

Directors' Report

The Directors present their report together with the Financial Report of Asaleo Care Limited (the Company) and its controlled entities (the Group), for the year ended 31 December 2019 and the Auditor's Report thereon. Directors, including their qualifications and experience can be found on pages 48–49 of this Report.

Directors' Meetings

The following table sets out Board and Board Committee meetings during 2019 and Directors' attendance:

	BOARD MEETING	AUDIT & RISK COMMITTEE	NOMINATION & GOVERNANCE COMMITTEE	REMUNERATION & HR COMMITTEE
NO. OF MEETINGS HELD	9	5	2	5
Attendance				
Harry Boon	9	5	2	5
Mats Berencreutz	9	N/A	2	5
Robert Sjostrom*	6	3	1	N/A
Marie-Laure Mahé^	3	N/A	1	N/A
Sue Morphet	9	5	2	5
JoAnne Stephenson	9	5	2	5
Sid Takla	9	N/A	N/A	N/A

*Resigned effective 20 August 2019

^Appointed effective 20 August 2019

Directors' Skills and Experience

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

SKILLS/ EXPERIENCE	NO. OF DIRECTORS	SKILLS/ EXPERIENCE	NO. OF DIRECTORS
Personal care and hygiene	3	Health, safety and environment	4
Industrial/manufacturing	5	Business development	6
Paper industry	4	Accounting and finance	2
Distribution and logistics	3	Governance/risk management	6
FMCG and retail	5	Human resources	6
B2B	3	Executive management and leadership	6
Sales and marketing	5		

Principal Activities

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

Company and Financial Overview

A Company and Financial Overview can be found on page 47 of this Report.

Significant Changes in State of Affairs

On 29 March 2019 the Company completed the sale of its Australian Consumer Tissue business to Solaris Paper Pty Ltd.

Environmental Regulation and Performance

In 2019 there were no material breaches by the Company of the significant environmental legislation and regulations which applied to its Australian operations.

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

- ✦ Reported energy consumption and greenhouse gas emissions from its operations according to the *National Greenhouse and Energy Reporting Act 2007*.
- ✦ Performed source of origin and traceability due diligence on regulated timber-based products imported into Australia according to the requirements of the *Illegal Logging Prohibition Act 2012*.

Principal Risks

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

RISK	RISK DESCRIPTION	MANAGEMENT OF RISK
Key retail customers have significant market power	Asaleo Care generates a portion of its revenue from major supermarkets. Key retail customers could use their commercial leverage to push for lower prices and demand higher trade discounts, as well as impose additional commercial and operational conditions relating to safety, environment, social and other sustainability issues.	<p>The Company has a diversified product range and customer channels to mitigate the consequence of a single customer being disruptive. Currently over half of the Group's profit is derived from its B2B business.</p> <p>The Company actively and continuously engages with customers to retain competitive margins that satisfy Asaleo Care and the customer.</p> <p>The Company is investing in its brands and maximising brand loyalty to ensure high demand for Asaleo Care products to minimise risk of retail customer disruption.</p>
Competition may increase	Asaleo Care's market share may decline due to competitor activity, new competitors entering the market or if competitors release more advanced products that result in reduced market share.	The Company is well placed to leverage its local manufacturing footprint, regional experience and partnership with our cornerstone shareholder Essity to ensure a competitive advantage. Further, Asaleo Care's innovation program is active and provides market leading products.

