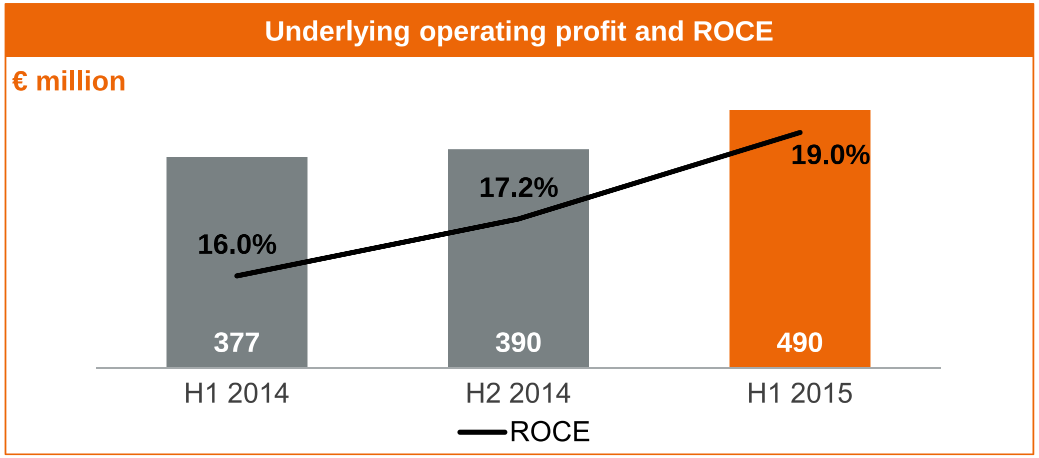
# Mondi Group
# Half-yearly results for the six months ended 30 June 2015

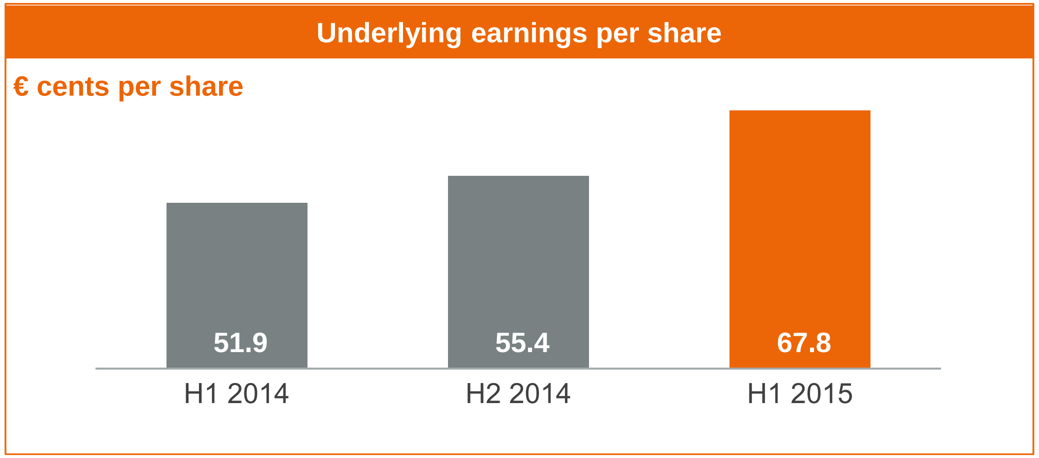
**6 August 2015**

# Agenda



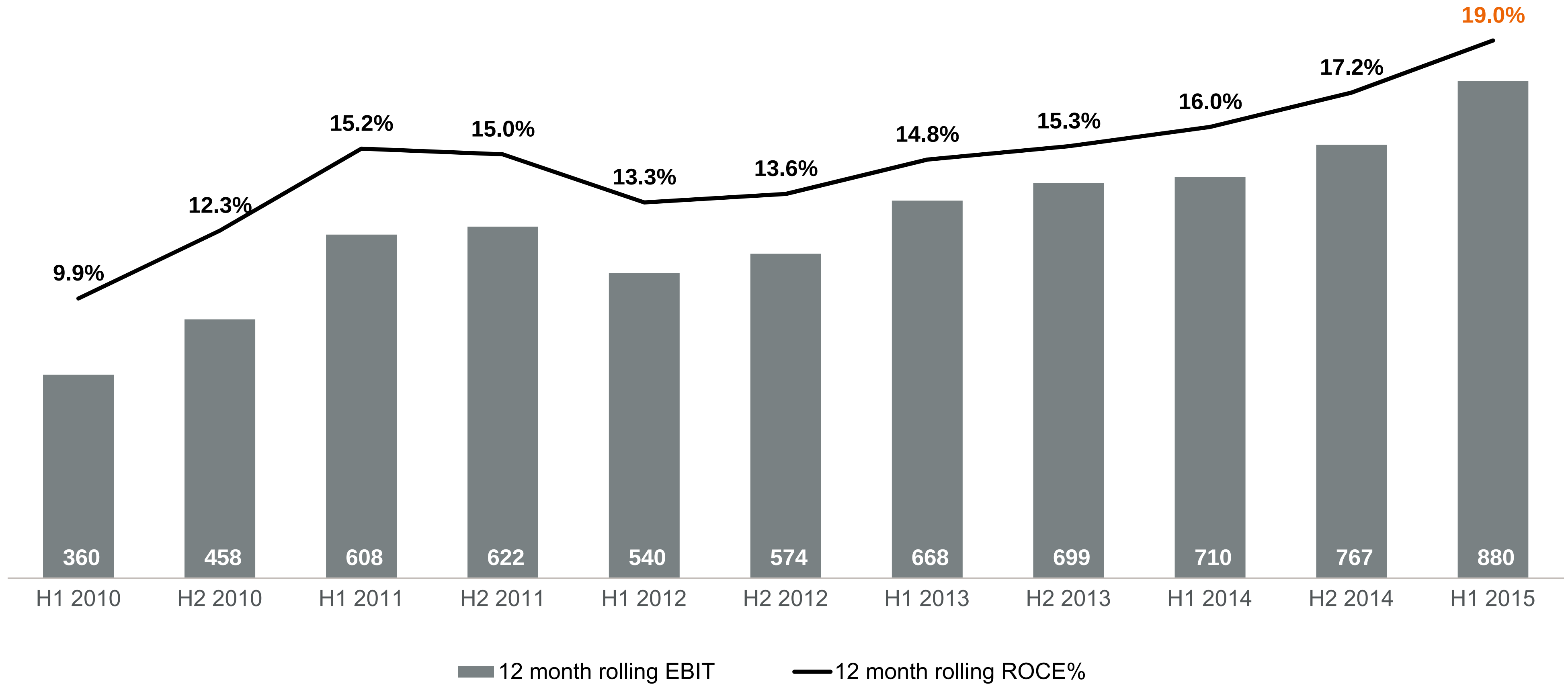
# Highlights




- Excellent financial performance
  - Revenue up 10%
    - Supported by acquisitions, volume growth and price increases
  - Underlying operating profit up 30%
  - Underlying earnings per share up 31%
  - ROCE of 19.0%
- Significant improvement in results across all business units
- Completed capital projects delivering ahead of plan
- Ongoing major projects on time and on budget

