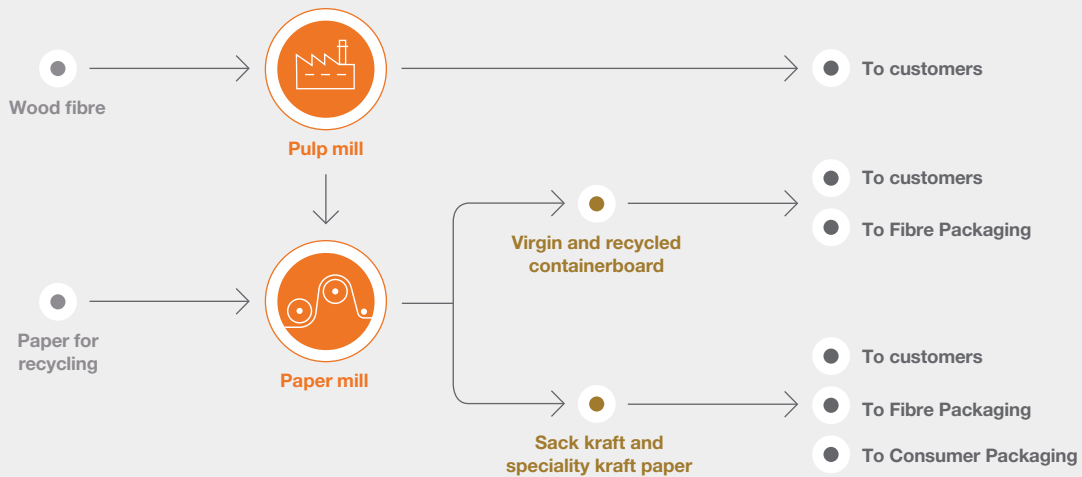


Business reviews

Packaging Paper

Our Packaging Paper business manufactures and sells a wide range of virgin and recycled containerboard, and sack and speciality kraft paper. These products are converted by our Fibre and Consumer Packaging businesses, and are also used by external customers.



Operating sites

9 in 9 countries

Employees

5,000

Production capacity

Pulp: 2,435 ktpa¹

Virgin and recycled containerboard: 2,155 ktpa¹

Sack and speciality kraft paper: 1,291 ktpa

¹ Including Świecie Green II (start up in 2017)

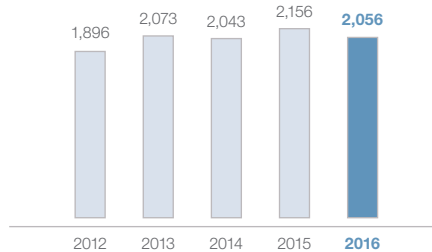
Key industries served

- Automotive
- Building and construction
- Food and beverages
- Paper and packaging converting
- Shipping and transport

Revenue

€ million

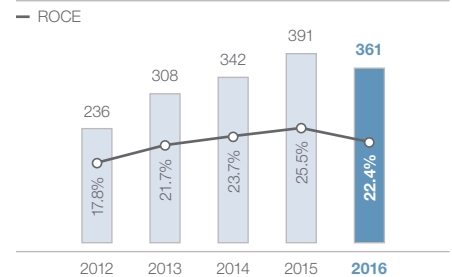
€2,056m



Underlying operating profit

€ million

€361m



We are a leading packaging paper producer in Europe with a well-invested, low-cost asset base.

Our virgin and recycled containerboard is used to make corrugated packaging, primarily designed to protect our customers' products along the value chain and display them in-store.

Sack kraft paper, which we offer in brown, white and polyethylene-coated grades, is the main component of valve and open mouth industrial bags. Our speciality kraft paper is used to make everything from industrial packaging, to retail shopping bags, and attractive food packaging for supermarket shelves. It is also used by our Consumer Packaging business for release liner.

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.

