

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.

Operating sites

10 in 10 countries

Employees

5,300

Production capacity

Pulp: 2,715 ktpa

Virgin and recycled containerboard: 2,435 ktpa

Sack and speciality kraft paper: 1,291 ktpa

Key industries served

Automotive

Building and construction

Food and beverage

Paper and packaging converting

Shipping and transport

Market positions

#2

Virgin containerboard producer in Europe

#1

Containerboard producer in emerging Europe

#1

Kraft paper producer globally

We are a leading packaging paper producer in Europe and South Africa with a well-invested, cost-advantaged 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. Customers benefit from our full-range sack kraft paper portfolio, including brown, white and polyethylene-coated grades, as the main component of valve and open mouth industrial bags.

Our broad range of high-quality speciality kraft papers enables customers to source a variety of customised packaging solutions from a single supplier. Our products can be used to make everything from industrial packaging, to retail shopping bags, and attractive food packaging for supermarket shelves and is 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.

Production information

		2017	(Restated) ¹ 2016
Containerboard	'000 tonnes	2,297	2,253
Kraft paper	'000 tonnes	1,206	1,204
Softwood pulp	'000 tonnes	2,010	1,976
Hardwood pulp	'000 tonnes	547	500

Financial performance

€ million	% change	2017	(Restated) ¹ 2016
Segment revenue	9%	2,292	2,103
Underlying EBITDA	19%	629	527
Underlying operating profit	21%	482	397
Underlying operating profit margin		21.0%	18.9%
Special items		3	—
Capital expenditure		283	175
Net segment assets		2,101	1,876
ROCE		26.3%	23.1%

Sustainable development

		2017	2016
TRCR	per 200,000 hours worked	0.60	0.72
Energy consumption	million GJ	58.32	59.26
Scope 1 and 2 GHG emissions	million tonnes CO ₂ e	1.09	1.25
FSC- or PEFC-certified wood procured	%	60	53
Environmental management certification	% operations certified to ISO 14001 standards	86	86

¹ Refer to note 2 in the notes to the combined and consolidated financial statements for basis of restatement

Advantage Select

Our Advantage Select sack kraft paper has enabled the largest cement packaging company in Pakistan to switch most of its production from three-ply to two-ply bags without compromising on strength or quality. As a result, Cherat Packaging has reshaped the market and delivered considerable material and cost savings. Its two-ply bags made with Advantage Select are now used by almost all cement plants in Pakistan, and are greatly appreciated by customers.



ProVantage Komiwhite

This exclusive white top kraftliner made in Syktyvkar (Russia) brings unprecedented quality in terms of printability, runnability, and whiteness. It offers a wide range of solutions for packaging fruit, beverages and luxury goods as well as eye-catching point-of-sale displays, promotional and shelf-ready packaging. Its bleached white hardwood top sheet ensures brilliant printing that meets the requirements of our customers and captures the attention of end-users.



Raw materials

Wood fibre



Paper for recycling



Production processes

Pulp mill



Paper mill



Products

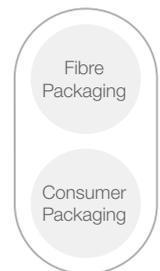
Pulp



Virgin and recycled containerboard¹



Sack kraft and speciality kraft paper¹



¹ Sold externally and used in our Fibre Packaging and Consumer Packaging businesses