# Building on a track record of success



# Agenda

Highlights

**Financial overview**

Operational overview

Capital allocation

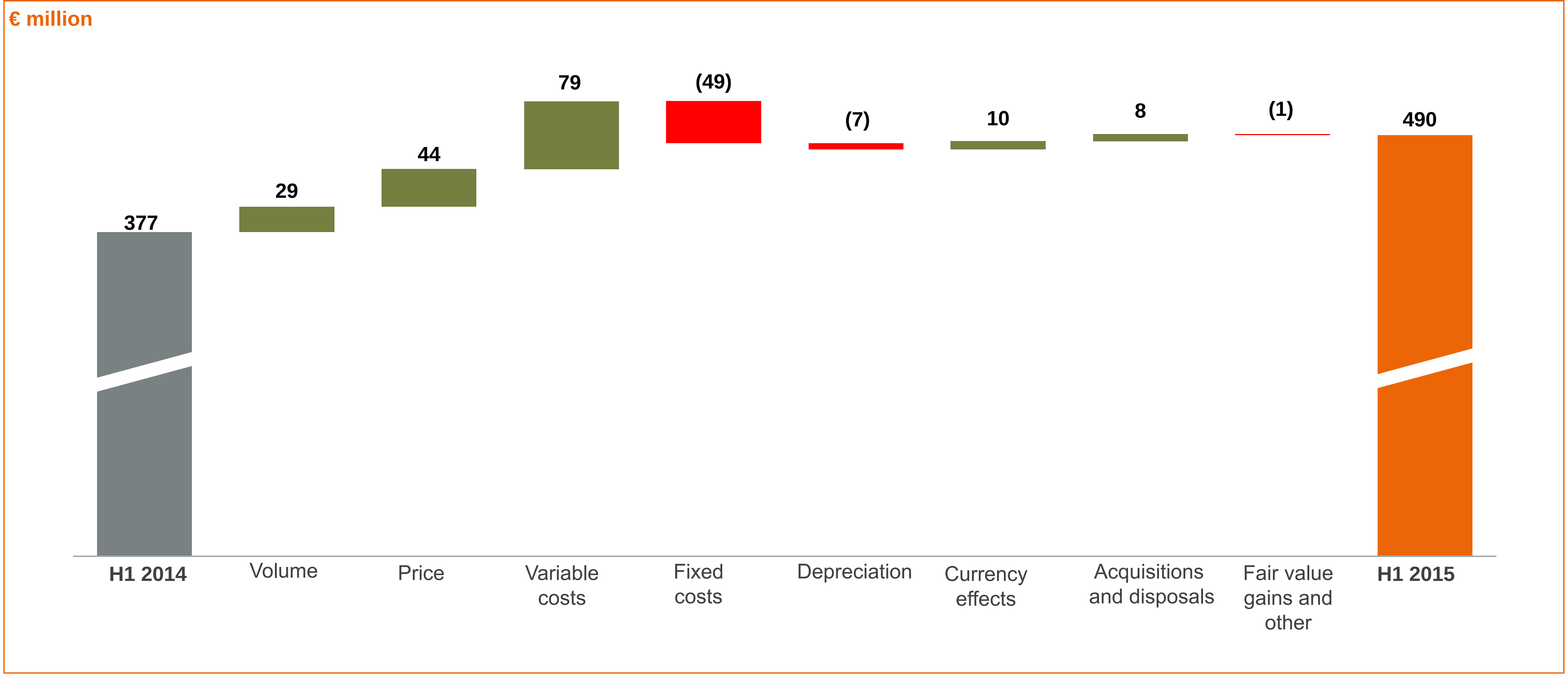
Outlook

Appendices

# Operating financial highlights

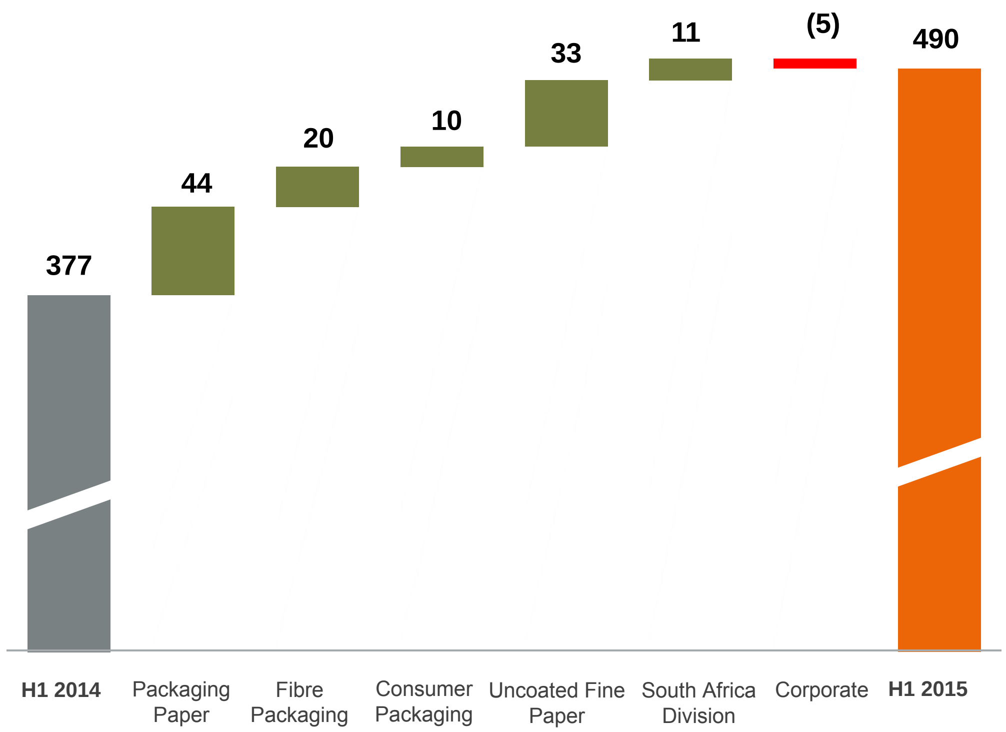
| € million | H1 2014 | H2 2014 | H1 2015 | % change vs H1 2014 | % change vs H2 2014 |
|---|---|---|---|---|---|
| Group Revenue | 3,148 | 3,254 | **3,459** | *10%* | *6%* |
| Underlying EBITDA | 553 | 573 | **671** | *21%* | *17%* |
| % Margin | *17.6%* | *17.6%* | ***19.4%*** | | |
| Underlying operating profit | 377 | 390 | **490** | *30%* | *26%* |
| % Margin | *12.0%* | *12.0%* | ***14.2%*** | | |
| Group ROCE | 16.0% | 17.2% | **19.0%** | *+300bps* | *+180 bps* |

# Underlying operating profit development

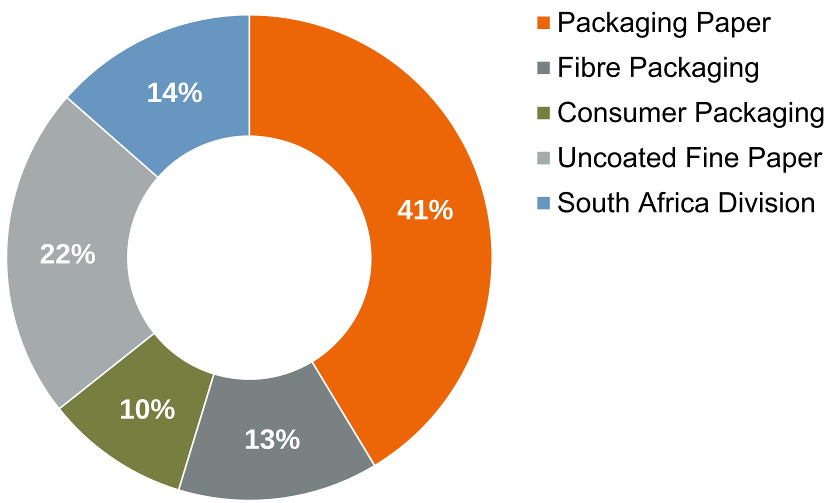


# Divisional operating profit contribution

€ million




**H1 2015 EBIT contribution by segment[1]**




1 Excludes Corporate costs

# Financial review

| € million | H1 2014 | H2 2014 | H1 2015 | % change vs H1 2014 | % change vs H2 2014 |
|---|---|---|---|---|---|
| **Underlying operating profit** | 377 | 390 | **490** | *30%* | *26%* |
| Net underlying finance costs | (50) | (47) | **(59)** | *(18%)* | *(26%)* |
| Net profit from associates | 1 | - | **-** | | |
| **Underlying profit before tax** | 328 | 343 | **431** | *31%* | *26%* |
| Tax before special items | (62) | (64) | **(82)** | *(32%)* | *(28%)* |
| Total non-controlling interests | (15) | (11) | **(21)** | *(40%)* | *(91%)* |
| **Underlying earnings** | 251 | 268 | **328** | *31%* | *22%* |
| Special items (after tax and non-controlling interests) | (16) | (32) | **(36)** | | |
| **Reported profit after tax and non-controlling interests** | 235 | 236 | **292** | *24%* | *24%* |
| **Basic earnings per share (€ cents)** | 48.6 | 48.8 | **60.3** | *24%* | *24%* |
| **Underlying earnings per share (€ cents)** | 51.9 | 55.4 | **67.8** | *31%* | *22%* |

# Finance costs and taxation

| Finance costs<br>€ million | H1 2014 | H2 2014 | H1 2015 |
|---|---|---|---|
| **Closing net debt** | 1,758 | 1,613 | **1,741** |
| Average net debt | 1,636 | 1,726 | **1,700** |
| **Finance costs** | 45 | 41 | **54** |
| Net interest on defined benefit arrangements | 5 | 6 | **5** |
| **Net underlying finance costs** | 50 | 47 | **59** |
| Effective interest rate (before capitalised interest) | 5.5% | 5.3% | **6.9%** |

- Finance costs up 20% on prior year
  - Increase in interest rates in Russia
    - Average 3 month RUB Mosprime rate up from 8.7% to 15.9%
  - Non-recurring items
- Interest paid down 11% due to benefits of Nordenia high-yield bond refinancing in 2014

| Taxation<br>€ million | H1 2014 | H2 2014 | H1 2015 |
|---|---|---|---|
| Underlying tax charge | 62 | 64 | **82** |
| Effective tax rate | *19%* | *19%* | ***19%*** |

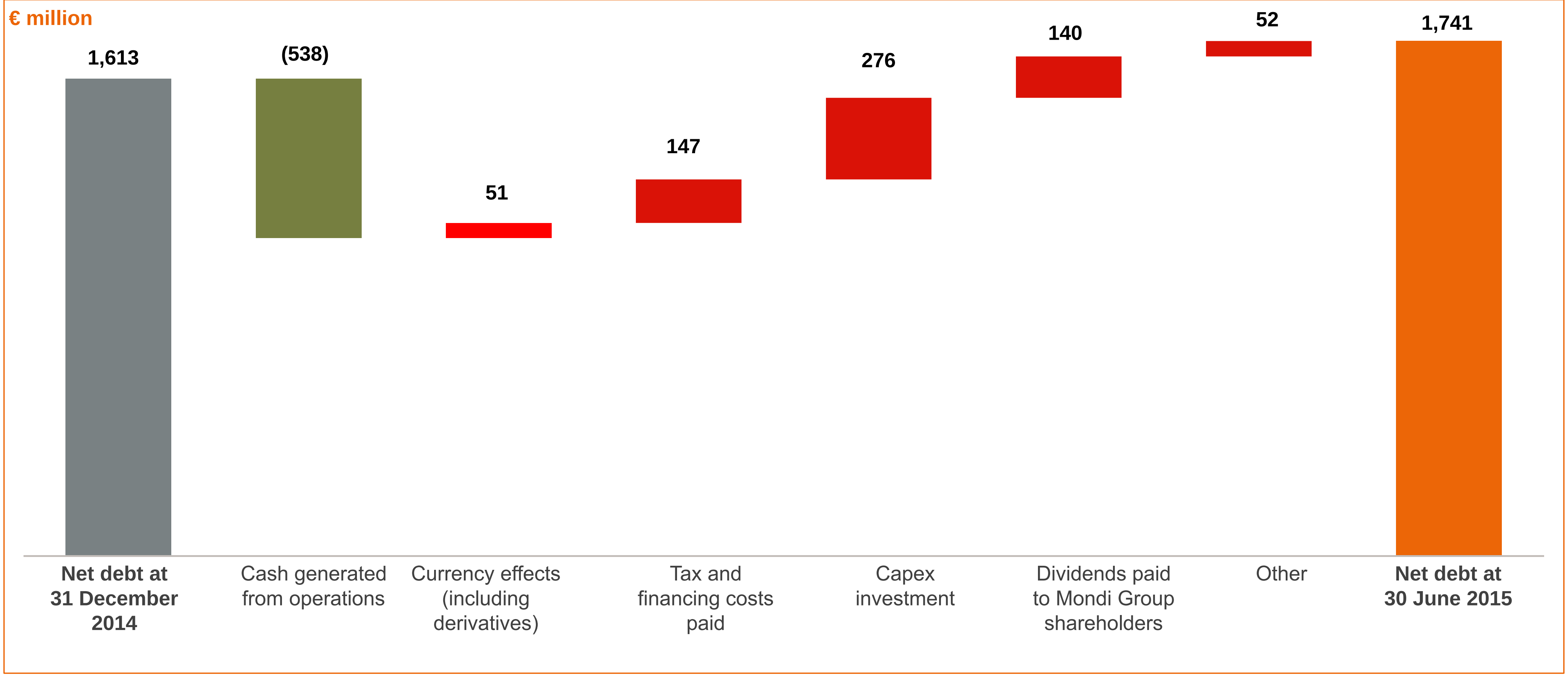
- Reflects underlying profit mix of Group plus:
  - Benefits of incentives in eastern Europe
  - Recognition of accumulated tax losses in certain jurisdictions