Delivering on our strategy

Strategic value drivers	2016 highlights	2017 objectives
 Driving performance to optimise quality, productivity and efficiency	→ Good progress in optimising recently completed investments	→ Increase productivity and reliability of mills through focus on maintenance and asset management processes
 Investing in our high-quality, low-cost assets to keep us competitive	→ Świecie mill (Poland) expansion to provide additional 100,000 tonnes of softwood pulp and 80,000 tonnes of lightweight kraftliner nearing completion (start-up Q1 2017)	→ Ramp-up of new Świecie capacity → Progress major capital investment projects at Štětí (Czech Republic) and Ružomberok (Slovakia) mills
 Partnering with our customers to develop innovative solutions	→ High level of flexibility and stable service with Make2Stock approach	→ Focus on enhancing product quality and supply chain improvements to ensure reliable service for our customers
 Growing responsibly and inspiring our people for long-term success	→ Successfully completed all shuts with no recordable safety incidents → Positive progress at Świecie mill in waste water treatment and reduction in waste to landfill	→ Continue to focus on eliminating top risks, energy efficiency and waste reduction → Enhance employee relationships through stronger two-way communication and effective leadership

Advantage Kraft White Print

This premium sack kraft paper is produced on our cutting-edge paper machine at Štětí. The unique combination of the outstanding printability and branding potential of calandered machine finished grades along with the strength properties of standard sack kraft paper make it perfect for the outer ply of high-end bags for food, animal feed and chemicals.



ProVantage Komiwhite

Thanks to the recent modernisation of our paper machine in Syktyvkar (Russia), this exclusive white-top kraftliner is able to offer unprecedented quality in terms of printability, runnability, and whiteness. It also benefits from the strength of Nordic fibres. Produced from 100% FSC-certified virgin fibre, it is perfect for shelf-ready packaging solutions that seek to catch the eye with a bright appearance and enhanced branding.

Advantage MF SpringPack Plus

This extremely strong, natural brown premium paper is designed for roll-packing and compressing goods. It can withstand the force exerted by 10 to 15 compressed spring mattress units and is recognised as the strongest paper in the world¹. Advantage MF SpringPack Plus provides an efficient, cost-effective and 100% recyclable packaging solution.

¹ Swedish edition of the Guinness World Records Book 2001: 13th edition, page 256



Business reviews

Production information

		2016	2015
Containerboard	'000 tonnes	2,000	2,138
Kraft paper	'000 tonnes	1,204	1,162
Softwood pulp	'000 tonnes	1,870	1,759
Hardwood pulp	'000 tonnes	364	322

Financial performance

€ million	% change	2016	2015
Segment revenue	(5%)	2,056	2,156
Underlying EBITDA	(4%)	483	505
Underlying operating profit	(8%)	361	391
Underlying operating profit margin		17.6%	18.1%
Special items		–	(14)
Capital expenditure		156	259
Net segment assets		1,760	1,753
ROCE		22.4%	25.5%

Sustainable development

		2016	2015
TRCR ¹	per 200,000 hours worked	0.72	0.72
Energy consumption	million GJ	59.26	58.37
Scope 1 and 2 GHG emissions	million tonnes CO ₂ e	1.25	1.58
FSC or PEFC certified wood	%	53	50
Environmental management certification	% operations certified to ISO 14001 standards	86	86

¹ 2015 figures now include Pine Bluff (US)

Financial performance

Profitability in Packaging Paper, down 8% on the prior year, was impacted by lower average selling prices across most key grades, lower green energy prices, and the loss of contribution from the Raubling mill (sold during 2015), partially offset by the benefits of completed capital investment projects. However, the business unit delivered a strong ROCE performance of 22.4%.

On a like-for-like basis, excluding the impact of the sale of the Raubling mill, sales volumes were marginally up across all containerboard grades.

As anticipated, we saw some price erosion in the kraftliner grades in the first half of the year.

While demand growth remains solid, the market came under some pressure from increased supply from new capacity in Europe and competition from importers benefiting from weak emerging market currencies. Average European benchmark selling prices for unbleached kraftliner were down 5% on the prior year and white-top kraftliner prices were down around 2%.

Supported by sustained good demand and a strong order position, a price increase of €20 per tonne was implemented for unbleached kraftliner in August across all European markets, excluding southern Europe, partly offsetting the price erosion seen over the course of the first half of the year. In Russia, price increases for white-top kraftliner were implemented at the beginning of 2016 and remained stable throughout the year.

In response to strong demand, price increases of €50 per tonne were recently implemented on all unbleached kraftliner grades in Europe, effective from March 2017. A price increase of €50 per tonne has also been announced for white-top kraftliner to take effect from the beginning of Q2 2017. In Russia, prices for white-top kraftliner were increased from the beginning of 2017.

