# Asaleo Care Ltd
# (formerly PEPSCA Pty Ltd)
# Annual report
# for the year ended 31 December 2013

# Asaleo Care Ltd ABN 61 154 461 300
# Annual report - 31 December 2013

## Contents

## Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Asaleo Care Ltd (formerly PEPSCA Pty Ltd) and the entities it controlled at the end of, or during, the year ended 31 December 2013.

### Directors

| | |
|---|---|
| B Riede | Ceased as director 14th March 2014 |
| J Persson | |
| A Duthie | |
| C Blanks | |
| M Schmidt | Appointed 14th March 2014 as alternate director for M Berencreutz |
| N Lindholm | Appointed 14th March 2014 as alternate director for J Persson |
| M Berencreutz | Appointed 14th March 2014 |

### Principal activities

During the period the principal continuing activities of the group consisted of the manufacture and marketing of personal hygiene products, toilet paper, paper towel, facial tissue, napkins and other tableware products.

### Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2012: $nil).

### Review of operations

The net results of operations before income tax was a consolidated profit of $31,969,000, compared to a consolidated loss of $54,176,000 in the comparative period and consolidated loss of $390,000 in the year ending 31 December 2011.

The profit from ordinary activities after income tax amounted to $23,056,000 (2012 loss: $39,979,000) (2011 loss: $281,000).

### Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

Contributed equity decreased by $51.3 million (from $224.6 million to $173.3 million) as a result of a capital return to shareholders in July 2013. Details of the capital return are detailed in note 23.

### Matters subsequent to the end of the financial year

Subsequent to year end, the following occurred:

- On 19 February 2014, participants in the Long Term Management Incentive Plan (MIP) agreed with Asaleo Care Ltd to deal with the cash payments made on an IPO Event as follows: a third of the aggregate post-tax cash payment will be paid to participants at the time of an IPO Event without restriction, the remaining two-thirds of the aggregate post-tax cash payment will be applied to acquire shares in the Company. 50% of the shares acquired will be held in escrow for a period of 12 months and the remaining 50% held in escrow for 24 months. The participants have agreed to the buy-back or directed transfer of the shares subject to the escrow period for nil consideration if they resign or their employment is terminated for serious misconduct unless otherwise determined by the Board in specific circumstances
- On 26 February 2014, the Company entered into a new leveraged finance facility and subsequent return of capital to shareholders. Additional senior debt of $250.4 million was taken up as long-term borrowings. Consequently, borrowing costs of $11.2 million which had previously been capitalised and amortised over the life of the finance facility were written off as they related to the debt facility which was no longer in existence. A $250.8 million return of capital was paid to shareholders on the same date, split between ordinary and preference share holdings in proportion to their relevant shareholding. Upon the Capital Return the $125 million Preference Share liability was extinguished, with the accrued coupon outstanding.
- On 1 April 2014, following a due diligence process, the consolidated entity sold the land and buildings at the Hamilton site to Proform Plastics Limited. The disposal of assets resulted in a net profit on disposal of approximately NZD$3.0 million.
- On 23 April 2014 the Company committed to refinance the leveraged finance facility on the successful completion of an initial public offering.
- On 19 May 2014 shareholder approval was obtained to proceed with preparations for an initial public offering (IPO) and ASX listing of Asaleo Care Ltd in or around June 2014. An IPO constitutes a 'Trigger Event' under the terms of the issue of the Preference Shares, and therefore results in redemption or conversion of the Preference Shares on IPO.
- On 22 May 2014 the company lodged notification of change of name from PEPSCA Pty Ltd to Asaleo Care Ltd as well as an application for change of company status to a public company.

**Matters subsequent to the end of the financial year (cont'd)**

No other matters or circumstances have arisen since 31 December 2013 that have significantly affected, or may significantly affect:

(a) the group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the group's state of affairs in future financial years.

**Likely developments and expected results of operations**

Likely developments in the operations of the group constituted by Asaleo Care Ltd and the entities it controls from time to time that were not finalised at the date of this report included:

(a) the investigation by the shareholders of a future Initial Public Offering (IPO).

Further information on likely developments in the operations of the group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the group.

**Environmental regulation**

The consolidated entity's environmental and waste discharge quotas are regulated under both State and Federal Acts 2001. All the environmental performance obligations are nominated by the company and subjected from time to time by Government agency audits and site inspections. No environmental breaches have been notified by any Government agency during the year ended 31 December 2013.

**Meetings of directors**

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 31 December 2013, and the numbers of meetings attended by each director were:

| | Director Meetings | |
|---|---|---|
| | **Attended** | **Held** |
| B Riede | 3 | 3 |
| J Persson | 3 | 3 |
| A Duthie | 3 | 3 |
| C Blanks | 3 | 3 |
| M Schmidt* | 0 | 0 |
| N Lindholm* | 0 | 0 |
| M Berencreutz* | 0 | 0 |

*This table records the number of meetings held and attended in the financial year 2013 while directors of the Board.

**Insurance of officers**

During the financial year, Asaleo Care Ltd paid a premium to insure the directors and secretaries of the company and its Australian-based controlled entities and the general managers of each of the divisions of the group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between the amounts relating to the insurance against legal costs and those relating to other liabilities.

**Proceedings on behalf of the company**

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**Auditor**

PricewaterhouseCoopers Australia continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

A Duthie
Director

C Blanks
Director

Melbourne
29 May 2014

# Auditor's Independence Declaration

As lead auditor for the audit of Asaleo Care Limited (formerly known as PEPSCA Pty Ltd) for the year ended 31 December 2013, 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.

Lisa Harker

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
29 May 2014

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# Asaleo Care Ltd ABN 61 154 461 300
# Annual report - 31 December 2013

## Contents



These financial statements are the consolidated financial statements of the consolidated entity consisting of Asaleo Care Ltd and its subsidiaries. The financial statements are presented in the Australian currency.

Asaleo Care Ltd (formerly PEPSCA Pty Ltd) is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:
Asaleo Care Ltd
19 Ailsa Street
Box Hill VIC 3128

Its principal place of business is:
Asaleo Care Ltd
19 Ailsa Street
Box Hill VIC 3128

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 3, which is not part of these financial statements.

**Asaleo Care Ltd**
**Consolidated statement of comprehensive income**
**For the year ended 31 December 2013**

| | Notes | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011* $'000 |
|---|---|---|---|---|
| | | **Consolidated entity year end** | | |
| **Revenue from operations** | | | | |
| Sale of goods | | **624,319** | 620,375 | 2,466 |
| Other revenue from ordinary activities | | **1,444** | 1,599 | - |
| | 5 | **625,763** | 621,974 | 2,466 |
| Other income | 6 | **11,402** | 232 | - |
| **Expenses** | | | | |
| Cost of sales of goods | | **(370,168)** | (399,676) | (1,860) |
| *Other expenses from ordinary activities* | | | | |
| Distribution | | **(75,569)** | (73,732) | (365) |
| Marketing | | **(50,898)** | (53,483) | (164) |
| Administration | | **(24,133)** | (28,809) | (69) |
| Other | | **(39,213)** | (71,331) | (398) |
| Finance costs | 7 | **(45,215)** | (49,351) | - |
| **Profit / (loss) before income tax** | | **31,969** | (54,176) | (390) |
| Income tax (expense) / benefit | 8 | **(8,913)** | 14,197 | 109 |
| **Profit / (loss) for the period** | | **23,056** | (39,979) | (281) |
| *Items that may be reclassified to profit or loss* | | | | |
| Changes in the fair value of cash flow hedges | 24(a) | **5,935** | (8,364) | - |
| Exchange differences on translation of foreign operations | 24(a) | **8,328** | 2,043 | - |
| Income tax relating to these items | 24(a) | **(1,790)** | 2,509 | - |
| Blank | | | | |
| **Other comprehensive income / (loss) for the period, net of tax** | | **12,473** | (3,812) | - |
| **Total comprehensive income / (loss) for the period** | | **35,529** | (43,791) | (281) |
| Total comprehensive income / (loss) for the period is attributable to: | | | | |
| Owners of Asaleo Care Ltd | | **35,529** | (43,791) | (281) |

*The Asaleo Care group formed on 22 December 2011.

**Asaleo Care Ltd**
**Consolidated balance sheet**
**As at 31 December 2013**

| | Notes | Consolidated entity 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **54,537** | 70,794 |
| Trade and other receivables | 10 | **30,025** | 30,293 |
| Inventories | 11 | **133,387** | 123,266 |
| Derivative financial instruments | 12 | **5,135** | 944 |
| Assets classified as held for sale | 13 | **4,842** | - |
| **Total current assets** | | **227,926** | 225,297 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **341,845** | 272,910 |
| Intangible assets | 15 | **183,212** | 179,757 |
| **Total non-current assets** | | **525,057** | 452,667 |
| | | | |
| **Total assets** | | **752,983** | 677,964 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **87,567** | 66,424 |
| Borrowings | 17 | **-** | 2,233 |
| Derivative financial instruments | 12 | **3,126** | 3,507 |
| Current tax liabilities | 19 | **37** | - |
| Provisions | 18 | **35,886** | 26,209 |
| **Total current liabilities** | | **126,616** | 98,373 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 20 | **415,493** | 368,355 |
| Derivative financial instruments | 12 | **3,908** | 6,605 |
| Deferred tax liabilities | 21 | **20,600** | 9,778 |
| Provisions | 22 | **3,748** | 14,329 |
| Cash-settled share based payments | 35 | **17,245** | - |
| **Total non-current liabilities** | | **460,994** | 399,067 |
| | | | |
| **Total liabilities** | | **587,610** | 497,440 |
| | | | |
| **Net assets** | | **165,373** | 180,524 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 23 | **173,292** | 224,596 |
| Other reserves | 24(a) | **9,285** | (3,812) |
| Accumulated losses | 24(b) | **(17,204)** | (40,260) |
| | | | |
| **Total equity** | | **165,373** | 180,524 |