# Special items

## Operating special items – €36 million charge after tax

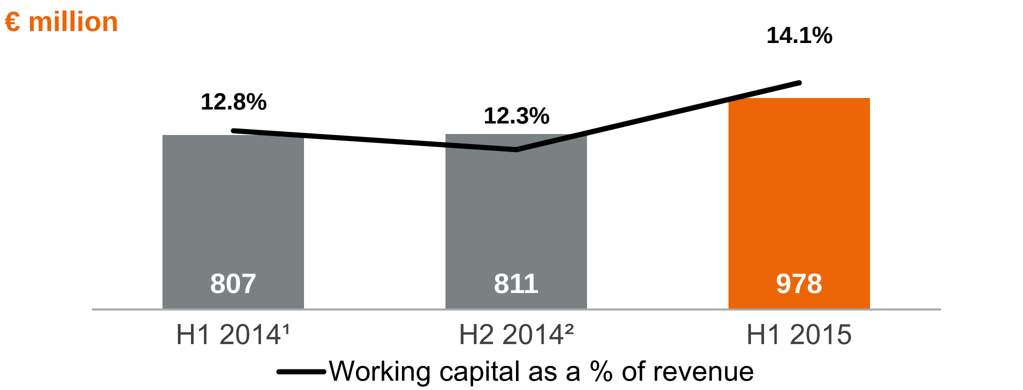
- Packaging Paper (€14 million charge)
  - Closure of Lohja speciality kraft paper mill in Finland
- Fibre Packaging (€10 million charge)
  - Further restructuring activities following the acquisition in mid-2014 of the bags business from Graphic Packaging in the United States
- Consumer Packaging (€15 million charge)
  - Closure of a plant in Spain (€12 million)
  - Write-off of receivable related to Nordenia acquisition (€3 million)

# Cash flow effects - movement in net debt

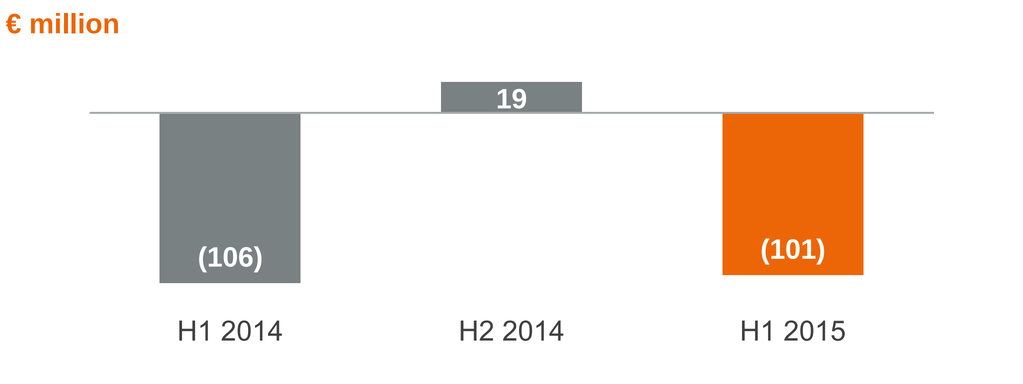


# Working capital

## Working capital management



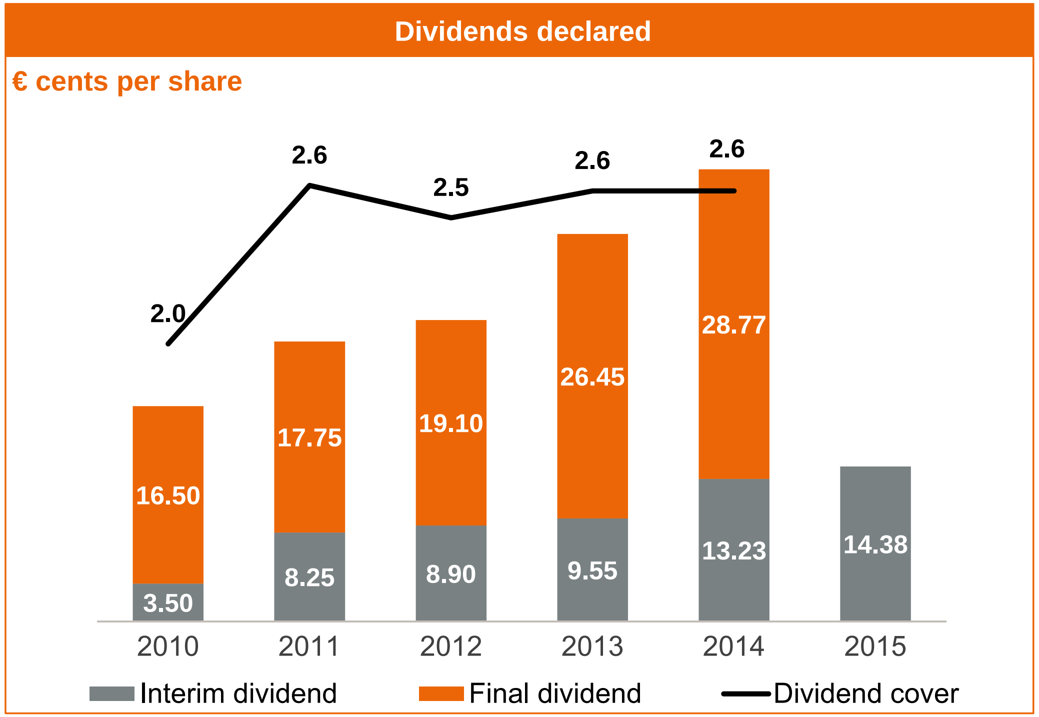

## Working capital cash flows




- Higher working capital levels due to:
  - Industrial Bags acquisition in prior year
  - Higher working capital needs in Consumer Packaging
  - Seasonal and one-off effects
- Expect structurally higher working capital due to change in business mix – 12 to 14% of turnover

1 Excludes acquisitions
2 Working capital as a % of revenue is based on annualised revenue from acquisitions

# Dividends

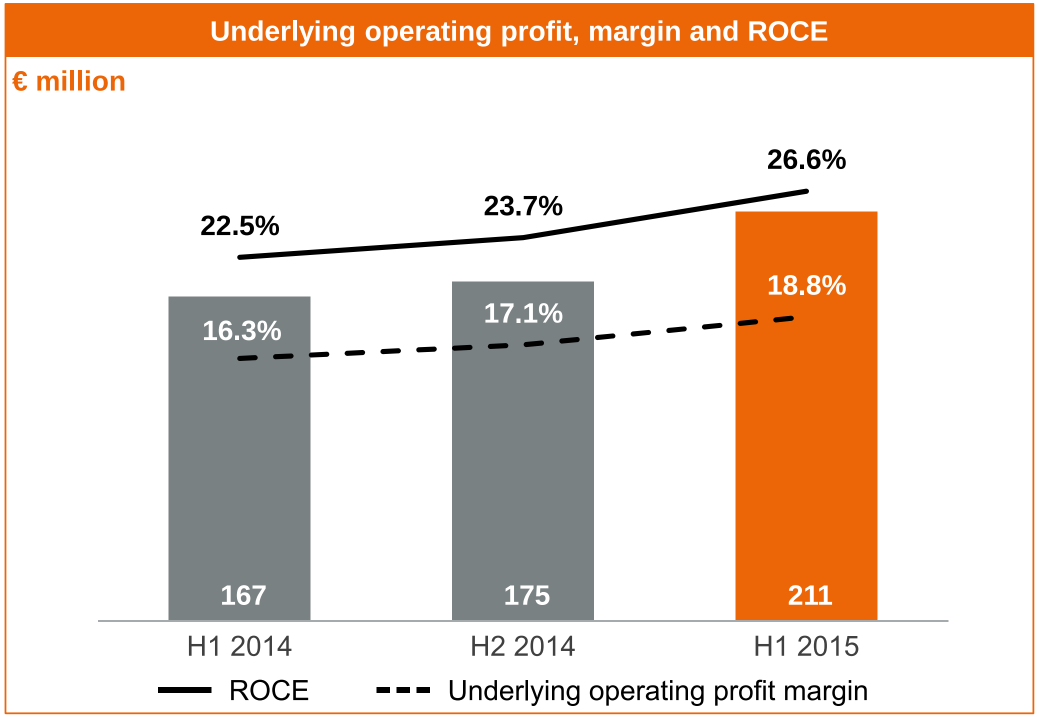



- Growth in dividend achieved on the back of strong earnings growth – CAGR +20% over past 5 years
- Interim dividend set at 14.38 euro cents per share, up 9% on the prior year

