: $3.3 million) reflects statutory NPAT of $57.2 million being in excess of FY17 dividends paid of $54.5 million. Reserves movement reflects the devaluation of the NZ$ on the New Zealand asset base.

Financial review summary

Operational cash flow

A$ million	2017	2016	Change %
Underlying EBITDA	**124.3**	130.7	(4.9%)
Changes in working capital	**6.5**	(21.2)	(130.6%)
Maintenance capital expenditure	**(20.9)**	(18.6)	(12.4%)
Growth capital expenditure	**(10.5)**	(6.4)	(64.1%)
Sale of Springvale	**22.2**	0.0	NA
Other	**(17.2)**	(5.5)	(212.7%)
Net cash flow before financing, taxation and shareholder returns	**104.4**	**79.0**	32.2%

Operational cash flow increased by $25.4 million compared with the prior year.

Key drivers of the movement are:

- **EBITDA:** A 4.9% decline in FY17 driven by a decline in Personal Care revenue offset with growth in the Tissue segment.
- **Changes in working capital:** Reduction of $6.5 million during FY17 mainly attributable to increased accounts payable through holding higher levels of raw materials and imported finished goods, timing of payments to suppliers coupled with increased operational and utility accruals. This was slightly offset with increased inventory through higher levels of raw materials and WIP.
- **Maintenance capital expenditure:** Increase in FY17 due to site improvements for Box Hill and Kawerau, investment in digital platforms and increased investment in Professional Hygiene proprietary dispensers.
- **Growth capital expenditure:** Represents spend on the Baby nappy machine upgrade and relocation, Box Hill paper machine upgrade and pre-engineering for a Professional Hygiene initiative that is being evaluated.
- **Sale of Springvale:** Gross proceeds of $22.4 million less expenses incurred on the sale.
- **Other:** Includes non-recurring expenditure, non-cash items and foreign exchange movements on opening cash.

Financial indebtedness

A$ million	2017	2016
Interest payable	**0.8**	0.5
Non-current interest bearing liabilities[1]	**308.5**	325.0
Total debt	**309.3**	325.5
Cash and cash equivalents	**30.2**	30.3
Net debt	**279.1**	295.2
Leverage (Net debt/Underlying EBITDA)	**2.25**	2.26

1 Excludes capitalised borrowing costs; 31 December 2017 of $1.0 million and 31 December 2016 of $1.3 million

Leverage: 31 December 2017 is 2.25x.

Total debt: Asaleo Care has three main debt facilities. Facility A commitment of $157.5 million was re-negotiated in FY16 and extended until 30 September 2021. Facility C commitment of $35 million was re-negotiated in FY16 and extended until 30 September 2020. Facility B commitment of $157.5 million is due to mature on 30 June 2019.

Total financing facility commitment funds available to the Group are unchanged in FY17 and available funds at 31 December 2017 are $40.0 million (excluding the debtor securitisation program).

Cost of debt: Effective interest rate in FY17 was 3.5% compared to FY16 of 3.4%.

Reconciliation between statutory and underlying financial information

Consolidated income statements for the years ended 31 December 2017 and 31 December 2016

	Statutory		Adjustments[1]		Underlying	
A$ million	2017	2016	2017	2016	2017	2016
Revenue	585.8	605.9	–	–	**585.8**	605.9
EBITDA	120.8	123.1	3.5	7.6	**124.3**	130.7
Depreciation	(28.7)	(29.2)	–	0.3	**(28.7)**	(28.9)
EBIT	92.1	93.9	3.5	7.9	**95.6**	101.8
Net Finance Costs	(11.3)	(10.6)	–	–	**(11.3)**	(10.6)
Profit Before Tax	80.8	83.3	3.5	7.9	**84.3**	91.3
Tax Expense	(23.6)	(24.4)	(1.3)	(2.3)	**(24.9)**	(26.7)
Net Profit After Tax	57.2	59.0	2.2	5.6	**59.4**	64.6

1. Detailed in the Segment Note contained within the Financial Statements (note 1.1).

Adjustments for the year ended 31 December 2017

EBITDA: Represents profit on the sale of Springvale manufacturing site offset with non-recurring impact of machine shuts to facilitate inventory reduction program which occurred in 1H17, abnormal third party warehouse expenses driven by high levels of inventory, abnormal manufacturing costs and restructuring costs related to operational and corporate headcount.

Tax Expense: Tax impact of adjustments recognised within Profit Before Tax.

Adjustments for the year ended 31 December 2016

EBITDA: Represents non-recurring storage and manufacturing costs associated with the Baby Care nappy machine upgrade and relocation and the Feminine Care new product innovation. Also, abnormal third party inventory storage costs were incurred in FY16 with Q1 17 capacity shuts were taken to reduce inventory to more optimal levels which reduced third party inventory storage holdings and associated costs. Further, redundancies in operational and corporate headcount along with a paper machine upgrade in FY16 which increased paper quality and production capacity resulted in non-recurring costs.

Depreciation: The Baby nappy machine upgrade and relocation has resulted in accelerated depreciation of redundant equipment.

Tax Expense: Tax impact of adjustments recognised within Profit Before Tax.

Personal Care Business segment

	Statutory		Adjustments[1]		Underlying	
A$ million	2017	2016	2017	2016	2017	2016
Revenue	169.1	182.7	–	–	**169.1**	**182.7**
EBITDA	63.5	64.5	(8.4)	2.4	**55.1**	**66.9**

1. Segment commentary below should be read in conjunction with the consolidated income statement section above.

EBITDA adjustments for the year ended 31 December 2017: Represents profit on sale of Springvale site offset with costs associated with restructuring costs.

EBITDA adjustments for the year ended 31 December 2016: Represents non-recurring storage and manufacturing costs associated with the Baby Care nappy machine upgrade and relocation and the Feminine Care new product innovation.

Tissue Business segment

	Statutory		Adjustments[1]		Underlying	
A$ million	2017	2016	2017	2016	2017	2016
Revenue	416.7	423.2	–	–	**416.7**	**423.2**
EBITDA	57.3	58.5	11.9	5.2	**69.2**	**63.8**

1. Segment commentary below should be read in conjunction with the consolidated income statement section above.

EBITDA adjustments for the year ended 31 December 2017: Impact of machine shuts to facilitate inventory reduction program which occurred in 1H17, abnormal third party warehouse expenses driven by high levels of inventory, abnormal manufacturing costs and restructuring costs.

EBITDA adjustments for the year ended 31 December 2016: Abnormal third party storage costs were incurred in FY16 with Q117 capacity shuts taken to reduce inventory to more optimal levels reducing third party inventory storage holdings and associated costs. Further, redundancies in operational and corporate headcount along with a paper machine upgrade in FY16 which increased paper quality and production capacity resulted in non-recurring costs.

Board of Directors

Harry Boon
Independent Non-Executive Chairman

- Harry is Chairman of the Board and the Nomination and Governance Committee and is also a member of the Audit and Risk Committee and the Remuneration and Human Resources Committee.
- He was appointed on 30 May 2014.
- Harry has over 40 years' broad industry experience including global marketing and sales, manufacturing and product development. He is also currently a Director of ASX listed Tabcorp Limited.
- Previously, he was Chief Executive Officer and Managing Director of Ansell Limited, until he retired in 2004. During his 28 years with Ansell, he worked in senior management positions in Australia, Europe and North America.
- Within the past three years he has been Chairman of Tatts Group Limited and a Director of Toll Holdings Limited.
- Harry holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from The University of Melbourne.

Peter Diplaris
Chief Executive Officer and Managing Director

- Peter joined the Company as Chief Executive Officer in May 2011 and has over 30 years' industry experience.
- He was appointed as a Director on 30 May 2014.
- Previously, he was the Group General Manager of Nippon Paper Group's Australian office division (2004–2011) and held a number of senior sales roles within National Foods (1996–2004), including the role of General Manager of Sales for Australia and New Zealand. He has also held marketing and sales management roles with AC Nielsen, Nestlé Dairy and Yellow Pages Group (1987–1996).
- Peter holds a Bachelor of Business and Bachelor of Arts from Monash University.

Mats Berencreutz
Non-Executive Director (nominee of Essity)

- Mats is a member of the Remuneration and Human Resources Committee and Nomination and Governance Committee.
- He was appointed as a Director on 14 March 2014.
- Mats is a former Executive Vice President of SCA and Chairman of the Board for SCA Hygiene Products AB, as well as a former member of the board of Uni-Charm Mölnlycke BV.
- He has over 35 years' industry experience, having joined SCA in 1981, and has worked in various positions including: Head of R&D Baby, Feminine and Incontinence Care; Technology and Quality Director (based in USA); President Incontinence Care North America; Chief Technology Officer Personal Care Europe; and President Tissue Europe.
- Mats holds a Master of Science in Mechanical Engineering from Luleå University of Technology.

Sue Morphet

Independent Non-Executive Director

- Sue is Chairperson of the Remuneration and Human Resources Committee and is a member of the Audit and Risk Committee and Nomination and Governance Committee.
- She was appointed as a Director on 30 May 2014.
- Sue has over 30 years' industry experience and is currently Non-Executive Director of Fisher & Paykel Appliances Holdings Limited, Godfreys Group Limited, Noni B Limited, Chief Executive Women, Victorian Chapter Chair of Chief Executive Women and Chairperson of National Tiles Pty Ltd.
- Previously, she was an Executive Director and Chief Executive Officer of Pacific Brands Limited, following a number of senior roles with the company, including Group General Manager of Underwear and Group General Manager of Bonds. Sue also held roles in manufacturing and sales and marketing with Pacific Dunlop and Sheridan Australia. Most recently Sue concluded her term as Chairperson of Manufacturing Australia.
- Sue holds a Bachelor of Science and Education from The University of Melbourne.

Robert Sjostrom

Non-Executive Director (nominee of Essity)

- Robert is a member of the Audit and Risk Committee and Nomination and Governance Committee.
- He was appointed as a Director on 26 April 2016.
- Robert is currently Senior Vice President of Essity, Strategy and Business Development. He also has responsibility for Essity Global Business Services and IT and is a Board member of Productos Familia SA, Colombia.
- Previously, he held the positions of President of SCA Global Hygiene Category, Chairman of SCA Hygiene Products AB and Chairman of Uni-Charm Mölnlycke BV.
- Prior to joining SCA in 2009, Robert held a number of senior roles with Capgemini, including Vice President Head of Swedish Consulting Business and Vice President Global Industrial Sector Utilities.
- Robert holds a Bachelor of Business Administration from the University of Uppsala and an MBA from the Stockholm School of Economics.

JoAnne Stephenson

Independent Non-Executive Director

- JoAnne is Chairperson of the Audit and Risk Committee and a member of the Remuneration and Human Resources Committee and the Nomination and Governance Committee.
- She was appointed as a Director on 30 May 2014.
- JoAnne has over 27 years' experience and is currently a Non-Executive Director of Challenger Ltd, Japara Healthcare Limited and Myer Holdings Ltd. She is Chair of the Victorian Major Transport Infrastructure Board, the Audit and Risk Committee of the Victorian Department of Health and Human Services and the Melbourne Chamber Orchestra.
- Previously, she worked at KPMG International as Senior Client Partner in the Advisory division.
- JoAnne holds a Bachelor of Commerce and Bachelor of Laws (Honours) from The University of Queensland.
- She is a member of both the Australian Institute of Company Directors and Chartered Accountants Australia and New Zealand.

Company Secretary

James Orr is the Company's General Counsel and Company Secretary.

Executive team

Peter Diplaris
Chief Executive Officer and Managing Director

- Refer to page 40

Lyndal York
Chief Financial Officer

- Lyndal York joined Asaleo Care as CFO in November, 2017.
- She has more than 25 years of finance management experience with multi-national ASX and NYSE listed companies leading corporate, commercial and operations finance functions.
- Before joining the Company, Lyndal was Head of Group Finance at Cochlear Limited for 11 years. Prior to that, she held a variety of senior finance roles, including Finance Director with James Hardie Industries in Australia and the United States.
- Lyndal has a Bachelor of Economics (Accounting) from Macquarie University and an Executive MBA from Pepperdine University, California.
- She is a member of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

Sid Takla
Chief Operations Officer

- Sid joined the Company in 2007 and has over 20 years of industry experience. He was appointed Chief Operating Officer in May, 2017. Previously, he was the Company's Executive General Manager, Business-to-Business (2015–2017) and Executive General Manager, Tork Professional Hygiene and Pacific Islands (2012–2015).
- Previously, he held senior operational and finance roles within Carter Holt Harvey Packaging (2000–2007) and Amcor Flexible Packaging (1996–2000).
- Sid holds a Bachelor of Commerce (Accounting and Commercial Law) from the University of Western Sydney.

David Brown
Executive General Manager, Strategy and Planning

- David joined the Company in 2004 and has held a number of senior finance and planning roles.
- He was appointed General Manager Business Strategy and Planning in January 2015 and Executive General Manager Strategy and Planning in December 2016.
- David has over 25 years' industry experience across external audit, aviation, manufacturing and packaging businesses. Previously, he held various audit, risk management and senior commercial roles with KPMG Australia (1991–1996), Ansett Australia (1996–1998), Southcorp Limited (1998–2001) and Visy Industries (2001–2004).
- David is a member of Chartered Accountants Australia and New Zealand, and holds a Bachelor of Business (Accounting) from Deakin University.

Rob Graham
Executive General Manager, Consumer Sales

- Rob joined the Company as General Manager – Consumer Sales Australia in April 2016 and has almost 20 years' industry experience. In December 2016, he was appointed Executive General Manager, Consumer Sales.
- He joined Asaleo Care from Nippon Paper Group's Australian Office division (2004–2015), where he held the roles of General Manager – Sales (2004–2011), and Group General Manager (2011–2015).
- Previously, he performed Sales and Trade Marketing roles at National Foods (2002–2004) and AC Nielsen (1998–2002).
- Rob holds a Bachelor of Commerce (Economics) from the University of Melbourne, and a Graduate Diploma of Marketing from Monash University.

Lyndal York
Chief Financial Officer

Sid Takla
Chief Operations Officer

David Brown
Executive General Manager, Strategy and Planning

Rob Graham
Executive General Manager, Consumer Sales

David Griss

Executive General Manager, Human Resources and Corporate Affairs

- David joined the Company as Executive General Manager Human Resources (HR) in March 2012 and has over 20 years' industry experience.
- Previously, he held various HR director and senior HR roles within the pharmaceutical and healthcare sectors for Hospira (2006–2012), Mayne Group (2001–2006) and F H Faulding & Co (2000–2001).
- David holds a Bachelor of Business from RMIT University and a Graduate Diploma in Risk Management from Swinburne University.

Paul Honey

Executive General Manager, Manufacturing

- Paul joined the Company in March 2013 as General Manager Operations for the Australian Personal Care operations and has over 20 years' industry experience.
- In January 2015, Paul was appointed to the role of General Manager Manufacturing Australia, responsible for both the Box Hill Tissue and Springvale Personal Care operations. Effective December 2016, Paul was appointed Executive General Manager Manufacturing.
- Paul has previously held senior operations roles at Nippon Paper Group's Australian Office division (2005–2013) and Amcor Fibre Packaging (1993–2005).
- Paul holds a Bachelor of Mechanical Engineering and a Graduate Diploma in Management, both from Swinburne University.

