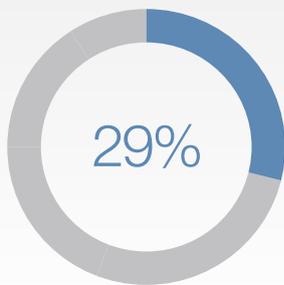
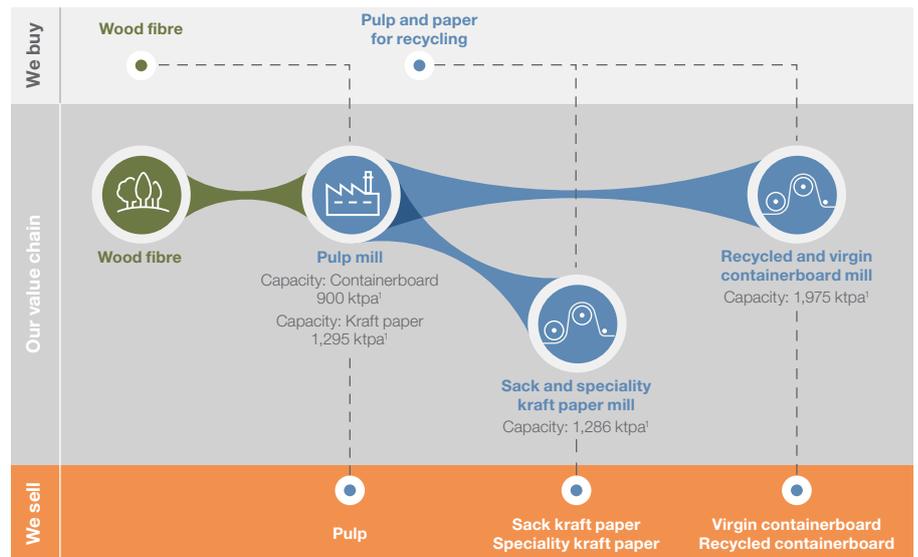


Packaging Paper

% of Group revenue



Our Packaging Paper business manufactures and sells a wide range of virgin and recycled containerboard and sack and speciality kraft paper for conversion by the Fibre and Consumer Packaging businesses, or for use by external customers.



¹ ktpa = thousand tonnes per annum.

We are a leading packaging paper producer in Europe with a well-invested, low-cost asset base. We operate nine production sites – eight located in central Europe and Russia and one in the US, with 5,300 employees. We are focused on continuous improvement in quality, efficiency and profitability.

Our broad product range is designed to meet specific customer needs including printability, strength and moisture resistance; the use of raw materials from sustainable sources; and products that are biodegradable and contain recycled content.

Production information

		2015	2014
Containerboard ²	'000 tonnes	2,138	2,160
Kraft paper	'000 tonnes	1,162	1,130
Softwood pulp			
Internal consumption	'000 tonnes	1,952	1,970
Market pulp	'000 tonnes	156	115

² Includes production from Raubling (Germany), sold in December 2015.

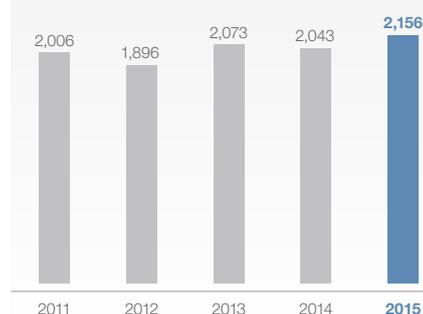
Delivering on our strategy

Strategic value drivers	Progress in 2015	2016 objectives
 We are passionate about performance	<ul style="list-style-type: none"> Significant improvement in safety performance Continued strong profitability 	<ul style="list-style-type: none"> Ongoing focus on safety Focus on increasing productivity and reliability at all our sites
 We invest in our high-quality, low-cost assets	<ul style="list-style-type: none"> Completion of a number of key capital expenditure projects 	<ul style="list-style-type: none"> Completion and successful start-up of strategic projects
 We work with our customers to find innovative solutions	<ul style="list-style-type: none"> Continued long-term relationships with customers and strong focus on service delivery 	<ul style="list-style-type: none"> Further improve service delivery, focusing on planning and delivery accuracy