**Asaleo Care Ltd**
**Consolidated statement of changes in equity**
**For the year ended 31 December 2013**

| Consolidated entity | Notes | Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| | | Attributable to owners of Asaleo Care Ltd | | | |
| **Balance at 25 November 2011** | | - | - | - | - |
| Loss for the year | | - | - | (281) | (281) |
| Issue of Share Capital | | 96,000 | - | - | 96,000 |
| **Balance at 31 December 2011** | | **96,000** | **-** | **(281)** | **95,719** |
| | | | | | |
| **Balance at 1 January 2012** | | 96,000 | - | (281) | 95,719 |
| Profit / (loss) for the year | | - | - | (39,979) | (39,979) |
| Other comprehensive income | | - | (3,812) | - | (3,812) |
| **Total comprehensive income / (loss) for the period** | | **-** | **(3,812)** | **(39,979)** | **(43,791)** |
| | | | | | |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity, net of transaction costs and tax | 23 | 128,596 | - | - | 128,596 |
| | | 128,596 | - | - | 128,596 |
| **Balance at 31 December 2012** | | **224,596** | **(3,812)** | **(40,260)** | **180,524** |
| | | | | | |
| **Balance at 1 January 2013** | | 224,596 | (3,812) | (40,260) | 180,524 |
| Profit for the year | | - | - | 23,056 | 23,056 |
| Other comprehensive income | | - | 12,473 | - | 12,473 |
| **Total comprehensive income for the period** | | **-** | **12,473** | **23,056** | **35,529** |
| | | | | | |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Return of capital, net of transaction costs and tax | 23 | (51,304) | - | - | (51,304) |
| Share- based payments | 35 | - | 624 | - | 624 |
| **Balance at 31 December 2013** | | **173,292** | **9,285** | **(17,204)** | **165,373** |

**Asaleo Care Ltd**
**Consolidated statement of cash flows**
**For the year ended 31 December 2013**

| | Notes | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011* $'000 |
|---|---|---|---|---|
| | | **Consolidated entity Year ended** | | |
| **Cash flows from operating activities** | | | | |
| Receipts from customers (inclusive of goods and services tax) | | **687,210** | 691,630 | - |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(562,685)** | (567,123) | - |
| | | **124,525** | 124,507 | - |
| Income taxes paid | | **(290)** | - | - |
| Interest received | | **1,444** | 1,424 | - |
| Borrowing costs | | **(22,551)** | (25,571) | - |
| **Net cash inflow from operating activities** | 34 | **103,128** | 100,360 | - |
| **Cash flows from investing activities** | | | | |
| Payments for acquisition of subsidiary, net of cash acquired | 30 | - | (113,300) | 7,662 |
| Payments for property, plant and equipment | 14 | **(85,333)** | (23,383) | - |
| Proceeds from sale of property, plant and equipment | | - | 72 | - |
| Payments of acquisition related transaction costs | | - | (13,727) | - |
| **Net cash (outflow) from investing activities** | | **(85,333)** | (150,338) | 7,662 |
| **Cash flows from financing activities** | | | | |
| Proceeds from issues of shares and other equity securities | | - | 125,000 | - |
| Proceeds from borrowings | 20 | **65,000** | 275,000 | - |
| Repayment of borrowings | | **(45,000)** | (32,700) | - |
| Debt raising costs | | **(700)** | (19,502) | - |
| Payment for return of capital | | **(50,000)** | - | - |
| Transaction costs for return of capital | | **(1,862)** | - | - |
| Repayment of related party borrowings | | **(4,000)** | (235,000) | - |
| **Net cash (outflow) inflow from financing activities** | | **(36,562)** | 112,798 | - |
| **Net (decrease) increase in cash and cash equivalents** | | **(18,767)** | 62,820 | 7,662 |
| Cash and cash equivalents at the beginning of the financial year | | **70,794** | 7,662 | - |
| Effects of exchange rate changes on cash and cash equivalents | | **2,510** | 312 | - |
| **Cash and cash equivalents at end of period** | 9 | **54,537** | 70,794 | 7,662 |

*The Asaleo Care group formed on 22 December 2011

**Contents of the notes to the consolidated financial statements**

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Asaleo Care Ltd and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Asaleo Care Ltd is a for-profit entity for the purpose of preparing the financial statements.

The group was formed on 22 December 2011 and traded for 9 days during the year ending 31 December 2011.

*(i) Compliance with IFRS*

The consolidated financial statements of the Asaleo Care Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*(ii) Historical cost convention*

These financial statements have been prepared under the historical cost convention except for, financial instruments measured at fair value through profit and loss.

*(iii) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Asaleo Care Ltd ('Company' or 'parent entity') as at 31 December 2013 and the results of all subsidiaries for the year then ended. Asaleo Care Ltd and its subsidiaries together are referred to in this financial report as the group or consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are disclosed in note 31.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, being the Chief Executive Officer, Chief Financial Officer and other Executives. The chief operating decision makers provide strategic direction and management oversight of the entity in terms of monitoring results and approving strategic planning for the business.

## 1 Summary of significant accounting policies (continued)

### (d) Foreign currency translation

*(i) Functional and presentation currency*

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.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the respective functional currency using the exchange rates prevailing at the dates of the transactions. 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.

*(iii) Group companies*

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); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances and discounts. Revenue is recognised when the risks and rewards of ownership have transferred to the customer. 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.

## 1 Summary of significant accounting policies (continued)

### (e) Revenue recognition (continued)

*(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.

### (f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### (g) Income tax

Income tax expense comprises current and deferred tax. Income tax expense or revenue 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.

The current income tax charge is calculated on the basis of 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for 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 affects neither accounting nor taxable profit nor loss. Deferred income tax 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.

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.

Deferred tax liabilities and assets are not recognised 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.

Deferred tax assets and liabilities are offset 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.

## 1 Summary of significant accounting policies (continued)

### (g) Income tax (continued)

The carrying amount of deferred tax assets is 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. Unrecognised deferred tax assets 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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Asaleo Care Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. 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.

Amounts receivable of $8.3 million (2012: $2.2 million) to the PEPSCA entity under the tax funding arrangements are due in the next financial year upon final settlement of the current payable for the consolidated group.

### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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.

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 an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 1 Summary of significant accounting policies (continued)

### (j) Cash and cash equivalents

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. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet, refer note 17 and 20.

### (k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (l) Inventories

*(i) Raw materials and stores, work in progress and finished goods*

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a first-in-first-out basis. In respect of manufactured inventories, cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

## 1 Summary of significant accounting policies (continued)

### (m) Non-current assets (or disposal groups) held for sale (continued)

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated balance sheet.

### (n) 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 accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. 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).

The group 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. The group also 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.

Movements in the hedging reserve in shareholder's equity are shown in note 24. 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.

*(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 sale that is hedged takes place). 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'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, 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.

### (o) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item including borrowing costs that are related to the acquisition, construction or production of the qualifying asset. Cost also may include transfers from equity of any gains and losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

## 1 Summary of significant accounting policies (continued)

### (o) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Property, plant and equipment, excluding freehold land, are depreciated at rates based upon their expected useful lives. Land is not depreciated. Depreciation rates used for each class of asset for the current and comparative periods are as follows:

| | |
|---|---|
| - Buildings | 25 - 40 years |
| - Machinery | 10 - 20 years |
| - Vehicles | 3 - 8 years |
| - Furniture, fittings and equipment | 3 - 8 years |

The useful lives of certain machinery were extended by 2-5 years from prior period, resulting in a $1.9 million (net of tax) impact to the profit and loss.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

### (p) Intangible assets

*(i) Goodwill*

Goodwill is measured as described in note 1(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units (CGUs) or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

*(ii) Brands*

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.

### (q) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other 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.

### (r) 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 (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## 1 Summary of significant accounting policies (continued)

### (s) Borrowings

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.

### (t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### (u) Provisions

Provisions for legal claims and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (v) Employee benefits

*(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 is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(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.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

## 1 Summary of significant accounting policies (continued)

### (v) Employee benefits (continued)

*(iii) Superannuation*

The consolidated entity contributes to an accumulation fund on behalf of qualifying employees.

*(iv) Share-based payments*

Share-based compensation benefits are provided to employees via the Long Term Management Incentive Plan (MIP) and the PEPSCA Employee unit plan (EUP).

Non-market vesting conditions are included in assumptions about the number of MIP entitlements that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of MIP entitlements that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to the liability. The MIP is a cash-settled plan which is fair valued at each reporting date.

Under the EUP, shares are purchased by employees at a value below fair value. Therefore the EUP is an equity settled plan which vested immediately. Upon vesting, the difference between the consideration paid and the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

*(v) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case an offer is made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

### (w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, options or return of capital are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares, options or return of capital for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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 or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (y) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## 1 Summary of significant accounting policies (continued)

### (z) New accounting standards and interpretations

*New and amended Accounting Standards and Interpretations issued and effective*

The group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2013:

- AASB 10 *Consolidated Financial Statements*
- AASB 119 *Employee Benefits (September 2011)* and 2011-8 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

The adoption of AASB 13 and 119 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The other standards only affected disclosures in the notes to the financial statements.

There are no other standards issued that are have a material impact on the entity 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 have been published that are not mandatory for 31 December 2013 reporting periods and have not yet been applied in the financial statements. The group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* address the classification, measurement and derecognition of financial assets and liabilities and may affect the group's accounting for its financial instruments. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed.

  The new accounting standard and amendments are mandatory for the group's 31 December 2018 consolidated financial statements, as amended by AASB 2013-9 (refer above). The potential effect of the new and amending standards on the financial results of the consolidated entity upon adoption has yet to be fully determined.

- AASB2013-3 *Amendments to AASB 136 - Recoverable Amount of Disclosure for Non-Financial Assets* makes amendments to the disclosure requirements of AASB 136 *Impairment of Assets*. The amendment will require the group to provide additional information about the fair value measurements applied in determining the recoverable amount of impaired assets. The amendments are mandatory for the group's 31 December 2014 consolidated financial statements and as they relate to disclosures only, the amendments will not have any financial impact on the group.

- AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Liabilities* adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132 *Financial Instruments: Presentation*, including clarifying the meaning of 'currently has legally enforceable right to off-set' and that some of the gross settlement systems may be considered equivalent to net settlement. The amendments are mandatory for the group's 31 December 2014 consolidated financial statements and are not expected to have a material impact to the group's financial results.

- *Annual Improvements to IFRSs 2010-2012 cycle and Annual Improvements to IFRSs 2011-2013 Cycle* - the standard addresses a range of improvements, including: clarification on measurement of short-term receivables and payables.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 1 Summary of significant accounting policies (continued)

**(aa) Parent entity financial information**

The financial information for the parent entity, Asaleo Care Ltd, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

*(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities 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.

*(ii) Tax consolidation legislation*

Asaleo Care Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation, applied during the year ending 31 December 2012.

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.

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. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The 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.

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.

*(iii) Financial guarantees*

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.

## 2 Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and 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.

## 2 Financial risk management (continued)

The group holds the following financial instruments:

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **54,537** | 70,794 |
| Trade and other receivables | **30,025** | 30,293 |
| Derivative financial instruments | **5,135** | 944 |
| | **89,697** | 102,031 |
| **Financial liabilities** | | |
| Trade and other payables | **87,567** | 66,424 |
| Borrowings | **415,493** | 370,588 |
| Derivative financial instruments | **3,126** | 3,507 |
| Derivative financial instruments - non-current | **3,908** | 6,605 |
| | **510,094** | 447,124 |

### (a) Market risk

*(i) Foreign exchange risk*

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily the US dollar (USD), New Zealand Dollar (NZD), Fijian Dollar (FJD) and Euros (EUR).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The group's foreign exchange risk management policy is to hedge 100% of the anticipated extended group cash flows, both in terms of size and term related to:

- Approved investment projects; and
- Inventory purchases denominated in foreign currencies.