# Agenda

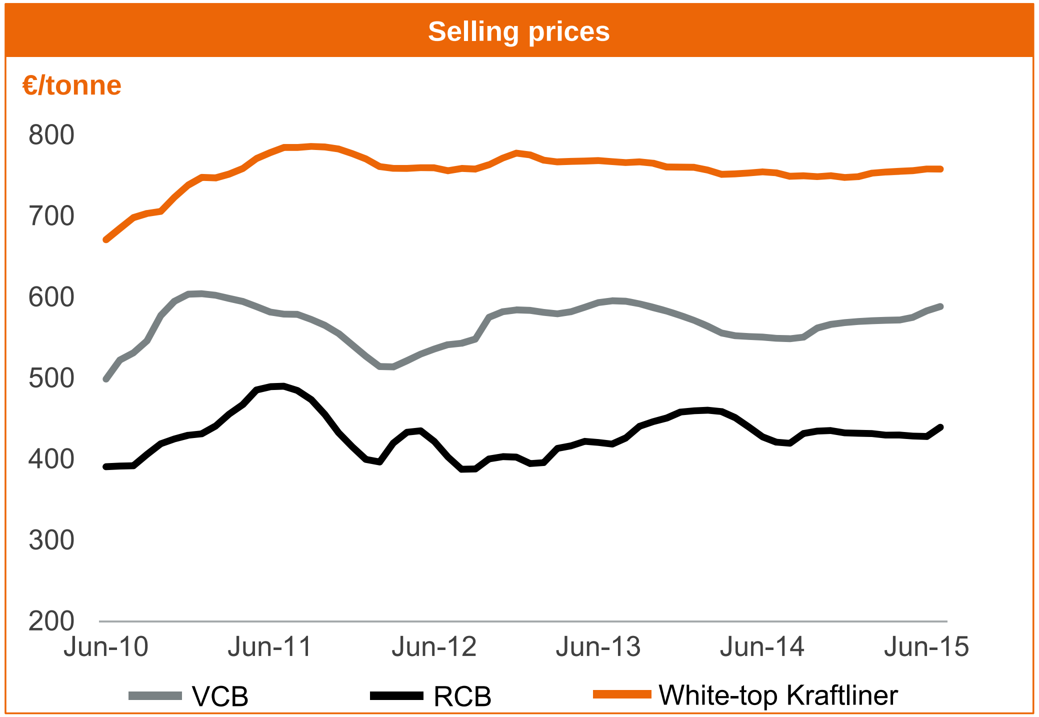
- Highlights
- Financial overview
- **Operational overview**
- Capital allocation
- Outlook
- Appendices

# Packaging Paper




- Building on strong base, underlying profit up 26% on prior year
- Sales volumes up on prior year
  - Supported by good market growth
- Mixed pricing
  - Higher average virgin containerboard and kraft paper prices
  - Lower average recycled containerboard prices
- Project benefits from Štěti and Syktyvkar
- Lower average wood, paper for recycling and energy costs
- Net export margins from Russia and central Europe supported by currency

# Packaging Paper | industry fundamentals




## Virgin containerboard

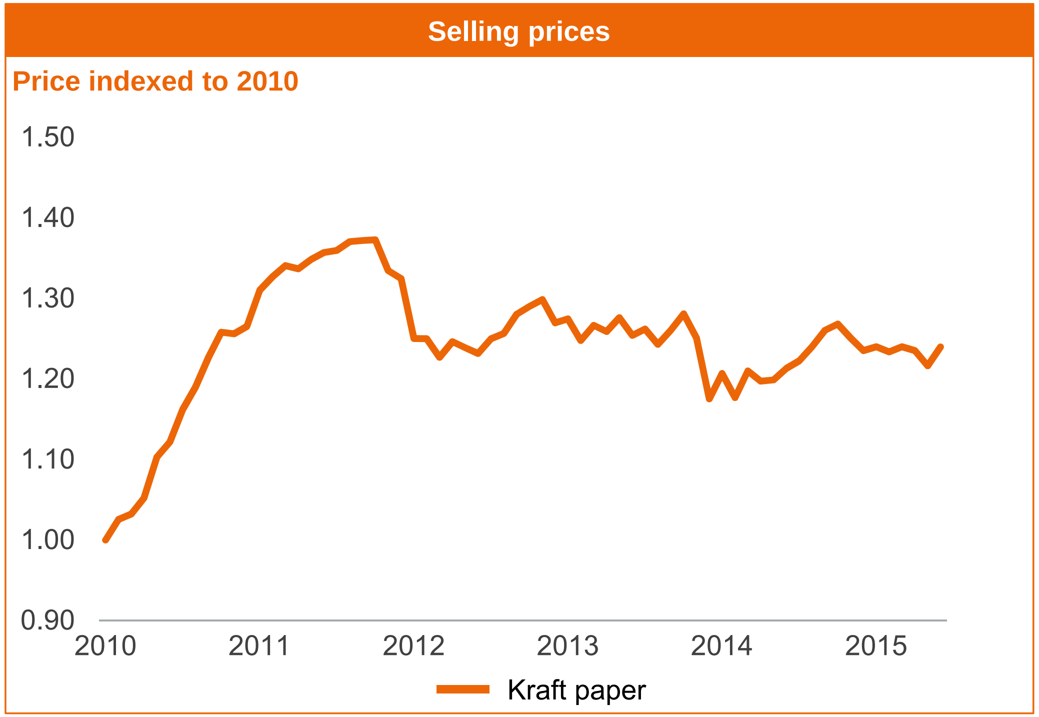
- European selling price increase achieved in H1 on good demand and euro weakness (+3% year-on-year)
- Price increases in Russia
- Robust demand growth
- Capacity additions
  - Varkaus conversion, 2016 (+390 ktpa)
  - Husum conversion, 2017 (+200 ktpa)

## Recycled containerboard

- Average benchmark price stable since December 2014 – down 4% on the prior year
- €40/tonne increase implemented from beginning of third quarter, with further increases announced for August
  - Robust demand and higher input costs
- Net capacity additions in 2015 estimated at 500 ktpa (±2%)

Source: FOEX Indexes Ltd

# Packaging Paper | industry fundamentals

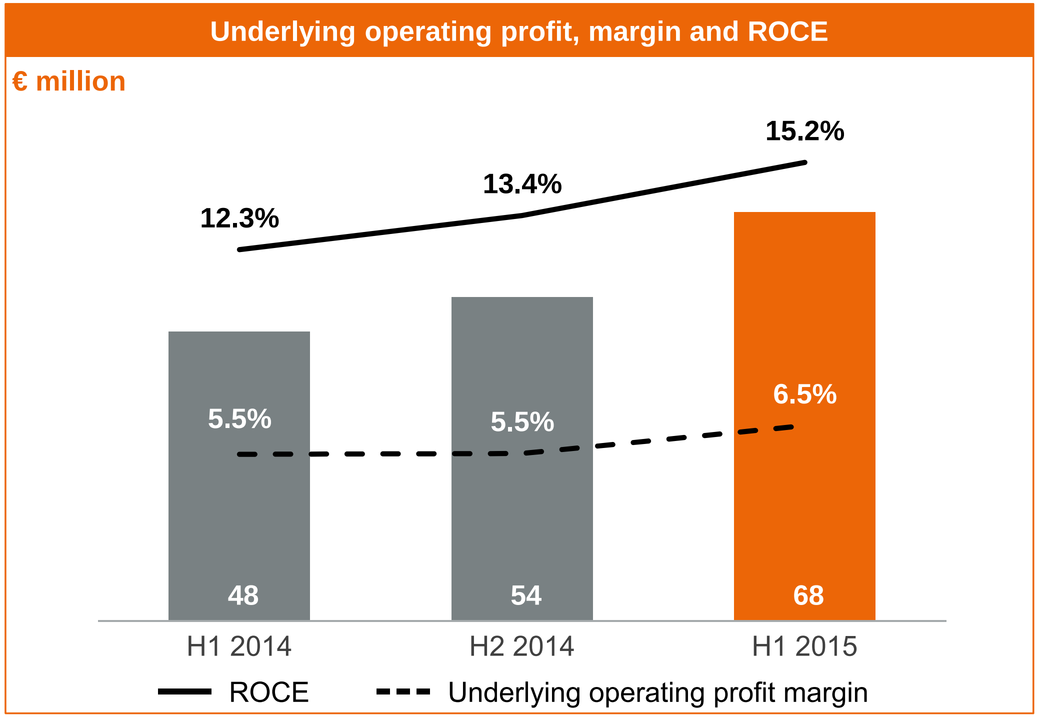



## Kraft paper

- Higher average pricing +3%
- Sack kraft demand stable in Europe and continues to show positive growth in overseas markets
- No industry sack kraft capacity additions
- Speciality grades showing good growth

Source: Mondi

# Fibre Packaging




- Underlying operating profit up 42% on prior year

## Corrugated Packaging

- Continued good volume growth (+2.4%) and improved product mix
- Lower variable costs