Average European benchmark selling prices for recycled containerboard were down 3% on the prior year period. Price increases of €40 per tonne were achieved from February 2017, and a further increase of €40 per tonne was announced to take effect from the beginning of Q2 2017.

Sales volumes for sack kraft paper increased compared to the prior year, benefiting from good demand, fewer planned maintenance shuts and productivity improvements. Average selling prices for sack kraft paper produced in Europe declined by 5-6% in the early part of 2016 and remained at those levels through the balance of the year. Given strong demand, selling prices were increased by 3-4% from the beginning of 2017 in all markets.

We saw good demand across our range of speciality kraft papers, although sales volumes of certain grades were impacted by the closure of high cost production capacity in 2015. Selling prices were, on average, marginally lower than in the prior year.

Input costs were at a similar level to the prior year with the business benefiting from cost savings initiatives and generally lower raw material and energy costs which offset higher paper for recycling costs and other inflationary increases. Green energy prices were significantly lower in Poland due to legislative changes, resulting in a €20 million reduction in income from green energy credits compared to the prior year, including the impact of a write-down of €6 million in the carrying value of the inventory of green energy credits held at year end.



Planned maintenance shuts at our Syktyvkar and Świecie mills were completed during the first half of the year, and a further planned maintenance shut at Świecie and the majority of our kraft paper mill shuts were completed in the second half of the year. A similar planned maintenance schedule is anticipated in 2017 although the shuts at our Świecie and Štětí mills will be extended as we progress our major capital investments at those operations.

Driving performance to optimise quality, productivity and efficiency

Packaging Paper operates large and generally integrated production facilities. Our passion for performance drives us to continually improve the yields and efficiencies in our mills.

We have completed a number of investments across our mills in recent years and our focus in 2016 was on fully realising the benefits of these investments.

In our drive to increase the productivity and reliability of our mills we have invested in our asset management and maintenance processes.

We are implementing software to significantly improve our data analytics capabilities and provide standardised data to benchmark performance across all our mills. This has enabled us to improve the consistency of our maintenance activities and encourage a more proactive approach to asset management.

Building on the success of our programme to engineer out our top safety risks at all our operations, we have defined our top five maintenance activities on a mill-by-mill basis and prioritised these in our maintenance programme.

Investing in our high-quality, low-cost assets to keep us competitive

In 2015, we completed the construction of a new recovery boiler at our Świecie mill and converted the existing recovery boiler to a biofuel boiler to replace the coal fired boilers. In addition to the significant environmental benefits and operating efficiencies from this project, the new recovery boiler gave the opportunity to expand production at the mill.

The €94 million second phase will provide an additional 100,000 tonnes per annum of softwood pulp and 80,000 tonnes per annum of lightweight kraftliner. We are well on track to start up this project in the first quarter of 2017.

We also finalised a number of smaller investments at our other mills, focused on improving asset reliability, safety standards, product quality and process stability, and generating opportunities for future growth at some sites.

At our Štětí mill, the ramp-up of our rebuilt paper and inline coating machine has been slower than anticipated. We have allocated additional capital to meet quality requirements that are higher than the original project specifications, and expect to ramp up production over the course of 2017. We continue to improve our quality systems to ensure that we meet our customers' expectations.

Business reviews

Our €310 million project at our Ružomberok mill will be able to produce 300,000 tonnes of kraft top white per annum when completed in 2020. The new paper grade will consist of a white top layer which contains virgin pulp, and a bottom layer containing recycled fibre, thus retaining the functionality and printability of white virgin grades, and maintaining a competitive cost structure. The new kraft top white grade is targeted at the growing white topline market. We expect growth to continue driven by the trend towards high-quality shelf-ready packaging solutions, and kraft top white allows for enhanced printability and better branding at point-of-sale.

The €470 million modernisation and expansion of our Štětí mill consists of the installation of a new recovery boiler, the rebuild of the fibre lines, the debottlenecking of the paper machines and an investment in a new 90,000 tonnes per annum machine glazed speciality kraft paper machine.

Key benefits of the project are:

- increased electricity self-sufficiency, lower energy costs and reduced environmental footprint of the mill;
- increased pulp production of 130,000 tonnes per annum and lower pulp production costs per tonne;
- debottlenecking of existing packaging paper machines providing total incremental production of 55,000 tonnes per annum;
- additional capacity to produce 90,000 tonnes per annum of machine glazed speciality kraft paper to supply fast growing end-uses in flexible packaging and food service applications; and
- avoidance of maintenance capital expenditure over the next five years of around €105 million.