Forward contracts are used to manage foreign currency exchange risk and are regularly reassessed to ensure they comply with the limits under the policy. The derivative instruments used for hedging foreign currency exchange exposures are external foreign currency forward contracts.

The group has exposure to foreign currency risk at the end of the reporting period with consolidated operations in New Zealand and Fijian entities. The group holds investments in these entities, which have functional currencies of NZD and FJD. A portion of the group's borrowings are held by its New Zealand entity. The outstanding balance is denominated in AUD, however will ultimately be settled in NZD, hence the exposure to foreign currency risk.

There are no other significant exposures to the group's foreign currency risk at the end of the reporting period, with forward exchange contracts used to manage the exposure to the USD and EUR.

*(ii) Price risk*

The group is not exposed to significant equities price risk.

## 2 Financial risk management (continued)

### (a) Market risk (continued)

*(iii) Cash flow and fair value interest rate risk*

The group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk.

As part of its capital risk management policy, the group protects part of its borrowings from exposure to fluctuations in interest rates. The group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates.

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

| **Consolidated entity** | **31 December 2013** | | 31 December 2012 | |
|---|---|---|---|---|
| | **Weighted average interest rate %** | **Balance $'000** | Weighted average interest rate % | Balance $'000 |
| Bank overdrafts and bank loans | **5.9%** | **262,299** | 8.3% | 242,300 |
| Less amounts covered by interest rate swaps | **7.3%** | **(201,300)** | 8.8% | (205,013) |
| Net exposure to cash flow interest rate risk | | **60,999** | | 37,287 |
| Convertible redeemable preference shares | **15%** | **165,116** | 15% | 143,579 |
| | | **226,115** | | 180,866 |

The interest rate and term is determined at the date of each drawdown. The weighted average interest rate for the year ended 31 December 2013 was 5.87% (2012: 8.27%). At 31 December 2013, if the weighted average interest rate of the facility had been 10% higher or 10% lower, interest expense would increase / decrease by $1.5 million (2012: $2.3 million). There would be an associated impact to equity of $1.1 million (2012: $1.6 million).

Policy of interest rate swap contracts disclosed within note 12.

### (b) Credit risk

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 note 10 and cash and cash equivalents are detailed in note 9.

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; and

• Utilisation of systems of approval.

## 2 Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring that all term deposits can be converted to funds at call. At the end of the reporting period the group did not hold deposits at call (2012: $20.0 million) that are expected to readily generate cash inflows for maintaining liquidity risk.

A borrowing facility was set up on 4 January 2012 to enable the group to borrow funds when necessary, repayable on 31 December 2016.

Subsequent to year end, the group refinanced consolidated borrowing facilities. Refer to note 33 for further information.

*(i) Financing arrangements*

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

| | Consolidated entity Year ended | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Floating rate** | | |
| - Expiring beyond one year (bank loans) | **49,189** | 104,849 |

Subject to continuance of meeting certain financial covenants, the bank loan facilities may be drawn down at any time. Refer to note 17 and 20 for further details on the borrowings.

*(ii) Maturities of financial liabilities*

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

(a) all non-derivative financial liabilities, and
(b) 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.

## 2 Financial risk management

### (c) Liquidity risk

| Contractual maturities of financial liabilities<br>At 31 December 2013 | Less than 6 months $'000 | 6 - 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contrac-tual cash flows $'000 | Carrying amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Trade payables | 46,905 | - | - | - | - | 46,905 | 46,905 |
| Borrowings | 7,718 | 7,718 | 38,973 | 253,785 | - | 308,194 | 262,299 |
| Borrowing costs | (1,983) | (1,972) | (4,457) | (3,510) | - | (11,922) | (11,922) |
| Convertible redeemable preference shares | - | - | - | - | 471,003 | 471,003 | 165,116 |
| **Total non-derivatives** | 52,640 | 5,746 | 34,516 | 250,275 | 471,003 | 814,180 | 462,398 |
| **Derivatives** | | | | | | | |
| Net settled (interest rate swaps) | 977 | 977 | 1,954 | 1,954 | - | 5,862 | 5,862 |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (outflow) | 926 | 246 | - | - | - | 1,172 | 1,172 |
| At 31 December 2012 | | | | | | | |
| **Non-derivatives** | | | | | | | |
| Trade payables | 28,163 | - | - | - | - | 28,163 | 28,163 |
| Borrowings | 13,720 | 16,898 | 40,604 | 250,911 | - | 322,133 | 242,300 |
| Borrowing costs | (2,989) | (1,894) | (3,664) | (6,745) | - | (15,292) | (15,292) |
| Convertible redeemable preference shares | - | - | - | - | 471,003 | 471,003 | 143,579 |
| **Total non-derivatives** | 38,894 | 15,004 | 36,941 | 244,166 | 471,003 | 806,007 | 398,750 |
| **Derivatives** | | | | | | | |
| Net settled (interest rate swaps) | 1,101 | 1,101 | 2,201 | 4,402 | - | 8,805 | 8,805 |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (outflow) | 816 | 491 | - | - | - | 1,307 | 1,307 |

### (d) Fair value measurements

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) 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
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

At 31 December, the group held at fair value the following level 2 financial derivative instruments:

• Derivative financial assets $5,135,014
• Derivative financial liabilities $7,033,721

## 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Estimated impairment of goodwill*

The group tests annually whether goodwill has suffered any impairment, in accordance with accounting policy stated in note 1(p). The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of assumptions for each CGU. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

*(ii) Fair value of available-for-sale financial assets*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

*(iii) Indefinite useful lives of brands*

Management have determined that all of the intangible assets (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.

The group tests annually whether brands have suffered any impairment, in accordance with accounting policy stated in note 1(p). The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of assumptions for each CGU. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

Management assess the useful lives of the group's intangible assets at the end of each reporting period. No factors have been identified in the period which would alter the group's assumption of indefinite useful life for brands. Refer to note 15 for details of these assumptions and potential impact of changes to these assumptions.

*(iv) Income taxes*

The group is subject to income taxes (and other similar taxes) in Australia and in a number of overseas jurisdictions. Judgement is required in determining the group provision for income taxes.

There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities based on the group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The research and development tax offset available to the group is estimated in the accounts because a full assessment of the actual position cannot be made by the year end. The policy of the group is to only bring to account the portion of expenses that are reasonably expected to be claimable at period end.

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, the utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped.

## 3 Critical accounting estimates and judgements (continued)

### (a) Critical accounting estimates and assumptions (continued)

*(v) Estimated restructuring and rationalisation costs*

The group makes provisions for restructuring and rationalisation within the business, in accordance with accounting policy stated in note 1(u). The provisions for restructuring and rationalisation have been recognised in line with the group's detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced. Future operating costs in relation to the restructuring have not been provided for.

With respect to termination of employees, where the restructuring plan includes termination before retirement date, the group recognises a provision for redundancy when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal. Payments falling due greater than 12 months after reporting date are discounted to present value.

*(vi) Valuation of share based payments*

An expected returns approach was used to value the share-based payments made in relation to the MIP during the period. Management performs a valuation at each reporting date with changes in fair value recognised in the profit and loss. This approach uses key assumptions which are set out in note 35.

## 4 Segment information

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenue and incur expenses that relate to transactions with the consolidated entity's other components.

The operating segment results are regularly reviewed by the Chief Executive Officer, Chief Financial Officer and other Executives (strategic steering committee) of the consolidated entity, who provide strategic decision and management oversight of the day to day activities in terms of monitoring results, providing approval for capital expenditure and approving strategic planning for the business.

### (a) Description of segments

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

*Tissue*
This segment manufactures and markets personal toilet paper, paper towel, facial tissue, napkins and other tableware products within Australia, New Zealand and Fiji.

*Personal Care*
This segment manufactures and markets personal hygiene products and diapers within Australia, New Zealand and Fiji.

### (b) Segment information provided to the strategic steering committee

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2013 is as follows:

| **Consolidated entity 2013** | **Tissue** $'000 | **Personal Care** $'000 | **Total** $'000 |
|---|---|---|---|
| Revenue from external customers | 440,300 | 184,500 | 624,800 |
| Adjusted EBITDA | 66,300 | 65,600 | 131,900 |
| Total segment assets | 231,266 | 521,717 | 752,983 |
| Total segment liabilities | 129,134 | 25,737 | 154,871 |
| | (941,215) | (794,443) | (1,735,658) |

## 4 Segment information (continued)

### (b) Segment information provided to the strategic steering committee (continued)

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2012 is as follows:

| Consolidated entity 2012 | Tissue $'000 | Personal Care $'000 | Total $'000 |
|---|---|---|---|
| Revenue from external customers | 441,800 | 179,900 | 621,700 |
| Adjusted EBITDA | 56,900 | 60,500 | 117,400 |
| Total segment assets | 199,355 | 478,609 | 677,964 |
| Total segment liabilities | 107,474 | 19,244 | 126,718 |
| | (874,974) | (738,046) | (1,613,020) |

There was no impairment charge or other significant non-cash item recognised in 2012.

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2011 is as follows:

| Consolidated entity 2011 | Tissue $'000 | Personal Care $'000 | Total $'000 |
|---|---|---|---|
| Revenue from external customers | 1,100 | 500 | 1,600 |
| Adjusted EBITDA | 200 | 100 | 300 |

There was no impairment charge or other significant non-cash item recognised in 2011.

### (c) Other segment information

*(i) Segment revenue*

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the consolidated income statement.

Segment revenue reconciles to total revenue from operations as follows:

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| **Total segment revenue** | **624,800** | 621,700 | 1,600 |
| Interest Revenue | **1,444** | 1,599 | - |
| Internal revenue | **(481)** | (1,325) | 866 |
| **Total revenue from operations (note 5)** | **625,763** | 621,974 | 2,466 |

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is $400.0 million(2012: $407.0 million) (2011: $2.5 million) and the total revenue from external customers in other countries is $224.3 million (2012: $213.5 million) (2011: nil). Segment revenues are allocated based on the country in which the customer is located.

Revenues of approximately $284.6 million (2012: $281.7 million) are derived from three external customers. These revenues are attributable to the Tissue and Personal Care segments.

## 4 Segment information (continued)

### (c) Other segment information (continued)

*(ii) Adjusted EBITDA*

The strategic steering committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, business combination costs, finance charges and licensing fees. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/(losses) on financial instruments. 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.