James Orr

General Counsel and Company Secretary

- James joined the Company in August 2014 as General Counsel and Company Secretary.
- He has extensive industry experience, having held senior legal and secretarial positions in public and large private companies in the resources, energy, pharmaceuticals and paper industries for over 25 years.
- James holds a Bachelor of Laws and a Bachelor of Commerce from the University of Melbourne.

Caitlin Patterson

Executive General Manager, Consumer Marketing

- Caitlin has extensive experience in marketing and business strategy gained in a number of multi-national and national organisations. She joined Asaleo Care as Executive General Manager, Consumer Marketing in June, 2017.
- Before joining the Company, Caitlin was General Manager, Marketing with National Tiles.
- Caitlin spent nearly 10 years with General Mills where she held senior leadership roles including Director, Business Improvement and Strategy, General Manager of Pasta Master, and Director, Fresh Meal Solutions for the Latina Brand. Earlier in her career, she held senior Marketing and Brand Management roles with Kraft Foods and Cadbury Schweppes.
- Caitlin holds a Bachelor of Business (Marketing) and a Bachelor of Arts (Psychology) from Monash University.

David Griss
Executive General Manager, Human Resources and Corporate Affairs

Paul Honey
Executive General Manager, Manufacturing

James Orr
General Counsel and Company Secretary

Caitlin Patterson
Executive General Manager, Consumer Marketing

Directors' report

The Directors present their report together with the Financial report of Asaleo Care Limited (the Company) and its controlled entities (the Group), for the year ended 31 December 2017 and the Auditor's report thereon. Directors, including their qualifications and experience can be found on pages 40 to 41 of this report.

Directors' meetings

The following table sets out Board and Board Committee meetings during 2017 and Directors' attendance:

	Board meeting	Audit & Risk Committee	Nomination & Governance Committee	Remuneration & HR Committee
No. of meetings held	**8**	**4**	**2**	**5**
Attendance				
Harry Boon	8	4	2	5
Mats Berencreutz	8	N/A	2	5
Peter Diplaris	8	N/A	2	N/A
Robert Sjostrom	8	4	1	N/A
Sue Morphet	8	4	2	5
JoAnne Stephenson	8	4	2	5

Directors' skills and experience

The following table sets out the relevant skills and experience of the current Directors of the Company.

Skills/experience	No. of Directors
Personal care and hygiene	3
Industrial/manufacturing	5
Paper industry	4
Distribution and logistics	3
FMCG and retail	4
B2B	3
Sales and marketing	3
Health, safety and environment	4
Business development	5
Accounting and finance	2
Governance/risk management	6
Human resources	4
Executive management and leadership	5

Principal activities

The principal activities of the Group are Manufacturing, Marketing, Distribution and Sale of Professional Hygiene, Personal Care and Consumer Tissue products in Australia, New Zealand, Fiji and a number of countries in the Pacific.

Company and financial overview

A Company and Financial Overview can be found on pages 6 to 39 of this report.

On-market share buy-back

On 26 August 2015, the Company lodged an Appendix 3C with the Australian Securities Exchange (ASX) confirming it would commence an on-market share buy-back of up to 10% of the Company's issued capital. The buy-back commenced on 1 October 2015 and ceased on 17 May 2017. Through the buy-back the Company bought back 60,346,943 shares for a total consideration of $99,489,652. An Appendix 3F, noting finalisation of the buy-back, was filed with the ASX on 18 May 2017.

Significant changes in state of affairs

There have been no significant changes in the state of affairs of the consolidated entity for the financial year ended 31 December 2017.

Environmental regulation and performance

In 2017 there were no material breaches by the Company of the significant environmental legislation and regulations which applied to its Australian operations.

In addition, the following activity was undertaken during the reporting period:

- Reported energy consumption and greenhouse gas emissions from its operations according to the *National Greenhouse and Energy Reporting Act 2007*.
- Reported National Pollution Inventory (NPI) substances to air as obligated by the *National Environment Protection Measures (Implementation) Act 1998*.
- Performed source of origin and traceability due diligence on regulated timber-based products imported into Australia according to the requirements of the *Illegal Logging Prohibition Act 2012*.

Principal Risks

The following are material risks that could adversely affect the Company's prospects in future years. More generic risks, which affect most companies, have not been included. Additional risks not currently known or detailed below may adversely affect future performance.

Risk	Risk description	Management of risk
Key retail customers have significant market power	Asaleo Care generates a significant portion of its revenue from major supermarkets. Key retail customers could use their commercial leverage to push for lower prices and demand higher trade discounts, as well as impose additional commercial and operational conditions relating to safety, environment, social and other sustainability issues.	The Company has a diversified product range and customer channels to mitigate the consequence of a single customer being disruptive. The Company actively and continuously engages with customers to retain competitive margins that satisfy Asaleo Care and the customer. The Company is maximising brand loyalty to ensure high demand for Asaleo Care products to minimise risk of retail customer disruption.
Competition may increase	Asaleo Care's market share may decline due to competitor activity, new competitors entering the market or if competitors release more advanced products that result in reduced market share.	The Company is well placed to leverage its local manufacturing footprint, regional experience and partnership with our cornerstone shareholder Essity to ensure a competitive advantage. Further, Asaleo Care's innovation program is active and provides market leading products.
Brand names may diminish in reputation or value	Asaleo Care is reliant on the reputation of its key brands. Any factors or events that diminish the reputation of the Company, its key brands or related trademarks or intellectual property may adversely affect the operating and financial performance of the Company.	Brand health is actively monitored by reviewing market performance data, investing in consumer and market research to identify issues and trends and internal quality control procedures. These findings form the Company's monitoring activity, drive the marketing strategy and areas of brand investment. The Company has continued to invest significantly in selected key brands during 2017.

Directors' report

Risk	Risk description	Management of risk
Increases in prices for raw materials, supplies and services	Asaleo Care relies on various procurement relationships for the supply of pulp, transport and logistics, packaging, engineering, marketing, energy and utilities services. The Company is exposed to risks associated with the availability/price of raw materials and inputs, some of which have been subject to price volatility in the past.	Asaleo Care has a dedicated procurement team who are responsible for fostering strong supply relationships, negotiating to minimise costs with suppliers without impacting quality, and identifying and performing due diligence over alternate sources of supply.
Adverse movements in exchange rates may occur	Asaleo Care's financial reports are prepared in Australian dollars. However, a portion of the Company's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in New Zealand and Fijian dollars. Asaleo Care also sources raw materials and finished goods in other currencies, primarily Euros and US dollars.	The Company's Treasury function implements a hedging policy for the foreign exchange purchases exposure, which operates on a 12-month rolling basis. The hedging of future foreign exchange cash flows protects Asaleo Care from sudden impacts on its cost base. Asaleo Care does not hedge its international earnings (primarily NZ$) as the transactions and translation of results between the countries within the Group essentially derives a minimal financial impact at an NPAT level.
Disruptions to the Company's manufacturing capacity	Asaleo Care manufactures its products at five sites across Australia, New Zealand and Fiji. A disruption at any of these facilities could adversely affect production capacity and earnings. Approximately 50% of Asaleo Care's employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may emerge out of the renegotiation and renewal process.	The Company has a robust maintenance program for all manufacturing sites. The Company identifies and tests alternate suppliers to manufacture products. The Company actively manages stock levels to ensure adequate cover. Asaleo Care implements an employee relations strategy, which includes management of relationships with employees and unions, and agreement renewal planning in order to minimise risk of disputes.
Product recalls and liability	Poor product quality, contamination or an extortion threat on the basis of alleged or actual contamination of one or more of the Company's products may lead to product recalls or liabilities to consumers.	Asaleo Care has procedures and policies in place to ensure compliance with quality standards and to ensure its products are free from contamination. Asaleo Care's quality specifications are documented and regularly tested. Employees are trained in their roles and responsibilities for product quality. Further, Asaleo Care monitors customer feedback and investigates and addresses quality issues where appropriate.
Essity may not renew its Licensing Agreement or Supply Agreement with Asaleo Care	Asaleo Care has a number of commercial agreements with Essity, including a Trade Mark and Technology Licence Agreement (TMTLA) and a Supply Agreement. Under the TMTLA, Asaleo Care pays SCA a royalty for the exclusive licence to use certain brands (including Tork and TENA) and technology in Australia, New Zealand and specified countries in the Pacific region. This agreement has an expiry date of 2022; however, there is an option to extend it to 2027 by mutual agreement. The Supply agreement captures the supply of key products from Essity. The Supply agreement terminates if the TMTLA expires or is terminated.	The Company maintains a strong connection and relationship with Essity and strives to maximise sales of Tork and TENA products in Australia, New Zealand and specified countries in the Pacific region. There are regular meetings between the companies covering a range of subject matters. The Company continues to explore opportunities to maximise its 'in-house' capability.

Likely developments

This report sets out the business activities and strategies for the Group, including likely developments and prospects for future financial years. Information has not been included to the extent that it would be materially prejudicial to the Group to disclose such information; for example, if matters are commercially sensitive.

Subsequent events

Other than the matter noted below, the directors are not aware of any matter or circumstance which has arisen since the end of the year which has significantly affected or is likely to significantly affect the operations of the Group, or the results of the Group in subsequent financial years.

Dividends

For dividends declared after 31 December 2017, see note 1.4 to the financial statements.

Proceedings on behalf of Company

No proceedings have been brought or intervened in on behalf of the Company under Section 237 of the *Corporations Act 2001*.

Dividends

Directors declared a final 50% franked ordinary dividend of $32,755,590 (6.0 cents per ordinary share) paid on 23 March 2017, for the year ended 31 December 2016 out of the Asaleo Care Ltd dividend appropriation reserve.

Directors declared an interim 50% franked ordinary dividend of $21,724,899 (4.0 cents per ordinary share) paid on 21 September 2017, for the half year ended 30 June 2017, out of the Asaleo Care Ltd dividend appropriation reserve.

Subsequent to the end of the 2017 financial year, Directors declared a final 40% franked ordinary dividend of $32.6 million (6.0 cents per ordinary share) to be paid on 22 March 2018, for the year ended 31 December 2017 out of the Asaleo Care Ltd dividend appropriation reserve.

Depending on available profits and the financial position of the Company, Directors intend to payout surplus cash to shareholders. The intention is that the final dividend in each calendar year will be greater than 50% of the total dividend paid during the year.

Share options

There are no unissued ordinary shares under options as at the reporting date.

Indemnification and insurance of officers

During the financial year, the Company paid a premium in respect of a contract insuring Directors and officers of the Company against liabilities that are permitted to be insured under the *Corporations Act 2001*. It is a condition of the contract that the premium, nature of liability and indemnity levels not be disclosed.

The Company has indemnified Directors and officers against all liabilities incurred in or arising out of the discharge of their duties, and any and all reasonable legal costs relating to such liability, to the maximum extent permitted by law (including certain statutory restrictions), the Company's Constitution and excluding any liabilities that are subject to a third party indemnity or insurance policy.

Loans to Executives and Directors

No loans were made to executives or Non-Executive Directors during the year ended 31 December 2017.

Directors' report

Corporate governance statement

The Company's corporate governance statement discloses how the Company complies with the recommendation of the *ASX Corporate Governance Council (3rd edition)* and sets out the Company's main corporate governance practices. This Statement has been approved by the Board and is current as at 21 February 2018. The Statement is available on the Company's website at www.asaleocare.com.

Indemnification of auditors

The Company's auditor is PricewaterhouseCoopers (PwC). No payment has been made to indemnify PwC during or since the Financial Year. No premium has been paid by the Company in respect of any insurance for PwC. No officers of the Company were partners or Directors of PwC while PwC undertook an audit of the Company.

Non-audit services

The following non-audit services were provided by the Company's auditor PwC during the financial year:

	2017 $	2016 $
PricewaterhouseCoopers Australia	**12,000**	12,200
Other assurance services		
Taxation services		
Tax compliance services and review of Company income tax returns	**57,084**	49,825
Tax consulting services and advice	**8,600**	67,812
Total remuneration for taxation services	**65,684**	117,637
Other services		
Consulting services	**3,114**	2,388
Network firms of PricewaterhouseCoopers Australia		
Other assurance services	**803**	755
Taxation services		
Tax compliance services and review of Company income tax returns	**27,049**	14,993
Tax consulting services and advice	**5,158**	3,584
Total remuneration for taxation services	**32,207**	18,577
Other services	**–**	4,551
Consulting services		

Directors are satisfied that the provision of these services is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191, and in accordance with that Instrument, amounts in the Directors' report and Financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Remuneration report

The Remuneration report forms part of the Asaleo Care Ltd (Company) Directors' report and is prepared in accordance with Section 300A of the *Corporations Act 2001*.

This Remuneration report covers the remuneration and benefit arrangements of the Company's Key Management Personnel (KMP) for the year ended 31 December 2017.

Overview

The Company's executive remuneration strategy and policy are driven by the following principles:

- Motivating Directors and senior management to pursue the Company's long-term growth and success.
- Demonstrating a clear relationship between the Company's overall performance and the remuneration of Directors and senior management.
- Alignment of the interests of Executives with the creation of value for shareholders.
- Complying with all relevant legal and regulatory provisions.

Responsibility for the Company's executive remuneration strategy and policy rests with the Board of Directors (the Board), supported by the Remuneration and Human Resources Committee (the Committee).

Since listing, the Company's Remuneration reports have achieved approval votes in excess of 99% at respective Annual General Meetings.

Key management personnel disclosed in this report

KMP are those who have authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly.

The 2017 Company's KMP include the Chief Executive Officer and Managing Director (CEO), KMP Executives and Non-Executive Directors (NED) as set out in the following table:

KMP	Position	Employment Status Change	
Peter Diplaris	Chief Executive Officer (CEO) and Managing Director		
KMP Executives			
Lyndal York	Chief Financial Officer (CFO)	Commenced on 8 November 2017	
Sid Takla[1]	Chief Operating Officer (COO)	Promoted to COO effective 29 May 2017. Previous position was Executive General Manager, Business-to-Business	
Caitlin Patterson	Executive General Manager (EGM), Consumer Marketing	Commenced on 13 June 2017	
Rob Graham	Executive General Manager (EGM), Consumer Sales	Promoted to EGM Consumer Sales effective 1 January 2017. Previous position was General Manager, Consumer Sales	
Paul Townsend	Chief Financial Officer (CFO)	Resigned effective 30 August 2017	
Andrew Phillips	Executive General Manager (EGM) Consumer Marketing	Resigned effective 28 April 2017	
Non-Executive Directors			
Harry Boon	NED – Chairman	**Mats Berencreutz**[2]	NED
Sue Morphet	NED	**Robert Sjostrom**[2]	NED
JoAnne Stephenson	NED		

1 Sid Takla was appointed to the Chief Operating Officer position effective from May 29, 2017. In this position, Sid continues to lead the B2B business unit and Pacific Islands with additional overall responsibility for manufacturing and logistics in Australia and New Zealand. The COO position was created to support our company's focus on effectively executing our organic growth strategy and providing enhanced co-ordination between key business functions. Paul Honey, Executive General Manager Manufacturing for Australia and New Zealand remains in his current position reporting to Sid Takla, COO. Paul remains a member of the ELT but was removed from the KMP for 2017.

2 Mats Berencreutz is a representative, and Robert Sjostrom is an employee and representative of Essity Aktiebolag (publ) on the Asaleo Care Ltd Board. Essity was formed from the demerger of SCA's forestry and hygiene business. Essity is the ultimate parent entity in its investment in Asaleo Care Ltd.

