Update on trading and Russian businesses

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Transcript

Presenters

Andrew King, Group CEO

Mike Powell, Group CFO

Q&A participants

Lars Kjellberg, Credit Suisse

Cole Hathorn, Jefferies

Joffrey Bellicha Meller, Bank of America

Justin Jordan, Exane BNP Paribas

Mikael Doepel, UBS

David O'Brien, Goodbody

Brian Morgan, RMB Morgan Stanley

Andrew King, Group CEO

Good morning to everyone and welcome to this call to discuss Mondi's trading update. I'm Andrew King, your Group CEO, and with me is Mike Powell, our CFO. I'll just spend a couple of minutes summarising the announcement, before we'll obviously welcome taking your questions.

I'm pleased to report that we delivered very strongly in the first quarter of 2022. Demand was good across the business, supported by our broad range of innovative, sustainable packaging and paper solutions, product quality and, of course, our clear customer service. We continue to experience cost pressures, notably in energy, resins, transport, wood and chemicals. However, with the higher average selling prices – these more than offset these effects. As a consequence, underlying EBITDA for the first quarter was €574 million, up 63% compared to the prior year period and up 41% on a sequential basis. This performance is testament to the continued dedication of our people – and again I'd like to express my thanks, in these volatile times, to all our people; our strong customer relationships and the strength of our integrated business model.

In the current context, as we mentioned in the release, it's appropriate, I think, to report the underlying EBITDA for the first quarter excluding the Russian operations. This amounted to approximately €460 million, up 70% compared to the prior year period.

Importantly, we made great progress on our expansionary capital investment programme. As you know, the programme is designed to capture growth across our packaging businesses in structurally growing markets underpinned by demand for eCommerce and sustainable packaging solutions. As previously outlined, our pipeline includes around €1 billion of expansionary projects already approved or under advanced evaluation, which we anticipate will generate mid teen returns when in full operation. We continue to actively consider further capital investment opportunities. The sale of our PCC business, which will simplify our portfolio and deliver greater focus, remains on track for completion in the second half of the year. At the end of March 2022, given the strong performance, our Group net debt to underlying EBITDA was approximately 1.0x.

If I turn, then, to update on our Russian businesses. Mondi, of course, remains profoundly concerned about the war in Ukraine and is shocked by the humanitarian impact. We express our deepest sympathy to all those affected by the ongoing hostilities, reiterating our call for urgent cessation and a peaceful resolution.
Since the announcement we made on 10 March in this regard, we have assessed all options for the Group's interests in Russia and, recognising our corporate values and

stakeholder responsibilities, the Board has decided to divest the Group's Russian assets. The divestment process for these significant assets is operationally and structurally complex and is, of course, being undertaken in an evolving political and regulatory environment. Accordingly, there can be no certainty when a transaction will be completed or as to the structure of this possible transaction.

We mentioned that as at 31 December 2021 the net asset value of the Russian operations was €687 million. The Russian businesses have, to date, managed supply chain constraints. However, the situation does remain extremely fluid, with interruptions to pulp and paper production possible going forward. All significant capital expenditure projects in Russia have been suspended.

Turning briefly then to the outlook, as you can see, we delivered strongly in the first quarter of 2022. While we do expect to realise the full benefits of the price increases implemented in 2021 and 2022 as we go through the second quarter, we do also anticipate continued inflationary pressures on our cost base. Clearly, the full year will benefit from shorter planned maintenance shuts compared to 2021 and the contribution from our capital investment programme.

While it is early in the year and significant geopolitical and macroeconomic uncertainties remain, the Group expects to deliver a year of good progress. Mondi remains very well placed to deliver sustainably into the future.

With that, I thank you. I'm very happy now to turn to questions.

Questions and Answers

Lars Kjellberg, Credit Suisse
Thank you and good morning. So I just want to come back to Russia a bit. I appreciate this is a bit complicated, and I really sincerely appreciate that you provided a comparable, i.e. ex Russia. Is that something that you will do going

forward and/or should you count this as a discontinued operation now? Just get some clarity on that – and if you could, indeed, provide comparables for ’21, that’d be helpful.

In the corrugated business, you talk about normalised demand. It would be of some interest to sense what that really means. Is it 2%, 3%, 4% that you’re talking about – or what does that really mean in the context? And then, finally, your wording has changed from ‘expect to make progress’ to ‘good progress’. Is it all about the strong Q1 delivery that is making the directional change to that guidance or is it cost inflation? I’m not saying that it’s abating, but incremental cost inflation may be not necessarily adding incremental burden.