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

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| Adjusted EBITDA | **131,900** | 117,400 | 300 |
| Finance costs | **(45,215)** | (49,351) | - |
| Depreciation | **(27,292)** | (29,434) | (172) |
| Licensing fees | **(9,800)** | (9,400) | - |
| Restructuring costs | **(12,067)** | (18,574) | - |
| Intercompany rebates | **2,900** | 2,900 | - |
| Accelerated Depreciation | **3,058** | (29,019) | - |
| Business combination advisor costs | **-** | (11,969) | - |
| Business combination inventory uplift | **-** | (23,100) | - |
| Share based payment expense | **(17,869)** | - | - |
| Onerous lease costs | **(3,746)** | - | - |
| Foreign exchange gains / (losses) | **11,402** | (953) | - |
| Other | **(1,302)** | (2,676) | (518) |
| **Profit / (loss) before income tax from operations** | **31,969** | (54,176) | (390) |

*(iii) Segment assets*

The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

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

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Segment assets** | **752,983** | 677,964 |

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Australia is $394.9 million (2012: $367.6 million) and the total of these non-current asset located in other countries is $127.4 million (2012: $85.1 million). Segment assets are allocated to countries based on where the assets are located.

## 4 Segment information (continued)

### (c) Other segment information (continued)

*(iv) Segment liabilities*

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

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Segment liabilities** | **154,871** | 126,718 |
| Unallocated: | | |
| Borrowings - current | - | 2,367 |
| Borrowings - non current | **250,377** | 224,776 |
| Convertible redeemable preference shares – non current | **165,117** | 143,579 |
| Cash- settled share based payments – non current | **17,245** | - |
| **Total liabilities as per the consolidated balance sheet** | **587,610** | 497,440 |

## 5 Revenue

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| **Revenue from operations** | | | |
| *Sales revenue* | | | |
| Sale of goods | **624,319** | 620,375 | 2,466 |
| *Other Revenue* | | | |
| Interest received | **1,444** | 1,599 | - |
| | **625,763** | 621,974 | 2,466 |

## 6 Other income

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| Foreign exchange gain | **11,402** | 232 | - |

## 7 Expenses

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| **Profit before income tax includes the following specific expenses:** | | | |
| *Depreciation* | | | |
| Depreciation of property, plant and equipment | **27,292** | 29,434 | 172 |
| Net loss on the disposal of property, plant and equipment | **-** | 137 | - |
| *Finance costs* | | | |
| Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss | **36,657** | 42,278 | - |
| Debt establishment cost amortisation | **4,070** | 4,211 | - |
| Facility fees | **4,488** | 2,862 | - |
| **Total finance costs** | **45,215** | 49,351 | - |
| *Significant operating expenses* | | | |
| Operating lease rental | **14,121** | 13,692 | - |
| Accelerated depreciation | **(3,058)** | 29,019 | - |
| Provision for inventories obsolescence | **6,042** | 1,471 | - |
| Share based payment costs | **17,869** | - | - |
| Superannuation expense | **7,479** | 5,958 | - |
| Restructuring costs | **12,067** | 18,574 | - |
| Business combination advisor costs | **-** | 11,969 | - |
| Provision for onerous lease expense | **3,746** | - | - |

## 8 Income tax expense

### (a) Income tax expense

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| Current tax | **(3,720)** | (3,807) | (109) |
| Deferred tax | **13,171** | (10,433) | - |
| Adjustments for current tax of prior periods | **(538)** | 43 | - |
| | **8,913** | (14,197) | (109) |

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

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| Profit from continuing operations before income tax expense | **31,969** | (54,176) | (390) |
| Tax at the Australian tax rate of 30.0% (2012 - 30.0%) | **9,591** | (16,253) | (117) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | |
| Research and development tax concession | **(454)** | (575) | - |
| Sundry items | **1,090** | 2,391 | - |
| | **10,227** | (14,437) | (117) |
| Difference in overseas tax rates | **(776)** | 197 | 8 |
| Adjustments for current tax of prior periods | **(538)** | 43 | - |
| Income tax expense / (benefit) | **8,913** | (14,197) | (109) |
| | **(37,351)** | 68,373 | |

## 9 Current assets - Cash and cash equivalents

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Cash at bank and in hand | **54,537** | 50,794 |
| Deposits at call | **-** | 20,000 |
| | **54,537** | 70,794 |

## 10 Current assets - Trade and other receivables

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Trade receivables | **25,782** | 25,182 |
| Provision for impairment of receivables (a) | **(3)** | (2) |
| | **25,779** | 25,180 |
| Loans to related parties | **-** | 283 |
| Related party receivable | **2,900** | 2,897 |
| Other receivables (c) | **9** | 72 |
| Prepayments | **1,337** | 1,861 |
| | **30,025** | 30,293 |

### (a) Impaired trade receivables

At 31 December 2013, the amount of provision for doubtful debts was $2,689 (2012: $2,442) relating to debts overdue and in dispute within SCA Hygiene Australasia Limited (Fiji).

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### (b) Past due but not impaired

As at 31 December 2013, trade receivables of $6.5 million were past due but not impaired (2012: $8.4 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:

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Current | **19,319** | 16,786 |
| 30 days | **5,364** | 6,407 |
| 60 days | **581** | 1,145 |
| 90 days | **173** | 80 |
| Greater than 90 days | **345** | 764 |
| | **25,782** | 25,182 |

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

### (d) Foreign exchange and interest rate risk

Information about the group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

### (e) Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

## 11 Current assets - Inventories

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Raw materials and stores | **33,471** | 35,252 |
| Work in progress | **12,833** | 8,687 |
| Finished goods | **87,083** | 79,327 |
| | **133,387** | 123,266 |

Inventories for the current and comparative period are stated net of provision for obsolescence.

### (a) Inventory expense

Inventories recognised as expense during the year ended 31 December 2013 amounted to $152.3 million (2012: $158.8 million). These were included in cost of sales.

Write-downs of inventories to net-realisable value amounted to $4.3 million (2012: $1.5 million). These were recognised as an expense during the year ended 31 December 2013 and included in 'cost of sales' in profit or loss.

## 12 Derivative financial instruments

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Current assets** | | |
| Forward foreign exchange contracts - cash flow hedges | **5,135** | 944 |
| Total current derivative financial instrument assets | **5,135** | 944 |
| **Current liabilities** | | |
| Interest rate swap contracts - cash flow hedges | **1,954** | 2,200 |
| Forward foreign exchange contracts - cash flow hedges ((a)(ii)) | **1,172** | 1,307 |
| Total current derivative financial instrument liabilities | **3,126** | 3,507 |
| **Non-current liabilities** | | |
| Interest rate swap contracts - cash flow hedges | **3,908** | 6,605 |
| Total non-current derivative financial instrument liabilities | **3,908** | 6,605 |
| | **(1,899)** | (9,168) |

### (a) Instruments used by the group

The group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the group financial risk management policies (refer to note 2).

*(i) Interest rate swaps - cash flow hedges*

Bank loans of the group currently bear an average variable interest rate of 5.9% (2012: 8.3%). It is policy to protect a minimum of 75% to 31 December 2014 and 50% to 31 December 2016 of the loans from exposure to fluctuations in interest rates. Accordingly, the group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 77% (2012: 85%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rates range between 7.13% and 7.39% (2012: 8.64% and 8.89%) and the variable rates are between 2.61% and 4.67% above the 90 day bank bill rate which at the end of the reporting period was 2.65% (2012: 3.17%).

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 2013 a loss of $3.1 million was reclassified into profit or loss (2012: gain of $1.1 million) and included in finance costs. There was no hedge ineffectiveness in the current or prior period.

## 12 Derivative financial instruments (continued)

### (a) Instruments used by the group (continued)

*(ii) 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 and Euros.

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments for major shipments of component parts 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 removing the related amount from other comprehensive income.

During the year ended 31 December 2013, a gain of $1.7 million (2012: loss of $1.9 million) was recognised in the profit or loss.

*(iii) Fixed electricity price contract*

The group's New Zealand operations are exposed to fluctuations in electricity prices and has entered into contracts for difference to pay a fixed price in relation to projected electricity costs and receive the variable price. Hedge accounting is not applied to the fixed price electricity contract.

## 13 Current assets - Held for sale

**31 December 2013**

At 31 December 2013, assets held for sale comprise of SCA Hygiene Australasia Limited's land and buildings at the Hamilton site, following the receipt of a binding offer from Proform Plastics Limited to purchase the site subject to due diligence to be completed on 1 April 2014.

SCA Hygiene Australasia Limited completed the sale of the Hamilton site to Proform Plastics Limited on 1 April 2014.

**31 December 2012**

There were no assets held for sale at 31 December 2012.

## 14 Non-current assets - Property, plant and equipment

| | Consolidated entity 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| **Freehold land** | | |
| Gross value | **34,649** | 36,997 |
| Accumulated depreciation | **-** | - |
| | **34,649** | 36,997 |
| **Freehold buildings** | | |
| Gross value | **119,117** | 117,641 |
| Accumulated depreciation | **(58,516)** | (51,663) |
| | **60,601** | 65,978 |
| **Plant and equipment** | | |
| Gross value | **296,352** | 307,653 |
| Accumulated depreciation | **(160,796)** | (178,755) |
| | **135,556** | 128,898 |
| **Capital work in progress** | | |
| Gross value | **111,990** | 43,274 |
| Accumulated depreciation | **(951)** | (2,237) |
| | **111,039** | 41,037 |
| | **341,845** | 272,910 |

| Consolidated entity | Freehold land $'000 | Buildings $'000 | Plant and equipment $'000 | Capital work in progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | | |
| Opening net book amount | 36,997 | 65,978 | 128,898 | 41,037 | 272,910 |
| Exchange differences | 704 | 2,613 | 4,327 | 5,034 | 12,678 |
| Reclassification of asset class | - | (117) | 18,473 | (18,356) | - |
| Additions | - | 65 | 1,141 | 84,127 | 85,333 |
| Assets included in a disposal group classified as held for sale and other disposals | (3,052) | (1,790) | - | - | (4,842) |
| Depreciation charge | - | (6,148) | (20,341) | (803) | (27,292) |
| Accelerated depreciation | - | - | 3,058 | - | 3,058 |
| **Closing net book amount** | 34,649 | 60,601 | 135,556 | 111,039 | 341,845 |
| | | | | | |
| **Year ended 31 December 2012** | | | | | |
| Opening net book amount | 2,792 | 11,397 | 44,358 | 3,941 | 62,488 |
| Exchange differences | 1,117 | 611 | 807 | 274 | 2,809 |
| Acquisition of subsidiary | 33,088 | 54,912 | 109,149 | 45,743 | 242,892 |
| Reclassification of asset class | - | 4,967 | 15,442 | (20,409) | - |
| Additions | - | 263 | 11,632 | 11,488 | 23,383 |
| Disposals | - | - | (209) | - | (209) |
| Depreciation charge | - | (6,172) | (23,262) | - | (29,434) |
| Accelerated depreciation | - | - | (29,019) | - | (29,019) |
| **Closing net book amount** | 36,997 | 65,978 | 128,898 | 41,037 | 272,910 |