Remuneration report

Remuneration strategy and governance framework

Remuneration strategy

The Company's reward philosophy is to drive achievement of outstanding results through a market competitive remuneration framework that incentivises exceptional performance. It has clearly defined objectives that balance the achievement of short-term results and long-term value creation for shareholders.

Specifically, the Company's executive remuneration strategy focuses on:

- Value creation and sustainable returns to shareholders.
- Remuneration policies and practices to attract, motivate and retain Executives who will create value for shareholders.
- Responsibly and fairly rewarding Executives having regard to the Company's performance, individual performance and the general external pay environment.

Since listing, the Company's executive remuneration strategy and policy have been working as intended. As a consequence of the Company's financial performance, KMP have not been rewarded incentives with respect to key financial measures over the past 2 years as the gateway for payment was not achieved.

Remuneration governance framework

The Company's executive remuneration is overseen by the Committee and the Board. The Committee consists of a majority of independent NED and it met five times during 2017.

The Committee is responsible for reviewing the structure and market competitiveness of executive remuneration on an annual basis. The Committee is also responsible for the governance framework relating to executive remuneration. The aim of the Committee is to help the Board achieve its objectives by ensuring that the Company:

- Has coherent remuneration policies and practices to attract and retain Executives and Directors who will create value for shareholders.
- Observes those remuneration policies and practices.
- Fairly and responsibly rewards Executives having regard to the performance of the Group, the performance of the Executives and the general external pay environment.
- Has a human resource strategy, policies and practices which will assist the Company achieving its overall business objectives.

For the purpose of incentive payments, the Committee recommends to the Board individual and Company performance measures and weightings for the CEO and KMP Executives. The Committee also reviews and makes recommendations to the Board in relation to performance assessment of the CEO and KMP Executives against these measures. The Board makes the ultimate decision on the CEO's and KMP Executives' performance assessment and their final incentive payments.

External remuneration consultant engagement

In November 2017, the Committee engaged Egan Associates Pty Ltd (Egan) to provide advice on the market competitiveness of executive remuneration. Egan provided this advice for a fee of $18,000. Egan has confirmed that all recommendations provided in the advice to the Committee were made free from undue influence by any member of KMP. Egan's correspondence with Asaleo Care management was limited to seeking information about executive position descriptions and their existing remuneration arrangements. As a consequence of this confirmation and from their dealings with Egan, the Board and the Committee are satisfied that the remuneration recommendations were made free from any undue influence by any KMP.

Egan's recommendations were considered by the Committee and the Board in determining Executives' 2018 remuneration.

Executive remuneration overview

The Company's executive remuneration consists of fixed and variable remuneration which focus on both short-term and long-term Company performance. Fixed remuneration is designed to provide a market competitive base level of remuneration. Variable remuneration including a cash incentive and an equity incentive, in the form of four-year deferred shares (equity), is based on pre-determined performance measures, at different performance levels, which are important for business growth and value creation for shareholders. These measures may vary year on year based on factors relevant to improving the Company's performance.

Fixed remuneration

Fixed remuneration, also referred to as Total Fixed Remuneration (TFR), is determined on an individual basis taking into consideration the size of the Company, the scope of the Executive's position, the importance of the role to the Company, the demand for the role in the market, individual performance and competency levels.

Fixed remuneration comprises base salary and superannuation. It is reviewed on an annual basis through a salary review process which takes into account Company and individual performance and contribution to the Company's success, while ensuring it remains market competitive.

Variable remuneration

Variable remuneration is an integral part of the Company's executive remuneration structure to provide Executives with competitive performance based remuneration.

Variable remuneration is delivered through an Executive Incentive Plan (EIP) including cash and equity which is:

- Designed to take into account individual, business unit and Company performance.
- Linked to clearly specified performance targets, which are aligned to the Company's short-term and long-term performance objectives.

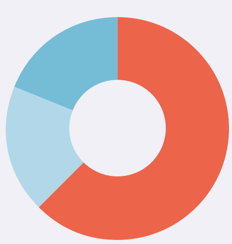
2017 Executive remuneration

Executive remuneration mix

Below is the remuneration mix between fixed and variable remuneration at target for the CEO and KMP Executives for 2017.

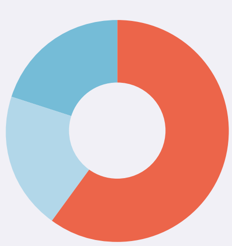
2017 CEO remuneration mix at target

Total fixed remuneration	50%
Cash incentive	25%
Equity incentive	25%



2017 CFO and COO remuneration mix at target

Total fixed remuneration	60%
Cash incentive	20%
Equity incentive	20%



2017 Other KMP Executives' remuneration mix at target

Total fixed remuneration	62.50%
Cash incentive	18.75%
Equity incentive	18.75%

Following the annual review process in January 2017 taking into account market benchmarks for Executives' relevant positions, salary movement forecasts for comparable Executives and the Company and individual performance, the CEO and existing KMP Executives did not receive any salary increases in the 2017 review. Their previous TFR increases were in January 2016.

Sid Takla received an increase in his TFR upon his appointment to the COO position.

Executive Incentive Plan

EIP overview

The EIP includes a combination of cash and equity reward potential. The equity reward is designed to strengthen the alignment of the interests of Executives and shareholders.

The 2017 EIP structure remained the same as 2016. This is detailed in the '2017 EIP Reward Potential' section of this report.

Award delivery

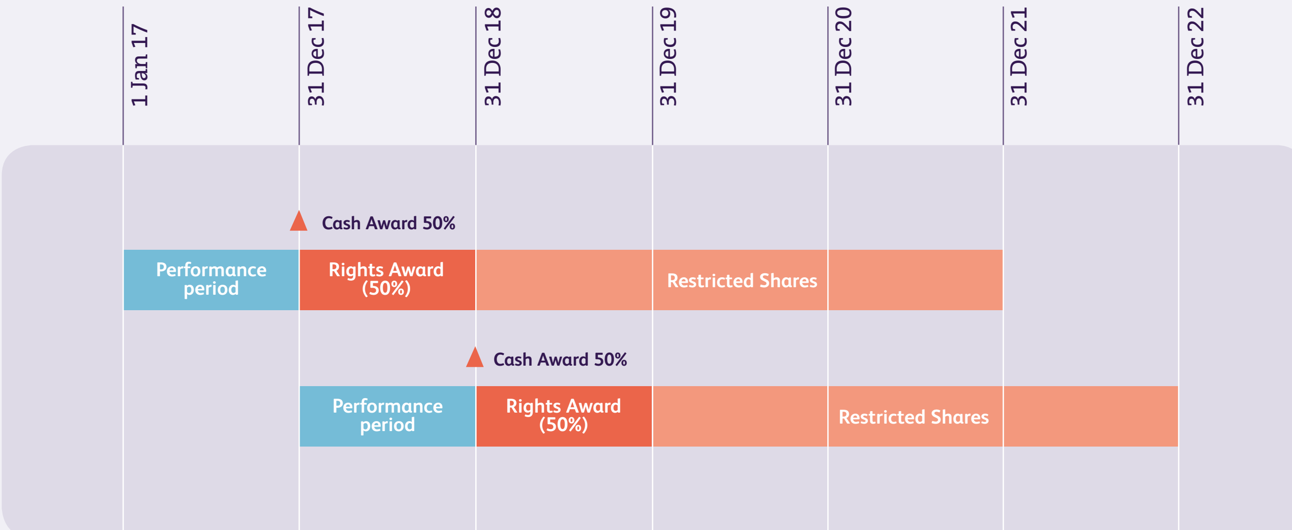
The amount awarded to an Executive under the EIP is calculated as a percentage of that Executive's TFR as at 31 December of the performance period if certain Company and individual financial and non-financial targets are achieved or exceeded. The performance period is 12 months starting from 1 January each year.

The EIP award is delivered in a combination of cash and equity:

- 50% of EIP award will be paid in cash as soon as practicable after release of the Company's full year financial results to the Australian Securities Exchange (ASX) for the relevant performance period.
- 50% of EIP award will be awarded by means of share rights. These share rights are unlisted rights to ordinary shares in the Company and become exercisable into restricted ordinary shares on the first anniversary of the completion of the relevant performance period. Once the restricted ordinary shares are granted, they are subject to disposal restrictions (holding lock) for a further three years. During the holding lock period, Executives will not be able to sell, transfer or otherwise dispose of or deal in these shares. They will, however, have all other rights of holders of ordinary shares including being entitled to receive dividends and vote.

Remuneration report

The structure of the EIP award is illustrated as follows:



Clawback provision

The EIP has a clawback provision which provides the Board with the authority to cancel or to claw back some or all of an Executive's performance rights and/or restricted ordinary shares if, in the Board's reasonable opinion, any adverse actions or events that cause any material financial misstatements and misrepresentations of the Company's performance in the past three financial years are subsequently revealed. This may include the deliberate failure to bring forward information relevant to assessing the performance of the Company or its business units, or any negligent acts or omissions that cause material reputational damage to the Company.

Termination

Any termination for cause (being misconduct, serious misconduct or poor performance) will result in forfeiture of share rights and restricted ordinary shares.

Any termination without cause (including termination due to genuine redundancy, ill-health, disability and death) and resignation will result in the participant forfeiting any share rights but being fully entitled to their granted restricted ordinary shares unless the participant fails to comply with the terms of their employment contract, for example, the confidentiality or restraint provisions. The restricted ordinary shares will continue to remain the subject of the holding lock until the end of the relevant holding lock period.

2017 EIP reward potential

The following table sets out the 2017 EIP reward potential for the CEO and KMP Executives at different performance levels.

	2017 Potential EIP (% of TFR)		
Position	Threshold	Target	Max
CEO	50	100	150
CFO* and COO	33.33	66.67	100
Other KMP Executives	30	60	90

* Lyndal York was recruited to the CFO position on 8 November 2017 and did not participate in the 2017 EIP.

Threshold, Target and Maximum performance levels are explained in the 'Performance measures' section below.

2017 Performance measures

The Board carefully considers the selection of Key Performance Indicators (KPIs) and weightings based on factors relevant to improving the Company's performance. Emphasis is placed on the key financial and operational metrics.

The EIP covers both short-term and long-term KPIs for the performance period and includes a gateway as well as Threshold, Target and Maximum performance measures.

Performance outcomes may be subject to normalisation or other relevant adjustments at the absolute discretion of the Board to reflect the impact of any exceptional items or circumstances.

The 2017 EIP performance measures and weightings for the CEO and KMP Executives are outlined in the following table.

Name	Group underlying NPAT[1] %	Group ROIC[2] %	Group OCF[3] %	Business Unit underlying EBITDA[4] %	Business Unit SV[5] %	Operational KPIs %	Safety %	Total weighting %
Peter Diplaris	50	20	10	–	10	–	10	100
Sid Takla	30	–	10	30	20	–	10	100
Caitlin Patterson	30	–	10	30	20	–	10	100
Rob Graham	30	–	10	30	20	–	10	100
Paul Townsend	50	20	10	–	–	10	10	100

1 NPAT: net profit after tax
2 ROIC: return on invested capital
3 OCF: operating cash flow, representing net cash flow before financing, taxation and shareholder returns
4 EBITDA: earnings before interest, tax, depreciation and amortisation
5 SV: Sales value

Lyndal York was recruited to the CFO position on 8 November 2017 and did not participate in the 2017 EIP. Andrew Phillips resigned effective 28 April 2017 and did not participate in the 2017 EIP.

Below is an explanation of why each measure was chosen.

Underlying NPAT and EBITDA have been used to reflect the operating performance excluding non-recurring income and expenditure. A reconciliation between statutory and underlying financial information is provided on page 39 of this report.

Gateway – Net Profit After Tax (NPAT)

NPAT provides an indication of the Company's 'bottom line' for the performance period. Consistent with the 2016 EIP, NPAT at Threshold remained the gateway for the 2017 EIP. In 2017, the gateway was set at 98.8% of the Company's budgeted NPAT and reflected a higher NPAT achievement level than in 2016. Under the EIP rules, if the gateway is not achieved, the EIP reward will be at the discretion of the Board. In these circumstances, individual EIP payments for the performance period must not exceed 50% of the maximum entitlement.

NPAT at Target performance was set at 100%, and at Maximum performance at 110%, of budgeted NPAT.

Remuneration report

Other financial KPIs

Other financial KPIs to apply during 2017 were:

- ROIC: which supports a focus on striking the right balance between efficient management of capital and ongoing investment in the Company's operations and brands to grow the Company's value.
- OCF: which measures the Company's cash generation capability.
- EBITDA: which measures the profitability at the business unit level and includes key strategic, growth and market share initiatives.
- SV: which aligns EBITDA with sales targets and is critical to ensure a balance between margin retention and sustainable growth.

The underlying financial KPIs for the above measures in 2017 for each EIP reward level were defined as follows (assuming achievement of the NPAT gateway):

- Threshold performance for individuals was set at 98% of their relevant financial KPIs at budget. Threshold performance reflected the minimum required performance level before any EIP payment could be made with respect to that KPI.
- Target performance was set at 100% of the relevant budgeted KPIs.
- Maximum performance was set at 110% of the relevant budgeted KPIs.

Rewards for performance between Threshold and Target and between Target and Maximum are calculated on a pro-rata, straight-line basis.

Operational KPIs

Operational KPIs include a set of measures focused on production capability, working capital and operational excellence which drive improvement in cost competitiveness and production quality.

Specific functional Operational KPIs for 2017, which were financial or non-financial, were set by the CEO in the Executives' annual performance plan and formed part of Executives' 2017 key objectives. Reward payments for achievement of non-financial measures are adjusted in accordance with the Company's NPAT result against budget.

Safety

To reflect the Company's commitment to providing a safe workplace for all employees, contractors and visitors. Corporate safety measures including Lost Time Injury Frequency Rate (LTIFR) and Target Injury Frequency Rate (TIFR) were set at improved levels to 2016 performance. If achieved, reward payments for the safety component are aligned to the Company's NPAT result.

2017 EIP payments

For the 2017 performance year, the Company did not achieve the gateway hurdle of NPAT at Threshold level. As a consequence, there were no EIP payments for 2017 to the CEO or any of the KMP Executives.

2018 EIP – gateway change

As a result of an increasingly price competitive market place and significant impacts of cost increases in pulp and energy and lower currency, a lower NPAT target than NPAT achieved in 2017 is forecast for 2018. As a consequence, the Board determined that for the 2018 performance year it is appropriate to remove from the EIP rules the requirement that '*NPAT threshold must be higher than the prior year NPAT achievement*'.

For the 2018 performance year, the EIP gateway is set at a threshold of 98% of budgeted NPAT.

KMP remuneration disclosure

The following table has been prepared in accordance with Section 300A of the *Corporations Act 2001* to detail KMP remuneration for the year ended 31 December 2017. For the purpose of comparison, remuneration for the year ended 31 December 2016 is also provided.