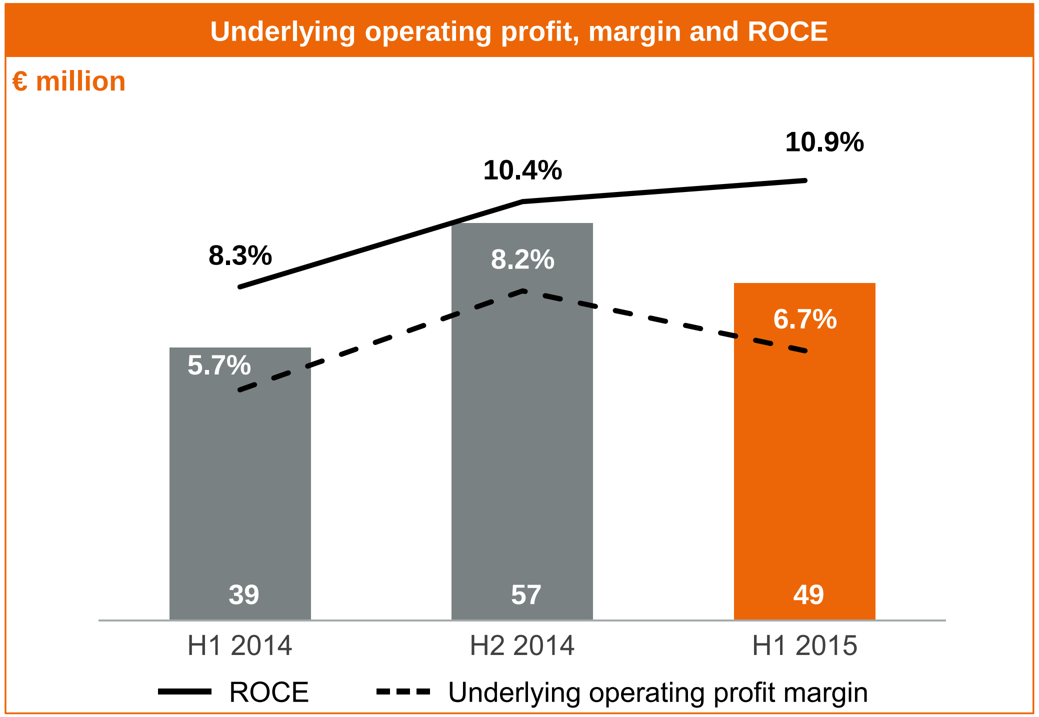
## Industrial Bags

- Higher average selling prices
- Good cost control
- Improved performance from US bags business – turnaround progressing to plan

## Extrusion Coatings

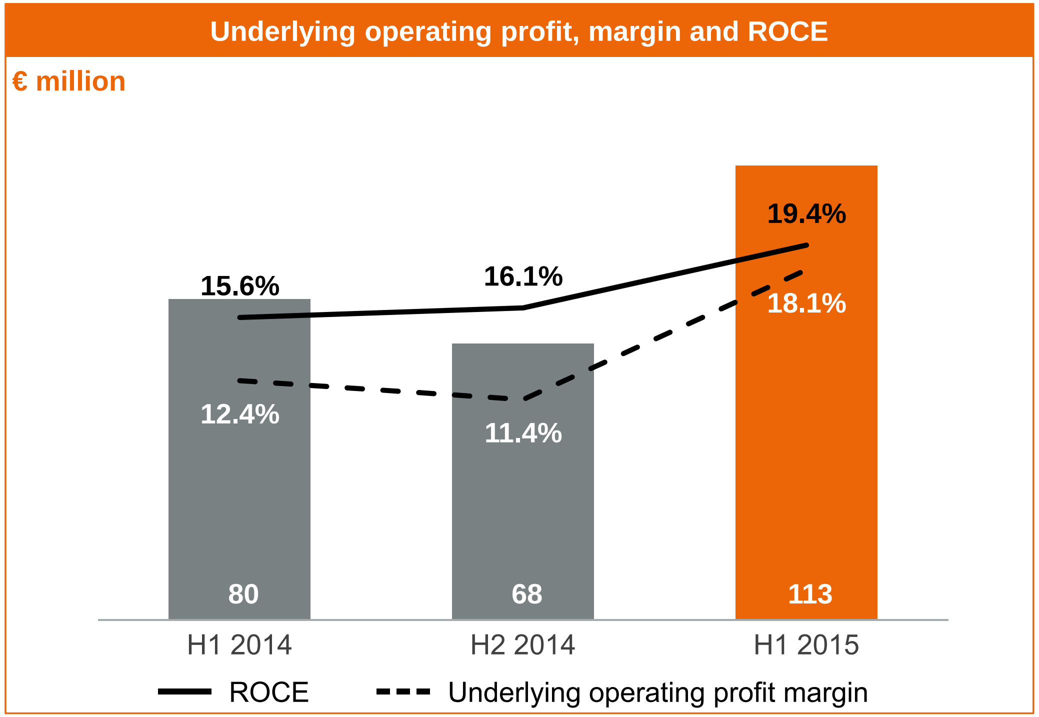
- Generally improving conditions
- Acquisition of plants from Walki Oy expected to be concluded in Q3 2015

# Consumer Packaging



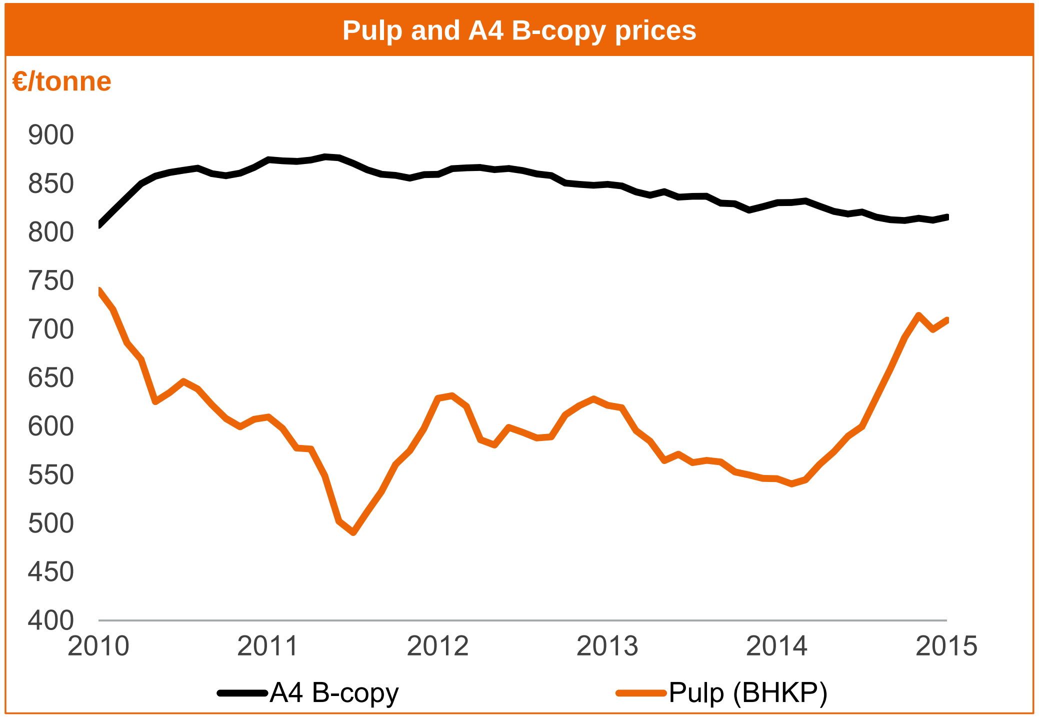

- Underlying operating profit up 26% on prior year
- Benefited from
  - Focus on innovation and customer service
  - Optimisation and specialisation of production facilities
  - Sales and application engineering infrastructure enhancement
- Volume growth supported by
  - Ramp-up of plant in China and Polish acquisition
- Margin improvement from sales into higher value-added product segments
  - Offset by volatility in input costs (particularly polyethylene)
  - Exited some low margin business

# Uncoated Fine Paper




- Underlying operating profit up 41%
- Higher average selling prices in Russia
- Uncoated fine paper volumes marginally up despite market contraction
- Benefits of completed major projects
  - Increased pulp sales following start-up of Ružomberok recovery boiler
  - Cost benefits
- Lower wood, chemical and energy costs
- Maintenance shuts scheduled for second half

# Uncoated Fine Paper | industry fundamentals




## Demand

- Ongoing modest market demand contraction in European and Russian markets

## Supply

- Net capacity reduction expected with conversion of Varkaus (285 ktpa – Q4 2015) and Husum (350 ktpa – 2016) - ±8% of European supply

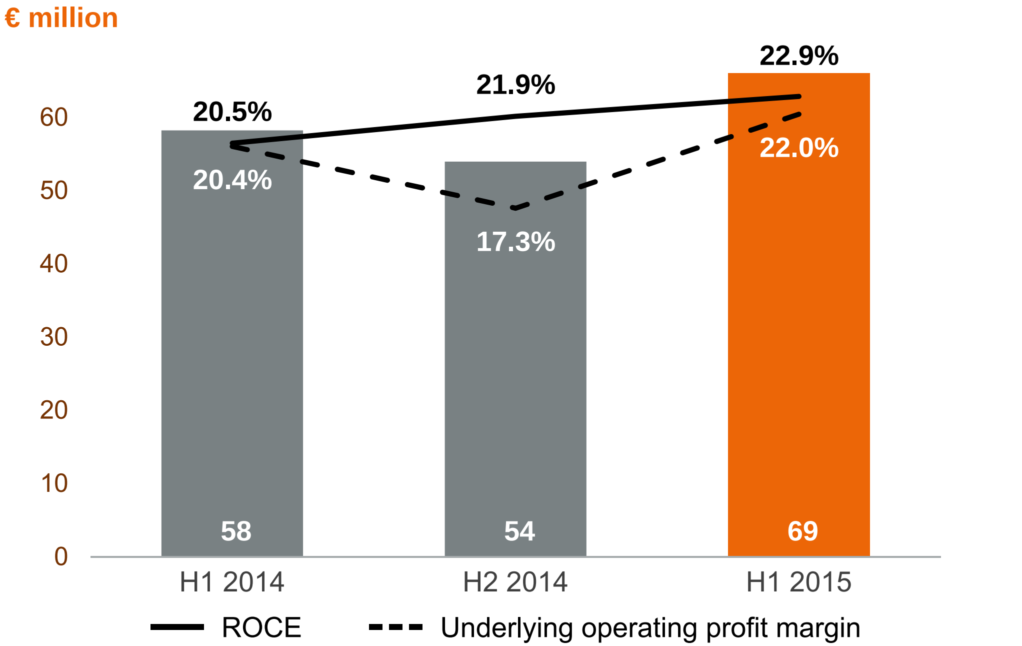
## Prices

- European average benchmark pricing 2% lower than the prior year
  - Price increases of 2-3% in Europe in April 2015
  - Further increase of up to 12% announced for implementation in Q3 2015 on supply tightness and high pulp prices
- Higher Russian sales prices in H1
  - Driven by domestic inflation and weaker rouble
  - Partial reduction in Q2 following rouble appreciation