The new recovery boiler and rebuilt fibre lines are expected to start up in late 2018, while the new paper machine is expected to start up in the first half of 2019.



Advantage MF EcoComp: Fuelling the journey from organic waste to biogas

Produced at: Mondi Dynäs (Sweden)

More sustainable than you expect. Every day.

Composting organic kitchen waste is good for the environment, but it can be a messy chore. With Advantage MF EcoComp, Mondi has developed a speciality kraft paper just for this purpose. Because the paper itself is certified as fully biodegradable and compostable, the whole waste bag can be thrown in the composting bin. Two of the many reasons why Svenco, one of Europe's major manufacturers of paper bags, chose to develop a waste paper bag that makes a difference with Mondi.

This waste paper bag, called 'Matavfallspåse', is completely biodegradable, compostable and water-repellent, with the open-mouth ventilation system facilitating the aerobic digestion of food waste while allowing water to evaporate. Benefits include minimised odours, lighter weight for transportation and decreased risk of dry waste freezing in cold temperatures.

The bag's journey is not over once it is filled with organic kitchen waste. Advantage MF EcoComp is still picking up speed when it gets to the recycling plant. The bag (including contents) goes straight to the biogas facility where it is converted into a fuel available at Swedish petrol stations. One full waste bag made from Advantage MF EcoComp can power a car for up to 4 km¹.

1 Biogas Syd 2014

Partnering with our customers to develop innovative solutions

Our ongoing innovation activities are focused on reducing the weight of our paper grades while still retaining the necessary strength and printability requirements. In sack kraft and speciality kraft paper, our product development is centred on meeting customers' needs for runnability and filling speed.

Service delivery is a differentiator for us and we continue to improve our supply chain activities from planning and production to final delivery of our products to customers. Increasing flexibility, combined with stable services for our customers, was the key driver for our Make2Stock initiatives in recent years. For defined specifications of white and brown containerboard grades, we offer our customers in European markets quick call off services (up to 24 hours) providing a high level of delivery capability, ensuring quality customer service at the right time.

In 2017, we will again host the seminar 'From Fibre to Corrugated Board' at our Świecie mill addressing around 300 customers. The seminar is intended to close the gap between paper makers' and corrugated board makers' understanding of the challenges they face and to share knowledge and best practices.

In 2016, we celebrated the milestone of 200,000 tonnes of unbleached long-fibre kraft pulp delivered to Melitta, one of our customers at Frantschach (Austria).

Growing responsibly and inspiring our people for long-term success

The 2015 employee survey showed a clear improvement in sentiment across all our mills. We take this feedback seriously and, while it is pleasing to see our initiatives delivering results, we have identified a number of themes across our mills for further improvement. Our employees want to see stronger two-way communication, effective leadership, and to have an increased sense of pride in working for Mondi.

We are delighted to report that we had no fatalities or life-altering injuries in 2016, and completed all our major shuts without any recordable injuries. Our proactive approach – involving our contractors early in the shut planning process, extensive training of all our people, our strong management focus, and our caring culture – has contributed to our safety achievements. The success of our project to engineer out the top risks at all operations has encouraged us to make this an annual initiative.

At our Świecie mill, progress includes the modernisation of the waste water treatment plant. The project was completed in May 2015 and is already delivering a 50% reduction in chemical oxygen demand load compared to 2015. In addition Świecie mill has further reduced its waste to landfill, down by almost 60% compared to 2015 levels.

Our community involvement is localised to each mill and focuses on where we can add value. All our mills are involved in formal and informal initiatives to identify and address community needs and concerns where appropriate. We work together with local authorities in identifying and assisting with specific needs, and work with local schools and universities in supporting education. In 2016, our Štětí mill received the 'Social responsibility for the Ústí region' award for their employee engagement, the Mondi for Life programme and their community support. We conducted one of our social impact assessment pilots at our Świecie mill, in partnership with Business in the Community, a UK-based, business led charity organisation. The pilot study resulted in a better understanding of the local value we have created, and provided us with insight into how we can improve the way we measure our social impact and community value across the Group.