		Fixed Remuneration			Variable Remuneration (EIP)[1]		
Name Position	Year	Cash salary/ Fee $	Super- annuation $	Total TFR $	Cash $	Equity $	Total Remuneration $
CEO and KMP Executives							
Peter Diplaris CEO	2017 2016	870,000 865,000	30,000 35,000	900,000 900,000	– –	– 119,208	900,000 1,019,208
Lyndal York[2] CFO	2017	60,230	4,167	64,397	–	–	64,397
Sid Takla COO	2017 2016	417,772 370,000	27,500 30,000	445,272 400,000	– –	– 43,156	445,272 443,156
Caitlin Patterson[3] EGM Consumer Marketing	2017	181,347	12,500	193,847	–	–	193,847
Rob Graham[4] EGM Consumer Sales	2017	321,869	28,131	350,000	–	–	350,000
Paul Townsend[5] CFO	2017 2016	275,666 413,500	21,667 32,500	297,333 446,000	– –	– 41,008	297,333 487,008
Andrew Phillips[5] EGM Consumer Marketing	2017 2016	126,067 378,200	11,667 35,000	137,734 413,200	– –	– 20,859	137,734 434,059
Former disclosed executives[6]	2016	781,401	59,356	840,757	–	57,575	898,332
Subtotal	**2017** **2016**	**2,252,951** **2,808,101**	**135,632** **191,856**	**2,388,583** **2,999,957**	**–** **–**	**–** **281,806**	**2,388,583** **3,281,763**
Non-executive Directors							
Harry Boon	2017 2016	280,168 280,538	19,832 19,462	300,000 300,000	– –	– –	300,000 300,000
Sue Morphet	2017 2016	110,168 110,538	19,832 19,462	130,000 130,000	– –	– –	130,000 130,000
JoAnne Stephenson	2017 2016	110,168 110,538	19,832 19,462	130,000 130,000	– –	– –	130,000 130,000
Mats Berencreutz	2017 2016	110,000 110,000	– –	110,000 110,000	– –	– –	110,000 110,000
Robert Sjostrom[7]	2017 2016	– –	– –	– –	– –	– –	– –
Subtotal	**2017** **2016**	**610,504** **611,614**	**59,496** **58,386**	**670,000** **670,000**	**–** **–**	**–** **–**	**670,000** **670,000**

1 No EIP payment was made to any of the KMP for the 2016 and 2017 performance years. The values of the EIP Equity reported in the 2016 figures represent 50% of the equity rewarded for the 2015 performance year.

2 In addition to the reported remuneration which commenced from 8 November 2017, Lyndal York was provided a one-off relocation assistance of $29,731 to relocate from Sydney to Melbourne.

3 Caitlin Patterson's remuneration commenced from 13 June 2017.

4 Rob Graham became a KMP on 1 January 2017. Values in this table relate only to the period he was a KMP.

5 Paul Townsend's remuneration is up to 30 August 2017 and Andrew Phillips's remuneration is up to 28 April 2017 being the dates they ceased as employees of the Company.

6 Former KMP are not included individually in the above table.

7 Robert Sjostrom is an employee and representative of Essity Aktiebolag (publ) on the Asaleo Care Ltd Board. Robert is remunerated by Essity Aktiebolag (publ) pursuant to his employment arrangements with that entity and receives no remuneration from any Asaleo Care Group Company for his directorship of Asaleo Care Ltd.

Remuneration report

Company performance over the last five years

The following table shows the Company performance over the last five years.

	2017 Underlying[1]	2016 Underlying[1]	2015 Underlying[1]	2014 Pro Forma[1]	2013 Pro Forma[1]
Revenue (A$ million)	**585.8**	605.9	622.2	629.9	625.1
EBITDA (A$ million)	**124.3**	130.7	145.2	140.8	124.6
NPAT ($A million)	**59.4**	64.6	76.1	72.3	61.5
Net cash flow before financing, taxation and shareholder returns (A$ million)	**104.4**	79.0	116.1	92.6	125.6
Occupational Health and Safety (TIFR)[2]	**11.05**	16.61	9.36	11.50	7.82
Total CEO and KMP Executive incentives as percentage of NPAT	**0.0%**	0.0%	1.1%	0.0%	2.0%

1 Underlying and Pro Forma amounts are included as the Board is of the opinion that these most appropriately represent the Company's performance for these years. They include statutory financial information with adjustments to eliminate non-recurring items and reflect the operating structure. Pro Forma operating cash flow numbers exclude Performance Improvement capital expenditure.

2 Occupational Health and Safety measures including targets with respect to injury rates aim to provide a safe workplace for all employees, contractors and visitors.

CEO's and KMP Executives' employment agreements

The key employment agreements for the CEO and KMP Executives are provided in the table below.

Name Position	Employment start date	Employment term	Notice period (employer-initiated termination)	Notice period (employee-initiated termination)	Redundancy payment
Peter Diplaris CEO	16 May 2011	Permanent Full Time	9 months	3 months	Notice period plus redundancy payment under the *Fair Work Act 2009*
Lyndal York CFO	8 November 2017	Permanent Full Time	9 months	6 months	Notice period plus redundancy payment under the *Fair Work Act 2009*
Sid Takla[1] COO	12 February 2007	Permanent Full Time	12 months	6 months	Notice period plus redundancy payment under the *Fair Work Act 2009*
Caitlin Patterson EGM Consumer Marketing	13 June 2017	Permanent Full Time	6 months	3 months	Notice period plus redundancy payment under the *Fair Work Act 2009*
Rob Graham[2] EGM Consumer Sales	2 May 2016	Permanent Full Time	6 months	3 months	Notice period plus redundancy payment under the *Fair Work Act 2009*

1 Appointed to the position of COO effective 29 May 2017

2 Appointed to the position of EGM Consumer Sales effective 1 January 2017

The Company may terminate the CEO or KMP Executives' employment by providing them with the required notice or payment in lieu of notice. The CEO or KMP Executives may terminate their employment by providing the Company the required notice. The required notice periods are set out in the above table. The Company may dismiss the CEO and/or KMP Executives immediately without notice or payment in lieu of notice in the event of misconduct, serious breach or non-observance of any terms or conditions of the employment contract or serious neglect of duties.

The employment contracts of the CEO and each KMP Executive contain confidentiality provisions, which continue after termination of the relevant KMP's employment, preventing them from disclosing any confidential information of the Company or using it for their own use or benefit or that of a third party.

Non-Executive Directors' engagement

On appointment to the Board, NEDs enter into a letter of appointment with the Company. The letter summarises the engagement terms including remuneration and termination provisions.

NED remuneration reflects Directors' level of leadership and accountability. It takes into account the size of the Company as well as the complexity of the business. All fees are inclusive of statutory superannuation and are paid on a monthly basis. Directors are not paid a commission on, or a percentage of, profits or operating revenue.

There was no change to NED fees in 2017. NEDs have not received any fee increases since the Company listed in 2014.

The 2017 annual fees are set out in the table below.

Name	Position	Annual board fee $	Annual committee chair fee $
Harry Boon	Chairman	300,000	–
	Chair of Nomination and Governance Committee	–	–
Sue Morphet	Board Member	110,000	–
	Chairperson of Remuneration and Human Resources Committee	–	20,000
JoAnne Stephenson	Board Member	110,000	–
	Chairperson of Audit and Risk Committee	–	20,000
Mats Berencreutz	Board Member	110,000	–
Robert Sjostrom*	Board Member	–	–

* Robert Sjostrom is an employee and representative of Essity Aktiebolag (publ) on the Asaleo Care Ltd Board. Robert is remunerated by Essity Aktiebolag (publ) pursuant to his employment arrangements with that entity and receives no remuneration from any Asaleo Care Group Company for his directorship of Asaleo Care Ltd.

Additional information

KMP shareholdings

The Company does not have a Minimum Shareholding Policy, which requires KMP to hold Asaleo Care shares. KMP are, however, encouraged to hold Company shares to enhance alignment of their interests with those of shareholders.

The Directors agreed that independent NED would invest one year after tax fees in Company shares on a progressive basis over three years from listing or from their appointment. All independent NEDs have an interest in the requisite number of shares.

Remuneration report

The following table details the number of Asaleo Care shares held by KMP, either directly, indirectly or beneficially, and movements during the year ended 31 December 2017.

Name	Registered holding	Balance at 31/12/2016	Purchased/ allotted	Sold	Balance at 31/12/2017
Peter Diplaris CEO	NETHERLEE INVESTMENTS PTY LTD (THE DIPLARIS FAMILY TRUST)	2,178,802	133,881[1]	1,156,341	1,156,342
Lyndal York CFO		–	–	–	–
Sid Takla COO	NIDO D'ORO PTY LTD AS TRUSTEE FOR THE NIDO D'ORO TRUST	563,134	48,467[1]	–	611,601
Caitlin Patterson EGM Consumer Marketing		–	–	–	–
Rob Graham EGM Consumer Sales		–	–	–	–
Paul Townsend CFO	PW INVESTMENTS PTY LTD AS TRUSTEE FOR THE TOWNSEND FAMILY TRUST	576,267	46,055[1]	350,000	272,322[2]
Andrew Phillips EGM Consumer Marketing	ANDREW PHILLIPS AND MELINDA PHILLIPS AS TRUSTEES FOR THE PHILLIPS FAMILY TRUST	394,193	23,426[1]	–	417,619[2]
Harry Boon NED	TORRESDALE SUPER NOMINEES PTY LTD (V & H BOON SUPER FUND A/C)	146,212	–	–	146,212
Sue Morphet NED	MORPHET SUPERANNUATION FUND PTY LTD	–	46,425[3]	–	46,425
JoAnne Stephenson NED	LARSTEP PTY LTD AS TRUSTEE FOR STELLAR SUPER FUND	50,000	–	–	50,000
Mats Berencreutz NED		–	–	–	–
Robert Sjostrom NED		–	–	–	–

1 These are restricted ordinary shares which were allocated on 3 January 2017 for the 2015 performance year under the EIP rules. These restricted ordinary shares are subject to a 3 year holding lock until 31 December 2019.

2 Paul Townsend's shareholding balance is as at 30 August 2017 and Andrew Phillips's shareholding balance is as at 28 April 2017 being the dates they ceased as employees of the Company.

3 Shares acquired on market during 2017.

Policy on trading in Asaleo Care's shares

The Company's Securities Trading Policy applies to all Directors, Executives and other specified staff. Directors, Executives and their associates must not, in any circumstances, deal or procure another person to deal in Company securities if they have inside information in relation to Company securities. The policy imposes blackout periods for trading and sets out an approval process for trading in Company shares. The Company would consider an intentional breach of the Company's Securities Trading Policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Other transactions with KMP

There are no other transactions between any of the KMP with any of the companies which are related to or provide services to Asaleo Care unless disclosed in this Remuneration report.

The Directors' report is made in accordance with a resolution of Directors.

Harry Boon
Chairman

Dated this 21st day of February 2018

Auditor's independence declaration

As lead auditor for the audit of Asaleo Care Limited for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Asaleo Care Limited and the entities it controlled during the period.

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
21 February 2018

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Financial report

Introduction

This is the Financial report of Asaleo Care Ltd (the Company) and its subsidiaries (together referred to as 'the Group'). Asaleo Care Ltd is a for-profit entity for the purpose of preparing this Financial report.

Accounting policies and critical accounting judgements applied to the preparation of the Financial report are located where the related accounting balance or financial statement matter is discussed. The wording of the policies has been refined to allow them to be easily understood by users of this report. To assist in identifying critical accounting judgements, we have highlighted them with the following symbol:

Information is only being included in the Financial report to the extent it has been considered material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- The dollar amount is significant in size (quantitative factor).
- The dollar amount is significant by nature (qualitative factor).
- The Group's results cannot be understood without the specific disclosure (qualitative factor).
- It is critical to allow a user to understand the impact of significant changes in the Group's business during the period (qualitative factor).
- It relates to an aspect of the Group's operations that is important to its future performance.

Contents

Notes to the consolidated financial statements

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Revenue from operations			
Sale of goods	1.1	**585,773**	605,899
Other revenue from ordinary activities		**1,427**	868
		587,200	606,767
Other income	1.5	**9,835**	49
Expenses			
Cost of sales of goods		**(354,600)**	(364,599)
Other expenses from ordinary activities			
Distribution		**(68,584)**	(70,891)
Sales and administration		**(62,482)**	(62,758)
Other	1.1	**(19,019)**	(14,363)
Finance costs	3.1	**(11,554)**	(10,872)
Profit before income tax		**80,796**	83,333
Income tax expense	1.2	**(23,615)**	(24,378)
Profit for the period		**57,181**	58,955
Item that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	3.5	**938**	1,181
Exchange differences on translation of foreign operations	3.5	**(11,643)**	4,792
Income tax relating to these items	3.5	**1,390**	(1,032)
Other comprehensive (loss) / income for the period, net of tax		**(9,315)**	4,941
Total comprehensive income for the period		**47,866**	63,896
Total comprehensive income for the period is attributable to:			
Owners of Asaleo Care Ltd		**47,866**	63,896

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	1.3	**10.5**	10.5
Diluted earnings per share	1.3	**10.5**	10.5

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet
As at 31 December 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	3.1	**30,205**	30,348
Trade receivables	2.1	**21,451**	20,628
Inventories	2.1	**167,480**	164,656
Derivative financial instruments	3.3	**2,158**	2,911
Other current assets	2.1	**4,062**	5,438
Total current assets		**225,356**	223,981
Non-current assets			
Property, plant and equipment	2.2	**342,030**	358,531
Intangible assets	2.3	**187,709**	190,785
Total non-current assets		**529,739**	549,316
Total assets		**755,095**	773,297
LIABILITIES			
Current liabilities			
Trade payables	2.1	**63,366**	56,533
Other payables	2.1	**20,868**	18,670
Current tax liabilities	1.2	**2,525**	4,028
Derivative financial instruments	3.3	**1,817**	4,199
Employee provisions	4.3	**20,408**	20,322
Total current liabilities		**108,984**	103,752
Non-current liabilities			
Borrowings	3.1	**307,517**	323,686
Deferred tax liabilities	1.2	**41,666**	37,818
Employee provisions	4.3	**642**	653
Total non-current liabilities		**349,825**	362,157
Total liabilities		**458,809**	465,909
Net assets		**296,286**	307,388
EQUITY			
Contributed equity	3.4	**260,815**	265,303
Other reserves	3.5	**29,474**	38,789
Retained earnings		**5,997**	3,296
Total equity		**296,286**	307,388

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
For the year ended 31 December 2017

		Attributable to owners of Asaleo Care Ltd			
	Notes	Contributed equity $'000	Reserves $'000	Retained earnings / (losses) $'000	Total equity $'000
Balance at 1 January 2016		298,226	34,153	735	333,114
Profit for the period		–	–	58,955	58,955
Other comprehensive income		–	4,941	–	4,941
Total comprehensive income for the period		**–**	**4,941**	**58,955**	**63,896**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	3.4	(5)	–	–	(5)
Buy-back of shares, net of transaction costs and tax	3.4	(32,918)	–	–	(32,918)
Dividends provided for or paid	1.4	–	–	(56,394)	(56,394)
Share-based payments		–	(305)	–	(305)
Balance at 31 December 2016		**265,303**	**38,789**	**3,296**	**307,388**
Balance at 1 January 2017		**265,303**	**38,789**	**3,296**	**307,388**
Profit for the period		–	–	57,181	57,181
Other comprehensive income (loss)		–	(9,315)	–	(9,315)
Total comprehensive income for the period		**–**	**(9,315)**	**57,181**	**47,866**
Transactions with owners in their capacity as owners:					
Buy-back of shares, net of transaction costs and tax	3.4	(4,488)	–	–	(4,488)
Dividends provided for or paid	1.4	–	–	(54,480)	(54,480)
Balance at 31 December 2017		**260,815**	**29,474**	**5,997**	**296,286**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**644,319**	665,397
Payments to suppliers and employees (inclusive of goods and services tax)		**(529,691)**	(561,848)
		114,628	103,549
Income taxes paid		**(18,508)**	(12,700)
Interest received		**300**	309
Borrowing costs		**(10,908)**	(10,938)
Net cash inflow from operating activities	3.1	**85,512**	80,220
Cash flows from investing activities			
Payments for property, plant and equipment	2.2	**(31,378)**	(24,964)
Proceeds from sale of property, plant and equipment		**22,226**	53
Payments for intangible assets	2.3	**(9)**	(59)
Net cash (outflow) from investing activities		**(9,161)**	(24,970)
Cash flows from financing activities			
Proceeds from borrowings	3.1	**88,500**	85,000
Repayment of borrowings	3.1	**(105,000)**	(55,000)
Payments for shares bought back	3.4	**(4,488)**	(32,918)
Share buy-back transaction costs	3.4	**-**	(56)
Dividends paid to company's shareholders	1.4	**(54,480)**	(56,394)
Debt raising costs		**–**	(1,097)
Net cash (outflow) from financing activities		**(75,468)**	(60,465)
Net increase/ (decrease) in cash and cash equivalents		**883**	(5,215)
Cash and cash equivalents at the beginning of the financial year		**30,348**	35,153
Effects of exchange rate changes on cash and cash equivalents		**(1,026)**	410
Cash and cash equivalents at end of period		**30,205**	30,348

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

Section 1: Our performance

IN THIS SECTION

This section provides insight into current year Group performance, delivering results of:

- Underlying EBITDA of $124.3 million
- Statutory NPAT of $57.2 million
- Statutory EPS of 10.5 cents per share
- Partially franked dividends of 10.0 cents per share

1.1 Segment information

(a) Description of segments

Asaleo Care is a leading Personal Care and Hygiene company that manufactures, markets, distributes and sells essential everyday consumer products across the Feminine Care, Incontinence Care, Baby Care, Consumer Tissue and Professional Hygiene product categories.

