



# Mondi Capital Markets Day

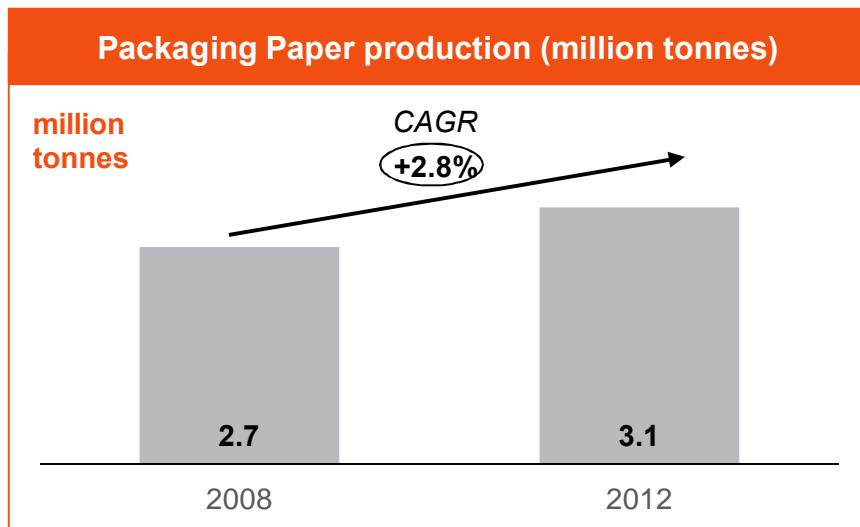
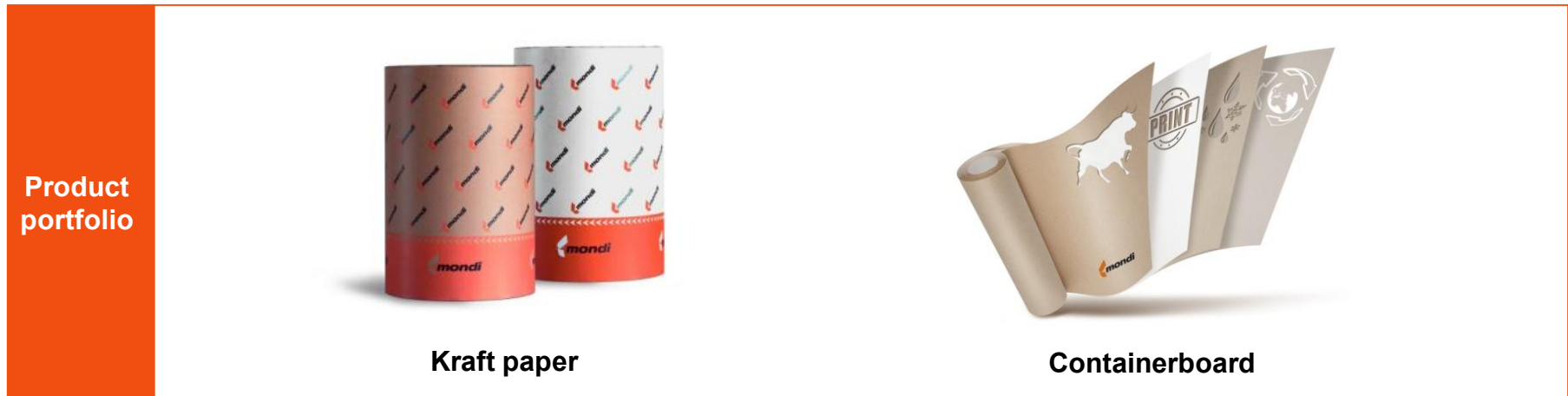
Packaging Paper

Peter J. Oswald | Maciej Kunda

2 September 2013

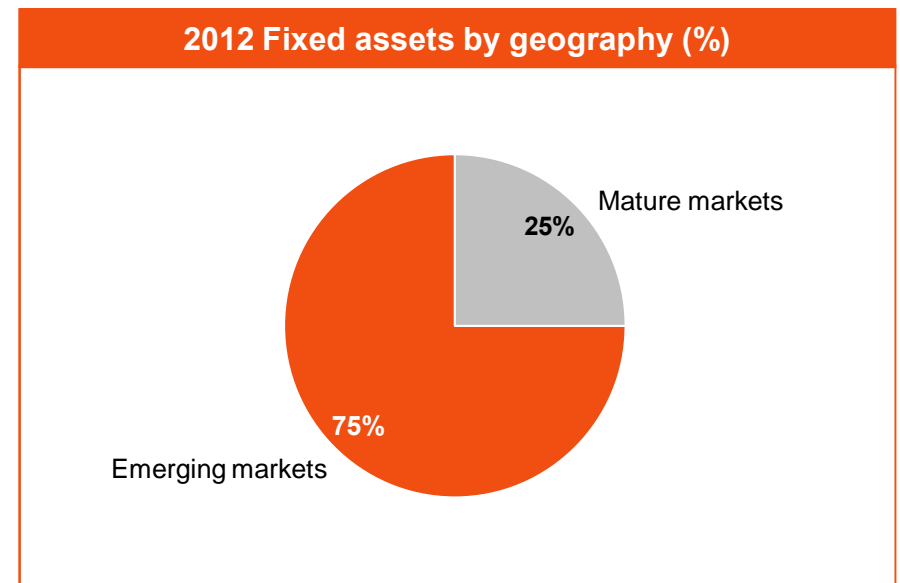
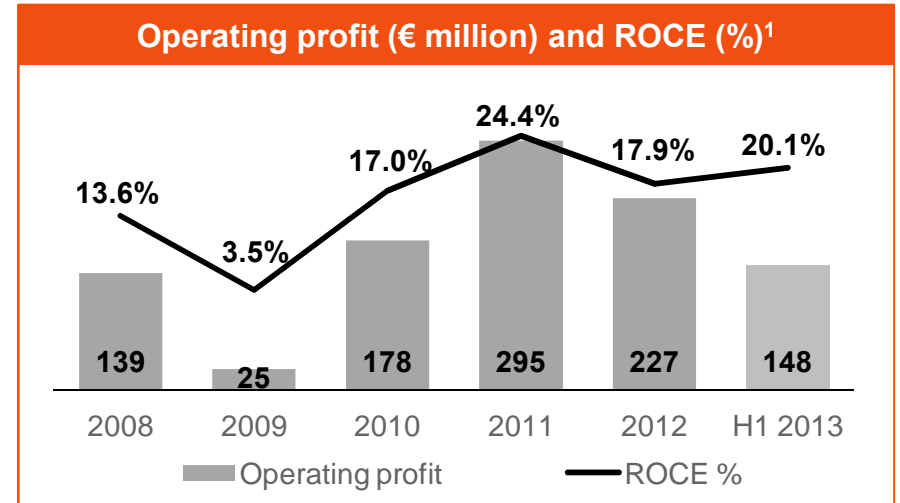
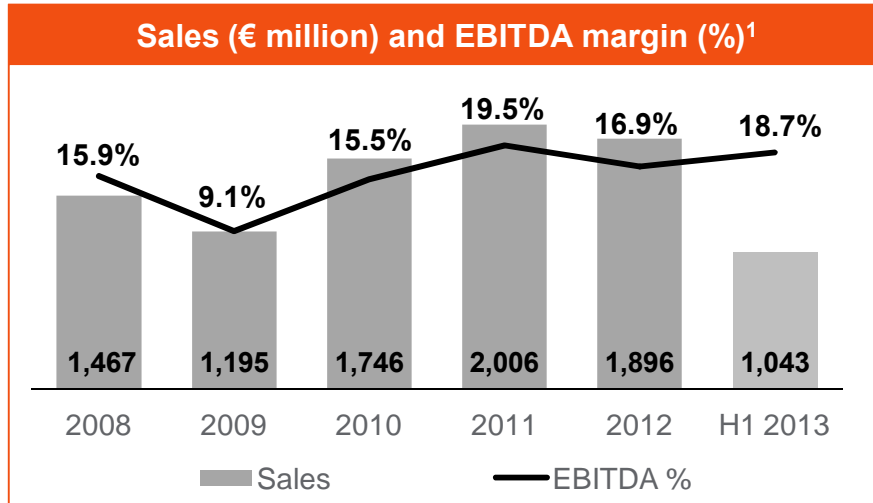
# Packaging Paper at a glance

The Packaging Paper business manufactures and sells a wide range of virgin and recycled containerboard as well as kraft paper for conversion into corrugated board, trays and displays, industrial bags, consumer packaging and other paper based products.