## 15 Non-current assets - Intangible assets

| Consolidated entity | Goodwill $'000 | Brands $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 31 December 2012** | | | |
| Opening net book amount | - | - | - |
| Additions - acquisition | - | 114,000 | 114,000 |
| Acquisition of business | 64,928 | - | 64,928 |
| Exchange differences | | 829 | 829 |
| Closing net book amount | **64,928** | **114,829** | **179,757** |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 64,928 | 114,829 | 179,757 |
| Exchange differences | - | 3,455 | 3,455 |
| Closing net book amount | **64,928** | **118,284** | **183,212** |

* On 2 January 2012, the Group acquired the Australian and New Zealand Brands from its parent entity SCA GH BV in exchange for issuing 114.0 million ordinary shares at $1 per share. $20.4 million was acquired by the New Zealand subsidiary, PEPSCANZ Ltd; and $93.6 million was acquired by the Australian subsidiary SCA Hygiene Australia Pty Ltd. The Brands were acquired at market value. The Brands are recorded as an indefinite life intangible asset at acquisition date and are subject to annual impairment testing.

### (a) Impairment tests for indefinite lived assets

For the purposes of impairment testing, brands and goodwill acquired in a business combination are allocated to cash-generating units or groups of cash-generating units (CGUs) according to the level at which management monitors brands and goodwill.

The group tests whether goodwill and other intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1(i). The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations require use of cash flow projections based on financial budgets approved by the board covering a five year period. Cash flows beyond the five year period are extrapolated using the terminal growth rates stated below. The five year average EBITDA growth is 5%. These rates do not exceed the long-term average growth rates for the industry.

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

| | Tissue - Australia | Personal care - Australia | Tissue – New Zealand | Personal Care – New Zealand | Total |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Goodwill | 18,991 | 23,212 | 10,226 | 12,499 | 64,928 |
| Brands | 22,800 | 70,800 | 7,146 | 17,538 | 118,284 |
| | | | | | 183,212 |
| **2012** | | | | | |
| Goodwill | 18,991 | 23,212 | 10,226 | 12,499 | 64,928 |
| Brands | 22,800 | 70,800 | 6,151 | 15,078 | 114,829 |
| | | | | | 179,757 |

## 15 Non-current assets - Intangible assets (continued)

### (a) Impairment tests for indefinite lived assets (continued)

The following table presents a summary of the key assumptions used in determining the recoverable amount of each CGU:

| CGU | Terminal growth rate 2013 % | 2012 % | Pre - tax discount rate 2013 % | 2012 % |
|---|---|---|---|---|
| Tissue - Australia | **3.0** | 3.0 | **17.3** | 18.0 |
| Personal Care - Australia | **3.0** | 3.0 | **17.3** | 18.0 |
| Tissue - New Zealand | **3.0** | 3.0 | **14.2** | 14.4 |
| Personal Care - New Zealand | **3.0** | 3.0 | **14.2** | 14.4 |

In preparing the cash flow projections, the group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

## 16 Current liabilities - Trade and other payables

| | Consolidated entity 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| Trade payables | **46,905** | 28,163 |
| Amounts due to associates | **13,853** | 14,875 |
| Accrued expenses | **19,983** | 18,700 |
| Payroll tax and other statutory liabilities | **6,826** | 4,686 |
| | **87,567** | 66,424 |

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

## 17 Current liabilities - Borrowings

| | Consolidated entity 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| **Secured** | | |
| Bank loans | - | 6,300 |
| Capitalised borrowing costs | - | (4,067) |
| Total secured current borrowings | - | 2,233 |

## 18 Current liabilities - Provisions

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Employee benefits | **21,565** | 21,019 |
| Restructuring costs | **11,388** | 3,175 |
| Onerous lease provision | **1,390** | - |
| Other provisions | **1,543** | 2,015 |
| | **35,886** | 26,209 |

### (a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| **Consolidated entity 2013** | **Restructuring obligations $'000** | **Onerous lease provision $'000** | **Other provisions $'000** | **Total $'000** |
|---|---|---|---|---|
| Carrying amount at the start of the year | 3,175 | - | 2,015 | 5,190 |
| Additional provisions recognised | 5,562 | 1,390 | | 6,952 |
| Amounts used during the year | (8,424) | - | (472) | (8,896) |
| Transfer from non-current provisions | 11,014 | - | - | 11,014 |
| Foreign exchange differences | 61 | - | - | 61 |
| Carrying amount at end of period | 11,388 | 1,390 | 1,543 | 14,321 |

| **Consolidated entity 2012** | **Restructuring obligations $'000** | **Onerous lease provision $'000** | **Other provisions $'000** | **Total $'000** |
|---|---|---|---|---|
| Additional provisions recognised | 3,175 | - | 2,015 | 5,190 |
| Carrying amount at end of period | 3,175 | - | 2,015 | 5,190 |

### (b) Amounts not expected to be settled within 12 months

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $21.6 million (2012: $21.1 million) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Leave obligations expected to be settled after 12 months | **10,177** | 9,963 |

## 19 Current liabilities - Current tax liabilities

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Current tax liabilities | **37** | - |

## 20 Non-current liabilities - Borrowings

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Secured** | | |
| Bank loans | **262,299** | 236,001 |
| Capitalised borrowing costs | **(11,922)** | (11,225) |
| Total secured non-current borrowings | **250,377** | 224,776 |
| **Unsecured** | | |
| Convertible redeemable preference shares | **125,000** | 125,000 |
| Accrued interest on convertible redeemable preference shares | **40,116** | 18,579 |
| Total unsecured non-current borrowings | **165,116** | 143,579 |
| Total non-current borrowings | **415,493** | 368,355 |

### (a) Secured liabilities and assets pledged as security

The borrowings of the group are secured by a fixed and floating charge over the assets of the group.

### (b) Convertible redeemable preference shares

The convertible redeemable preference shares (CRPS) have a 9.5 year useful life and an associated coupon of 15% per annum. The CRPS is deemed a debt interest and thus classified as a liability on the balance sheet.

All convertible redeemable preference shares are repayable or redeemable at the earlier of a shareholder exit event or 9.5 years from 4 January 2012.

### (c) Financial undertakings

As at 31 December 2013, the group was compliant with all financial undertakings of the syndicated facility agreement.

## 21 Non-current liabilities - Deferred tax liabilities

| | Consolidated entity 31 December 2013 $'000 | Consolidated entity 31 December 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Property, plant and equipment | **11,920** | 4,482 |
| Employee benefits | **(6,871)** | (7,064) |
| Redundancy provision | **(2,332)** | (4,241) |
| Blackhole expenditure | **(3,490)** | (4,202) |
| Tax losses | **(1,672)** | (12,017) |
| Research and development expenditure | **(3,268)** | - |
| Intangible assets | **34,991** | 34,024 |
| Inventories | **1,121** | 3,109 |
| Other | **(9,081)** | (1,804) |
| *Other* | | |
| Cash flow hedges | **(718)** | (2,509) |
| Net deferred tax liabilities | **20,600** | 9,778 |

| | Consolidated entity | |
|---|---|---|
| **Movements:** | | |
| Opening balance | **9,778** | (8,968) |
| Charged/credited: | | |
| - profit or loss | **13,171** | (10,433) |
| - to other comprehensive income | **(1,790)** | 2,509 |
| - directly to equity | **(559)** | - |
| - acquisition due to business combinations | **-** | 26,670 |
| | **20,600** | 9,778 |

## 22 Non-current liabilities - Provisions

| | Consolidated entity 31 December 2013 $'000 | Consolidated entity 31 December 2012 $'000 |
|---|---|---|
| Employee benefits | **832** | 3,315 |
| Onerous lease provision | **2,916** | - |
| Restructuring costs | **-** | 11,014 |
| | **3,748** | 14,329 |

### (a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| **Consolidated entity** **2013** | **Restructuring obligations $'000** | **Onerous lease $'000** | **Total $'000** |
|---|---|---|---|
| Carrying amount at start of year | 11,014 | - | 11,014 |
| Additional provisions recognised | - | 2,916 | 2,916 |
| Transfer to current provisions | (11,014) | - | (11,014) |
| Carrying amount at end of period | - | 2,916 | 2,916 |

| **Consolidated entity** **2012** | **Restructuring obligations $'000** | **Onerous lease $'000** | **Total $'000** |
|---|---|---|---|
| Carrying amount at start of year | - | - | - |
| Additional provisions recognised | 11,014 | - | 11,014 |
| Transfer to current provisions | - | - | - |
| Carrying amount at end of period | 11,014 | - | 11,014 |

## 23 Contributed equity

### (a) Share capital

| | Notes | **31 December 2013 Shares** | 31 December 2012 Shares | **31 December 2013 $'000** | 31 December 2012 $'000 |
|---|---|---|---|---|---|
| Ordinary shares | | | | | |
| Ordinary shares - fully paid | 23(b) | **210,000,000** | 210,000,000 | **173,292** | 224,596 |

### (b) Movements in ordinary share capital

| Date | Details | Notes | Number of shares | Issue price | $'000 |
|---|---|---|---|---|---|
| | Opening balance | | 96,000,000 | - | 96,000 |
| 2 January 2012 | Shares Issued | (a) | 114,000,000 | - | 128,596 |
| | Closing balance | | 210,000,000 | - | 224,596 |
| | Opening balance | | 210,000,000 | - | 224,596 |
| 30 July 2013 | Return of Capital | | - | - | (50,000) |
| | | | 210,000,000 | --*--- | 174,596 |
| | Transaction costs arising on return of capital | | - | - | (1,862) |
| | Deferred tax credit recognised directly in equity | | - | - | 558 |
| | Closing balance | | 210,000,000 | - | 173,292 |

a) On 4th January 2012, the group acquired the Australian and New Zealand Brands from its parent entity SCA GH BV in exchange for issuing 114.0 million ordinary shares at $1 per share. The Brands were acquired at market value.
An adjustment to shares issued as a result of the shareholder settlement between SCA GH BV and Pacific Equity Partners Pty Ltd in accordance with the share sale and subscription agreement occurred totaling $14.6 million

On 10 July 2013, the company undertook a selective capital reduction under the Corporations Act 2001 (Cth) in respect of all Ordinary and Preference shares on issue. The amount of the capital reduction of $50.0 million resulted in a $33.3 million being returned to the holders of the Ordinary Shares and $16.7 million being returned to the holders of the Preference Shares.