The consolidated entity is organised on an international basis into the following reporting segments:

Reporting segment	Description
Tissue	This segment manufactures and markets personal toilet tissue, paper towel, facial tissue, napkins and other tableware products within Australia, New Zealand and Pacific Islands. All Pacific Islands product sales are recognised in the Tissue segment.
Personal Care	This segment manufactures and markets personal hygiene products and nappies within Australia and New Zealand.

Reporting segments and their related results below are consistent with the Group's internal reporting provided to the chief operating decision maker, being the Chief Executive Officer and Managing Director.

(b) Segment information

Reportable segment information for the Year Ended 31 December is as follows:

2017	Tissue $'000	Personal Care $'000	Total $'000
Revenue from operations	**416,692**	**169,081**	**585,773**
Underlying EBITDA	**69,203**	**55,084**	**124,287**
Total segment assets	**535,198**	**217,739**	**752,937**
Total segment liabilities	**78,104**	**21,708**	**99,812**
2016			
Revenue from operations	423,200	182,699	605,899
Underlying EBITDA	63,755	66,933	130,688
Total segment assets	540,605	229,781	770,386
Total segment liabilities	69,712	19,861	89,573

(c) Segment revenue

Revenue is measured at the fair value of the consideration received or receivable, which is generally the amount on the sales invoice. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue is recognised when the risks and rewards of ownership have transferred to the customer. Depending on customer terms, this can be at the time of dispatch, delivery or upon formal customer acceptance. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is risk of return of goods, or there is continuing management involvement with the goods.

The Company is domiciled in Australia. The amount of its revenue from external customers in Australia is $421.6 million (2016: $436.9 million), in New Zealand $142.0 million (2016: $146.1 million) and in other countries is $22.2 million (2016: $22.9 million). Segment revenues are allocated based on the country in which the sale is made from.

Revenues of approximately $216.0 million (2016: $235.5 million) are derived from three external customers. These revenues are attributable to the Tissue and Personal Care segments.

(ii) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(iv) Inter-segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation.

(d) EBITDA

The Chief Executive Officer and Managing Director assesses the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, nappy machine upgrade and relocation, abnormal manufacturing costs, abnormal third party warehouse expenses, finished goods inventory reduction initiative and feminine product innovation. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

1.1 Segment information (continued)

A reconciliation of EBITDA to operating profit before income tax is provided as follows:

	2017 $'000	2016 $'000
Underlying EBITDA	**124,287**	130,688
Profit on sale of Springvale site	**9,275**	–
Restructuring costs*	**(1,307)**	(615)
Nappy machine upgrade and relocation*	**–**	(2,043)
Abnormal manufacturing costs*	**(1,400)**	(862)
Abnormal third party warehouse expenses*	**(1,072)**	(2,442)
Finished goods inventory reduction initiative*	**(8,493)**	–
Feminine product innovation*	**–**	(1,042)
Other*	**(528)**	(625)
EBITDA	**120,762**	123,059
Finance costs	**(11,554)**	(10,872)
Interest received	**298**	307
Depreciation	**(28,648)**	(29,104)
Amortisation	**(62)**	(57)
Profit before income tax	**80,796**	83,333

* These expenses are included in other expenses in the consolidated statement of profit or loss and other comprehensive income with the remaining being the royalties, noted in 5.4

(e) Segment assets

Segment assets are allocated based on the operations of the segment and the physical location of the asset. They are measured in a manner consistent with that of the financial statements.

All assets are allocated to reportable segments except for derivative financial instruments.

The total of non-current assets other than financial instruments located in Australia is $365.3 million (2016: $383.1 million), in New Zealand $159.7 million (2016: $161.7 million) and located in other countries is $4.7 million (2016: $4.5 million).

(f) Segment liabilities

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2017 $'000	2016 $'000
Segment liabilities	**99,812**	89,573
Unallocated:		
Current tax liabilities	**2,525**	4,028
Accrued interest on borrowings – current	**851**	536
GST Payable	**4,621**	6,069
Derivative financial instruments	**1,817**	4,199
Deferred tax liabilities	**41,666**	37,818
Borrowings – non current	**307,517**	323,686
Total liabilities as per the consolidated balance sheet	**458,809**	465,909

1.2 Income taxes

(a) Income tax

Income tax expense:

- comprises current and deferred tax
- for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses
- relating to items recognised directly in other comprehensive equity is also recorded in other comprehensive income

Key judgements and estimates

The Group is subject to income taxes in Australia and foreign jurisdictions. The calculation of the Group's tax charge involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate tax determination is uncertain. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

(i) Current income tax

The current income tax charge is measured based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate 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.

(ii) Deferred income tax

Deferred income tax is:

- provided on temporary differences arising at reporting date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements
- is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

(iii) Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised on all deductible and taxable temporary differences respectively, except:

- if they arise from the initial recognition of goodwill
- if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit or loss
- deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale
- for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future

1.2 Income taxes (continued)

Deferred tax assets:

- are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses
- carrying values are reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised
- that are unrecognised are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered
- are offset against deferred tax liabilities when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 $'000	2016 $'000
Profit before income tax expense	**80,796**	83,333
Tax at the Australian tax rate of 30.0% (2016: 30.0%)	**24,239**	25,000
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable capital profit on sale of fixed assets	**(369)**	–
Sundry items	**12**	(103)
	23,882	24,897
Difference in overseas tax rates	**(559)**	(625)
Adjustments for current tax of prior periods	**292**	106
Income tax expense	**23,615**	24,378
Comprising of:		
Current tax	**19,259**	13,960
Deferred tax	**4,064**	10,312
Adjustments for current tax of prior periods	**292**	106
	23,615	24,378

(c) Deferred tax liabilities

	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**17,337**	15,333
Intangible assets	**34,983**	35,426
Employee benefits	**(5,779)**	(5,943)
Blackhole expenditure	**(2,689)**	(5,310)
Provisions for customer claims	**(3,820)**	(2,372)
Inventories	**3,234**	(383)
Cash flow hedges	**–**	161
Other	**(1,600)**	906
	41,666	37,818
Deferred tax (assets)/liabilities expected to be settled within 12 months	**(9,871)**	(11,229)
Deferred tax liabilities expected to be settled after 12 months	**51,537**	49,047
	41,666	37,818
Movements:		
Opening balance	**37,818**	27,196
Charged/credited:		
- profit or loss	**4,064**	10,312
- to other comprehensive income	**(216)**	310
	41,666	37,818

(d) Tax consolidation legislation

Asaleo Care Limited and its wholly owned Australian controlled entities are part of a tax consolidated group legislation.

The head entity, Asaleo Care Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities are set off in the consolidated financial statements.

In addition to its own current and deferred tax amounts, Asaleo Care Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into tax funding and sharing agreements under which:

- the wholly owned entities fully compensate Asaleo Care Ltd for any current tax payable assumed and are compensated by Asaleo Care Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Asaleo Care Ltd under the tax consolidation legislation.
- funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.
- amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

1.2 Income taxes (continued)

- assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.
- any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Amounts receivable of $1.3 million (2016: $4 million) to Asaleo Care Ltd under the tax funding arrangements are due in the next financial year upon final settlement of the current payable for the consolidated group.

1.3 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The calculation of earnings per share was based on the information as follows:

(a) Earnings per share

	2017 cents	2016 cents
Basic earnings per share	**10.5**	10.5
Diluted earnings per share	**10.5**	10.5

(b) Weighted average number of shares used as denominator

	2017 number	2016 number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**544,110,690**	559,891,610
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**544,110,690**	559,891,610

1.4 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

	Cents per share	Total amount $'000	Franked/unfranked	Date of payment
Dividends recognised in the current year by the Company are:				
2017				
Interim 2017 ordinary	4.0	21,725	50% Franked	21 September 2017
Final 2016 ordinary	6.0	32,755	50% Franked	23 March 2017
Total amount		54,480		
2016				
Interim 2016 ordinary	4.0	22,406	50% Franked	28 September 2016
Final 2015 ordinary	6.0	33,988	50% Franked	24 March 2016
Total amount		56,394		
Subsequent event				
Since the end of the financial year, the directors declared the following dividends:				
Final 2017 ordinary	6.0	32,587	40% Franked	22 March 2018

The aggregate amount of the proposed dividend expected to be paid on 22 March 2018 out of the dividend appropriation reserves at 31 December 2017, but not recognised as a liability at period end is $32.6 million.

(a) Franked dividends

(i) Franking account

Franked dividends paid during the financial year were franked at the tax rate of 30% (2016: 30%). There are no further tax consequences as a result of paying dividends other than a reduction in the franking account.

At 31 December 2017, there are $0.4 million of franking credits (2016: $2.5 million) available to shareholders of Asaleo Care for subsequent financial years.

The dividend franking account at year end is adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end; and
- franking credits that the Company may be prevented from distributing in subsequent financial years.

The ability to utilise the franking account credits is dependent upon the ability to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recorded as a liability is to reduce it by $5.6 million (2016: $7.0 million) after payment of the proposed final dividend in March 2018.

Dividends in excess of the dividend franking account balance will be unfranked.

1.4 Dividends (continued)

(ii) Imputation account

As the Company has significant operations in New Zealand and in turn shareholders who are New Zealand based, the Company has elected to be part of the Australian and New Zealand Government's Trans-Tasman Imputation System to allow access for New Zealand based shareholders to the New Zealand source imputation credits of the Company. The head of the Imputation Group in New Zealand is Asaleo Care Limited (New Zealand). The balance of the imputation credits available as at 31 December 2017 is NZ$5.1 million (2016: NZ$5.1 million); it is estimated that this will reduce by NZ$4.3 million (2016: NZ$4.4 million) after payment of the proposed final dividend in March 2018.

(iii) Conduit foreign income account

For Australian tax purposes non-resident shareholder dividends will not be subject to Australian withholding tax to the extent that they are franked or sourced from the Company's Conduit Foreign Income Account. For the 2017 interim dividend, 40% of the dividend was sourced from the Company's Conduit Foreign Income account and it is proposed that 17% of the final dividend will be sourced from Conduit Foreign Income (2016: final dividend 25.0%, interim dividend 40.0%). The balance of the Conduit Foreign Income Account as at 31 December 2017 is $5.5 million (2016: $8.5 million). It is estimated that this will reduce by $5.4 million (2016: $8.2 million) after payment of the proposed final dividend in March 2018.

1.5 Other income

	Notes	**2017 $'000**	2016 $'000
Net gains on sale of property, plant and equipment – Springvale manufacturing site	2.2	**9,275**	–
Net gains on sale of property, plant and equipment – other		**95**	49
Net foreign exchange gain		**465**	–
		9,835	49

Section 2: Our operating asset base

IN THIS SECTION

This section highlights current year drivers of the Group's cash flows, as well as the asset base used to support generation of profits.

2.1 Working capital

	2017 $'000	2016 $'000
Inventories	**167,480**	164,656
Trade receivables	**21,451**	20,628
Other current assets	**4,062**	5,438
Trade payables	**(63,366)**	(56,533)
Other payables	**(20,868)**	(18,670)
Employee provisions – current*	**(20,408)**	(20,322)
Employee provisions – non-current*	**(642)**	(653)
	87,709	94,544
Add back: Accrued interest	**851**	536
Total working capital	**88,560**	95,080

** Employee provisions are detailed in section 4.3*

(a) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Costs incurred in bringing each product to its existing location and condition are accounted for as follows:

- Raw materials – purchase cost on a weighted average cost formula
- Manufactured finished goods and work in progress – cost of direct material and labour and an appropriate proportion of production overheads incurred in the normal course of business.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

	2017 $'000	2016 $'000
Raw materials and stores	**43,508**	41,418
Work in progress	**15,366**	10,689
Finished goods	**108,606**	112,549
	167,480	164,656

Inventory expense

Inventories recognised as expense during the year ended 31 December 2017 amounted to $351.8 million (2016: $359.3 million). These were included in cost of sales.

Write-downs of inventories amounted to $1.9 million (2016: $2.8 million). These were recognised as an expense during the year ended 31 December 2017 and included in 'cost of sales' in profit or loss.

2.1 Working capital (continued)

(b) Trade receivables

Trade receivables are:

- Recognised initially at fair value, which is generally invoice amount, and subsequently measured at amortised cost using the effective interest method, less provision for impairment.
- Generally due for settlement within 30 days.
- Presented as current assets unless collection is not expected for more than 12 months after the reporting date.

	2017 $'000	2016 $'000
Trade receivables	**21,467**	20,653
Provision for impairment of receivables	**(16)**	(25)
	21,451	20,628

Key judgements and estimates

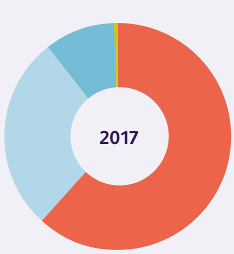
Trade receivables are disclosed net of rebates payable. The Group has the legal right to offset such balances as they are with the same customers and it is the Group's intention to net settle any outstanding items.

The main judgement related to accruals for customer rebates is the timing and extent to which temporary promotional activity has occurred prior to year-end. Customer rebates consist primarily of customer pricing allowances and promotional allowances, which are governed by agreements with our trade customers (retailers and distributors). Accruals are recognised under the terms of these agreements, to reflect the expected promotional activity and our historical experience.