- Continuous growth**
- Growth in the Packaging Paper business has been achieved by:
    - Leveraging our presence in emerging Europe and Russia
    - Increased sales into overseas markets, in particular Asia and Africa
    - Development of new and innovative products (Kraft Top Liner, Aqua Liner)

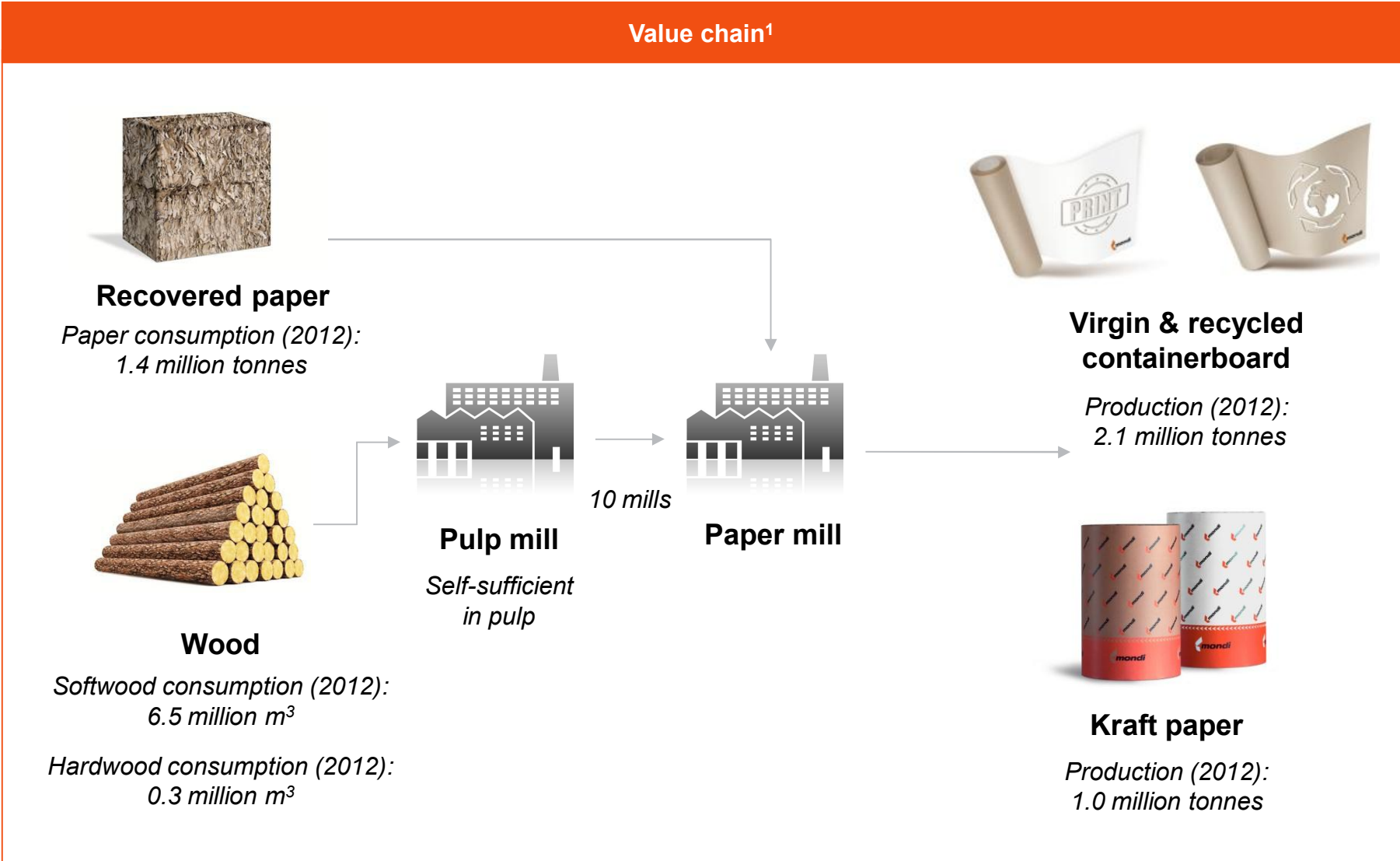
# Solid financial performance



(1) Financial results shown in 2008 to 2012 are for the full financial year.

