Chairman's and CEO's Letter

HARRY BOON
CHAIRMAN

SID TAKLA
CEO AND MANAGING DIRECTOR

Asaleo Care delivered full year earnings ahead of guidance, strong underlying revenue growth, and market share gains across key retail categories. We strengthened our balance sheet and reduced debt to the lowest levels since listing.

In addition, we increased investment in our brands, and continued to optimise our portfolio towards higher growth, higher margin and less capital-intensive categories, including the recent acquisition of TOM Organic.

These results were achieved despite the persistent business interruptions and challenges presented by responses to COVID-19 during 2020. We received no COVID-19 related government assistance.

The underlying EBITDA of $89.2 million was up 6.3 per cent from 2019, and continuing NPAT was up 25.2 per cent, with margin growth of 1.9 percentage points, as a result of favourable input costs and better product mix. Our revenue grew by 2.3 per cent to $419.2 million, with strong performance in all Retail segments and B2B Incontinence Healthcare. Strong cash flows assisted in building a strong and flexible balance sheet, with net debt reduced by 32 per cent to $94.9 million, the lowest it has been since Asaleo Care listed. Our leverage ratio also reduced to 1.21 times EBITDA.

Directors declared a fully franked dividend of 3 cents per share and intend to pay a further special dividend of 2 cents per share before implementation of the proposed Scheme of Arrangement with Essity.

Asaleo Care's business has been reset following the sale of the Australian Consumer Tissue Business and withdrawal from the Baby category in New Zealand, and is now well positioned for long-term value creation through sustainable growth.

Looking back on 2020, our success was driven by our people, our strategy, our brands and our ability to execute our plans. These enablers provide a solid foundation as we look to continue our sustainable growth in the years ahead.

Retail

Retail division delivered a strong increase in revenue, up 6.2 per cent to $199.8 million, and EBITDA up 11 per cent, after an increase in brand investment of 18 per cent.

Sales growth, margin expansion through lower levels of promotional activity during periods of COVID-19 restrictions, production efficiencies and lower pulp prices all contributed to the EBITDA uplift.

Feminine care was a key driver of this growth, with revenue up 12 per cent, resulting from brand investment, effective marketing campaigns, new packaging and strong execution with key retail accounts. Market share for the Libra brand also increased. Building on the success of last year's award-winning #BloodNormal campaign, Libra once again inspired women with its #LiveLiberated campaign, which challenges societal expectations and breaks down period taboos, empowering women to shake off the pressures they face daily.

Incontinence care market share increased in a highly competitive environment, with revenue up 10 per cent, driven by an expanded product range, broader distribution in the Pharmacy channel, and new TENA product launches.

Consumer Tissue New Zealand had a solid year with overall revenue growth of 3 per cent. Importantly, our higher margin branded sales were up 7 per cent, with market share increasing for the Sorbent, Purex and Handee brands. Our agile and rapid response to COVID-19 enabled us to satisfy increased demand via local manufacturing, due to panic buying in H1.

Pursuant to our strategy of focusing on our core brands in the higher growth and higher margin Personal Care and B2B businesses, we announced our withdrawal from the **Baby Diaper** category in New Zealand, and closed the Te Rapa manufacturing facility.

Our focus is to continue to invest in our brands and to deliver a strong pipeline of new products and product innovations to drive long-term growth. We are also continuing to develop our digital footprint, with the launch of our new Libra online shop.

Business-to-Business (B2B)

B2B revenue fell 1 per cent to $219.4 million. EBITDA was up 2.1 per cent to $47.8 million as we achieved planned efficiency benefits from investment in the Kawerau manufacturing facility in New Zealand, and lower pulp prices, together more than offsetting the slightly lower revenues.

The **Professional Hygiene** division of B2B experienced a significant reduction in 'Away from Home' demand because of COVID-19 restrictions across Australia and New Zealand throughout the year. Despite this, revenues were down only 4 per cent, and we experienced growth in some categories, such as soaps, sanitisers and towels.

In a year shaped by the responses to the COVID-19 pandemic, personal hygiene came to the fore. In 2020, Tork launched its largest and most significant campaign to date – *Secure the new normal in hygiene* – to help businesses protect the health of employees, customers and visitors in the face of a global health pandemic. Two new products were also launched in 2020: the Tork Reflex wiping paper dispenser system, and the Tork Coreless, dispensing system.

Incontinence Healthcare revenue grew strongly, up 9 per cent, with growth in the community channel and increased government investment in the National Disability Insurance Scheme, which resulted in more consumers opting for 'Stay at Home' options over residential aged care. Higher sales also reflected the impact of new product introductions in the prior year, improved order fulfilment, and COVID-19 driven demand.

We launched the new TENA PROskin range, and will shortly rollout the TENA SmartCare Change Indicator solution. We are also advancing our online presence, with our TENA Continence Management System, a new online ordering system. We will continue to invest in innovations that lift hygiene standards and have a strong sustainability focus.

Acquisition of TOM Organic

In December 2020, we announced agreement to acquire TOM Organic, a leading Australian organic feminine care business. The TOM Organic brand portfolio includes tampons, pads, liners, period briefs and menstrual cups. The acquisition is an important strategic step for Asaleo Care as it enters the fast growing 'better-for-you' personal care sub-category. Growth in this category is being driven by increasing demand from consumers who prefer natural and sustainable products as part of their personal care repertoire.