Mike Powell, Group CFO

Lars, thanks. On Russia we’ll continue to give helpful information as we move forward, as hopefully we have this time. The accounting is yet to be sorted. It was only yesterday, clearly, the Board discussed and made the intention to divest that you’ve seen yesterday evening. So there’s lots to be sorted out, including the accounting. So, depending on how the journey unfolds, the accounting will match that, but we’ll do the right thing first, and clearly the accounting will follow.

Andrew King

And then, Lars, just on the second two questions, on the corrugated market, what does ‘normalised’ mean? I think, clearly, one saw last year an extremely strong demand environment. I think, if you look at the full year on an industry-wide basis, corrugated demand was up something like 8%. I think I mentioned at the time that I don’t see this as an 8% compound growth industry, and that was an exceptional period for all sorts of reasons, both the recovery post pandemic and also the ongoing extremely strong eCommerce picture that one was seeing. I think all we’re saying is, if one looks at the first quarter – and of course we don’t have the industry-wide data yet for the first quarter, but it’s very clear that the demand has come off from those levels.

But we stress it's demand growth, so the rate of growth has slowed down. So I would guess that we'll see that the first quarter is probably, on an industry basis, 2%, 3% demand growth, which is clearly still very good in a historic context; it's simply not as strong as it was this time last year. But the market remains in good shape. As we mention, the containerboard price momentum continues upward, and the market is still in a very good position. It's simply not quite as hot as it was over the course of last year, particularly on the demand side. I think that's really what we're implying there.

In terms of the subtleties of progress versus good progress, clearly the first quarter was, I think you would all agree, a very strong quarter. I think that is testament to both good market conditions and the ability to probably get pricing through faster than one might have anticipated a few months ago, which has gone to offset the inflationary pressures we see everywhere. So I think that expectation has been very strongly fulfilled. Most importantly, in my view, we've been able to deliver into these strong markets. That, in the current world, is an extremely strong achievement, because, as I'm sure you hear from everyone and across different industries, the supply chain issues, logistics, both inbound and outbound and the like, remain a big challenge both for us and our customers in a number of sectors as well. And I think the fact that our teams have been able to deliver in what is an extremely volatile operating environment is a fantastic achievement, and that gives me every confidence that we'll continue to do well here.

And the structural drivers that we continue to talk about around eCommerce, around sustainability, that unique platform we have particularly across our flexibles offering, supplemented also with our fantastic corrugated offering and the supply chain certainty that we bring because of our integrated position – all of these things give me confidence that we remain in a very strong position, delivering into these markets. With the necessary overlay that, of course, as we allude to, the macroeconomic situation – I don't think I need to remind everyone here – is extremely uncertain, and of course we're watching that, but we are very well placed within that, as I think is evidenced by the first quarter result.

Lars Kjellberg

If I could have just a very quick follow up, on the notion of bottlenecks and transportation issues, has that incrementally worsened as you're heading to Q2? And, also, is there any reason, considering recent price increases, that price over cost will not continue to be a positive contributor in the near term?

Andrew King

I think it's very difficult to generalise on the logistics issues. Things literally change almost on a daily basis. As I'm sure you know, for example, the impact of Shanghai ports being open or closed at any one time can reverberate across different markets. Clearly, the whole Russian situation has also complicated things on top of what was already a complicated situation driven by the COVID effects. So I think, Lars, I would hate to generalise and say it's getting better or worse from a trend perspective. It literally can change very rapidly on a daily or weekly basis. So I think all I could say is that it remains complicated, and it certainly hasn't got any easier. And I apologise, I didn't pick up on the second part.

Lars Kjellberg

You had, of course, a strong price realisation, well ahead of cost in the first quarter. Is there any reason to expect that to change? I.e. you've got incremental price increases coming through into the second quarter, and cost, from my vantage point, does not necessarily seem to continue to escalate. It's obviously at a very high level, but should we not expect that to continue, the incrementally positive price over cost?

Andrew King

Well, I think, as you rightly say, we've got good price momentum going into the second quarter, but I wouldn't suggest that costs are flattening out at all. Clearly, in addition to the inflationary pressures we're seeing across the piece, it's impacted in a large way by the energy issues and of course the knock on effects into just about every cost category of that, but of course we're also seeing things like wood costs needing to adjust to a new paradigm, given no more access to Russian and Belarusian wood baskets from Europe. I think that's only starting to play out in terms of the overall effect on the European market.