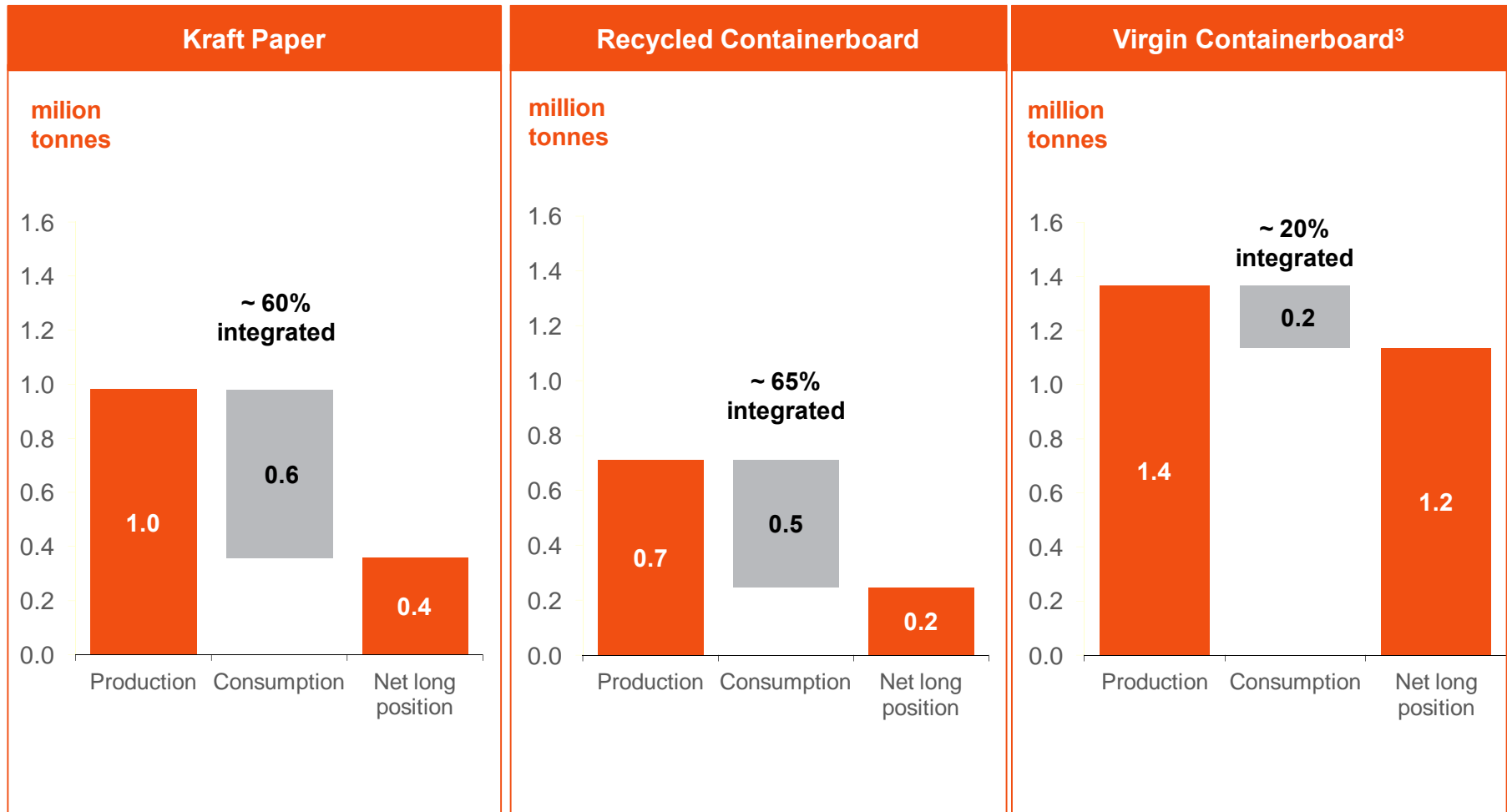


# Integrated value chain



(1) Including the RCB mill Tire Kutsan.

# Packaging Paper's integration with downstream businesses<sup>1,2</sup>



(1) Based on full year 2012 production volumes.

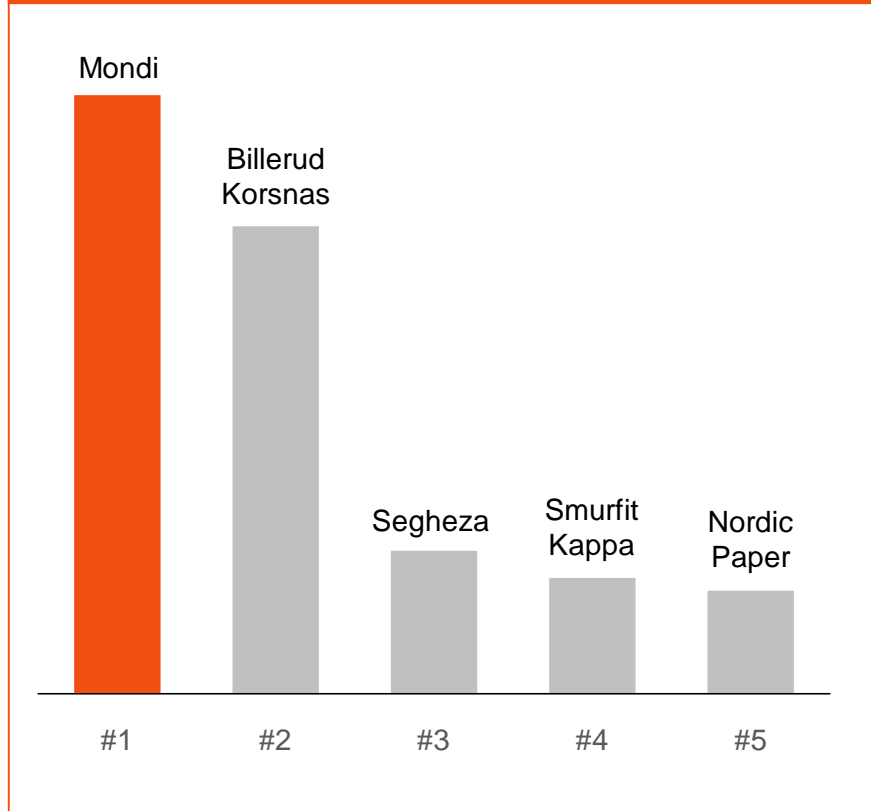
(2) Consumption represents total consumption by Mondy's downstream operations, including consumption of externally purchased packaging paper.

(3) VCB production includes approximately 0.4 million tonnes of Kraft Top Liner (also referred to as kraftliner substitutes).

# Kraft paper leading position in Europe



## Top 5 European kraft paper producers (based on capacity)<sup>1</sup>



## Overview

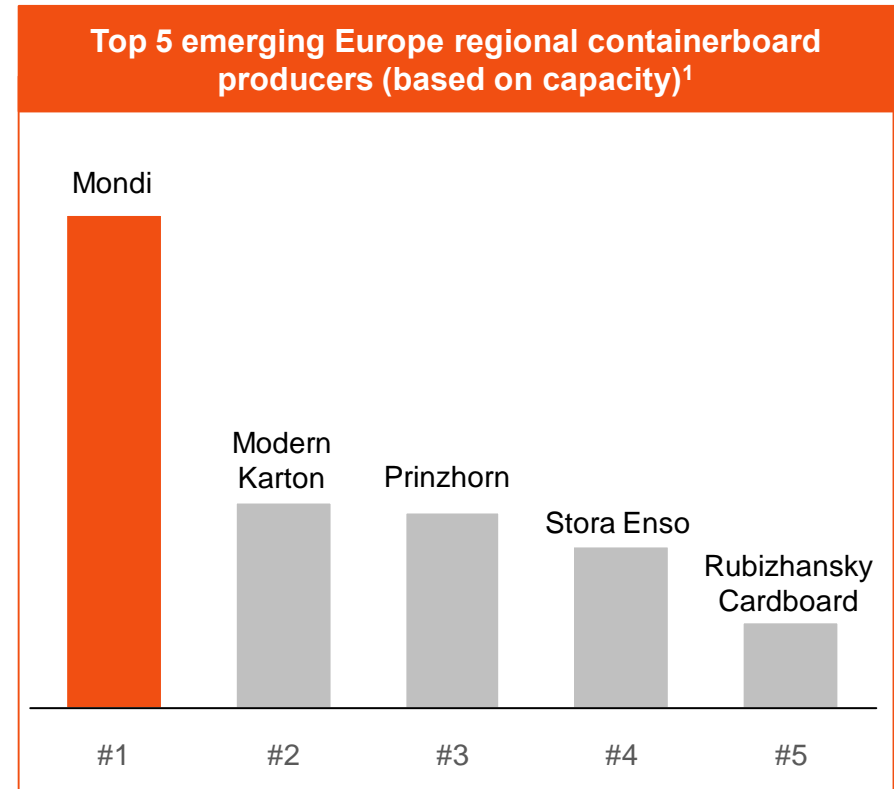
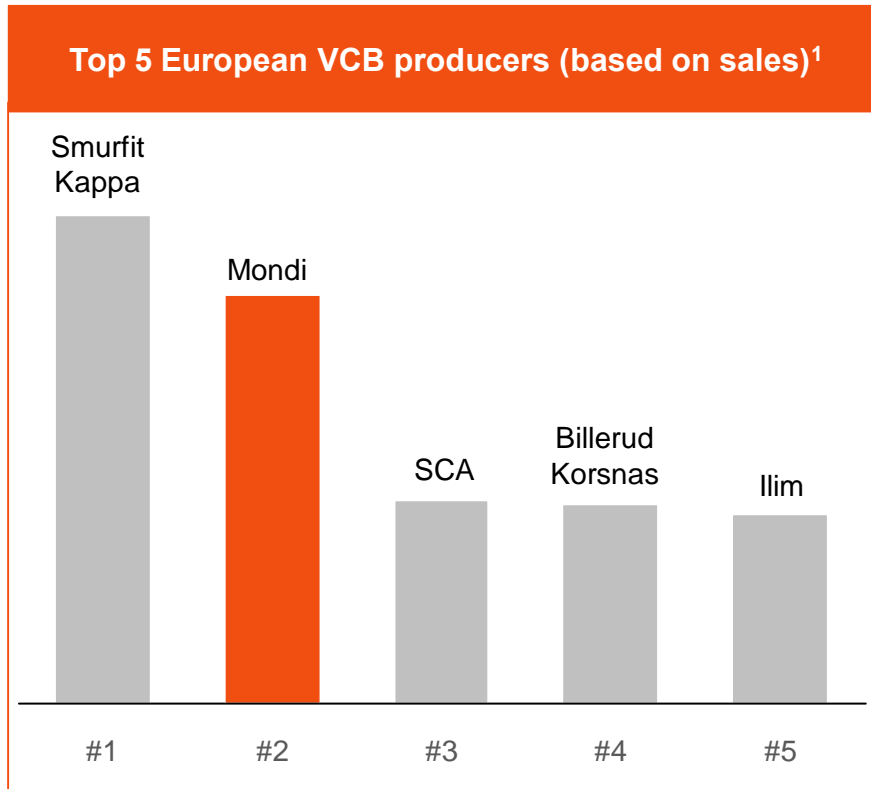
Kraft paper is used for a variety of industrial (cement, chemicals, agricultural products, animal feed), consumer (food, pet care, DIY-building materials), medical and other speciality applications