Source: FOEX Indexes Ltd

# South Africa Division

**Underlying operating profit, margin and ROCE**




- Strong performance, with underlying operating profit up 19% on prior year
- Benefited from
  - Higher average selling prices
  - Currency support for exports
  - Fair value gain on forestry assets of €23 million
  - Gain on sale of land
- Cost increases below inflation through good cost management
- Lower sales volumes due to extended maintenance shut at Richards Bay

# Agenda

Highlights

Financial overview

Operational overview

**Capital allocation**

Outlook

Appendices

# Growing in line with our strategy

**Free Cash Flow priorities**

**Maintain our strong and stable financial position and investment grade credit metrics**

**Grow through selective capital investment opportunities**

**Support payment of dividends to our shareholders**

**Evaluate growth opportunities through M&A and/or increased shareholder distributions**

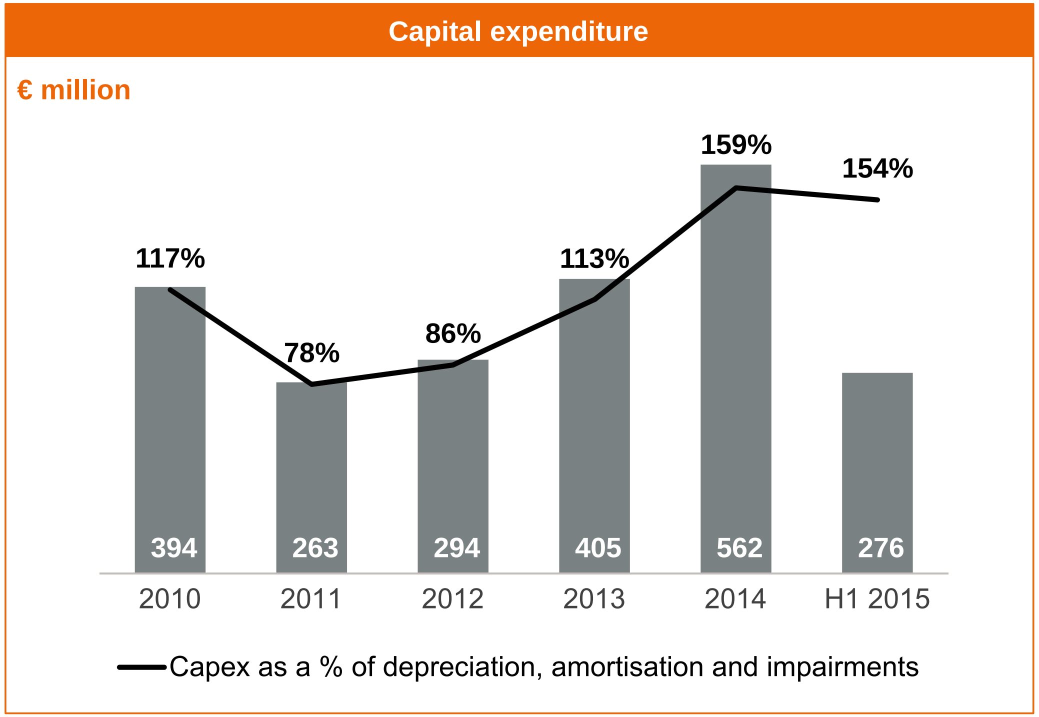
***As appropriate***

**A strong financial position allows us to pursue growth options through capital investment and/or M&A**

# Growth options | M&A

- Focused around the Group's core packaging activities
- Around €160 million of bolt-on acquisitions delivered in past 18 months
  - Graphic US Bags business (Industrial Bags, Kraft Paper)
  - Printpack Polish plant (Consumer Packaging)
  - Intercell Bags plant Serbia (Industrial Bags)
  - Walki Extrusion Coatings plants (Extrusion Coatings)
- While M&A remains a growth option, we currently see more opportunity for value enhancing growth in organic capital investments

# Growth options | Organic capital investments




- €770 million committed to major projects over 2013 – 2016
  - Already contributing meaningfully
    - Delivering incremental operating profit of €105 million in 2014/2015
  - Ongoing projects on time and on budget for delivery in late 2015 and 2016 – expected to deliver ROCE around 20%
- Currently evaluating further major projects
  - Centred around our high-quality, low-cost packaging paper assets in central Europe

# Agenda



# Outlook

As in prior years, the second half will be impacted by the seasonal downturn in our Uncoated Fine Paper business and planned annual maintenance shuts at a number of our mills. Price increases in certain paper grades should provide some positive momentum, offset in part by increases in various input costs and currency volatility.

With our robust business model, clear strategic focus and culture of continuous improvement, management remains confident of continuing to deliver industry leading performance and making good progress for the year.

# Q&A

# Agenda

Highlights

Financial overview

Operational overview

Capital allocation

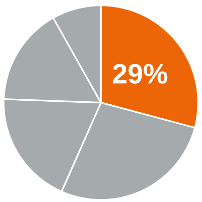
Outlook

**Appendices**

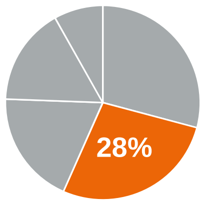
# Mondi at a glance

| | Europe & International | | | | South Africa |
|---|---|---|---|---|---|
| | Packaging Paper | Fibre Packaging | Consumer Packaging | Uncoated Fine Paper | |
| H1 2015 Revenue[1] | €1,122m | €1,046m | €730m | €626m | €314m |
| ROCE | 26.6% | 15.2% | 10.9% | 19.4% | 22.9% |