Associated costs of $1.9 million relating to the capital return have been recognised as a debit to share capital in accordance with AASB 132 paragraph 37.

## 24 Other reserves and accumulated losses

### (a) Other reserves

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Cash flow hedges | **(1,710)** | (5,855) |
| Share-based payments | **624** | - |
| Foreign currency translation | **10,371** | 2,043 |
| | **9,285** | (3,812) |

| | Notes | Consolidated entity | |
|---|---|---|---|
| | | **31 December 2013 $'000** | 31 December 2012 $'000 |
| **Movements:** | | | |
| *Cash flow hedges* | | | |
| Opening balance | | **(5,855)** | - |
| Revaluation - gross | 12 | **5,935** | (8,364) |
| Deferred tax | 8, 21 | **(1,790)** | 2,509 |
| Balance 31 December | | **(1,710)** | (5,855) |
| *Share-based payments* | | | |
| Share plan expense | 35 | **624** | - |
| *Foreign currency translation* | | | |
| Opening balance | | **2,043** | - |
| Currency translation differences arising during the year | | **8,328** | 2,043 |
| Balance 31 December | | **10,371** | 2,043 |
| Total reserves at 31 December | | **9,285** | (3,812) |

### (b) Accumulated losses

Movements in retained earnings were as follows:

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Balance 1 January | **(40,260)** | (281) |
| Net profit for the period | **23,056** | (39,979) |
| Balance 31 December | **(17,204)** | (40,260) |

### (c) Nature and purpose of other reserves

*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 note 1(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

*ii Foreign currency translation*

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## 25 Key management personnel disclosures

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity. The following Directors and Executives were considered KMP for the entire period unless otherwise stated.

**a) Directors**

| | |
|---|---|
| B Riede | Ceased as director 14 March 2014 |
| J Persson | |
| A Duthie | |
| C Blanks | |
| M Schmidt | Appointed 14 March 2014 as alternate director for M Berencreutz |
| N Lindholm | Appointed 14 March 2014 as alternate director for J L Persson |
| M Berencreutz | Appointed 14 March 2014 |

**b) Executives**

*2013*

| | |
|---|---|
| P Diplaris | Chief Executive Officer |
| P Townsend | Chief Financial Officer |
| S Pannell | Executive General Manager Consumer Tissue and Baby |
| A Phillips | Executive General Manager Personal Care |
| S Takla | Executive General Manager Professional Hygiene |

*2012*

| | |
|---|---|
| P Diplaris | Chief Executive Officer |
| P Townsend | Chief Financial Officer (commenced as KMP 23/7/2012) |
| A Crane | Chief Financial Officer (ceased as KMP 23/6/2012) |
| T Lewin | Executive General Manager Professional Hygiene (ceased as KMP 1/3/2012) |
| S Pannell | Executive General Manager Consumer Tissue |
| A Phillips | Executive General Manager Personal Care (commenced as KMP 4/6/2012) |
| S Takla | Executive General Manager Professional Hygiene and Pacific Islands (commenced as KMP 01/4/2012) |

*2011*

| | |
|---|---|
| P Diplaris | Chief Executive Officer |
| A Crane | Chief Financial Officer |
| T Lewin | Executive General Manager Professional Hygiene |
| S Pannell | Executive General Manager Consumer Tissue |

**(a) Key management personnel compensation**

| | **Consolidated entity Year ended** | | |
|---|---|---|---|
| | **31 December 2013** | 31 December 2012 | 31 December 2011 |
| | **$** | $ | $ |
| Short-term employee benefits | **3,327,491** | 2,058,004 | 34,291 |
| Post-employment benefits | **119,596** | 164,476 | 2,533 |
| Long-term benefits | **-** | 254,418 | 5,445 |
| Termination benefits | **-** | 936,257 | 23,068 |
| Share-based payments | **14,535,686** | - | - |
| | **17,982,773** | 3,413,155 | 65,337 |

## 25 Key management personnel disclosures (continued)

### (b) Loans from key management personnel

Details of loans made from directors and other key management personnel of the group are set out below.

| | Consolidated entity Year ended | |
|---|---|---|
| | **31 December 2013 $** | 31 December 2012 $ |
| Beginning of year | **-** | - |
| Loans provided | **970** | - |
| Repayments made | **-** | - |
| End of year | **970** | - |

All loans represent convertible redeemable preference shares (CRPS) and have a 9.5 year useful life and an associated coupon of 15% per annum.

All convertible redeemable preference shares are repayable or redeemable at the earlier of a shareholder exit event or 9.5 years from 4 January 2012.

## 26 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

| | Consolidated entity Year ended | | |
|---|---|---|---|
| | **2013 $** | 2012 $ | 2011 $ |
| *Audit and other assurance services* | | | |
| Audit and review of financial statements | **398,525** | 472,000 | - |
| Other assurance services | **39,000** | 91,269 | - |
| Total remuneration for audit and other assurance services | **437,525** | 563,269 | - |
| *Taxation services* | | | |
| Tax compliance services and review of company income tax returns | **153,600** | 56,367 | - |
| Tax consulting services and advice | **681,784** | 168,985 | - |
| Total remuneration for taxation services | **835,384** | 225,352 | - |
| *Other services* | | | |
| Consulting services | **384,600** | 463,169 | - |
| Total remuneration for other services | **384,600** | 463,169 | - |
| Total remuneration for PricewaterhouseCoopers Australia | **1,657,509** | 1,251,790 | - |

### (b) Network firms of PricewaterhouseCoopers Australia

| | Consolidated entity Year ended | | |
|---|---|---|---|
| | **2013 $** | 2012 $ | 2011 $ |
| *Audit and other assurance services* | | | |
| Audit and review of financial statements | **10,436** | 10,024 | - |
| Audit of regulatory returns | **641** | - | - |
| Total remuneration for audit and other assurance services | **11,077** | 10,024 | - |
| *Taxation services* | | | |
| Tax compliance services and review of company income tax returns | **12,425** | 29,118 | - |
| Total remuneration for other services | **12,425** | 29,118 | - |
| Total remuneration of network firms of PricewaterhouseCoopers Australia | **23,502** | 39,142 | - |
| **Total auditors' remuneration** | **1,681,011** | 1,290,932 | - |

## 27 Contingencies

The group had no contingent liabilities at 31 December 2013 (2012: nil).

## 28 Commitments

### (a) Capital commitments

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

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| Property, plant and equipment | **14,532** | 1,195 |

*(i) Non-cancellable operating leases*

| | Consolidated entity Year ended | | |
|---|---|---|---|
| | **2013 $** | 2012 $ | 2011 $ |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | |
| Within one year | **13,058** | 11,193 | 4,159 |
| Later than one year but not later than five years | **34,305** | 28,227 | 4,572 |
| Later than five years | **8,064** | 2,351 | 852 |
| | **55,427** | 41,771 | 9,583 |

## 29 Related party transactions

### (a) Parent entities

The parent entity of the group is Asaleo Care Ltd, jointly owned by SCA Group Holding BV (50%) and PEP* (50%).

*PEP
- Pacific Equity partners Fund IV GP (Jersey) Limited
- Pacific Equity Partners Fund IV (Australasia) Pty Ltd
- Eagle Co-Investment Pty Ltd
- PEPSCA Employee Pty Ltd, as trustee for the PEPSCA Employee Unit Trust (Trustee)
- PEP Investment Pty Limited

### (b) Subsidiaries

Interests in subsidiaries are set out in note 31.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

### (d) Transactions with other related parties

The following transactions occurred with related parties:

| | **Consolidated entity year ended** | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| *Purchases of goods* | | | |
| Purchases of materials and goods from other related parties | **35,104** | 44,197 | 701 |
| *Sale of goods* | | | |
| Sale of materials and goods to other related parties | **2,346** | 3,644 | - |
| *Other transactions* | | | |
| Management Fees - PEP Advisory IV Pty Ltd | **2,044** | 2,000 | - |
| Management Fees - Svenska Cellulosa Aktiebolaget AB | **2,044** | 2,000 | - |
| Royalties - SCA Hygiene Products AB | **5,750** | 5,405 | - |
| Other services - PEP Advisory IV Pty Ltd | **170** | 2,973 | - |
| Other services - Pacific Equity Partners Pty Limited | **139** | 327 | - |
| Other services - Svenska Cullulosa Aktiebolaget AB | **-** | 2,850 | 366 |

### (e) Outstanding balances

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

| | **Consolidated entity** | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| *Current receivables and payables (sales / purchases of goods)* | | |
| Payable to related parties | **13,853** | 14,875 |
| Receivable from related parties | **2,900** | 2,900 |

## 29 Related party transactions (continued)

### (f) Loans to/from related parties

| | Consolidated entity | |
|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 |
| *Loans from related parties* | | |
| Beginning of the year | **4,000** | 234,907 |
| Loans received | - | 4,000 |
| Loans repayments | **(4,000)** | (234,907) |
| End of period | - | 4,000 |
| *Convertible redeemable preference shares* | | |
| Beginning of the year | **143,579** | - |
| Loans drawn down | - | 125,000 |
| Interest charged | **21,537** | 18,579 |
| End of period | **165,116** | 143,579 |

### (g) Terms and conditions

Transactions relating to issue of 125.0 million convertible redeemable preference shares (CRPS) in Asaleo Care Ltd at $1, to the PEP group of companies, have a 9.5 year life and an associated coupon of 15% per annum. The CRPS is deemed a debt interest and classified as a liability on the balance sheet. All convertible redeemable preference shares are repayable or redeemable at the earlier of a shareholder exit event or 9.5 years from 4 January 2012.

All other transactions were made at normal commercial terms and conditions and at market rates.