Kraft paper demand is driven by the required end-use. Greater demand is expected for papers with differentiated features such as paper with high strength properties (high porous paper) and paper with a smooth surface for better appearance and printability

The kraft paper market is largely balanced. Some capacity is due to come on stream (Zellstoff Pöls (80 ktpa) and Mondi Ƴt tí (150ktpa)) which is expected to be balanced by demand growth

(1) See appendix for sources and definitions.

# Containerboard leading market positions in Europe

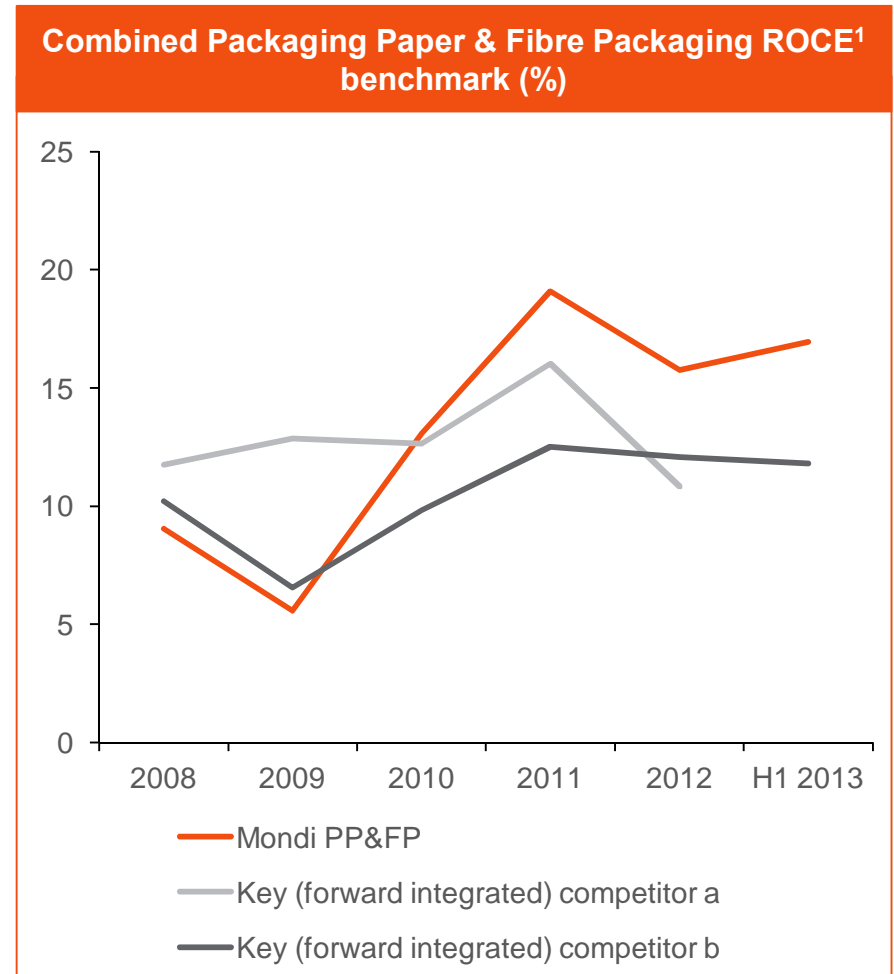
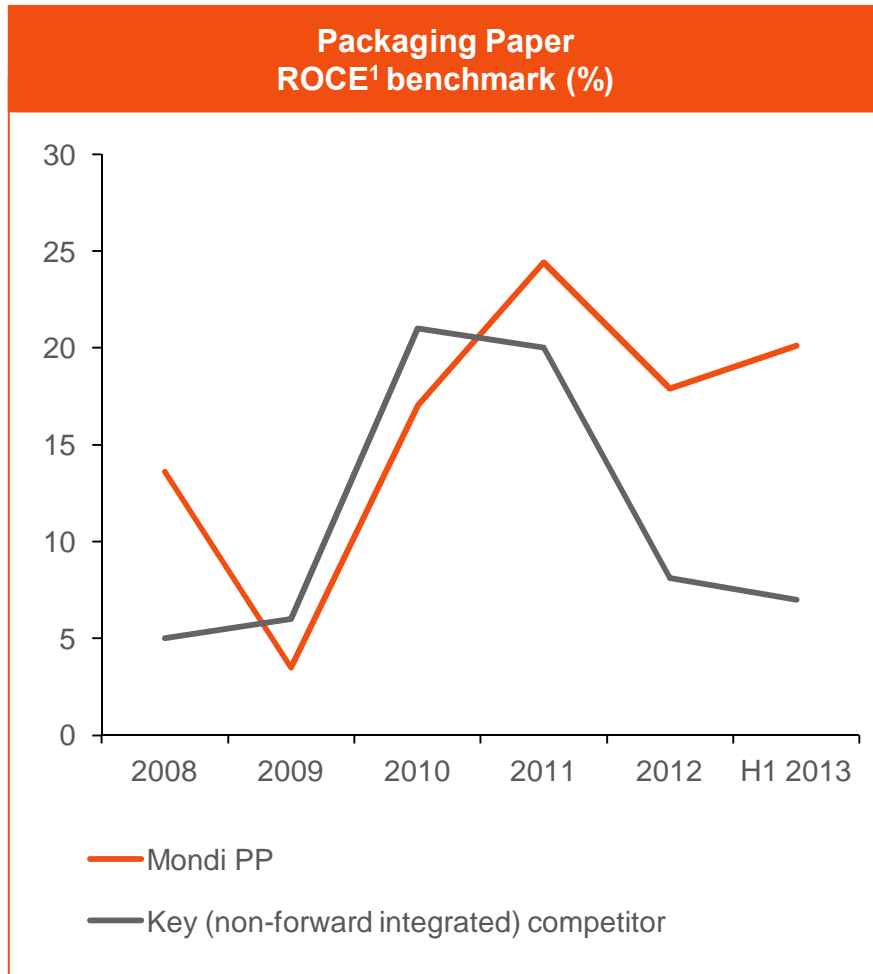


- Mondi is a leading player in the VCB market, especially in the open market
- The VCB market is now balanced following closures in 2012. Potential new capacity announced could come on stream if conversion materialises (Varkaus)
- Emerging Europe is highly fragmented, Mondi is a key player with a strong presence in core clusters
- RCB capacity additions remain a concern. New capacity in Poland has had little impact to date

(1) Based on RISI and Mondi estimates. See appendix for more detail.