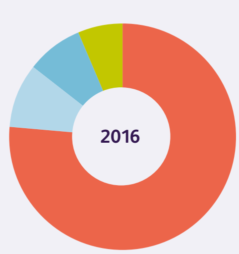
Collectability of trade receivables is reviewed on an ongoing basis and written off by reducing the carrying amount directly when known to be uncollectable. The amount of the impairment loss is recognised in the profit or loss within other expenses. At 31 December 2017, the amount of provision for doubtful debts was $15,576 (2016: $25,099) relating to overdue debts.

(i) Past due but not impaired

As at 31 December 2017, trade receivables of $8.2 million were past due but not impaired (2016: $4.9 million). These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:



	$'000
Not past due	13,285
Past due less than 30 days	5,922
Past due 30–60 days	2,208
Past due more than 60 days	52



	$'000
Not past due	15,777
Past due less than 30 days	1,928
Past due 30–60 days	1,658
Past due more than 60 days	1,290

(c) Trade payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year that are unpaid. The amounts are unsecured and are paid on average within 45 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

	2017 $'000	2016 $'000
Trade payables	**48,441**	43,735
Amounts due to related parties	**14,925**	12,798
	63,366	56,533

The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature.

(d) Other payables

	2017 $'000	2016 $'000
Accrued interest on borrowings	**851**	536
Accrued expenses	**14,492**	10,955
Payroll tax and other statutory liabilities	**5,474**	6,832
Other payables	**51**	347
	20,868	18,670

The carrying amounts of accruals and other payables are assumed to be the same as their fair values, due to their short-term nature.

2.2 Property, plant and equipment and capital commitments

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure that is directly attributable to the acquisition of the item and subsequent costs incurred to replace parts that are eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset except land which is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the disposed asset. These amounts are included in profit or loss.

2.2 Property, plant and equipment and capital commitments (continued)

	Freehold land $'000	Buildings $'000	Plant and equipment $'000	Capital development $'000	Total $'000
Depreciation policy	**Nil**	**5%–33%**	**5%–33%**	**Nil**	**Nil**
Year ended 31 December 2016					
Opening net book amount	34,742	62,312	230,647	32,410	360,111
Exchange differences	59	276	1,943	282	2,560
Reclassification of asset class	146	1,957	32,952	(35,055)	–
Additions	–	644	4,887	19,433	24,964
Depreciation charge	–	(4,745)	(24,359)	–	(29,104)
Closing net book amount	34,947	60,444	246,070	17,070	358,531
Year ended 31 December 2017					
Opening net book amount	34,947	60,444	246,070	17,070	358,531
Exchange differences	(126)	(631)	(5,469)	(2)	(6,228)
Reclassification of asset class	–	908	16,227	(17,135)	–
Additions	–	625	12,111	18,642	31,378
Disposals	(7,400)	(5,002)	(597)	(4)	(13,003)
Depreciation charge	–	(4,026)	(24,622)	–	(28,648)
Closing net book amount	**27,421**	**52,318**	**243,720**	**18,571**	**342,030**

On 20 June 2017, Asaleo Care entered into a sale and leaseback agreement for the Springvale manufacturing site. The gross proceeds from the transaction were $22.4 million with the profit on disposal being $9.3 million before tax. The lease was entered into for a 7 year period with two 5 year option periods (exercisable at the Company's discretion) at a market based rent. The total contracted commitment over the 7 year period is $11.4 million.

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2017 $'000	2016 $'000
Property, plant and equipment	1,061	1,421

(b) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) of $16.6 million (2016: $15.8 million) are charged to profit or loss on a straight-line basis over the period of the lease.

	2017 $'000	2016 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**15,011**	13,402
Later than one year but not later than five years	**34,675**	32,601
Later than five years	**4,500**	889
	54,186	46,892

Refer to page 97 for information on impact of AASB 16

2.3 Intangible assets

The Group's intangible assets comprise goodwill, brands and other intangible assets.

Goodwill represents the excess consideration paid by the Group in acquiring a business over the fair value of the assets and liabilities acquired. Goodwill is carried at cost less accumulated impairment losses and is considered as having an indefinite useful economic life.

Management have determined that all of the Group's brands have indefinite useful lives. These assets have no legal or contractual expiry date and are integral to the future of revenue generation. Management intends to continue to promote, maintain and defend the brands to the extent necessary to maintain their value for the foreseeable future.

Goodwill and the brands are not amortised and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired and are carried at cost less accumulated impairment losses.

Other intangible assets include trademarks, product development and management agreements.

Key judgements and estimates

Assessment of the recoverable value of an intangible asset and the assessment that an asset has an indefinite life require management judgement and are reassessed at each reporting date.

Consolidated entity	Goodwill $'000	Brands and other rights $'000	Total $'000
At 1 January 2016			
Cost	70,281	119,250	189,531
Year ended 31 December 2016			
Opening net book amount	70,281	119,250	189,531
Additions	–	59	59
Exchange differences	657	595	1,252
Amortisation charge	–	(57)	(57)
Closing net book amount as at 31 December 2016	70,938	119,847	190,785
Year ended 31 December 2017			
Opening net book amount	70,938	119,847	190,785
Additions	–	9	9
Exchange differences	(1,587)	(1,436)	(3,023)
Amortisation charge	–	(62)	(62)
Closing net book amount as at 31 December 2017	**69,351**	**118,358**	**187,709**

2.3 Intangible assets (continued)

Impairment testing

For the purposes of assessing impairment:

- Assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).
- Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.
- Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

No factors have been identified in the period that would alter the Group's assumption of indefinite useful life for brands.

The Group tests whether goodwill and other intangible assets have suffered any impairment in accordance with the accounting policy. The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations require use of cash flow projections based on the FY18 budgets approved by the board and extrapolated to cover a five-year period. Cash flows beyond the five-year period are extrapolated using the terminal growth rates stated below. These rates do not exceed the long-term average growth rates for the industry.

Cash flows used for the value in use calculations do not include cash inflows or outflows that may arise from future restructuring.

A CGU-level summary of the goodwill and brands allocation is presented below.

2016	Tissue Australia $'000	Personal Care Australia $'000	Tissue New Zealand $'000	Personal Care New Zealand $'000	Total $'000
Goodwill	18,991	23,212	12,931	15,804	70,938
Brands	23,039	70,824	7,617	18,367	119,847
					190,785
2017					
Goodwill	18,991	23,212	12,217	14,931	69,351
Brands	23,000	70,818	7,188	17,352	118,358
					187,709

The review for impairment at 31 December 2017 did not result in impairment charges being recognised.

The impairment test calculations included assumptions pertaining to the five-year growth rate, terminal growth rate and the pre-tax discount rate. In 2017, a five year and terminal growth rate of 2.5% were assumed across all CGUs (2016: 2.5%). In 2017, a pre-tax discount rate of 11.1% was used (2016: 11.1%).

The Tissue – Australia CGU had limited headroom and its recoverable amount is sensitive to changes in its discount rate and its terminal growth rate. For the recoverable amount to reduce to a level that is equal to the carrying value of the CGU, the following would need to occur in isolation: the pre-tax discount rate to rise from 11.1% to 11.6% or higher; or the terminal growth rate of 2.5% to fall to 2.0% or lower.

Key judgements and estimates

The determination of impairment involves the use of judgements and estimates that include, but are not limited to, the cause, timing and measurement of the impairment.

Management is required to make significant judgements concerning future cash flows, including changes in competitive positions, expectations of growth, cost of capital and the determination of fair values when assessing the recoverable amount of assets (or groups of assets). Inputs into these valuations require assumptions and estimates to be made about forecast earnings before interest and tax and related future cash flows, growth rates, applicable discount rates, useful lives and residual values.

The judgements, estimates and assumptions used in assessing impairment are management's best estimates based on current and forecast market conditions. Changes in economic and operating conditions impacting these assumptions could result in changes in the recognition of impairment charges in future periods.

Section 3: Our funding structures

IN THIS SECTION

The Group has a disciplined approach applying key principles in capital management and maximising shareholder returns. This includes:

- Dividends and shareholder returns: To distribute between 70–80% of statutory Net Profit After Tax. Any excess cash is to be efficiently distributed.
- Leverage: Operate within a leverage range of 1.5x to 2.5x EBITDA.
- Investments: Reinvest within the Group for capital expenditure or seek external investment where hurdle rates are exceeded.

The execution of Asaleo Care's capital management principles was evident in the year ended 31 December 2017. The on-market share buy-back announced on 26 August 2015 was completed on 17 May 2017. This has resulted in the acquisition of 60,346,943 ordinary shares for a consideration of $99.5 million.

Asaleo Care's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to ensure the funding structure enhances, protects and balances financial flexibility against minimising the cost of capital.

Given the nature of Asaleo Care's operations, it is also exposed to a number of market risks; this section outlines how these key risks are managed.

3.1 Elements of net debt

	2017 $'000	2016 $'000
Bank loans	**308,500**	325,000
Accrued interest on borrowings	**851**	536
Cash and cash equivalents	**(30,205)**	(30,348)
Net debt	**279,146**	295,188

(a) Borrowings

	2017 $'000	2016 $'000
Unsecured		
Bank loans	**308,500**	325,000
Capitalised borrowing costs	**(983)**	(1,314)
Total unsecured non-current borrowings	**307,517**	323,686

(i) Secured liabilities and assets pledged as security

Group members have provided an unsecured guarantee for the borrowings of the Group.

(ii) Financial undertakings and refinancing

As at 31 December 2017, the Group was compliant with all financial undertakings of the syndicated facility agreement.

The Company renegotiated and extended the maturity of two of its revolving cash advance financing facilities in December 2016.

3.1 Elements of net debt (continued)

Facility	Facility limit	Maturity at 31 December 2016	Maturity at 31 December 2017
Facility A	$157.5 million	30 September 2021	30 September 2021
Facility B	$157.5 million	30 June 2019	30 June 2019
Facility C	$35 million	30 September 2020	30 September 2020

The Facility B commitment of $157.5 million was excluded from the renegotiation to preserve favourable pricing and matures on 30 June 2019.

Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(b) Cash flow information

	2017 $'000	2016 $'000
Profit for the period	**57,181**	58,955
Depreciation and amortisation	**28,710**	29,161
Net (gain)/ loss on sale of non-current assets	**(9,370)**	(49)
Change in operating assets and liabilities:		
(Increase)/Decrease in tax balances	**2,117**	12,246
(Increase)/Decrease in trade debtors and other receivables	**(378)**	(1,573)
(Increase)/Decrease in inventories	**(2,825)**	(5,287)
Increase/(Decrease) increase in trade creditors and other provisions	**10,077**	(13,233)
Net cash inflow from operating activities	**85,512**	80,220

Recognition and measurement

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(c) Financing costs

	2017 $'000	2016 $'000
Interest and finance charges paid / payable	**11,195**	10,573
Debt establishment cost amortisation	**331**	191
Facility fees	**28**	108
Total finance costs	**11,554**	10,872

During 2017 no costs relating to the establishment of debt were capitalised (2016: $1.1 million).

3.2 Financial risk management

The principal financial risks that the Group is exposed to, due to its activities are:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity risk

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

Risk management is carried out in accordance with policies approved by the Board of Directors.

3.2 Financial risk management (continued)

(a) Management of foreign exchange risk

As discussed in Section 1, the Group operates within Australia, New Zealand and Fiji. In addition, raw materials are sourced both locally and internationally. This international operation exposes Asaleo Care to foreign exchange risk arising from various currency exposures, primarily the US dollar (US$), New Zealand dollar (NZ$), Fijian dollar (FJ$), Canadian dollars (CA$) and Euros (EUR).

Foreign currency transactions are translated into the respective functional currency using the exchange rates on the date of the transaction. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as a qualifying cash flow hedge.

The Group's foreign exchange risk management policy is to hedge 100% of the anticipated cash flows of the US$, EUR and CA$, both in terms of size and term related to:

- Approved investment projects (100%); and
- Inventory purchases denominated in foreign currencies (75–100%).

To hedge this risk, forward contracts are used and regularly reassessed to ensure they comply with the limits under the policy.

(b) Management of interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is the Group's main source of interest rate risk.

The Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates. This protects part of the Group's borrowings from exposure to fluctuations in interest rates, as required by the Asaleo Care financial risk management policy.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2017		2016	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	**3.3%**	**308,500**	3.3%	325,000
Less amounts covered by interest rate swaps	**3.5%**	**(220,000)**	3.5%	(220,000)
Net exposure to cash flow interest rate risk		**88,500**		105,000

The interest rate and term are determined at the date of each drawdown. The weighted average interest rate for the year ended 31 December 2017 was 3.5% (2016: 3.4%). At 31 December 2017, if the weighted average interest rate of the facility had been 10% higher or 10% lower, interest expense would increase / decrease by $1.2 million (2016: $1.1 million). There would be an associated impact to equity of $0.8 million (2016: $0.8 million).

(c) Management of credit risk

Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group's credit risk arises from the potential default of the Group's trade and other receivables as well as the institutions in which the Group's cash and cash equivalents are deposited, and derivative instruments are traded with, with a maximum exposure equal to the carrying amounts of these assets. Further details on the group's trade receivables are included in section 2.1.

For trade and other receivables, the Group does not hold any credit derivatives or collateral to offset its credit exposure. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

Credit risk is managed in the following ways:

- The provision of credit is covered by a risk assessment process for all customers (e.g. appropriate credit history, credit limits, past experience).
- Regular monitoring of exposures against such credit limits and assessing the overall financial stability and competitive strength of the counterparty on an ongoing basis.
- Utilisation of systems of approval.

(d) Management of liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2017 $'000	2016 $'000
Floating rate		
• Expiring beyond one year (core facility)	**40,000**	23,500
• Expiring beyond one year (working capital facility)	**669**	669
	40,669	24,169

In addition to the above, the Group has an accounts receivable securitisation facility. The undrawn amount at the end of the reporting period was $7.2 million (2016 $3.6 million).