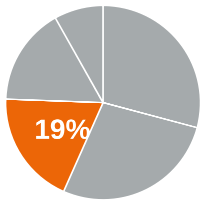
Packaging Paper



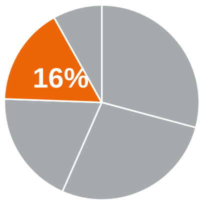

Fibre Packaging



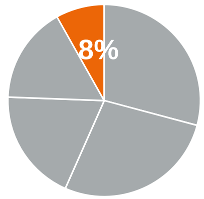

Consumer Packaging




Uncoated Fine Paper




South Africa




Products

1 Segment revenues, before elimination of inter-segment revenues

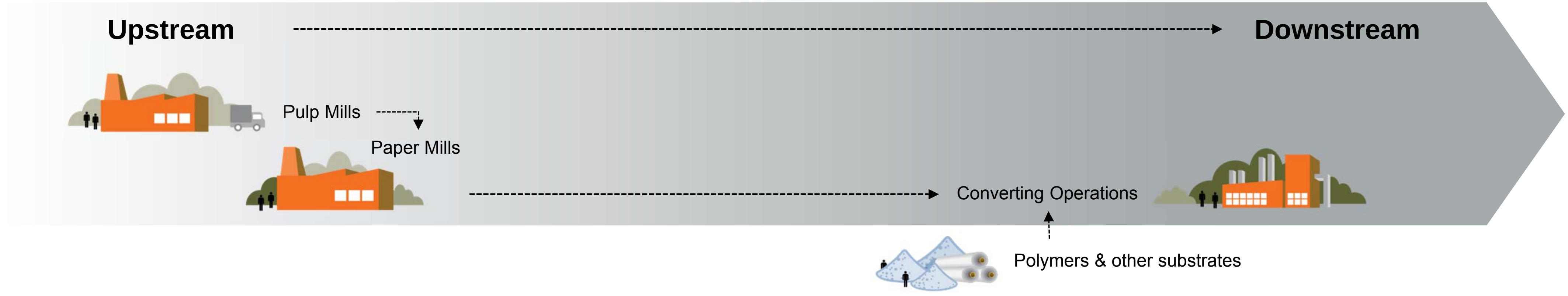
# Our strategic value drivers

## Our clear strategic focus is on growth in packaging

**We invest in our high-quality, low-cost assets**
keeping us competitive and giving us sustainable cost advantages

**We work with our customers to find innovative solutions**
growing our product range and geographic reach

**We are passionate about performance**
driving productivity and efficiency / margin improvement




**While all three strategic drivers are relevant to each business, priorities differ across our value chain**

# Major project pipeline delivering strongly…

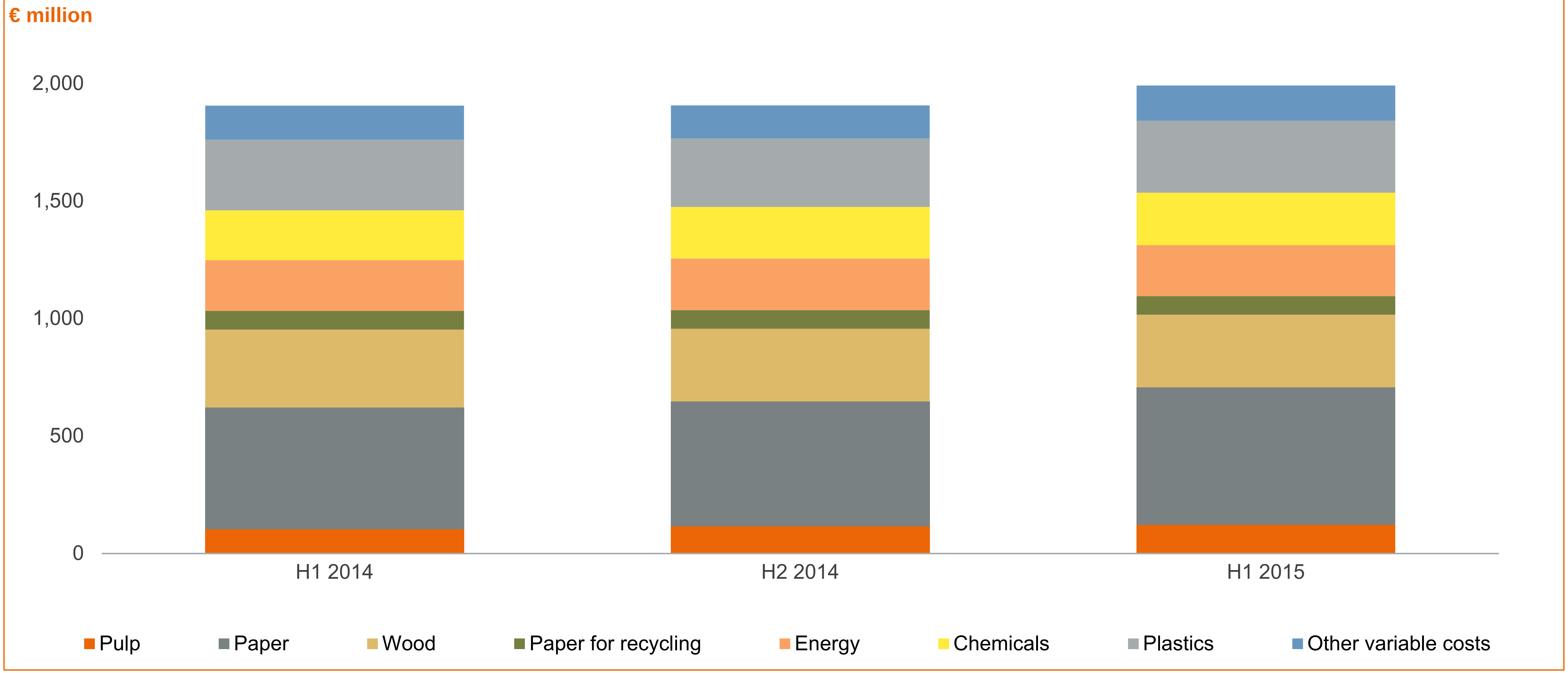
| 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|
| • €60m Frantschach recovery boiler<br>• €16m Syktyvkar bark boiler<br>• €13m Stambolijski steam turbine and economiser<br>• €32m Richards Bay steam turbine | • €70m Štěti bleached kraft<br>• €128m Ružomberok recovery boiler<br>• €30m Syktyvkar pulp dryer | • €166m Świecie recovery boiler, turbine and biomass boiler<br>• €106m Packaging Paper<br>• €24m Fibre Packaging | • €94m Świecie phase II<br>• €30m South Africa Division woodyard upgrade |
| **€121m** | **€228m** | **€296m** | **€124m** |

**€45 million** incremental operating profit delivered from major projects in 2014
**€60 million** incremental operating profit benefit expected in 2015

# … with limited market risk

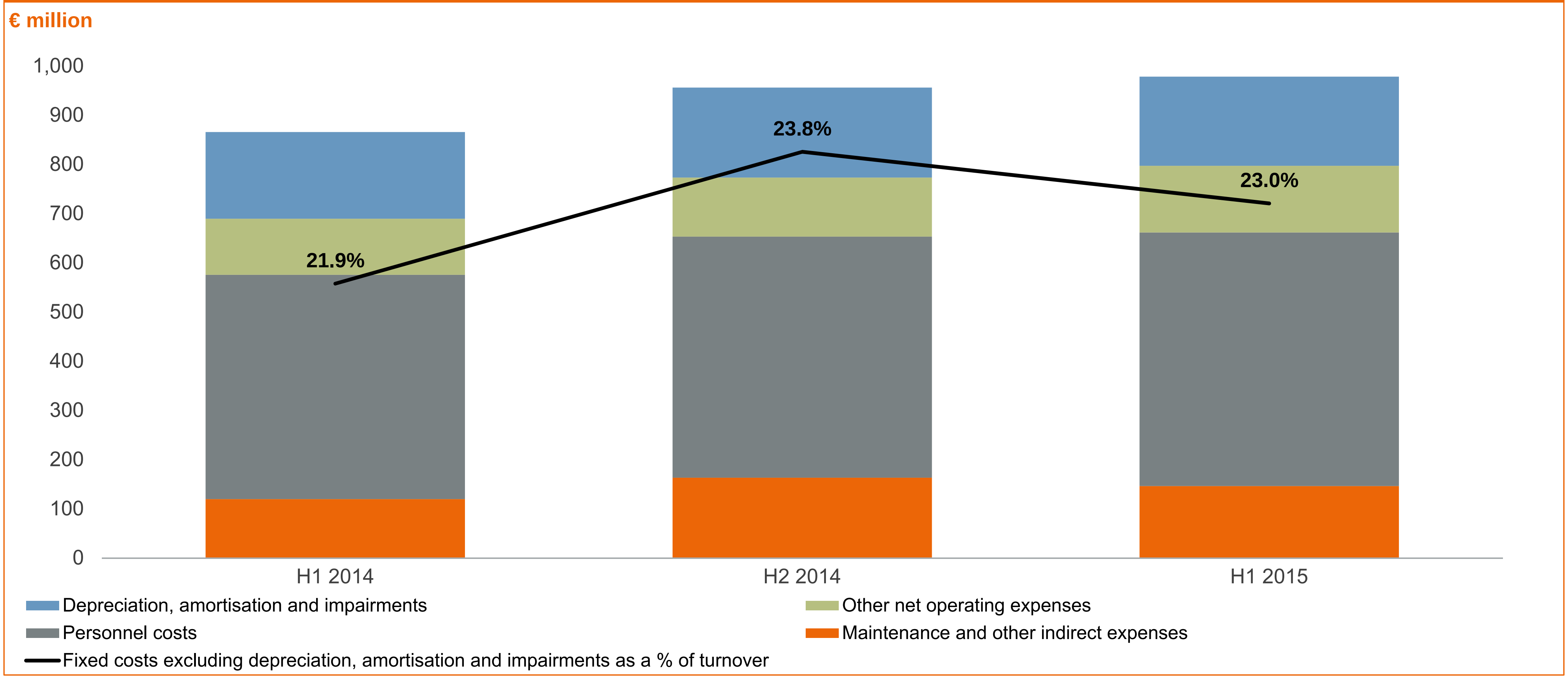
| Project Description | Project Value | Key benefits | Market risk |
|---|---|---|---|
| Świecie recovery boiler, turbine and biomass boiler | €166 million | • Energy efficiencies<br>• Green energy sales<br>• Cost optimisation | Low |
| Packaging Paper – various projects | €106 million | • Improved product mix<br>• Cost optimisation | Low |
| Fibre Packaging – various projects | €24 million | • Capability enhancement in high growth CEE markets | Medium |
| Świecie phase II | €94 million | • 80,000 tonne per annum kraftliner<br>• 100,000 tonne per annum softwood pulp capacity<br>• Improved product mix<br>• Cost optimisation | Medium |
| South Africa Division woodyard upgrade | €30 million | • Cost optimisation | Low |

# Input costs



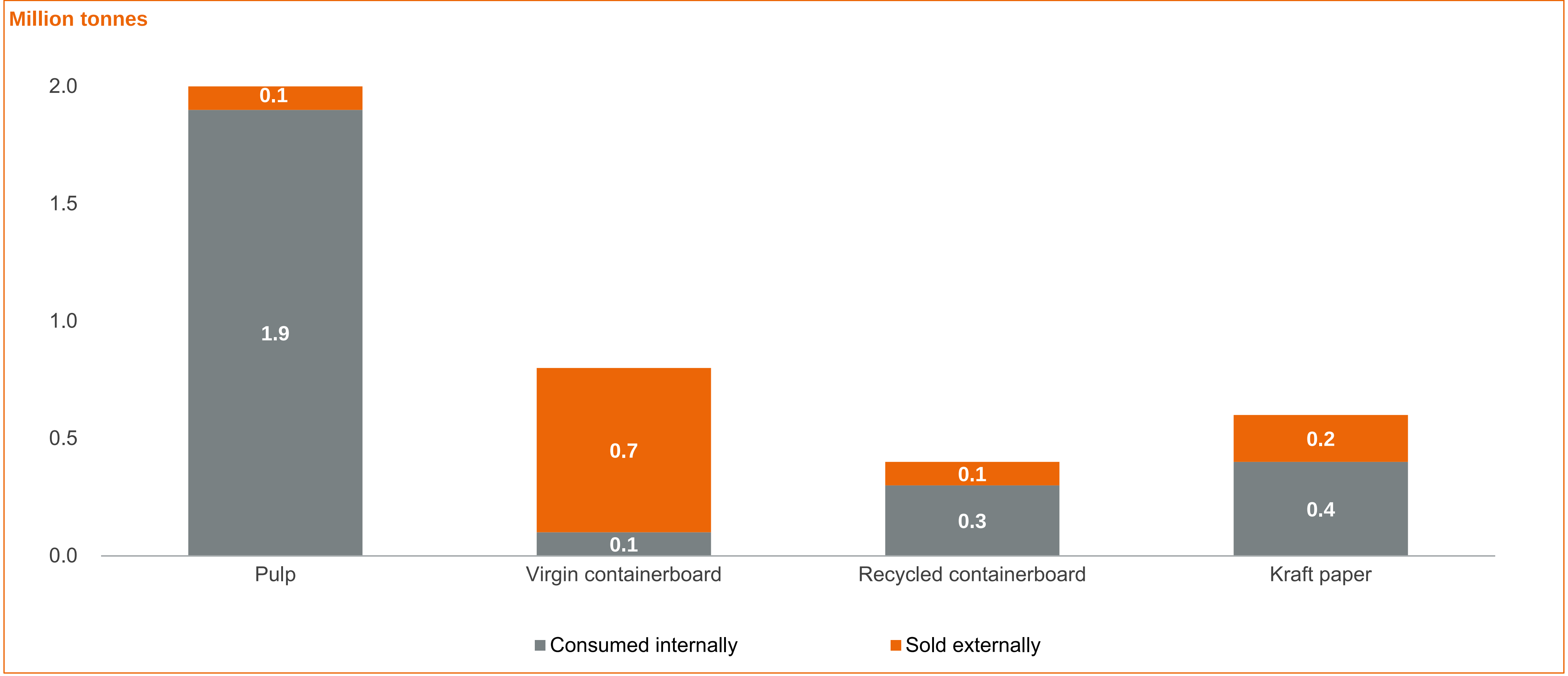
€ million
2,000
1,500
1,000
500
0
H1 2014
H2 2014
H1 2015
Pulp
Paper
Wood
Paper for recycling
Energy
Chemicals
Plastics
Other variable costs