This acquisition is in line with our strategy to operate in higher growth and higher margin categories, and is expected to be immediately accretive, with first full-year EBIT expected to be $1.7 million, increasing to $3.5-$4.0 million in the second full year, after realising scale and supply benefits.

Asaleo Care has long been a leader in feminine care with its Libra brand, and is well placed to accelerate the growth of the TOM Organic brand in markets where we have an established presence, as well as in new markets and other personal care categories.

Safety

Safety is our first priority. In a year shaped by the COVID-19 pandemic, we are proud of our exceptional teams, who have demonstrated resilience, commitment, and agility to keep our operations open and running without disruption to production and deliveries, and our community and people healthy and safe. We invested $2 million in CAPEX to strengthen protective safety measures, by improving our building, plant, equipment and processes.

Our COVID-19 Crisis Management Team successfully led a strong culture of compliance, and there were no COVID-19 cases reported among our people.

Compliance measures included reconfiguring our operations to enable physical distancing, enhanced personal protective equipment (PPE) and hygiene practices, separating shifts to reduce the number of people on sites at any one time, screening measures for those entering our sites or visiting customer and supplier sites, and increasing communication and consultation with employees, including frequent updates on how to stop the spread of COVID-19. We received positive feedback from regulators on our readiness and proactivity in dealing with the threat from COVID-19.

In 2020, our Total Injury Frequency Rate (TIFR) and Injury Severity continued to improve and were the lowest recorded in five years. Our Lost Time Injury Frequency Rate (LTIFR) was slightly higher than 2019, but still significantly lower than the prior three years.

We continue to strive for a safe and healthy work environment in our workplaces for our employees, contractors and visitors, and are committed to working every day to build a stronger safety culture across our entire organisation.

Sustainability

Together with our employees, we are reducing our impact on the environment and responding to important social needs. 2020 has been a year of great progress in our sustainability performance. Key highlights include launching our inaugural Reconciliation Action Plan supporting Aboriginal and Torres Strait Islander Peoples, reducing total energy consumption by more than 50 per cent since 2015, being inducted to Ronald McDonald House Charities Australia's Supporter Hall of Fame, receiving a government grant to explore recycling options for used absorbent products, and celebrating our tenth anniversary of Forest Stewardship Council (FSC®) Certification.

Outlook

Asaleo Care has now completed the reset of its business, having exited the low-margin, capital-intensive Australian Consumer Tissue and NZ Baby businesses. We have created growth momentum[1] by increasing investment in our brands, have focused on building our talent base and have a strong and flexible balance sheet with the capacity to invest in growth opportunities.

For 2021, Asaleo Care is targeting 5-7 per cent revenue growth. This includes a part-year contribution from TOM Organic and an anticipated recovery in Professional Hygiene during the second half of the year, as COVID-19 impacts begin to ease. Our EBITDA is targeted at $90m-$93m with growth moderated by the impact of the final year of absorption of stranded costs from the sale of the Australian Consumer Tissue business and withdrawal from the Baby category in New Zealand, along with rising pulp and sea freight prices.

We will continue our focus of investing in sustainable and profitable initiatives in higher growth, higher margin categories, taking advantage of our scale.

We thank our shareholders, customers, consumers, employees and other stakeholders in the Company for their support and contribution to Asaleo Care.

Essity proposal to acquire Asaleo Care

On 17 February 2021, Asaleo Care and Essity entered into a Scheme Implementation Agreement under which it is proposed that Essity will acquire all outstanding ordinary shares in Asaleo Care not already owned by it. Total value to Asaleo Care shareholders will be $1.45[2] per share, comprising $1.40 in cash plus $0.05 per share of permitted dividends. Franking credits attached to dividends are potentially worth an additional $0.02 per share if fully franked[3].

Independent non-Essity directors and the CEO and Managing Director[4] unanimously recommend that Asaleo Care shareholders vote in favour of the Scheme in the absence of a Superior Proposal[5] and subject to the Independent Expert concluding in its report that the Scheme is in the best interests of shareholders. It is an attractive, all-cash transaction and represents a compelling outcome for our shareholders, customers, suppliers and staff.

A scheme booklet containing information relating to the Scheme, including the Independent Expert's report and details of the Scheme meeting, is expected to be sent to shareholders in early May 2021. Shareholders can vote at a Court-convened meeting, expected to be held in early June 2021.

Annual General Meeting

As the Scheme meeting is expected to be held in early June, approval for an extension of time to hold the 2021 Annual General Meeting is being sought from ASIC. Timing and details of both meetings will be provided to the ASX and to shareholders in accordance with the requirements of the Company's Constitution. Shareholders should monitor the Company's announcements to the ASX for updates.

Due to ongoing restrictions on social gatherings and travel and the resultant uncertainty as a result of COVID-19, the meetings will be held electronically. Shareholders are encouraged to join the meetings and utilise the facilities to ask any questions and vote. Alternatively, this can be done ahead of the meetings.

Harry Boon Chairman

Sid Takla CEO and Managing Director

1. Outlook approved by Independent Board Committee 2. Subject to being a shareholder on the respective dividend record dates and the Asaleo Care Board determining, at its absolute discretion, payment of the special dividend. 3. Asaleo Care expects that dividends will be fully franked, subject to a class ruling from the Australian Taxation Office.
4. CEO and Managing Director, Sid Takla. Refer separate announcement dated 17 February 2021 in relation to current employment arrangements for the CEO and Managing Director.
5. Superior Proposal has the same meaning as given in the scheme implementation agreement.