Subject to continuance of meeting certain financial covenants, the bank loan facilities may be drawn down and repaid at any time.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities; and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

3.2 Financial risk management (continued)

At 31 December 2017	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying amount (assets)/ liabilities $'000
Non-derivatives						
Trade payables	**63,366**	**–**	**–**	**–**	**63,366**	**63,366**
Other payables	**20,868**	**–**	**–**	**–**	**20,868**	**20,868**
Borrowings	**5,100**	**5,184**	**165,310**	**159,288**	**334,882**	**308,500**
Capitalised borrowing costs	**(164)**	**(167)**	**(281)**	**(371)**	**(983)**	**(983)**
Total non-derivatives	**89,170**	**5,017**	**165,029**	**158,917**	**418,133**	**391,751**
Derivatives						
Net settled (interest rate swaps)	**(12)**	**103**	**–**	**–**	**91**	**91**
Other hedging instruments	**(430)**	**(141)**	**–**	**–**	**(571)**	**(571)**
	(442)	**(38)**	**–**	**–**	**(480)**	**(480)**
Gross settled (forward foreign exchange contracts–cash flow hedges)						
- (inflow)	**(86,250)**	**(42,716)**	**–**	**–**	**(128,966)**	**–**
- outflow	**86,541**	**43,014**	**–**	**–**	**129,555**	**139**
	291	**298**	**–**	**–**	**589**	**139**
At 31 December 2016						
Non-derivatives						
Trade payables	56,533	–	–	–	56,533	56,533
Other payables	18,670	–	–	–	18,670	18,670
Borrowings	5,296	5,384	10,680	342,427	363,787	325,000
Capitalised borrowing costs	(164)	(167)	(331)	(652)	(1,314)	(1,314)
Total non-derivatives	80,335	5,217	10,349	341,775	437,676	398,889
Derivatives						
Net settled (interest rate swaps)	86	(233)	–	–	(147)	(147)
Other hedging instruments	209	106	–	–	315	315
	295	(127)	–	–	168	168
Gross settled (forward foreign exchange contracts – cash flow hedges)						
- (inflow)	(99,434)	(71,857)	–	–	(171,291)	–
- outflow	102,267	70,911	–	–	173,178	1,120
	2,833	(946)	–	–	1,887	1,120

3.3 Derivative financial instruments

	2017 $'000	2016 $'000
Current assets		
Interest rate swap contracts – cash flow hedges	**–**	147
Forward foreign exchange contracts – cash flow hedges	**1,587**	2,764
Other hedging instruments	**571**	–
Total current derivative financial instrument assets	**2,158**	2,911
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	**1,726**	3,884
Interest rate swap contracts – cash flow hedges	**91**	–
Other hedging instruments	**–**	315
Total current derivative financial instrument liabilities	**1,817**	4,199
	341	(1,288)

Interest rate swap contracts – cash flow hedges

The Group manages interest rate risk through swap contracts in accordance with the Financial Risk Management policy.

Bank loans of the Group currently bear an average variable interest rate of 3.3% (2016: 3.3%). Although not required under the current banking facilities, it is Group policy to protect between 50% and 75% of the loans from exposure to fluctuations in interest rates for a 12 month rolling period.

As at 31 December 2017, the swaps cover approximately 66% of the variable loan principal outstanding and have a tenure of no longer than 12 months in accordance with Group policy. The fixed interest rates for 2017 ranged between 2.95% and 3.85% (2016: 2.91% and 3.71%) and the variable rates ranged between 1.27% and 1.82% above the 90 day bank bill rate, which at 31 December 2017 was 1.78% (2016: 1.80%).

The contracts require settlement of net interest receivable or payable monthly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the year ended 31 December 2017, a loss of $0.1 million was reclassified into profit or loss (2016: loss of $0.1 million) and included in finance costs.

Forward exchange contracts – cash flow hedges

The Group use materials purchased from the United States, Canada, Chile, New Zealand, Europe and Australia. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars, Euros and Canadian dollars.

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments for major purchases are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by reclassifying the related amount from other comprehensive income.

(a) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

3.3 Derivative financial instruments (continued)

The Group:

- Designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).
- Documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.
- Documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged is recorded in cost of sales). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(b) Fair value measurements

Asaleo Care Ltd discloses fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of level 2 financial derivatives is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

At 31 December 2017 and 2016, the Group's derivative instruments were all level 2:

- Derivative financial assets $2,158,000 (2016: $2,911,000)
- Derivative financial liabilities $1,817,000 (2016: $4,199,000)

3.4 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to capital are shown in equity as a deduction, net of tax, from the proceeds.

(a) Movements in ordinary share capital

Date	Details	Number of shares	Average price	$'000
1 Jan 2016	Opening balance	566,472,198	–	298,226
May–Dec 2016	Share buy-back	(20,545,693)	**$1.60**	(32,918)
	Transaction costs on share buy-back	–	–	(7)
	Deferred tax credit directly in equity	–	–	2
31 Dec 2016	**Balance**	**545,926,505**		**265,303**
Apr–May 2017	Share buy-back	(2,804,014)	**$1.60**	(4,488)
31 Dec 2017	**Closing balance**	**543,122,491**		**260,815**

(b) On-market share buy-back

The Group announced on 26 August 2015 that it would undertake an on-market share buy-back as part of its ongoing capital management strategy.

The share buy-back was completed on 17 May 2017. During the buy-back the shares were acquired at an average price of $1.65, with prices ranging from $1.43 to $2.05, totalling 60,346,943 shares.

The share buy-back included 447,750 Treasury shares bought on market through the period 16 to 19 December 2016 with a value of $669,025. These shares were cancelled on 5 January 2017.

3.5 Reserves

	2017 $'000	2016 $'000
Movements:		
Cash flow hedges		
Opening balance	**(491)**	(1,311)
Revaluation – gross	**938**	1,181
Deferred tax	**(229)**	(361)
Balance 31 December	**218**	(491)
Share-based payments		
Opening balance	**15,861**	16,166
Share plan expense	**–**	223
Employee Share Trust to employees	**–**	(528)
Balance 31 December	**15,861**	15,861
Foreign currency translation		
Opening balance	**23,419**	19,298
Currency translation differences arising during the year	**(11,643)**	4,792
Deferred tax	**1,619**	(671)
Balance 31 December	**13,395**	23,419

(i) Cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in section 3.3(a). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(ii) Share-based payments

The share-based payments reserve is used to recognise:

- The grant date fair value of shares issued to employees.
- The grant date fair value of deferred shares granted to employees but not yet vested.
- The issue of shares held by the Employee Share Trust to employees.

(iii) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Section 4: Employee reward and recognition

IN THIS SECTION

This section provides financial insight into employee reward and recognition for creating a high-performance culture and Asaleo Care's ability to attract and retain talent. This section should be read in conjunction with the Remuneration report as set out in the Directors' report.

Superannuation expense included in operating expenses was $7.0 million (2016: $7.3 million). The Group contributes to an accumulation fund on behalf of qualifying employees.

4.1 Key management personnel disclosures

Key management personnel compensation

	2017 $	2016 $
Short-term employee benefits	**2,863,455**	3,419,715
Post-employment benefits	**195,128**	250,242
Share-based payments	**–**	281,806
	3,058,583	3,951,763

4.2 Share-based payments

Share-based compensation benefits are provided to employees via the Executive Incentive Plan (EIP) as discussed below.

(a) Executive Incentive Plan (EIP)

Maximum annual incentive entitlement is awarded for achievement of Key Performance Indicators which reflect significant stretch performance. A third of the maximum annual incentive entitlement is awarded for Threshold performance while two-thirds of the maximum annual incentive entitlement is awarded for Target performance.

The EIP award is delivered in a combination of cash, share rights and restricted ordinary shares:

- 50% of EIP award will be paid in cash as soon as practicable after submission of the Company's full year financial results for the relevant performance period to the Australian Securities Exchange (ASX).
- 50% of EIP award will be awarded by means of share rights. These share rights are unlisted rights over the ordinary shares in the Company and become exercisable into restricted ordinary shares at the end of the year following the performance period. Once the restricted ordinary shares are granted, they are subject to disposal restrictions (holding lock) for a further three years. During the holding lock period, Executives will not be able to sell, transfer or otherwise dispose of or deal in their shares. They will have all the rights of holders of ordinary shares including being entitled to receive dividends in cash and vote during the holding lock period.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense was nil (2016: $222,947).

4.3 Employee provisions

Recognition and measurement

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave are presented as the employee provisions in the balance sheet. All other short-term employee benefit obligations are presented as other payables (refer section 2.1(d)).

(ii) Long-term obligations

The liability for long service leave and annual leave, which are not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

For the amount of the provision presented as current of $20.4 million (2016: $20.3 million), it is not expected, based on the past experience, that $12.3 million (2016: $12.5 million) will be settled within 12 months after the reporting period. However, the whole amount has been classified as current as the Group does not have an unconditional right to defer settlement for any of these obligations.

Section 5: Other disclosures

IN THIS SECTION

This section includes additional financial information that is required by the accounting standards and the *Corporations Act 2001.*

5.1 Subsidiaries

The consolidated financial statements incorporate 100% of the assets, liabilities and results of the following wholly owned subsidiaries:

Australia	New Zealand	Fiji
AHACS Pty Ltd*	Asaleo Care Ltd (NZ)	Asaleo Holdings Fiji Ltd
Asaleo Holdings Australia Pty Ltd*	Asaleo Holdings New Zealand Ltd	Asaleo Care Fiji Ltd
Australasia Health Services Pty Ltd	Asaleo Care New Zealand Ltd	
Asaleo Tissue Australia Pty Ltd*		
Asaleo Care Australia Pty Ltd*		
Asaleo Personal Care Holdings Pty Ltd*		
Asaleo Personal Care Pty Ltd*		

* These subsidiaries have entered into an approved deed for the cross guarantee of debts with the parent Asaleo Care Limited. Refer section 5.2.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

5.2 Deed of cross guarantee

The companies noted in section 5.1 are parties to a deed of cross guarantee under which each Company guarantees the debts of the others. These companies represent a 'closed group' for the purposes of the Class Order, as there are no other parties to the deed of cross guarantee that are controlled by Asaleo Care Ltd, they also represent the 'extended closed group'.

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a Financial report and Directors' report under ASIC Corporations (Wholly owned companies) Instrument 2016/785.

(a) Consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a Consolidated Income Statement, a Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated retained earnings for the Year Ended 31 December 2017 of the closed group.

	2017 $'000	2016 $'000
Revenue from continuing operations	**437,427**	457,141
Other revenue from ordinary activities	**24,213**	22,724
Other income	**4,544**	2,032
Cost of sales of goods	**(274,817)**	(282,038)
Distribution expenses	**(48,534)**	(52,381)
Sales and administration expenses	**(48,810)**	(49,950)
Other expenses	**(17,909)**	(9,584)
Finance costs	**(11,540)**	(10,853)
Profit before income tax	**64,574**	77,091
Income tax expense	**(15,094)**	(17,918)
Profit for the period	**49,480**	59,173
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(1,693)**	1,501
Income tax relating to these items	**508**	(450)
Other comprehensive (loss)/ income for the period, net of tax	**(1,185)**	1,051
Total comprehensive income for the period	**48,295**	60,224
Summary of movements in consolidated accumulated losses		
Accumulated losses at the beginning of the financial year	**(11,857)**	(14,636)
Profit/(loss) for the year	**49,480**	59,173
Dividends paid	**(54,480)**	(56,394)
Accumulated losses at the end of the financial year	**(16,857)**	(11,857)

(b) Consolidated balance sheet

Set out below is a Consolidated balance sheet as at 31 December 2017 of the closed group.

	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	**12,531**	11,434
Trade receivables	**9,814**	10,583
Related parties receivables	**97,835**	104,338
Inventories	**113,315**	110,394
Derivatives financial instruments	**813**	2,152
Other current assets	**3,934**	3,651
Total current assets	**238,242**	242,552
Non-current assets		
Other financial assets	**10,126**	10,126
Property, plant and equipment	**229,352**	247,027
Intangible assets	**200,869**	200,891
Total non-current assets	**440,347**	458,044
Total assets	**678,589**	700,596
Current liabilities		
Trade payables	**42,653**	46,373
Other payables	**19,246**	12,629
Derivative financial instruments	**1,437**	1,319
Employee provisions	**15,532**	15,475
Current tax liabilities	**2,234**	2,167
Total current liabilities	**81,102**	77,963
Non-current liabilities		
Borrowings	**307,517**	323,686
Deferred tax liabilities	**29,984**	28,277
Employee provisions	**592**	603
Total non-current liabilities	**338,093**	352,566
Total liabilities	**419,195**	430,529
Net assets	**259,394**	270,067
Equity		
Contributed equity	**260,815**	265,303
Other reserves	**15,436**	16,621
Accumulated losses	**(16,857)**	(11,857)
Total equity	**259,394**	270,067

5.3 Asaleo Care Ltd – parent entity

(a) Summary financial information

The parent entity of the Group is Asaleo Care Ltd.

The financial information for the company has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost in the financial statements of Asaleo Care Ltd. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.
- Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.
- The grant by the Company of its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The individual financial statements for the parent entity show the following aggregate amounts:

	2017 $'000	2016 $'000
Balance sheet		
Current assets	**241,792**	187,397
Non-current assets	**144,959**	146,643
Total assets	**386,751**	334,040
Current liabilities	**102,681**	46,686
Total liabilities	**102,681**	46,686
Net assets	**284,070**	287,354
Shareholders' equity		
Issued capital	**260,815**	265,303
Reserves		
Dividend appropriation reserve	**43,020**	41,816
Share-based payments	**15,861**	15,861
Accumulated losses	**(35,626)**	(35,626)
Total equity	**284,070**	287,354
Profit for the period	**55,684**	84,981
Total comprehensive income	**55,684**	84,981

Subsequent to year-end, the directors of the subsidiaries have declared and paid a dividend of $18.8 million, which bring the total amount available for distribution to shareholders to $61.8 million.

(b) Other parent entity information

The parent entity:

- has not provided financial guarantees as at 31 December 2017 or 31 December 2016;
- did not have any contingent liabilities as at 31 December 2017 or 31 December 2016; and
- has no contractual commitments for the acquisition of property, plant or equipment as at 31 December 2017 or 31 December 2016.

Asaleo Care Ltd holds an investment in AHACS Pty Ltd and its subsidiaries to the value of $141,569,252 (2016: $141,569,252).

5.4 Related party transactions

The following transactions occurred with related parties:

	2017 $	2016 $
Purchases of goods		
Purchases of materials and goods from other related parties	**59,057,524**	54,561,422
Sale of goods		
Sale of materials and goods to other related parties	**4,736,634**	3,815,840
Other transactions		
Royalties – Essity Hygiene and Health Aktiebolag, formerly SCA Hygiene Products AB*	**6,214,307**	6,144,578

* Essity Hygiene and Health Aktiebolag was listed on Nasdaq Sweden on 15 June 2017 and was formed from the demerger of SCA's forestry and hygiene business. Essity is the ultimate parent entity in their investment in Asaleo Care Limited.

All transactions with related parties were made at normal commercial terms and conditions and at market rates.

5.5 Remuneration of auditors

During the period, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers Australia

	2017 $	2016 $
Audit and other assurance services		
Audit and review of financial statements	**450,000**	510,000
Other assurance services	**12,000**	12,200
Total remuneration for audit and other assurance services	**462,000**	522,200
Taxation services		
Tax compliance services and review of company income tax returns	**57,084**	49,825
Tax consulting services and advice	**8,600**	67,812
Total remuneration for taxation services	**65,684**	117,637
Other services		
Consulting services	**3,114**	2,388
Total remuneration for other services	**3,114**	2,388
Total remuneration of PricewaterhouseCoopers Australia	**530,798**	642,225

(b) Network firms of PricewaterhouseCoopers Australia

Audit and other assurance services		
Other assurance services	**803**	755
Taxation services		
Tax compliance services and review of company income tax returns	**27,049**	14,993
Tax consulting services and advice	**5,158**	3,584
Total remuneration for taxation services	**32,207**	18,577
Other Services		
Consulting services	**–**	4,551
Total remuneration of network firms of PricewaterhouseCoopers Australia	**33,010**	23,883
Total auditors' remuneration	**563,808**	666,108

5.6 Contingent liabilities

The Group had no contingent liabilities at 31 December 2017 (2016: nil).

5.7 Basis of preparation and compliance

Other than the declaration of the dividend noted in section 1.4, there were no subsequent events after the reporting period occurred.