Revenue

€ million

€2,156m



Financial performance

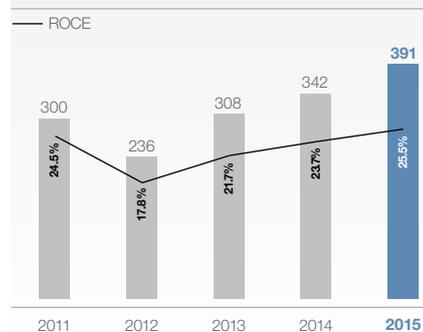
€ million	2015	2014	Change %
Segment revenue	2,156	2,043	6
Underlying EBITDA	505	443	14
Underlying operating profit	391	342	14
Underlying operating profit margin	18.1%	16.7%	
Special items	(14)	(6)	
Capital expenditure	259	259	
Net segment assets	1,753	1,588	
ROCE	25.5%	23.7%	

Our Packaging Paper business delivered another very strong performance with underlying operating profit increasing by 14% to €391 million and ROCE increasing to 25.5%. The improvements were delivered through volume growth, higher selling prices, generally lower input costs, the benefits of completed capital investments and positive currency effects.

Underlying operating profit

€ million

€391m



European demand for containerboard is estimated to have grown 4.1% in 2015, with virgin grades growing by 4.7% and recycled grades by 3.9%. Demand in Russia and the other Commonwealth of Independent States (CIS) was stable. Our total containerboard sales volumes grew by 1.2%, driven by operational debottlenecking, with all operations running at capacity.

Average European benchmark selling prices for unbleached kraftliner were up 4.4% on 2014 levels, with a series of price increases implemented during the year before some moderate price erosion towards the end of the year. White-top kraftliner prices were relatively stable during the year, with the average benchmark price marginally up compared to 2014.

Average benchmark recycled containerboard prices were up 0.9% on the prior year. Price increases were implemented in the second half of the year and closing prices were 3.4% higher than the average price for the year.

Recent capacity increases in the European virgin containerboard market, coupled with an increase in imports from certain emerging markets benefiting from weaker currencies versus the euro, have resulted in downward pressure on selling prices. In the early part of 2016, selling prices for the Group's unbleached kraftliner grades sold into Europe declined by an average of around €20-€25/tonne, while white-top kraftliner prices were €10-€15/tonne lower. A 10% increase in the domestic Russian market was implemented for white-top containerboard in February.

Sales volumes of sack kraft paper were up by 10.4%, benefiting from the ramp-up of the 155,000 tonne per annum bleached kraft paper machine in Štětí (Czech Republic), commissioned in 2014; forward integrating pulp that was previously sold in the open market; and the full-year contribution from the Pine Bluff, Arkansas mill (US) acquired in mid 2014.

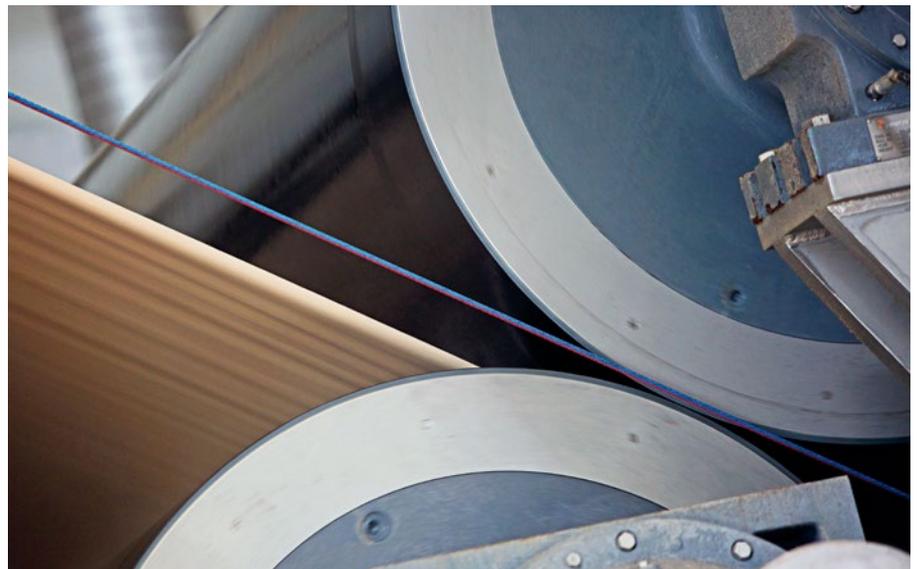
Selling prices for sack kraft paper declined at the beginning of 2015, giving up much of the gains achieved in the second half of 2014. Thereafter prices remained stable for most of the year, and average prices were broadly in line with those of the prior year. In export markets, a combination of a slowdown in construction activity in certain south east Asian markets and political instability in some countries in the Middle East and North Africa had a negative effect on demand in the second half of the year. Seasonal weakness towards the end of the year also impacted European markets. As a result, in early 2016, average selling prices for sack kraft paper produced in Europe have reduced by approximately 5-6%.