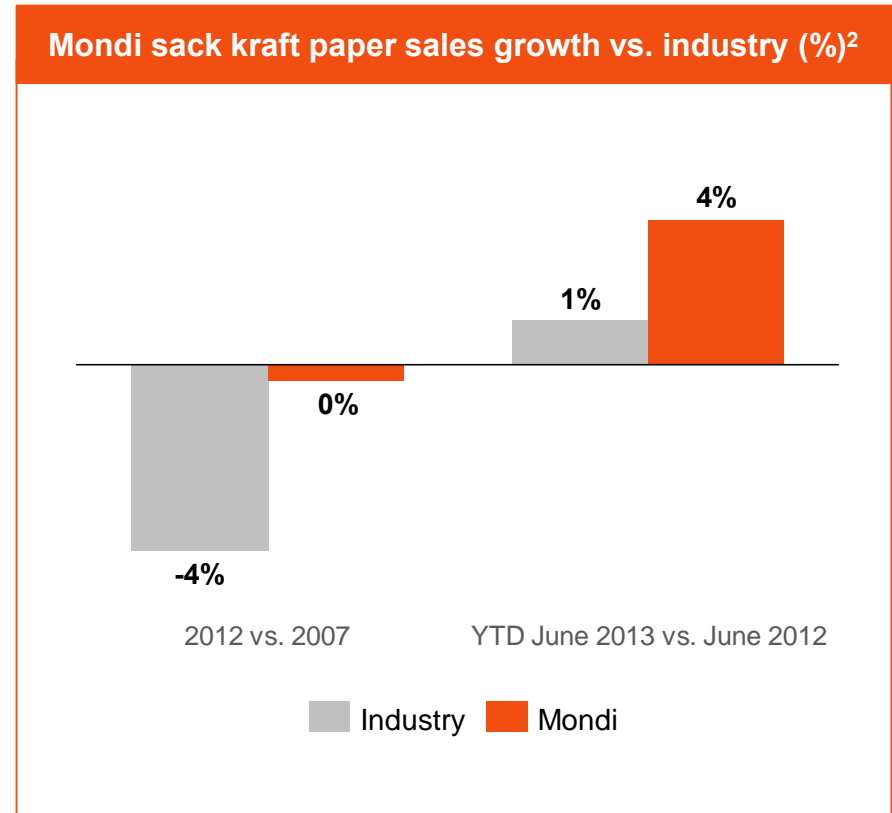


# A clear and consistent strategy that is delivering industry leading returns



(1) See appendix for definitions of ROCE.

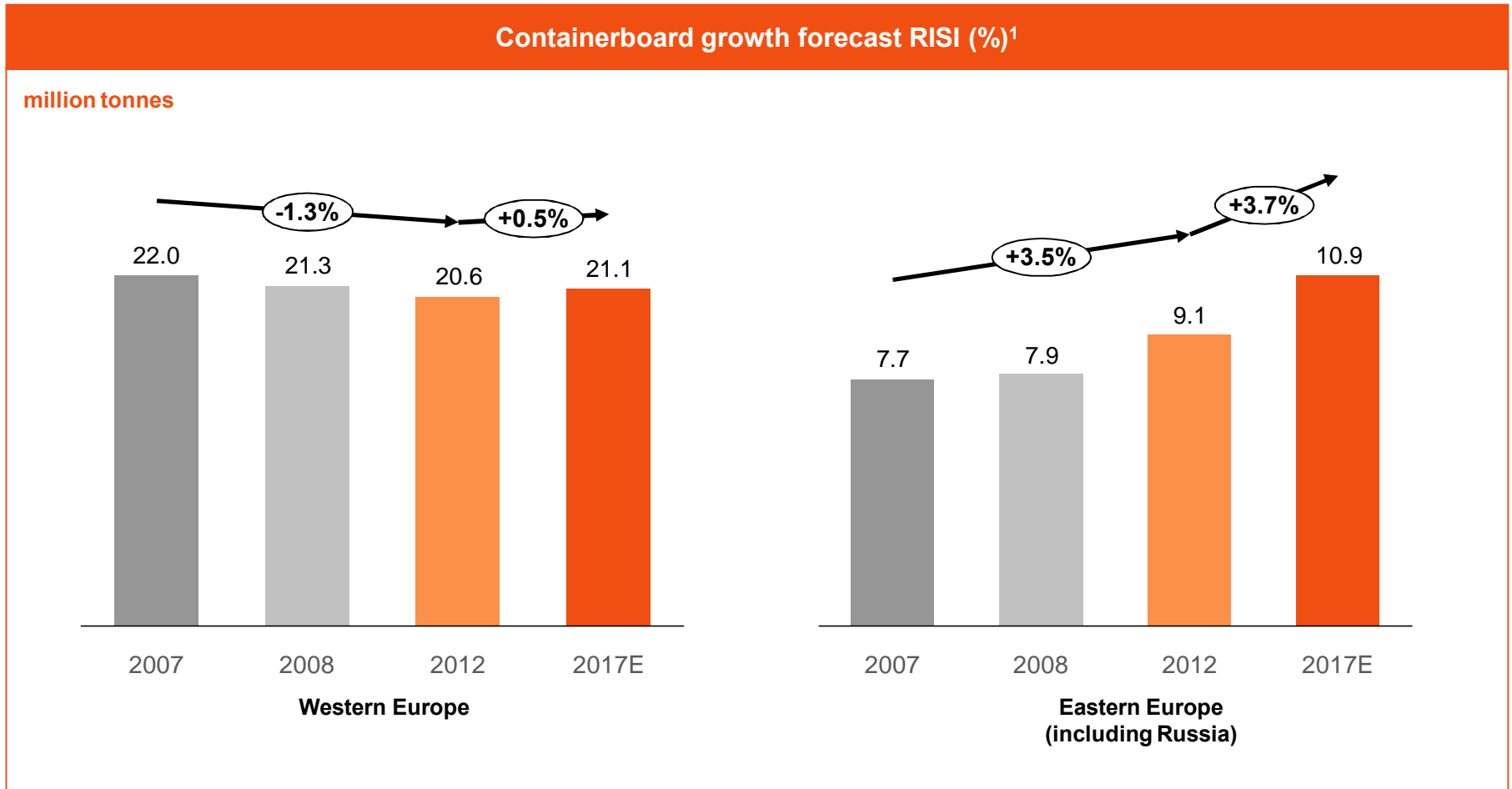
# Mondi sales outperforming the industry in key paper grades



(1) Based on CEPI shipments, RISI and Mondi estimates.

(2) Based on Eurokraft deliveries (bleached and unbleached) and Mondi for 2012 vs. 2007, Eurokraft deliveries (brown sack kraft paper) and Mondi for YTD June 2013 vs. YTD June 2012.