# Fixed costs


€ million
1,000
900
800
700
600
500
400
300
200
100
0
23.8%
23.0%
21.9%
H1 2014
H2 2014
H1 2015
Depreciation, amortisation and impairments
Other net operating expenses
Personnel costs
Maintenance and other indirect expenses
Fixed costs excluding depreciation, amortisation and impairments as a % of turnover

# Our integrated low-cost operations

**Integrated value chain – total production H1 2015**



# Non-controlling interests

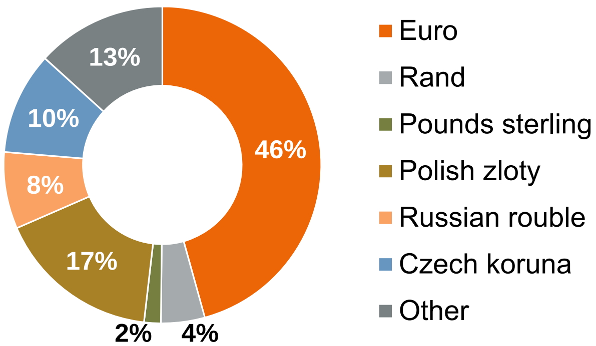
| Non-controlling interests<br>€ million | H1 2014 | H2 2014 | H1 2015 |
|---|---|---|---|
| Profit attributable to non-controlling interests | 15 | 11 | **21** |
| • *Ružomberok* | 12 | 11 | **17** |
| • *Other* | 3 | - | **4** |
| % of net underlying profit | *5.6%* | *3.9%* | ***6.0%*** |

- Continued good profitability of Ružomberok operations

# Debt facilities

| € million | H1 2014 | H2 2014 | H1 2015 |
|---|---|---|---|
| **Net debt** | 1,758 | 1,613 | **1,741** |
| Committed facilities | 2,451 | 2,106 | **2,096** |
| Of which undrawn | 745 | 456 | **502** |
| Gearing (Net debt / Trading capital employed) | *38%* | *36%* | ***36%*** |
| Net debt / 12 month trailing EBITDA (times) | 1.6 | 1.4 | **1.4** |

**Currency split of net debt €1,741 million**




- Subsidiaries generally funded in their functional currencies
- Public credit ratings
  - Moody's Investor Services at Baa2 (outlook stable)
  - Standard & Poor's at BBB (outlook stable) – upgraded

# Cash flow

| € million | H1 2014 | H2 2014 | H1 2015 | % change vs H1 2014 | % change vs H2 2014 |
|---|---|---|---|---|---|
| **Underlying EBITDA** | 553 | 573 | **671** | *21%* | *17%* |
| Working capital movements | (106) | 19 | **(101)** | | |
| Other operating cash flow items | (8) | 2 | **(32)** | | |
| **Cash generated from operations** | 439 | 594 | **538** | *23%* | *(9%)* |
| Dividends from financial investments and associates | - | 2 | **-** | | |
| Taxes paid | (49) | (57) | **(90)** | *(84%)* | *(58%)* |
| **Net cash inflow from operating activities** | 390 | 539 | **448** | *15%* | *(17%)* |
| Capital expenditure, excluding intangible assets | (249) | (313) | **(276)** | *(11%)* | *12%* |
| Investment in forestry assets | (18) | (19) | **(21)** | *(17%)* | *(11%)* |
| Acquisitions[1] | (77) | (27) | **-** | | |
| Interest paid | (64) | (61) | **(57)** | *11%* | *7%* |
| Dividends paid (including non-controlling shareholders) | (140) | (66) | **(158)** | | |
| Other investing and financing activities | 15 | 24 | **28** | | |
| **Net (increase)/decrease in net debt** | (143) | 77 | **(36)** | | |

1 Includes net debt acquired

# Statement of financial position

| € million | H1 2014 | H2 2014 | H1 2015 |
|---|---|---|---|
| Property, plant and equipment | 3,505 | 3,432 | 3,615 |
| Forestry assets | 233 | 235 | 260 |
| Other non-current assets | 707 | 700 | 704 |
| **Total non-current assets** | 4,445 | 4,367 | **4,579** |
| **Total current assets** | 1,963 | 1,981 | **2,138** |
| **Total assets** | 6,408 | 6,348 | **6,717** |
| **Total current liabilities** | (1,628) | (1,323) | **(1,527)** |
| Medium and long-term borrowings | (1,343) | (1,565) | (1,506) |
| Other non-current liabilities | (532) | (566) | (551) |
| **Total non-current liabilities** | (1,875) | (2,131) | **(2,057)** |
| **Total liabilities** | (3,503) | (3,454) | **(3,584)** |
| **Net assets** | 2,905 | 2,894 | **3,133** |
| **Total attributable to shareholders** | 2,645 | 2,628 | **2,863** |
| Non-controlling interests | 260 | 266 | 270 |
| **Total equity** | 2,905 | 2,894 | **3,133** |

# Production volumes

| | | H1 2014 | H2 2014 | H1 2015 | % change vs H1 2014 | % change vs H2 2014 |
|---|---|---|---|---|---|---|
| **Europe & International** | | | | | | |
| Containerboard | Tonnes | 1,075,226 | 1,085,259 | **1,086,057** | *1%* | - |
| Kraft paper | Tonnes | 531,040 | 599,180 | **605,741** | *14%* | *1%* |
| Softwood pulp | Tonnes | 1,025,692 | 1,059,499 | **1,082,595** | *6%* | *2%* |
| Corrugated board and boxes | M $m^2$ | 672 | 671 | **668** | *(1%)* | - |
| Industrial bags | M units | 2,133 | 2,313 | **2,506** | *17%* | *8%* |
| Extrusion coatings | M $m^2$ | 730 | 671 | **735** | *1%* | *10%* |
| Consumer packaging | M $m^2$ | 3,249 | 3,148 | **3,330** | *2%* | *6%* |
| Uncoated fine paper | Tonnes | 684,678 | 676,565 | **696,231** | *2%* | *3%* |
| Newsprint | Tonnes | 104,574 | 97,424 | **97,113** | *(7%)* | - |
| Hardwood pulp | Tonnes | 567,432 | 560,162 | **583,033** | *3%* | *4%* |
| **South Africa** | | | | | | |
| Containerboard | Tonnes | 124,157 | 128,369 | **112,980** | *(9%)* | *(12%)* |
| Uncoated fine paper | Tonnes | 126,907 | 131,176 | **116,768** | *(8%)* | *(11%)* |
| Hardwood pulp | Tonnes | 311,914 | 336,721 | **291,311** | *(7%)* | *(13%)* |
| Softwood pulp | Tonnes | 75,675 | 62,965 | **59,462** | *(21%)* | *(6%)* |
| Newsprint | Tonnes | 58,859 | 58,228 | **55,805** | *(5%)* | *(4%)* |

# Exchange rates

| | H1 2014 | H2 2014 | H1 2015 | % change vs H1 2014 | % change vs H2 2014 |
|---|---|---|---|---|---|
| **Closing rates against the euro** | | | | | |
| South African rand | 14.46 | 14.04 | **13.64** | *6%* | *3%* |
| Czech koruna | 27.45 | 27.74 | **27.25** | *1%* | *2%* |
| Polish zloty | 4.16 | 4.27 | **4.19** | *(1%)* | *2%* |
| Pounds sterling | 0.80 | 0.78 | **0.71** | *11%* | *9%* |
| Russian rouble | 46.38 | 72.34 | **62.36** | *(34%)* | *14%* |
| Turkish lira | 2.90 | 2.83 | **3.00** | *(3%)* | *(6%)* |
| US dollar | 1.37 | 1.21 | **1.12** | *18%* | *7%* |
| **Average rates for the period against the euro** | | | | | |
| South African rand | 14.67 | 14.14 | **13.31** | *9%* | *6%* |
| Czech koruna | 27.44 | 27.63 | **27.50** | - | - |
| Polish zloty | 4.18 | 4.20 | **4.14** | *1%* | *1%* |
| Pounds sterling | 0.82 | 0.79 | **0.73** | *11%* | *8%* |
| Russian rouble | 48.01 | 53.84 | **64.60** | *(35%)* | *(20%)* |
| Turkish lira | 2.97 | 2.85 | **2.86** | *4%* | - |
| US dollar | 1.37 | 1.29 | **1.12** | *18%* | *13%* |

## Mondi: Forward-looking statements disclaimer

This document includes forward-looking statements. All statements other than statements of historical facts included herein, including, without limitation, those regarding Mondi's financial position, business strategy, market growth and developments, expectations of growth and profitability and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mondi, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions and are based on numerous assumptions regarding Mondi's present and future business strategies and the environment in which Mondi will operate in the future. These forward-looking statements speak only as of the date on which they are made.

No assurance can be given that such future results will be achieved; various factors could cause actual future results, performance or events to differ materially from those described in these statements. Such factors include in particular but without any limitation: (1) operating factors, such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development plans and targets, changes in the degree of protection created by Mondi's patents and other intellectual property rights and the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for Mondi's products and raw materials and the pricing pressures thereto, financial condition of the customers, suppliers and the competitors of Mondi and potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in Mondi's principal geographical markets or fluctuations of exchange rates and interest rates.

**Mondi <u>expressly disclaims</u>**

a) any warranty or liability as to accuracy or completeness of the information provided herein; and

b) any obligation or undertaking to review or confirm analysts' expectations or estimates or to update any forward-looking statements to reflect any change in Mondi's expectations or any events that occur or circumstances that arise after the date of making any forward-looking statements,

unless required to do so by applicable law or any regulatory body applicable to Mondi, including the JSE Limited and the LSE.

mondi