The principal accounting policies adopted in the preparation of these consolidated financial statements have been set out throughout the document. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

These financial statements:

- Are general purpose financial statements.
- Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (AASBs) and Interpretations issued by the Australian Accounting Standards Board. These financial statements also comply with International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board.
- Have been prepared on a going concern basis using historical cost conventions except for financial instrument measured at fair value through the profit or loss.
- Are presented in Australian dollars, with all values rounded to the nearest thousand dollars or where the amount is $500 or less, zero, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' report) Instrument 2016/191.
- Present reclassified comparative information where required for consistency with the current year's presentation.
- Adopt all new and amended AASBs and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2017.
- Do not early adopt any AASBs and Interpretations that have been issued or amended but are not yet effective.
- Have all intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intercompany transactions eliminated in full.

Financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Asaleo Care Ltd's functional and presentation currency.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- All resulting exchange differences are recognised in other comprehensive income.

Goods and Services Tax (GST) is recognised in these financial statements as follows:

- Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority.
- Receivables and payables are stated inclusive of the amount of GST receivable or payable.
- The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.
- Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities are presented as operating cash flows.
- Commitments are disclosed net of GST.

(b) New accounting standards and interpretations

New and amended accounting standards and Interpretations issued and effective

There are no standards issued and applicable from 1 January 2017 that may have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Accounting standards issued but not yet effective

Certain new accounting standards and interpretations were available for early adoption for the Group's annual reporting period beginning 1 January 2017 but have not yet been applied in preparing these financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and associated Interpretations. AASB 15 is mandatory for Asaleo Care from 1 January 2018.

Management has assessed the effects of applying the new standard on the Group's financial statements and has concluded that its application would not result in any material changes to the Group's financial performance, financial position or material adjustment to the comparative financial information.

AASB 16 Leases

AASB 16 replaces existing leases guidance, including AASB 117 Leases and related Interpretations. AASB 16 will require the recognition of all leases for a lessee on-balance sheet with limited exceptions for short-term and low value leases, thereby removing the off-balance sheet treatment currently applied to operating leases. In addition, lease expenses will be recognised as depreciation and interest expenses and will result in the front-loading of expense recognition compared to the current straight-line model.

The impact of this standard will be that the majority of operating lease contracts disclosed in section 2.2 will be present valued and recognised as a "right of use" asset, with a corresponding liability also recognised. In addition, the majority of operating lease expense will no longer be recognised and will be replaced with amortisation/interest expense.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. At this stage, the Group does not intend to adopt the standard before its effective date.

AASB 9 Financial Instruments

AASB 9 replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 simplifies the classification and recognition of financial instruments, introduces a new expected credit loss model for calculating impairment of financial assets, and aligns hedge accounting more closely with an entity's risk management practices. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is mandatory for Asaleo Care from 1 January 2018.

Management have assessed the effects of applying the new standard on the Group's financial statements and does not believe that the new standard will have a material impact on the classification, recognition and measurement of its financial instruments, accounts receivable or hedge accounting.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to have a material impact on the Group's financial performance or position.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 61 to 97 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the Year Ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in section 5.2 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in section 5.2.

Section 5.7(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.

Harry Boon
Chairman

Dated this 21st day of February 2018

Independent auditor's report

To the members of Asaleo Care Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Asaleo Care Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2017
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

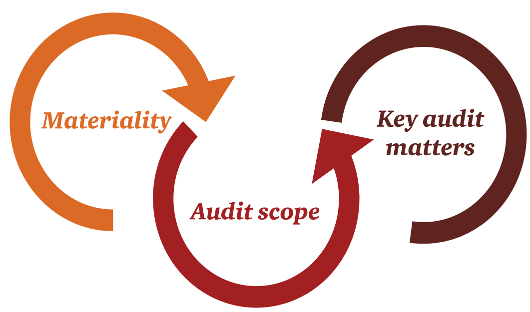
Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $3.6m, which represents approximately 5% of the Group's profit before tax from continuing operations, removing a one off gain of $9.3m from the sale and leaseback of the Springvale site.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We conducted an audit of the Australian and New Zealand operations given their financial significance to the Group as described in note 1.1 of the financial report.
- We performed most of our audit procedures at the Group's head office in Australia. We also visited a selection of the Group's production and warehousing facilities in both Australia and New Zealand in order to perform specific risk focussed audit procedures over the Group's inventory.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Carrying value of indefinite-lived intangible assets
  - Adequacy of trade spend accruals for retail promotional activity
  - Adequacy of accruals for Business-to-business ('B2B') price support rebates

These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Carrying value of indefinite-lived intangible assets *(Refer to note 2.3) ($187.7m)* The Group holds total intangible assets of $187.7m, of which $187.4m has been assessed as having indefinite useful lives and therefore under Australian Accounting Standards are required to be tested for impairment annually. Of this amount, $69.4m relates to goodwill and $118.0m relates to indefinite-lived brands and other rights. The remaining $0.3 m of intangibles are brands and other rights that are amortised and therefore not subject to annual impairment assessment. For the year ended 31 December 2017, the Group identified four cash generating units (CGUs), being Tissue Australia, Personal Care Australia, Tissue New Zealand and Personal Care New Zealand. The intangible assets are allocated across these CGUs. The Group performed an impairment assessment for each of the four CGUs described above by calculating the value-in-use of the net assets, including intangible assets, in each CGU. This calculation was based on estimated future cash flows for each CGU, discounted to net present value. Cash flow forecasts for each CGU were based on the FY2018 board endorsed budget, adjusted to exclude cash flows from future restructuring, and thereafter applying an annual growth rate for the period to 2022. A terminal growth rate was then applied to each CGU. The Group did not identify any impairment for the CGUs. The Group performed sensitivity analysis and determined that the Tissue Australia impairment assessment was sensitive to a reasonable change in the discount rate and terminal growth rate. The changes in these assumptions is disclosed in note 2.3.	To evaluate the cash flow forecasts and the process by which they were developed we performed the following procedures amongst others: • Assessed the Group's determination of CGUs based on our understanding of the nature of the Group and their operations, and assessed whether this was consistent with the internal reporting of the business. • Assessed the allocation of assets, liabilities and cash flows to each CGU and found them to be directly attributable to the individual CGUs, and a reasonable allocation of corporate assets. • Tested the mathematical accuracy of the impairment model's calculations. • Compared the 2018 forecasted cash flows used in the impairment models with the FY2018 budget formally approved by the Board. • Assessed the 5 year cash flow forecasts for each CGU by understanding the key factors and underlying drivers for growth, including inflation, pulp and energy prices, and market share assumptions, in the context of the Group's future plans. • Considered the historical accuracy of the Group's cash flow forecasts by comparing the forecasts used in the prior year model to the actual performance of each CGU in the current year. • Compared the terminal growth rate to historical growth rates and economic forecasts.

Key audit matter	How our audit addressed the key audit matter
We focused on the carrying value of indefinite-lived intangibles as the balance is material and there is significant judgement involved in estimating future cash flows, particularly with respect to determining appropriate: – Discount rates – Annual growth rates – Terminal growth rates We specifically focused on the Tissue Australia CGU given the limited headroom and because the impairment assessment is sensitive to changes in key assumptions.	With the assistance of PwC internal valuation experts, we assessed the discount rate used in the impairment assessment by comparing it to our view of an acceptable range based on market data, comparable companies and industry research. We are satisfied that the discount rate applied falls within this range. We performed sensitivity analysis which highlighted that the Tissue Australia CGU model is sensitive to changes in key assumptions. We recalculated the change in the discount rate or the terminal growth rate which would result in an impairment and evaluated the adequacy of the disclosures in note 2.3 in light of the requirements of Australian Accounting Standards. We performed a sensitivity analysis for all other CGU's by reducing the growth rates and increasing the discount rate within a reasonably foreseeable range. For all other CGUs we found that value-in-use remained in excess of the carrying value of the assets.
Adequacy of trade spend accruals for retail promotional activity *(Refer to note 2.1)* As is industry practice in Australia and New Zealand, there are numerous pricing arrangements ("rebates") with retail customers (such as supermarkets and convenience stores) which relate to the retailer selling Asaleo Care products on promotion. These rebates can be fixed or variable in nature, with our key audit matter relating to variable rebates only. The amount payable for the variable rebates depends upon the quantity of units sold in the promotion period. The Group is required to estimate and accrue for these rebates (variable trade spend obligations) at each reporting date to the extent they relate to sales made by the Group in the financial year. We considered these trade spend accruals a key audit matter due to the level of judgement required by the Group in estimating the amount payable to retailers, particularly because: • The date Asaleo Care products are delivered and sold to retailers differs from the period over which the promotions will run, and therefore estimates are required to ensure all trade spend accruals are recorded (i.e. the accrual is "complete"). • The quantity of product sold on promotion may not be known to the Group at balance date.	To assess the controls used to calculate, record and value trade spend accruals we analysed a sample of individual trade spend accruals to determine whether they were appropriately authorised and the customer claims reconciled to the accrued amounts. We found the controls suitable for the purpose of our audit of trade spend accruals. To test whether trade spend accruals were accurately valued and complete, on a sample basis we performed the following procedures amongst others: • Recalculated year-end trade spend accruals by comparing the number of units sold by the retailer during the promotional period (obtained from an independent third party) to the Group's estimate. For the sample selected, we found no material differences. • Inspected rebates claimed by retailers after the balance date and agreed that where these claims related to sales made by the Group before year end they were adequately accrued. For the sample selected, we did not identify any material obligations that had not been provided for, or any material differences to the Group's trade spend accrual. • Assessed manual adjustments made to trade spend accruals during the reporting

Key audit matter	How our audit addressed the key audit matter
	period by comparing a sample of adjustments to relevant supporting documentation. From this testing we did not identify any additional material trade spend accruals required for claims yet to be received.
Adequacy of accruals for Business-to-business ('B2B') price support rebates *(Refer to note 2.1)* In addition to sales to retail customers, the Group also sells goods to distributors who subsequently sell these products to businesses such as offices, recreation facilities, nursing homes and restaurants known as "end customers". The Group has entered into arrangements with a number of distributors whereby it pays rebates to these distributors. These rebates are known as "price support" and vary depending on the terms agreed with each distributor in relation to the amount of rebate payable and the volume and type of product sold. We considered the value of the accruals a key audit matter because accruing for price support rebates yet to be claimed by distributors at the balance date requires significant judgement by the Group to: • estimate the quantity of goods that will be sold by distributors to each end customer • identify the profile of the end customers to whom goods will be sold • estimate the inventory on hand at distributors to determine the level of future claims.	As part of our audit procedures we performed the following procedures amongst others on a sample basis: • Compared sales volumes to distributors with sales reports and agreed the estimated rebate rate to the Group's claims history. Our testing did not identify any material amounts that were not accounted for. • Obtained independent confirmations from a sample of distributors and compared the quantity of inventory on hand to the estimates used in the rebate calculations. We did not identify any material differences. • Compared amounts claimed by distributors after the balance date to the Group's accrual. Our testing did not identify any material amounts that were not provided for.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017 but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the directors' report and shareholder information. We expect the remaining other information to be made available to us after the date of this auditor's report, including the Chairman and CEO letter and corporate directory.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

pwc

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 49 to 59 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Asaleo Care Limited, for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
21 February 2018

Shareholder information

Additional information required by the Australian Securities Exchange Listing Rules not elsewhere disclosed in this report. The Shareholder Information set out below was applicable as at 16 February 2018.

Distribution of shareholders

Range	Investors	Securities	% of issued capital
100,001 and over	55	508,477,870	93.62
10,001 to 100,000	940	20,444,319	3.76
5,001 to 10,000	1,155	8,307,799	1.53
1,001 to 5,000	1,903	5,575,960	1.03
1 to 1,000	598	316,543	0.06
Total	**4,651**	**543,122,491**	**100.00**

There were 167 holders with less than a marketable parcel of ordinary shares. Each ordinary share is entitled to one vote.

Substantial shareholders

Based on the Substantial Holder notices lodged with the ASX, the following shareholders had a greater than 5% beneficial interest in the Company.

Name	Number of shares	% of issued shares
Essity Group Holding BV	196,396,028	36.16
Marathon Asset Management	49,432,426	9.10
LSV Asset Management	27,459,434	5.06

Twenty largest registered shareholders

The names of the 20 largest registered shareholders are listed below.

Name	Ordinary shares	% of units
Essity Group Holding Bv	196,396,028	36.16
HSBC Custody Nominees (Australia) Limited	157,761,627	29.05
J P Morgan Nominees Australia Limited	52,431,188	9.65
Citicorp Nominees Pty Limited	49,653,293	9.14
Argo Investments Limited	14,534,001	2.68
National Nominees Limited	7,457,413	1.37
BNP Paribas Noms (NZ) Ltd	3,553,634	0.65
BNP Paribas Nominees Pty Ltd	2,772,097	0.51
BNP Paribas Noms Pty Ltd	2,355,000	0.43
BNP Paribas Noms Pty Ltd	2,127,248	0.39
Brazil Farming Pty Ltd	2,050,000	0.38
BNP Paribas Noms Pty Ltd	1,476,697	0.27
Merrill Lynch (Australia)	1,293,567	0.24
Netherlee Investments Pty Ltd as Trustee for the Diplaris Family Trust	1,156,342	0.21
Brispot Nominees Pty Ltd	956,028	0.18
Citicorp Nominees Pty Limited	872,207	0.16
HSBC Custody Nominees (Australia) Limited-Gsco Eca	807,006	0.15
Quintona Pty Ltd	720,000	0.13
Pacific Custodians	663,059	0.12
Nido D'oro Pty Ltd	611,601	0.11
Total	**499,648,036**	**92.00**
Balance of register	**43,474,455**	**8.00**
Grand total	**543,122,491**	**100.00**

Corporate directory

Company's registered office

Asaleo Care Limited
ABN 61 154 461 300
Ailsa Street, PO Box 177
Box Hill, VIC 3128, Australia
Phone: 1800 643 634 (within Australia)

Share registry

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000, Australia
Postal Address: Locked Bag A14,
Sydney South NSW 1235
Phone: + 61 1300 554 474 (toll free within Australia)
Fax: + 61 2 9287 0303
Website: www.linkmarketservices.com.au
Email: registrars@linkmarketservices.com.au

Shareholder information

All up-to-date shareholder information is available online at www.asaleocare.com

You can view this report as well as latest news, presentations and Company policies (including corporate governance policies).

Asaleo Care produces a range of publications which are available in formats that allow shareholders to receive information in their preferred manner. View online, download or receive a paper copy by calling Link Market Services. Shareholder queries can also be made to investors@asaleocare.com

Online shareholder services

The Asaleo Care Registry and all shareholder services are managed by Link Market Services. Investors can manage their shareholding online via the Investor Centre at www.investorcentre.linkmarketservices.com.au including:

- reviewing holding balances
- updating your personal details (such as change of address, email address or other contact information)
- lodgement of tax file number
- advise banking instructions for direct crediting of the payments
- updating communication preferences
- accessing forms

Please note that you will require your Holder Identification Number (HIN) or Securityholder Reference Number (SRN) to login to Investor Centre. You can find this number on your most recent Holding Statement.

Key dates for shareholders

The following table sets out future dates in the 2018 financial and calendar year of interest to our shareholders. If there are any changes to these dates, the Australian Securities Exchange will be notified.

Date	Event
23 April 2018	Annual General Meeting
21 August 2018	Half Year Results

Auditor

PricewaterhouseCoopers Limited, 2 Riverside Quay Southbank VIC 3006, Australia.

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Australia

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