# Growth in European containerboard expected to be driven by emerging Europe and Russia

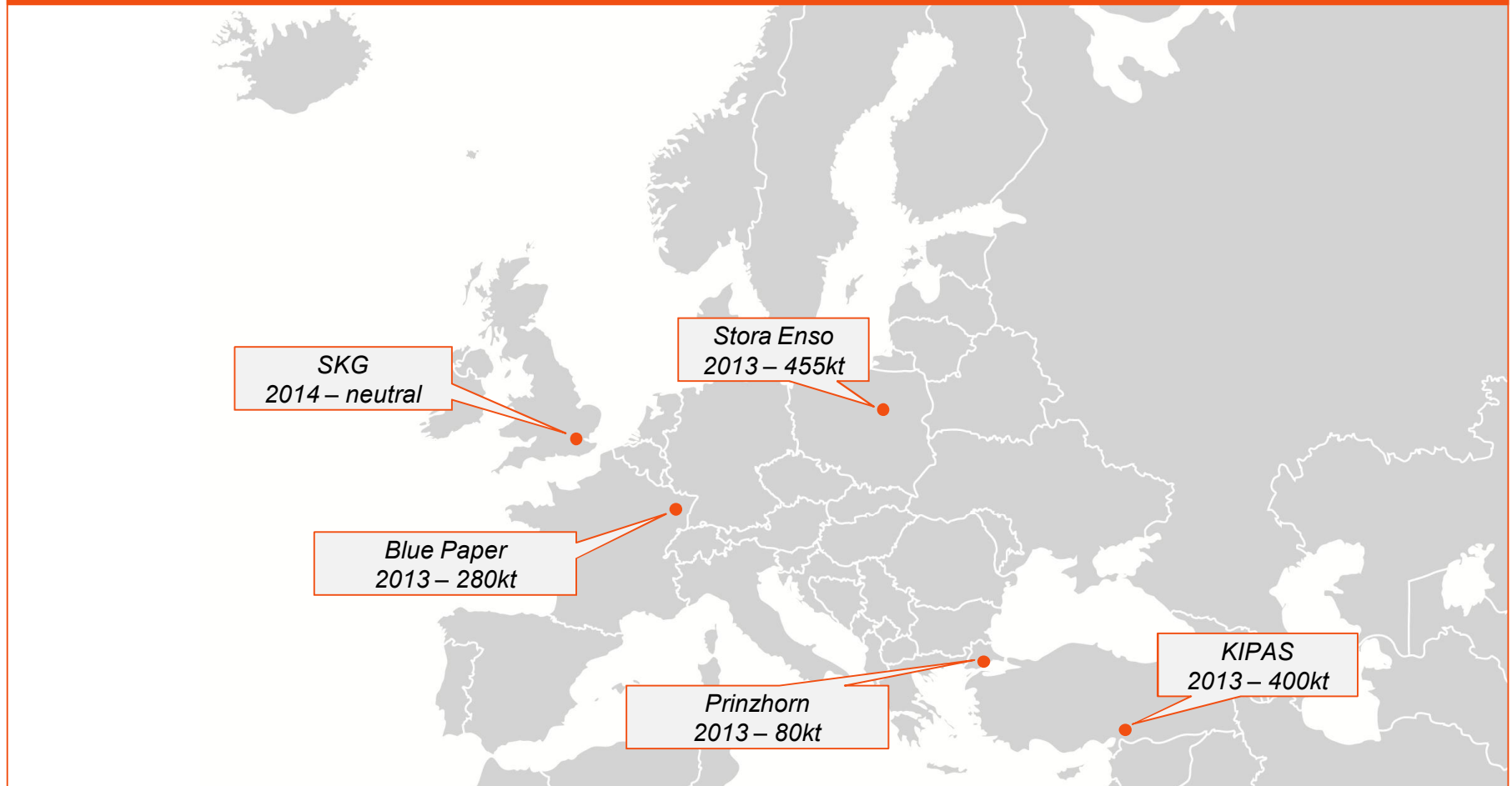


(1) RISI 5 year World Containerboard Forecast, March 2013. See appendix for RISI regional definitions.

# New containerboard capacity coming on stream



## Major RCB European future expansions



- Expansions represent 5% of estimated current European RCB demand (excluding Russia)

Source: Mondi. Excludes rebuilds and closure of old machines at Ostroleka (85ktpa) and Prinzhorn/Dentas (40ktpa).

# Product and service innovation - containerboard



- ProVantage Aqua Liner and Fluting:
  - Water repellent containerboard grades to substitute wax coated products used in high humidity and cold storage applications, such as fish boxes and frozen foods
  - Elimination of problems during conversion of wax coated papers
- EcoVantage Kraft X, Kraft Xlite, Kraft TopX:
  - Ultra lightweight liners for multiple corrugated and non-corrugated applications, such as shopping bags, cushioning packaging, honeycomb packaging, wrapping and coating
- With an Eco Premium service:
  - Shortest lead time for standard grades: 24hrs in Poland, 48 / 72hrs in neighbouring countries
  - Forecasting of standardised grades with customers
  - Stock reduction at customer premises



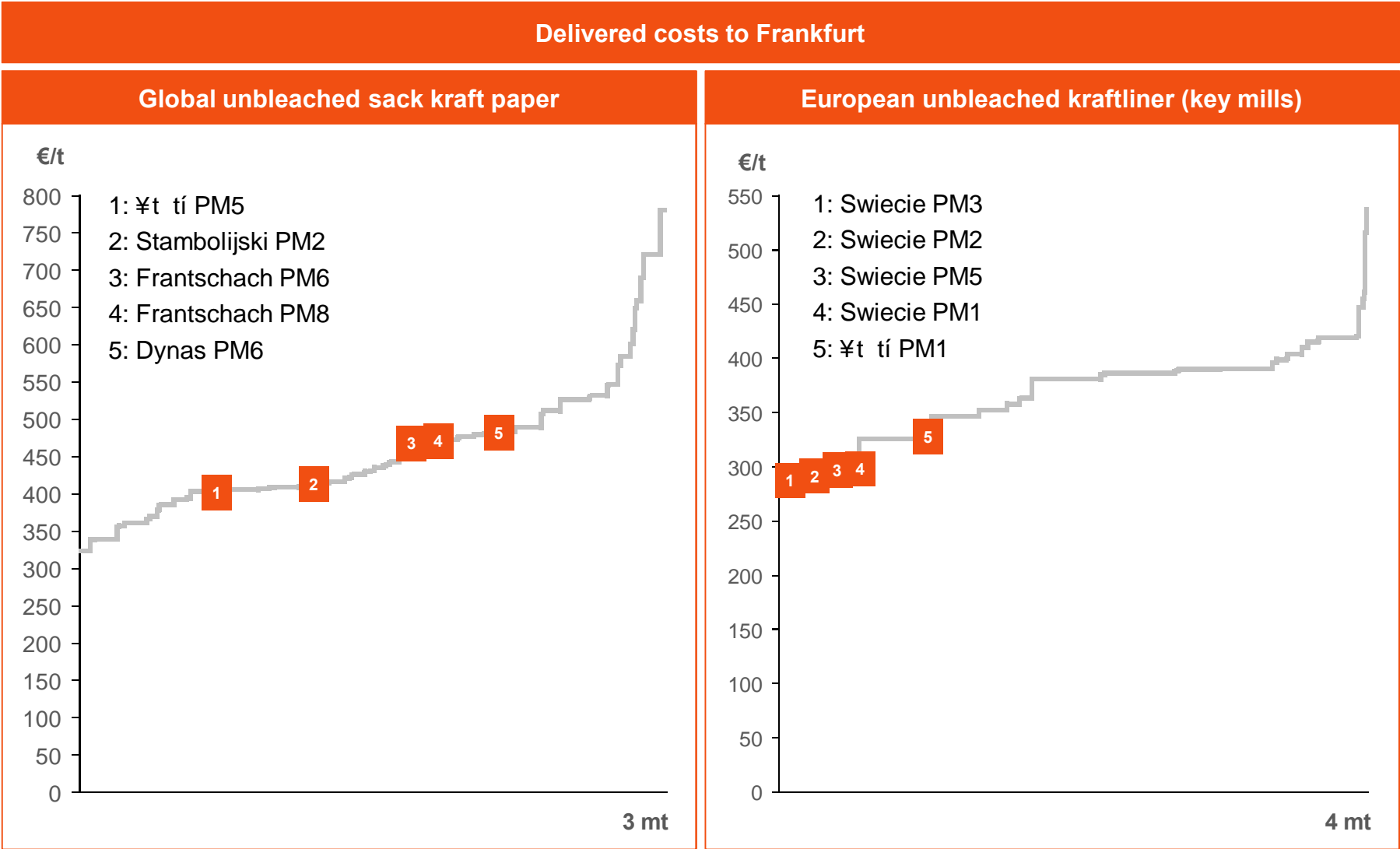
# Product innovation - kraft paper



- Advantage Select:
  - High porous sack kraft paper allowing 2-ply industrial bag constructions replacing perforated 3-ply bags
  - Customer benefits from reduced paper consumption, dust-free filling, fewer breakages and excellent slip resistance
- Fibromer®:
  - Polymer reinforced with cellulose fibre with clear advantages for injection moulders and OEMs
  - Benefits include higher productivity and material strength, lower weight of product and origination from a renewable resource
- Advantage MG White Release Base:
  - For applications such as labels, tapes, personal hygiene products
  - Customer benefits from excellent formation, low porosity, closed surface, outstanding runnability and release properties after silicone application