RISK	RISK DESCRIPTION	MANAGEMENT OF RISK
Brand names may diminish in reputation or value	Asaleo Care is reliant on the reputation of its key brands. Any factors or events that diminish the reputation of the Company, its key brands or related trademarks or intellectual property may adversely affect the operating and financial performance of the Company.	Brand health is actively monitored by reviewing market performance data, investing in consumer and market research to identify issues and trends and internal quality control procedures. These findings form the Company's monitoring activity, drive the marketing strategy and areas of brand investment. The Company has significantly increased its investment in key brands during 2019.
Increases in prices for raw materials, supplies and services	Asaleo Care relies on various procurement relationships for the supply of pulp, transport and logistics, packaging, engineering, marketing, energy and utilities services. The Company is exposed to risks associated with the availability/price of raw materials and inputs, some of which have been subject to price volatility in the past.	Asaleo Care has a dedicated procurement team who are responsible for fostering strong supply relationships, negotiating to minimise costs with suppliers without impacting quality, and identifying and performing due diligence over alternate sources of supply.
Adverse movements in exchange rates may occur	Asaleo Care's financial reports are prepared in Australian dollars. However, a portion of the Company's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in New Zealand and Fijian dollars. Asaleo Care also sources raw materials and finished goods in other currencies, primarily euros and US dollars.	The Company's Treasury function implements a hedging policy for the foreign exchange purchases exposure, which operates on a 12-month rolling basis. The hedging of future foreign exchange cash flows protects Asaleo Care from sudden impacts on its cost base.
Disruptions to the Company's manufacturing capacity	Asaleo Care manufactures its products at four sites across Australia, New Zealand and Fiji. A disruption at any of these facilities could adversely affect production capacity and earnings. Approximately 48% of Asaleo Care's employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may emerge out of the renegotiation and renewal process.	The Company has a robust maintenance program for all manufacturing sites. The Company identifies and tests alternate suppliers to manufacture products. The Company actively manages stock levels to ensure adequate cover. Asaleo Care implements an employee relations strategy, which includes management of relationships with employees and unions, and agreement renewal planning in order to minimise risk of disputes.
Product recalls and liability	Poor product quality, contamination or an extortion threat on the basis of alleged or actual contamination of one or more of the Company's products may lead to product recalls or liabilities to consumers.	Asaleo Care has procedures and policies in place to ensure compliance with quality standards and to ensure its products are free from contamination. Asaleo Care's quality specifications are documented and regularly tested. Employees are trained in their roles and responsibilities for product quality. Further, Asaleo Care monitors customer feedback and investigates and addresses quality issues where appropriate.

RISK	RISK DESCRIPTION	MANAGEMENT OF RISK
Essity may not renew its Licensing Agreement or Supply Agreement with Asaleo Care	<p>Asaleo Care has a number of commercial agreements with Essity, including a Trade Mark and Technology Licence Agreement (TMTLA) and a Supply Agreement. Under the TMTLA, Asaleo Care pays Essity a royalty for the exclusive licence to use certain brands (including Tork and TENA) and technology in Australia, New Zealand and specified countries in the Pacific region. This agreement has an expiry date of 2027; however, there is an option to extend it to 2032 by mutual agreement.</p> <p>The Supply agreement captures the supply of key products from Essity. The Supply agreement terminates if the TMTLA expires or is terminated.</p>	<p>The Company maintains a strong connection and relationship with Essity and strives to maximise sales of Tork and TENA products in Australia, New Zealand and specified countries in the Pacific region. There are regular meetings between the companies covering a range of subject matters.</p> <p>The Company continues to explore opportunities to maximise its 'in-house' capability.</p>

Likely Developments

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

Subsequent Events

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

Proceedings on Behalf of Company

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

Dividends

No dividend was paid during the 2019 financial year.

Subsequent to the end of the 2019 financial year, Directors declared a final ordinary dividend of \$10.9 million (2.0 cents per ordinary share) to be paid on 3 April 2020, for the year ended 31 December 2019 out of the Asaleo Care Ltd dividend appropriation reserve.

Depending on available profits and the financial position of the Company, the Directors intend to payout surplus cash to shareholders.

Share Options

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

Indemnification and Insurance of Officers

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

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

Loans to Executives and Directors

No loans were made to executives or Non-Executive Directors during the year ended 31 December 2019.

Corporate Governance Statement

The Company's Corporate Governance Statement discloses how the Company complies with the recommendation of the ASX Corporate Governance Council (4th edition) and sets out the Company's main corporate governance practices. This Statement has been approved by the Board and is current as at 18 February 2020. The Statement is available on the Company's website at www.asaleocare.com.

Indemnification of Auditors

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

Non-Audit Services

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

	2019 \$	2018 \$
Other assurance services	16,000	15,924
<i>Taxation services</i>		
Tax compliance services and review of company income tax returns	66,050	77,888
Tax assistance with transaction	453,874	289,361
<i>Other tax services</i>	407,521	–
Total remuneration for taxation services	927,445	367,249
<i>Other services</i>		
Due Diligence assistance	211,000	325,001

Network firms of PricewaterhouseCoopers Australia

<i>Taxation services</i>		
Tax compliance services and review of company income tax returns	33,524	21,140
<i>Other services</i>		
Consulting services	33,122	–

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

Rounding

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