## 30 Business combination

During the previous financial year ended 31 December 2012, Asaleo Care Ltd, through its wholly owned subsidiary, AHACS Pty Ltd, acquired PEPSCANZ Ltd and SCA Hygiene Australia Pty Ltd. The purchase consideration was finalised during the year ended 31 December 2012 and no changes have occurred to the final net asset valuation and allocation of the purchase price to acquired assets and fair values assigned to intangibles during the year ended 31 December 2013. Details of the acquisition are as follows:

### (a) Summary of acquisition

*(i) Acquisition of SCA Hygiene Australia Pty Ltd and subsidiaries (SCAHAPL) and SCA Hygiene Holding Limited (SCAHH)*

On 4 January 2012, Svenska Cellulosa Aktiebolaget AB (SCA AB) entered into a joint venture arrangement with Pacific Equity Partners Pty Ltd (PEP). Under the terms of the arrangement PEP and SCA AB each holds 50% interest in the PEPSCA group. The key elements of the transaction are detailed below.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | SCAHH 22 Dec 2011* | SCAHAPL 4 Jan 2012 | Total $'000 |
|---|---|---|---|
| Purchase consideration (refer to (b) below): | | | |
| Purchase consideration | 95,876 | 253,720 | 349,596 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | SCAHH 22 Dec 2011* | SCAHAPL 4 Jan 2012 | Total $'000 |
|---|---|---|---|
| Cash | 7,662 | 11,700 | 19,362 |
| Trade receivables | 14,461 | 28,034 | 42,495 |
| Inventories | 43,094 | 107,849 | 150,943 |
| Plant and equipment | 71,918 | 233,462 | 305,380 |
| Deferred tax asset | 20,400 | 93,600 | 114,000 |
| Intangible assets: brands | 8,968 | 5,218 | 14,186 |
| Trade payables | (18,721) | (44,927) | (63,648) |
| Interest bearing liabilities | - | (235,000) | (235,000) |
| Provisions | - | (205) | (205) |
| Derivative financial liabilities | (2,537) | (19,453) | (21,990) |
| Deferred tax liability | (5,712) | (35,144) | (40,856) |
| Net identifiable assets acquired * | **139,533** | **145,134** | **284,667** |
| Add: goodwill | (43,657) | 108,586 | 64,929 |
| Net assets acquired * | **95,876** | **253,720** | **349,596** |

*Acquisition date was 22 December 2011; however balances shown include fair value adjustments made during 2012.

## 30 Business combination (continued)

### (a) Summary of acquisition (continued)

*(i) Acquisition of SCA Hygiene Australia Pty Ltd and subsidiaries (SCAHAPL) and SCA Hygiene Holding Limited (SCAHH) (continued)*

(a) On 22 December 2011, PEPSCANZ Ltd acquired 100% of the issued share capital of SCAHH Limited and its subsidiaries. The consideration was $71.7 million which was settled by way of a promissory note. This transaction was accounted for at book value under common control in the 2011 financial statements due to the proximity of the transaction to year end. Subsequent to year end, fair value adjustments have been made to the acquired assets and liabilities. At 31 December 2011, a credit was taken to Reserves of $62.5 million. However, following various acquisition accounting adjustments, the final discount on acquisition was $43.7 and has been considered in conjunction with the acquisition of SCAHAPL for total goodwill arising of $64.9 million.

(b) On 2 January 2012, the group acquired Australian and New Zealand Brands from its parent entity SCA GH BV in exchange for issuing 114.0 million ordinary shares at $1 per share. The Brands were acquired at market value. The Brands are recorded as an indefinite life intangible asset at acquisition date and will be subject to annual impairment testing.

(c) SCA GH BV/SCA Holland and PEP entered into a joint venture arrangement on 4 January 2012. PEP acquired 50% of the existing ordinary shares in Asaleo Care Ltd for $105.0 million. SCA Holland sold its 1 share to PEP and therefore, the two joint venture parties are SCA GH BV and PEP.

(d) The PEP group of companies subscribed for 125.0 million new convertible redeemable preference shares (CRPS) in Asaleo Care Ltd at $1 per preference share on 4 January 2012. The CRPS have a 9.5 year life and an associated coupon of 15% per annum. The CPRS is deemed a debt interest and classified as a liability on the balance sheet.

(e) Asaleo Care Ltd acquired SCAHAPL on 4 January 2012 from SCA GH BV. The consideration paid to SCA GH BV was $149.3 million which is satisfied from the $125.0 million raised from the CRPS and a $24.3 million promissory note.

(f) The group drew down $275.0 million of debt from a syndicated banking facility on 4 January 2012. These funds were used to repay outstanding SCA Finans AB and SCA GH BV loans and used for joint venture transaction costs.

(g) A completion settlement occurred between SCA GH BV and PEP of $14.6 million, resulting in additional purchase consideration for SCAHAPL of $10.5 million and SCA Hygiene Holding Limited of $3.8 million. This is a non-cash transaction for the PEPSCA group.

Although this transaction occurred over a financial year-end, in substance the business combination occurred on 4 January 2012. As a result the assets and liabilities of both PEPSCANZ Ltd and SCAHAPL have been restated to fair value upon acquisition. The fair value adjustments have been recognised in the 2012 financial statements, which resulted in goodwill for the acquired group to the value of $64.9 million.

Acquisition costs of $11.9 million are recognised in the income statement for the period ended 31 December 2012. Further transaction costs have been recognised in prior periods.

### (b) Purchase consideration - cash outflow

| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
|---|---|---|---|
| Outflow of cash to acquire subsidiary, net of cash acquired | | | |
| Cash consideration | - | 125,000 | - |
| Less: balances acquired | | | |
| Cash | - | (11,700) | (7,662) |
| Outflow of cash - investing activities | - | 113,300 | (7,662) |

## 31 Subsidiaries and transactions with non-controlling interests

### (a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of entity | Country of incorporation | PEPSCA group's interest | |
|---|---|---|---|
| | | **2013** | 2012 |
| | | **%** | % |
| AHACS Pty Ltd* | Australia | **100** | 100 |
| SCA Hygiene Australia Pty Ltd* | Australia | **100** | 100 |
| Australasian Health Services Pty Ltd | Australia | **100** | 100 |
| SCA Tissue Australia Pty Ltd* | Australia | **100** | 100 |
| SCA Hygiene Australasia Pty Ltd* | Australia | **100** | 100 |
| Sancella (Holdings) Pty Ltd* | Australia | **100** | 100 |
| Sancella Pty Ltd* | Australia | **100** | 100 |
| SCA Holdings Fiji Limited | Fiji | **100** | 100 |
| SCA Hygiene Australasia Limited | Fiji | **100** | 100 |
| PEPSCANZ Limited | New Zealand | **100** | 100 |
| SCA Hygiene Holding Limited | New Zealand | **100** | 100 |
| SCA Hygiene Australasia Limited | New Zealand | **100** | 100 |

*These subsidiaries have entered into an approved deed for the cross guarantee of debts, refer note 32.

## 32 Deed of cross guarantee

AHACS Pty Ltd, SCA Hygiene Australia Pty Ltd, SCA Tissue Pty Ltd, SCA Hygiene Australasia Pty Ltd, Sancella (Holdings) Pty Ltd and Sancella Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by AHACS Pty Ltd they also represent the 'extended closed group'.

On 18th December 2013 AHACS Pty Ltd, SCA Hygiene Australia Pty Ltd, SCA Tissue Pty Ltd, SCA Hygiene Australasia Pty Ltd, Sancella (Holdings) Pty Ltd and Sancella Pty Ltd entered into a deed of cross guarantee and the previous deed of cross guarantee between SCA Hygiene Australia Pty Ltd, SCA Hygiene Australasia Pty Ltd, Sancella (Holdings) Pty Ltd and Sancella Pty Ltd was revoked and therefore no comparative disclosures required.

## 32 Deed of cross guarantee (continued)

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

Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 31 December 2013 of the closed group consisting of AHACS Pty Ltd, SCA Hygiene Australia Pty Ltd, SCA Tissue Pty Ltd, SCA Hygiene Australasia Pty Ltd, Sancella (Holdings) Pty Ltd and Sancella Pty Ltd.

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| *Consolidated income statement* | | |
| Revenue from continuing operations | **478,568** | - |
| Cost of sales of goods | **(284,972)** | - |
| Distribution expenses | **(58,792)** | - |
| Sales and marketing expenses | **(40,148)** | - |
| Administrative expenses | **(20,376)** | - |
| Other expenses | **(45,506)** | - |
| **Profit before income tax** | **28,774** | - |
| Income tax expense | **(9,821)** | - |
| **Profit for the period** | **18,953** | - |
| **Other comprehensive income** | | |
| **Profit for the period** | **18,953** | - |
| *Items that may be reclassified to profit or loss* | | |
| Changes in the fair value of cash flow hedges | **(6,432)** | - |
| Income tax relating to these items | **1,929** | - |
| **Other comprehensive income for the period, net of tax** | **(4,503)** | - |
| **Total comprehensive income for the period** | **14,450** | - |

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| ***Summary of movements in consolidated retained earnings*** | | |
| **Retained earnings at the beginning of the financial year** | **(10,985)** | - |
| Profit for the year | **18,953** | - |
| Dividends paid | **(50,000)** | - |
| **Retained losses at the end of the financial year** | **(42,032)** | - |

## 32 Deed of cross guarantee (continued)

### (b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 31 December 2013 of the closed group consisting of Asaleo Care Ltd.

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **35,436** | - |
| Trade and other receivables | **30,976** | - |
| Inventories | **90,384** | - |
| Derivatives financial instruments | **4,612** | - |
| **Total current assets** | **161,408** | - |
| | | |
| **Non-current assets** | | |
| Property, plant and equipment | **239,126** | - |
| Intangible assets | **200,135** | - |
| Other financial assets | **32,647** | - |
| **Total non-current assets** | **471,908** | - |
| | | |
| **Total assets** | **633,316** | - |
| | | |
| **Current liabilities** | | |
| Trade and other payables | **59,429** | - |
| Borrowings | **30,631** | - |
| Derivative financial instruments | **1,962** | - |
| Provision | **15,202** | - |
| **Total current liabilities** | **107,224** | - |
| | | |
| **Non-current liabilities** | | |
| Borrowings | **172,209** | - |
| Deferred tax liabilities | **20,465** | - |
| Provisions | **8,764** | - |
| Derivative financial instruments | **3,908** | - |
| **Total non-current liabilities** | **205,346** | - |
| | | |
| **Total liabilities** | **312,570** | - |
| | | |
| **Net assets** | **320,746** | - |
| | | |
| **Equity** | | |
| Contributed equity | **349,596** | - |
| Other reserves | **13,182** | - |
| Retained earnings | **(42,032)** | - |
| **Total equity** | **320,746** | - |

### (c) Correction to accounts

Post lodgment to ASIC of the year ended 31 December 2013 Asaleo Care Ltd (formerly PEPSCA Pty Ltd) consolidated financial statements, it was noted that the share based payment expense had been erroneously recognised in the parent entity accounts refer to note 36(f) for further information.

As Asaleo Care Ltd is not a party to the deed of cross guarantee this note has been corrected to include the share based payment expense and related tax impact to the closed group. The closed group recognises this Long term Incentive scheme as equity settled as there is there is no obligation to settle with the employees or transfer economic benefits to Asaleo Care Ltd. As a consequence the closed group has increased its reserves by $15,028,929 and reduced its deferred tax liability balance by $5,173,367. The corresponding impact is to decrease profit before tax by $14,079,373 and profit after tax by $9,855,562.