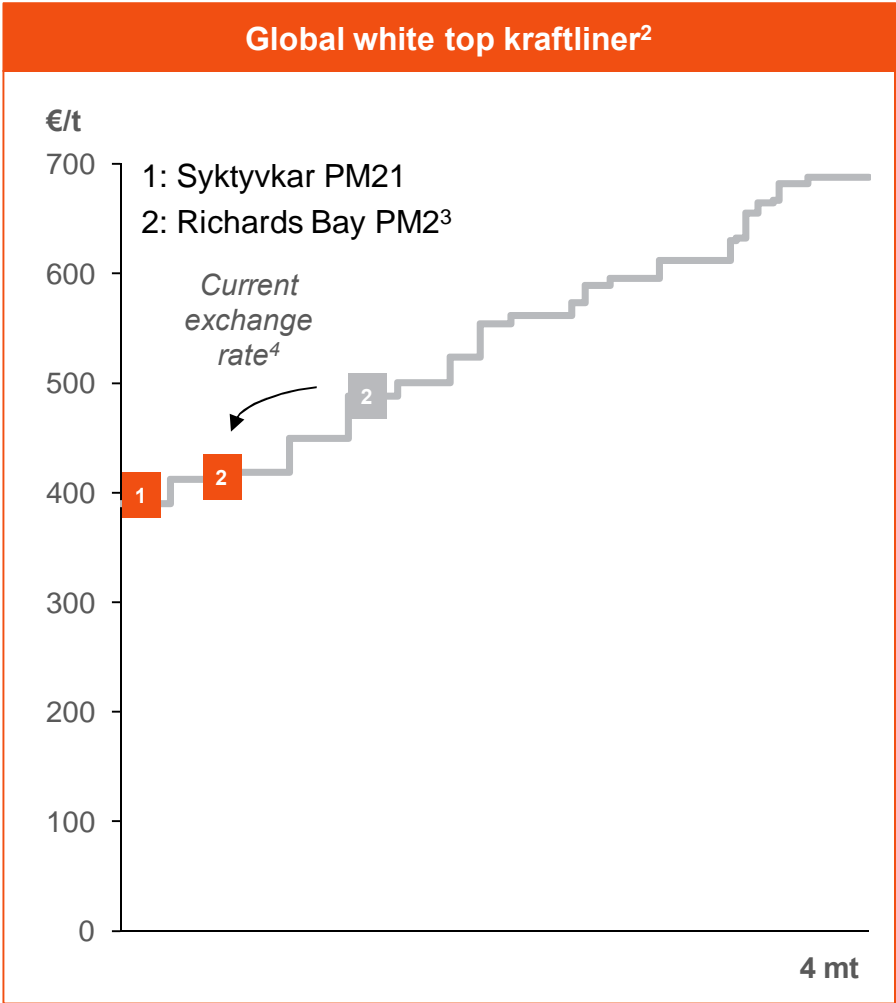
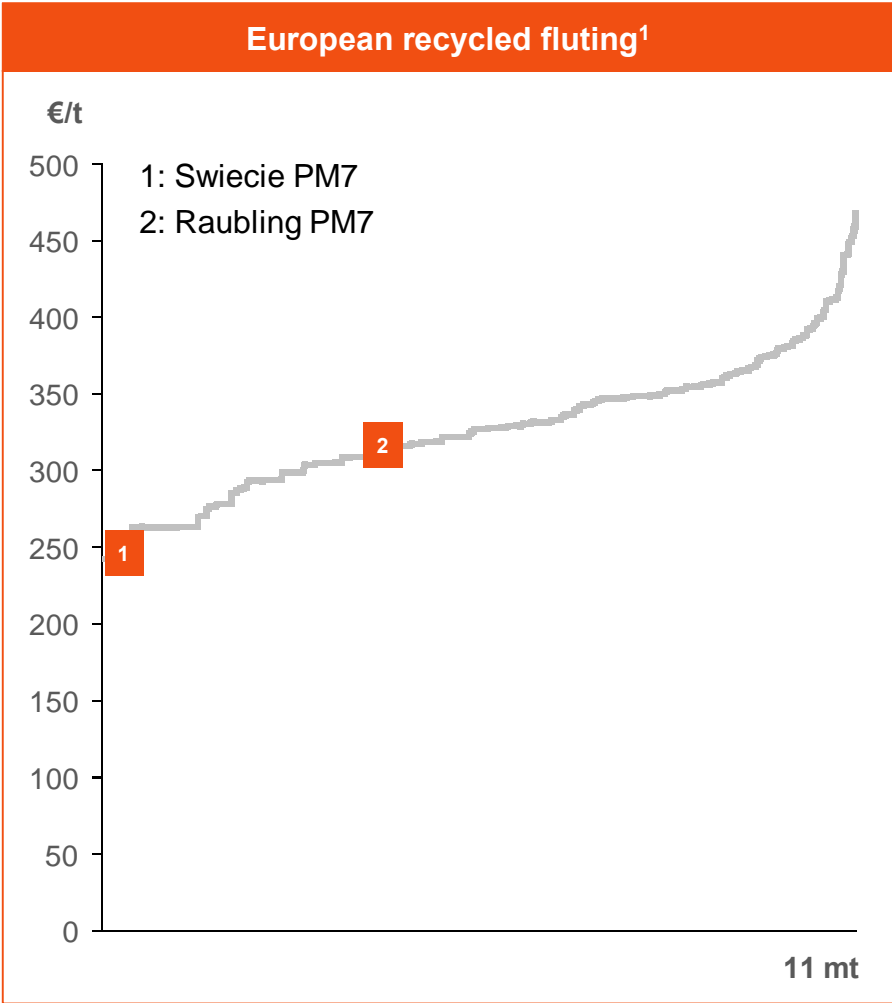
# Low cost asset base (1/2)



Source: RISI, Q1 2013.

# Low cost asset base (2/2)

## Delivered costs to Frankfurt



(1) Source: RISI, Q1 2013.

(2) Source: Pöyry White Top Kraft Liner cost competitiveness, report for Mondi, 6 September 2012. (3) The operations of Richards Bay Mill are reported under MSAD. (4) Best estimate based on EUR/ZAR exchange rates for September 2012 and July 2013.