We saw good demand for our speciality grades of kraft paper, with higher selling prices on average than the prior year, although sales volumes were negatively impacted by the closure of the Lohja mill (Finland). Selling prices remain stable in the early part of 2016.

The full-year contributions of our projects completed in 2014, including the Syktyvkar pulp dryer (Russia) and rebuilt bleached kraft paper machine in Štětí, contributed significantly to our performance. The completion of our new recovery boiler in Świecie (Poland), conversion of the existing boiler to a biofuel boiler and closure of the coal-fired boilers contributed to lower energy costs in the second half of the year.

Input costs were generally lower than in 2014 as a result of various cost savings initiatives and lower market prices. Wood, chemicals and biofuel costs were all lower and in Syktyvkar, the weaker rouble more than offset domestic inflationary cost increases. Paper for recycling costs were, on average, 7% higher than in 2014, with significant increases experienced during the third quarter of the year before decreasing again towards the end of the year. Income from green energy was lower than the prior year due to lower market prices and volumes sold.

Planned annual maintenance shuts of our Świecie, Dynäs (Sweden) and Stambolijski (Bulgaria) mills were completed in the first half of the year with the balance of shuts taking place in the second half of the year. In 2016, the maintenance shuts of our Świecie and Syktyvkar mills are scheduled to take place in the middle of the year and our kraft paper mill shuts are scheduled for the fourth quarter.



ECO7, our state-of-the-art lightweight recycled containerboard machine is one of the world's fastest machines

Świecie, Poland



Mondi Diamond Awards

Managing odorous gases is a key challenge in the pulp industry. At our Frantschach mill, we developed a stable, safe procedure to burn such gases without requiring support fuel in the recovery boiler. This technological breakthrough saves millions of cubic metres of natural gas compared to standard industry practice and is a clear example of how sustainable development is part of the way we work at Mondi.

Sustainable development

		2015	2014
TRCR ¹	per 200,000 hours worked	0.70	0.97
Energy consumption	million GJ	54.65	53.28
Scope 1 and 2 GHG emissions	million tonnes CO ₂ e	1.49	1.50
CoC-certified wood procured	%	50	53
Environmental management certification ²	% operations certified to ISO 14001 standards	100	100

¹ 2014 restated to include Pine Bluff mill and exclude Release Liner Asia converting operation.

² Excludes Pine Bluff mill and Release Liner Asia converting operation.

Packaging Paper operates large and generally integrated production facilities. We focus on improving efficiencies, increasing yields, reducing energy and water consumption and reducing waste. Product development is aimed at reducing the weight of our packaging paper, while still retaining or improving its functionality and printability. We also aim to increase the recycled content of our products. We consider virgin and recycled fibres as complementary. Both are key elements of an integrated fibre cycle that is not sustainable without the introduction of virgin fibre for quality and strength.

Our passion for performance drives us to continually improve the yields and efficiencies in our mills. During 2015, we completed a number of projects at our Świecie, Syktyvkar and Frantschach (Austria) mills to improve the quality of products produced. The most significant investment completed in 2015 was the construction of the new recovery boiler and conversion of the existing recovery boiler to a biofuel boiler, replacing the coal-fired boilers at our Świecie operation. This investment significantly improved the energy efficiency of the mill, reduced CO₂e emissions, improved operating efficiencies and reduced ongoing maintenance costs. In 2016, the focus will be on the completion of the second phase of the project, providing increased softwood pulp capacity and an additional 80,000 tonnes of lightweight kraftliner – making full use of the increased capacity from the new recovery boiler.

In 2015, we hosted a seminar, 'From Fibre to Corrugated Board' attended by over 300 customers at our Świecie mill. Our customers had the opportunity to observe and ask questions about our production processes and our operating procedures, providing them with a much deeper understanding of the products they use. Our next event is planned for 2017.

Packaging Paper enjoys strong, long-term relationships with many of our customers and this was clearly reflected in the outcomes of the customer survey. The survey also identified two areas that need our ongoing focus: improving our production planning and delivery, and ensuring that our products continue to meet sustainability criteria.

We continue to invest in the development of our people, with a focus on plant maintenance activities in 2016. We have completed the capital investments to engineer out the business's Top 5 Fatal Risks and we are making good progress in improving our safety record, with a significant reduction in our TRCR. At our kraft paper mill in the US, we continued our activities to ensure the mill meets Mondi safety standards through both training and investment.