## 33 Events occurring after the reporting period

Subsequent to year end the following occurred:

- On 19 February 2014, participants in the Long Term Management Incentive Plan (MIP) agreed with the Company to deal with the cash payments made on an IPO Event as follows: a third of the aggregate post-tax cash payment will be paid to participants at the time of an IPO Event without restriction, the remaining two-thirds of the aggregate post-tax cash payment will be applied to acquire shares in the Company. 50% of the shares acquired will be held in escrow for a period of 12 months and the remaining 50% held in escrow for 24 months. The participants have agreed to the buy-back or directed transfer of the shares subject to the escrow period for nil consideration if they resign or their employment is terminated for serious misconduct unless otherwise determined by the Board in specific circumstances

- On 26 February 2014, the Company entered into a new leveraged finance facility and subsequent return of capital to shareholders. Additional senior debt of $250.4 million was taken up as long-term borrowings. Consequently, borrowing costs of $11.2 million which had previously been capitalised and amortised over the life of the finance facility were written off as they related to the debt facility which was no longer in existence. A $250.8 million return of capital was paid to shareholders on the same date, split between ordinary and preference share holdings in proportion to their relevant shareholding. Upon the Capital Return the $125 million Preference Share liability was extinguished, with the accrued coupon outstanding.

- On 1 April 2014, following a due diligence process, the consolidated entity sold the land and buildings at the Hamilton site to Proform Plastics Limited. The disposal of assets resulted in a net profit on disposal of approximately NZD$3.0 million.

- On 23 April 2014 the Company committed to refinance the leveraged finance facility on the successful completion of an initial public offering.

- On 19 May 2014 shareholder approval was obtained to proceed with preparations for an initial public offering (IPO) and ASX listing of Asaleo Care Ltd in or around June 2014. An IPO constitutes a 'Trigger Event' under the terms of the issue of the Preference Shares, and therefore results in redemption or conversion of the Preference Shares on IPO.

- On 22 May 2014 the company lodged notification of change of name from PEPSCA Pty Ltd to Asaleo Care Ltd as well as an application for change of company status to a public company.

## 34 Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated entity year ended | | |
|---|---|---|---|
| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
| Profit / (loss) for the period | **23,056** | (39,979) | (281) |
| Depreciation and amortisation | **27,292** | 29,434 | 172 |
| Accelerated depreciation of property, plant and equipment | **(3,058)** | 29,019 | - |
| Net (gain) loss on sale of non-current assets | **-** | 137 | - |
| Change in operating assets and liabilities: | | | |
| (Increase) / Decrease in tax balances | **10,853** | 18,746 | 109 |
| (Increase) / Decrease in trade debtors and other receivables | **(541)** | 6,083 | - |
| (Increase) / Decrease in inventories | **(10,120)** | (84,171) | - |
| Increase / (Decrease) increase in trade creditors and other provisions | **55,646** | 141,091 | - |
| **Net cash inflow from operating activities** | **103,128** | 100,360 | - |

## 35 Share based payments

### (a) Long Term Management Incentive Plan (MIP)

Participating Executives were issued units in a private-equity-styled long term incentive plan. The MIP Plan was implemented 12 months following the establishment of Asaleo Care Ltd and is driven by the price obtained on exit, and Internal Rate of Return and Multiple of Monday performance hurdles.

The MIP was established to provide incentives to attract, retain and motivate eligible staff whose present and potential contributions are considered important to the success of the Company by offering them an opportunity to participate in the Company's future performance through cash bonuses awarded under the MIP upon an Exit Event by the PEP investors.

An exit event is defined as the full disposal by the PEP Investors of all of their shareholding or other investment in the Company. The Shareholders Deed notes a shareholder must not transfer equity securities at any time during a 3 year standstill period (except with the consent of other ordinary shareholders, or in other limited circumstances).

The assumed exit date for the calculation below is based on the abovementioned standstill period, which is expected to be 4 January 2015.

*Fair value of performance rights*

The assessed fair value of the MIP entitlements granted during the year ended 31 December 2013 was $1.21 per entitlement. The fair value at grant date is independently determined using an expected returns approach that takes into account the exercise price, the expected term of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right. Under the plan, the rights will vest upon an exit event and participants must maintain their service period until such time as an exit event occurs. The Board retains sole discretion to determine if a MIP participant is entitled to the rights under extenuating circumstances relating to a shorter service period.

The MIP is a cash-settled plan which is fair valued at each reporting date with a corresponding adjustment to the liability. The following are the inputs to the model for MIP entitlements granted during the year ended 31 December 2013. In addition, participants earn additional qualifying MIP Entitlements on a progressive scale based on the ultimate multiple of money and investor rate of return generated on an exit event. The model is sensitive to movements in the inputs.

(i) Rights are granted for no consideration and vest upon an exit event
(ii) Grant date: 31 January 2013
(iii) Share price at grant date: $1.07
(iv) Risk free interest rate: 4.2%
(v) Exit multiple: consistent with selected peers EBITDA multiple

### (b) Employee Unit Plan (EUP)

The purpose of this plan is to ensure alignment with shareholders to share in the risk and reward associated with being an equity investor. Eligible Persons whose present and potential contributions are important to the success of the company were invited to subscribe for units in the Unit Trust which will hold shares on their behalf.

The PEP shareholders transferred the relevant Ordinary and Preference shares to the Trustee in return for a purchase price equivalent to the application price payable of $1.07 per ordinary share and $1.00 per preference share. The application price was received from the Eligible Persons by the Trustee. The Trustee is a related party of the PEP entities.

As the preference shares are considered debt for accounting purposes, the EUP gives rise to loans to KMP and directors as stated in note 25.

## 35 Share based payments (continued)

### (b) Employee Unit Plan (EUP) (continued)

The EUP is an equity-settled plan with no service period requirement. The fair value of the shares was calculated using the following assumptions:

(i) Units were granted at the application price
(ii) Grant date: 31 March 2013
(iii) Share price at grant date: $1.07
(iv) Preference share price at grant date: $1.00
(v) Risk free interest rate: 4.2%
(vi) Exist multiple: consistent with selected peers EBITDA multiple

The number of shares transferred during 2013 under the EUP was as follows:

| | **31 December 2013** |
|---|---|
| | Number of shares |
| Ordinary Shares | 685,527 |
| Preference Shares | 816,485 |

The share based payment is generated from the difference between the application price and the fair value of the ordinary shares.

### (c) 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 were as follows:

| | **31 December 2013 $'000** |
|---|---|
| Long Term Management Incentive Plan | 17,245 |
| Employee Unit Plan | 624 |
| Total Share Based Payment expense | 17,869 |

## 36 Parent entity financial information

### (a) Summary financial information

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

| | **31 December 2013 $'000** | 31 December 2012 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **5,431** | - |
| Non-current assets | **371,608** | 356,418 |
| Total assets | **377,039** | 356,418 |
| Current liabilities | **7,972** | 8,233 |
| Non-current liabilities | **182,361** | 143,579 |
| Total liabilities | **190,333** | 151,812 |
| Net Assets | **186,706** | 204,606 |
| *Shareholders' Equity* | | |
| Issued capital | **173,292** | 224,596 |
| *Reserves* | | |
| Share-based payments | **624** | - |
| Dividend appropriation | **32,780** | - |
| Accumulated losses | **(19,990)** | (19,990) |
| | **186,706** | 204,606 |

| | **31 December 2013 $'000** | 31 December 2012 $'000 | 31 December 2011 $'000 |
|---|---|---|---|
| **Comprehensive income** | | | |
| Profit or loss for the period | **32,780** | (19,990) | - |
| Total comprehensive income | **32,780** | (19,990) | - |

### (b) Guarantees entered into by the parent entity

The parent entity has not provided financial guarantees as at 31 December 2013 or 31 December 2012.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2013 or 31 December 2012. For information about guarantees given by the parent entity, please see above.

### (d) Contractual commitments for the acquisition of property, plant or equipment

As at 31 December 2013 the parent entity had no contractual commitments for the acquisition of property, plant or equipment (31 December 2012: nil).

### (e) Investments

Asaleo Care Ltd holds an investment in AHACS Pty Ltd and its subsidiaries to the value of $349.6 million (2012:$349.6 million).

### (f) Correction to accounts

Post lodgement to ASIC of the year ended 31 December 2013 Asaleo Care Ltd (formerly PEPSCA Pty Ltd) consolidated financial statements, it was noted that the share based payment expense of $17,244,558 had been erroneously presented in this note for the year ended 31 December 2013. As the participants in the Long Term Incentive scheme are employed by the group entity SCA Hygiene Australasia Pty Ltd, the share based payment expense should have been recognised in the employing entity, rather than in the entity Asaleo Care Ltd.

As a result in these financial statements this note for 31 December 2013 was corrected to exclude the share based payment expense, as well as the related tax impact. As a consequence, in this note, non-current assets were increased by $17,244,558, representing an increase in investment in subsidiaries. The related deferred tax asset of $5,173,367, also disclosed in non-current assets, has been reversed. The impact is to present in this note profit after tax of the company higher by $12,071,191.

We note there is no accounting error in the lodged 31 December 2013 Asaleo Care Ltd consolidated statement of comprehensive income or consolidated balance sheet and the accounting error that has arisen pertains to this note and the "Deed of Cross Guarantee" note only.

In order to ensure that the company is in a position, should the directors so resolve at an appropriate future time, to pay dividends out of 2013 profits, the 2013 profits of the company were transferred to a dividend appropriation reserve with a view to having that reserve available (and irrespective of the future financial performance of the company) for the future payment of dividends, subject to the payment complying at that time with section 254T of the Corporations Act. This reserve was erroneously not disclosed in this note and has now been corrected to disclose Accumulated losses and the Dividend appropriation reserve separately.

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 61 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 2013 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 note 32 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 note 32.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

A Duthie
Director

C Blanks
Director

Melbourne
29 May 2014

# Independent auditor's report to the members of Asaleo Care Limited (formerly known as PEPSCA Pty Ltd)

## *Report on the financial report*

We have audited the accompanying financial report of Asaleo Care Limited (the company), which comprises the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Asaleo Care Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion, the financial report of Asaleo Care Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

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

## *Emphasis of matter*

Without qualifying our opinion, we draw attention to the following matter. As indicated in Note 36 (f), the financial report of Asaleo Care Limited has been revised and reissued. This audit report supersedes our audit report on the previously issued financial report, dated 30 April 2014.

PricewaterhouseCoopers

PricewaterhouseCoopers

Lisa Harker

Lisa Harker
Partner

Melbourne
29 May 2014