# Key capital projects



Štětí

## New bleached kraft paper machine

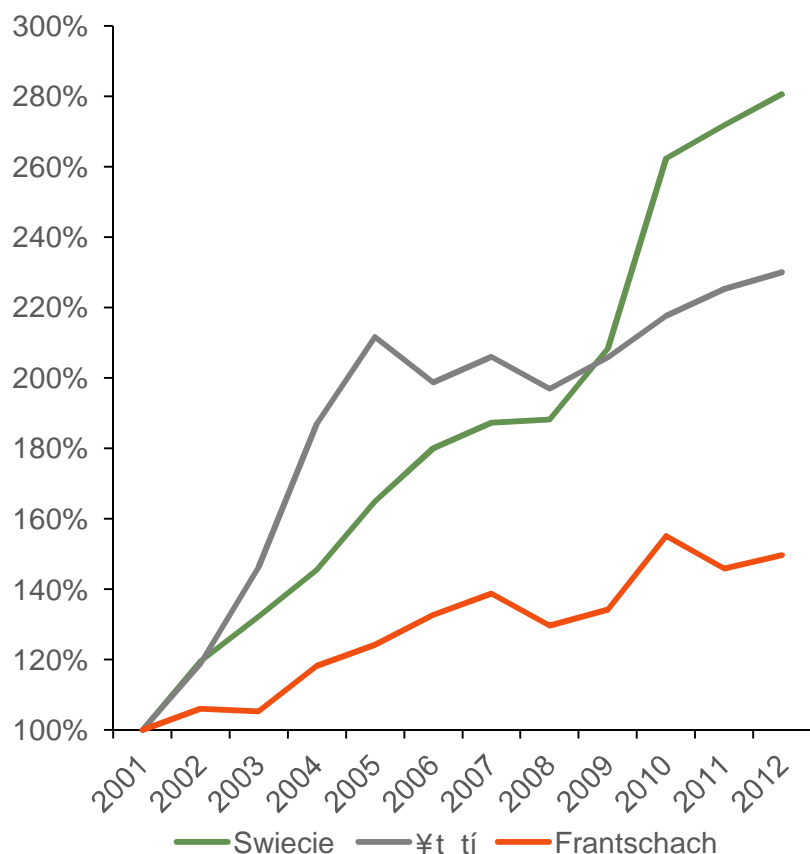
- " 70 million investment
- 150,000 tonnes production capacity
- Start up: 2014
- Project rationale:
  - Bleached pulp integration
  - Growing customer demand for bleached sack kraft paper in Europe (printability and POS)
  - Immediate downstream integration with Mondi Industrial Bags
  - Cost competitiveness due to brownfield nature
  - Strategically located in central Europe (transport costs)

# Continuous productivity improvements



## Productivity per employee index (selected mills)<sup>1</sup>

Productivity (tonne / employee)  
Index, 2001 = 100



## Operational excellence overview

- Continuous improvement approach focused on improvement in:
  - Profitability
  - Quality
  - Efficiency
- Progress is tracked on a monthly basis and action plans derived for each mill and department, supported by lean manufacturing (loss elimination / each process efficiency improvement)
- Continuous improvement approach with the introduction of lean management and 5S methodology for continuous improvement
- Knowledge management and sharing on a Group wide level (Diana). Ongoing tracking, learning and identification of operational potential
- Talent management programme including career development and succession planning at both mill and Group level

(1) Source: Mondi. Productivity based on paper and market pulp tonnes produced per employee.

# Focus on performance highlights



## Superior capex execution

- Swiecie PM7:
  - Built in 16 months (from earth works to start-up)
  - Remarkable start-up curve with saleable quality production on the 3<sup>rd</sup> day and %A+quality on the 4<sup>th</sup> day (benchmark: 3-6 weeks)
- Frantschach recovery boiler:
  - Built within 18 months, on time and budget
  - Exceptional start-up with black liquor and full steam production on the 4<sup>th</sup> day
  - Mill is now electricity self-sufficient and supplies electricity to the grid and heat to the local district heating system

## High quality

- Swiecie PM7 ranked within top 3 in terms of quality by VDW<sup>1</sup>
- According to our studies and customer feedback, %Advantage Select+ can be considered the best performing high porous sack kraft paper in the world

## Top class operational efficiency

- Mondi containerboard machines operate with an average efficiency of 86.7% which exceeds the industry benchmark of 83.4%<sup>2</sup>
- Swiecie PM7 is ranked as one of the fastest machines versus the industry (#2 on average speed) whilst PM3 is ranked the second most efficient liner machine
- Frantschach PM6 is the fastest sack kraft paper machine worldwide<sup>3</sup> (world record speed of 1,047m per minute in May 2013)

(1) Verband der Wellpappenindustrie, the German corrugated board industry association.

(2) Source: Metso and Mondi.

(3) Management assessment.



# Challenges and opportunities

## Challenges

- Timber constraints and competition from biomass
- Low profitability of RCB industry in Europe

## Opportunities

- Leverage unique low cost position of Kraft Top Liner arising from Mondy's combined RCB and VCB capacity at Swiecie (Poland) to improve growth
- Further potential to continue to achieve operational improvements in WTKL production and overall mill cost structure (and logging operations) in Syktyvkar (Russia)
- Grow bleached kraft paper business from Mladá Boleslav (Czech Republic) leveraging its cost advantage
- Drive growth from innovation in speciality kraftliner (e.g. Aqua Liner) and speciality kraft papers (e.g. in medical segment)
- Reduce energy costs, increase self-sufficiency and energy efficiency through energy related capital investment

# Summary



## Group strategic framework

Achieve leading market positions

Maintain a high-quality, low-cost asset base

Grow through customer focused development

Continuous focus on performance

## Packaging Paper value drivers

Leading market positions, emerging markets focus

Overall low-cost position

Overall high-quality integrated asset base

Additional bleached kraft paper to satisfy increased customer demand. Integration of market pulp to bleached kraft paper will be profit accretive from 2015 onwards

Continuous focus on performance



Appendices

# Packaging Paper market positions and market outlook sources and definitions



## *Mondi market positions region definitions:*

*Europe - Europe including Russia and Turkey.*

*Emerging Europe - Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Malta, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Turkey, Ukraine.*

## *Sources for market position estimates:*

*Containerboard market position based on capacity - Source: RISI Capacity Report 2013, and management estimates.*

*Virgin containerboard market position based on sales - Source: RISI Capacity Report 2013, Annual reports, presentations and Mondi estimates.*

*Kraft paper market position - Based on capacity. Source: Pöyry World of Paper Market up to 2025, RISI Mill Asset Database, Pöyry Smart Terminal Service and management estimates.*

## *RISI 5 year World Containerboard Forecast regional definitions:*

### **Western Europe**

*Andorra, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.*

### **Central Europe**

*Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.*

### **Eastern Europe**

*Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, Ukraine.*

### **Southeastern Europe**

*Albania, Bosnia, Bulgaria, Croatia, Cyprus, Macedonia, Malta, Montenegro, Romania, Serbia, Turkey.*

# Packaging Paper ROCE benchmark notes



## *Return on Capital Employed (ROCE) definitions:*

### *Mondi:*

*ROCE: Trailing 12 month underlying operating profit (including share of associates' net income) / 12 month trailing capital employed.*

*Capital employed: net segment assets plus investment in associates, deferred tax, and other non operating assets and liabilities excluding financial investments.*

### *Key (non-forward integrated) competitor, key (forward integrated) competitor a, key (forward integrated) competitor b:*

*ROCE: underlying operating profit/average capital employed.*

*Capital employed: shareholders' equity plus net debt.*

*Competitor a annual ROCE is as of 30 April.*



## **FORWARD - LOOKING STATEMENTS**

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations of market growth and developments; expectations of growth and profitability; and statements preceded by ~~believes~~, ~~expects~~, ~~anticipates~~, ~~foresees~~, ~~may~~ or similar expressions, are forward-looking statements. Since these statements are based on current knowledge, plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. 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 Group's patents and other intellectual property rights, 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 the Group's products and raw materials and the pricing pressures thereto, financial condition of the customers, suppliers and the competitors of the Group, potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographical markets or fluctuations of exchange rates and interest rates.

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