Business reviews

Packaging Paper

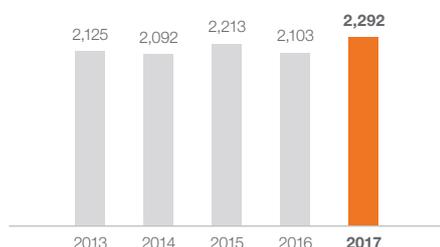
Delivering on our strategy

Strategic value drivers	Progress in 2017	2018 objectives
 Drive performance along the value chain	<ul style="list-style-type: none"> → Focused on improving product mix, and optimising production and supply chain → Improved reliability of mills through focus on maintenance and Asset Management System 	<ul style="list-style-type: none"> → Improve productivity and efficiency of mills through Asset Management System and recovery boiler optimisation plan
 Invest in assets with cost advantage	<ul style="list-style-type: none"> → Completed the Świecie mill (Poland) expansion to provide additional 100,000 tonnes of softwood kraft pulp, 80,000 tonnes of light-weight kraftliner and increased share of kraft top liner 	<ul style="list-style-type: none"> → Make progress on major capital investment projects at Štětí (Czech Republic) and Ružomberok (Slovakia) mills → Ramp-up of new Świecie capacity
 Inspire our people and grow responsibly	<ul style="list-style-type: none"> → Continued focus on safety, completed all shuts and capex projects with no major safety incidents → Enhanced employee relationships and two-way communication → Reduced GHG emissions intensity 	<ul style="list-style-type: none"> → Continued focus on growing our safety maturity → Progress investments to reduce the environmental footprint of our mills and improve energy efficiency
 Partner with customers for innovation	<ul style="list-style-type: none"> → Improved customer intimacy through hosting events, supporting through Electronic Data Interchange (EDI) connections and providing platforms for engagement with Mondi experts 	<ul style="list-style-type: none"> → Leverage recently implemented platforms and initiatives to further improve customer partnerships and relationships → Complete the acquisition of Powerflute

Segment revenue

€ million

€2,292m

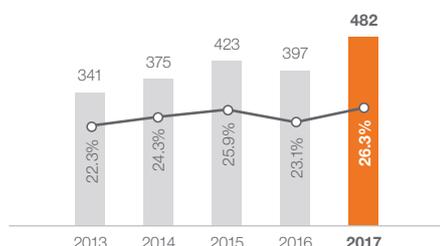


Underlying operating profit

€ million

€482m

— ROCE



Financial review

Packaging Paper's underlying operating profit was up 21% on the prior year driven by significantly higher average selling prices and sales volume growth in higher value added products, partly offset by higher costs and negative currency effects.

Strong demand, limited industry capacity additions and lower kraftliner imports drove up European containerboard prices over the course of the year, although the magnitude of the increases varied by grade. Average benchmark European prices for unbleached kraftliner were up 13% year-on-year, and up 16% in the second half when compared to the first half of the year, while benchmark recycled containerboard prices were up around 10% over the same period. By contrast, white top kraftliner prices and semi-chemical fluting were up in the range of 2% to 3% year-on-year.

In response to continued strong demand driven by a generally positive economic environment and ongoing growth in e-commerce, price increases in the range of €30 to €50 per tonne were implemented in Europe across all containerboard grades during January and February 2018.

We saw good demand across our kraft paper grades during the year, while sack kraft paper prices were up around 5% to 6% on average year-on-year. Given good demand, particularly in export markets, we implemented sack kraft paper price increases in all markets from the beginning of 2018, resulting in increases in the range of 8% to 9% compared to average 2017 price levels.

Demand across our range of speciality kraft papers was good and prices were, on average, higher than in the prior year.

Input costs were generally higher than the prior year with higher paper for recycling, wood, chemical, energy and transport costs. Cash fixed costs also increased on higher maintenance costs and inflationary cost pressures. As a result of recent capital investments, the depreciation charge was higher than the comparable period.

We completed a project-related shut at our Świecie mill and a planned maintenance shut at our Syktyvkar mill during the first half of the year. A further planned maintenance shut at Świecie and the majority of our kraft paper mill shuts were completed in the second half. Maintenance shuts are planned at our Syktyvkar and Richards Bay (South Africa) mills for the first half of 2018 while the majority of the remaining shuts are scheduled for the second half of the year, including an extended shut at our Štětí mill as we progress to commission the major capital project at that operation.

Drive performance along the value chain

During the year, we continued to focus on improving our product mix, and optimising our production network and supply chain to better serve our customers. We also made good progress on delivering procurement savings and improving the productivity and efficiency of our mills.

To increase the reliability of our operations and reduce maintenance costs we continued to invest in our maintenance and asset management processes. We have significantly improved our data analytics

capabilities to provide standardised data to benchmark performance across the mills.

This enables us to improve consistency of our maintenance activities which we are standardising, review the skills and qualifications required by our people and improve our training programmes.



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Asset Management System
case study – Strategy review

Collaboration and best practise sharing is crucial to drive operational excellence across our mills. During the year we focused on reviewing the set-up of our know-how sharing platforms to improve the implementation of recommended action plans.

Invest in assets with cost advantage

In the first half of 2017, we commissioned the final phase of our €260 million investment programme in Świecie. This project provides an additional 100,000 tonnes per annum of softwood kraft pulp forward integrated to 80,000 tonnes per annum of light-weight kraftliner and an increased share of kraft top liner. We continue to see progress in ramping up production of the requisite quality at our rebuilt paper and inline coating machine at Štětí although technical challenges remain.

We are making good progress on the €335 million modernisation of our Štětí mill to replace the recovery boiler, rebuild the fibre lines and debottleneck the existing packaging paper machines. Start-up is anticipated in late 2018. During the year we also completed the €41 million woodyard upgrade and bleaching line modernisation at this mill.

The European Commission approved €49 million in tax incentives for our €310 million investment in a new 300,000 tonne per annum kraft top white machine and related pulp mill upgrade at our Ružomberok mill. Work on the pulp mill upgrade has commenced, with start-up expected in late 2019. The investment in the paper machine remains subject to obtaining necessary permitting with start-up expected in 2020.

Inspire our people and grow responsibly

The safety and health of our people is a key priority. We continued to reduce risks in our operations with a focus on the top risks. To ensure we conduct annual maintenance shuts and implement

capital expenditure projects safely, we engaged with contractors and planned in detail ahead of time. As a result, we continue to see improvements in our safety performance during maintenance shuts and capital investment projects. While we did not record any major incidents during these projects in 2017, we regret that we experienced a life-altering injury – a partial finger amputation – at our Frantschach mill (Austria).

As a result of our recent investments, such as the installation of a new recovery boiler and conversion of the existing boiler to a biofuel boiler at our Świecie mill, we have reduced GHG emissions and improved energy efficiency at our operations. Excellent progress was made in reducing waste to landfill, mainly due to further conversion of waste to energy instead of landfilling at our Świecie mill. Our Stamboljiski mill in Bulgaria received investments during the year with a focus on improving our environmental performance by capturing and treating odourous gases and upgrading our emissions measurement equipment. In Frantschach we invested in additional noise protection measures and initiatives aimed at reducing air emissions such as nitrogen oxides.

FSC- or PEFC-certified wood volumes were increased during the year, mainly due to increased procurement of wood from certified suppliers.

In 2017, our annual Making A Difference Day included a focus on our relationships with local communities. We hosted events including visits by local students, family days and community open days. We see benefits from these activities including improved community-site cooperation, local environmental and safety & health awareness, understanding of our industry, and support for the development of a pool of local technical skills. We were proud to celebrate two very special anniversaries this year. We hosted 180 guests, including state and local Polish representatives, at a special function for Świecie's 50-year anniversary. In Dynäs (Sweden) we celebrated 100 years of papermaking, taking the opportunity to reinforce the company's relationship with the city and its citizens, and share information about our operations, products, and the contribution we make to the city.

We also continued to look for ways to improve two-way communication with our employees. In 2017 we asked our employees to share their stories with us in relation to our 'In Touch Every Day'

campaign and our claim of 'More than you expect'. The overwhelming response we received was so inspiring that we shared these stories with our employees globally via our intranet as well as a printed booklet. 52 employees provided personal stories illustrating how Mondi exceeds their expectations. We were encouraged by these stories, which bring our values to life.

Partner with customers for innovation

We continue to develop customer intimacy through proactive initiatives. In 2017 we had the pleasure of hosting the eighth 'From fibre to corrugated board' seminar at our Świecie mill, a three day event with around 250 customers. Our well known seminar provides an opportunity to share knowledge, best practice and key challenges between paper and corrugated board producers.

During the year, we expanded our Electronic Data Interchange connection with customers. This direct connection to our customers' ERP systems allows for automated order placement, confirmation, delivery notification and invoicing. This initiative continues to grow since its inception in 2015 and is poised for further development in 2018.

Our online corrugated board platform 'Corrugated-Paper-Expert' was launched late in 2017 providing customers with the opportunity to submit questions to our internal experts. Partnering with our customers to help them improve paper runnability and optimise cost and weight in the box design process is vital for their success. This 24/7 online support tool provides an ideal platform for collaboration and partnership.

In December 2017, to broaden our high-quality packaging paper offering to our global corrugated packaging customers, we signed an agreement to acquire Powerflute, an integrated pulp and paper mill in Kuopio (Finland) with an annual production capacity of 285,000 tonnes of high-performance semi-chemical fluting for €365 million on a debt and cash-free basis. Powerflute's semi-chemical fluting is sold to a diverse range of customers, primarily for packaging fresh fruit and vegetables, but also other end-uses such as electronics, chemicals and pharmaceuticals. Around half of the company's production is sold in Europe, while the remainder is exported globally. We anticipate completion of this transaction in the first half of 2018, subject to competition clearance and customary closing conditions.