We are not particularly exposed directly on that front, but I would imagine that might have an impact going forward on wood costs, and wood costs have been going up, but there's probably more to come, I would suspect, on that front. Clearly, energy and all the derivatives of energy are anyone's guess, frankly, from one period to the next. Actually, Q1 versus Q4 was relatively benign on that front, simply because Q4 had already gone up to such an extent, but I think that's impossible to predict, frankly. But that's one one has to continue to watch.

And I would argue that I think we've done extremely well to keep the fixed cost base under control, but, of course, as time goes by and inflation becomes embedded in the system, I suspect there will also be ongoing pressures on the fixed cost base, but I don't disagree with you that at this stage we have good pricing momentum, and, certainly, as I look into Q2, I remain confident we can offset this cost inflation.

Cole Hathorn, Jefferies

Morning. I've got two, one on the flexible packaging business underlying, and a second one on Russia. So, on the flexible packaging side, I'd just like to hear your view on the wider sack and speciality kraft paper markets. It seems very tight and demand continues to be strong. If we look forward on what supply is coming into the market, I'd just like to hear your thoughts, because Segezha is probably going to be impacted on exporting to Europe, and the Belarusian player that was going to add capacity is – we don't quite know what's going to happen to that capacity. So it looks like your potential €350 million new capacity project looks more appealing sitting today, so I'd just like to hear how you're thinking about supply going forward and when we could hear an investment decision on that project.

Andrew King

Thanks, Cole. I think, yes, more broadly the sack and speciality kraft market remains very tight. You focus on the supply side, but I think the demand side still remains very good both in terms of the near term, but, as we keep emphasising, I think there are some fantastic structural growth drivers there which have arisen over the last year or two, particularly around the whole sustainability agenda. We've got numerous examples of new demand sources that I think we've done a great job in creating for these products.

Most recently, we've obviously expanded in the Czech Republic already on the product for paper bags, for shopper bags, because of the regulatory challenges and the like. That product has sold out, and we're trying to do as much as we can from a production perspective simply because the demand is supply constrained rather than anything else. And I think there are numerous other fantastic solutions which we've been developing which employ these speciality kraft products, which is basically increasing the overall demand for kraft paper products from sack across to the specialities.

So I think one, firstly, shouldn't ignore the demand side, which is extremely strong. On the supply side, yes, I'd agree with you. Clearly, when you look at the supply side, there has been very limited new supply, partly because it's a difficult product to make and you need a particular type of pulp and hence wood. But this is a product that requires real know how. We're in the fortunate position of being, as you know, the global market leader in this, and we have deep expertise across both the production and, importantly, the sales infrastructure in this area. So I think we're extremely well positioned to be continuing the expansion of this portfolio.

As you rightly say, the Russian situation has exacerbated the tightness, because, clearly, Segezha has been a big exporter of product into Europe. It's early days in that as to how this then unfolds as they can't sell into Europe anymore for sanctions reasons. I suspect some of their volume will go to other parts of the world, and we'll have to see how that plays out in terms of the total landscape. But, obviously, we're working extremely hard to try to support our customers as best we can with our production profile, which is all within Europe.

We were already working as hard as we could to be in a position to hopefully approve and proceed with that expansion project that we mentioned at the full year results. The very fact that the markets are even tighter today than they were when we spoke six weeks ago doesn't unfortunately change the timetable. That's a function of the engineering processes and things like that that we are working extremely hard to. But we knew it was a good project when we last spoke. I'm equally convinced now. We invest for the long term, not necessarily for the short term dynamics, but everything points to a very favourable project, which we are very keen to accelerate as fast as possible. But we also need to do these things in an orderly and disciplined way to make sure the project execution is done perfectly.

Cole Hathorn

Thanks, Andrew. And then, Mike, I'm just wondering if you could give me a little bit more colour on Russia. I'm just trying to work out – is there any guidance that you're giving on free cash flow or free cash flow conversion that we can think about for that business so that we can strip it out from our EBITDA and our free cash flow numbers going forward?

And then I just wanted to ask, in the divestment decision of the Board – it is a very good high margin asset, but it is predominantly domestic Russian office paper. Was a factor of the decision that you're probably not going to be able to be in a position to allocate capital into Russia for the next number of years, considering the dynamics there? And, therefore, while it's high margin, it's almost pseudo ex growth. You wouldn't be able to do much conversion from graphic paper into packaging. I'm just wondering if that factored into the decision at all.

Andrew King

I'll maybe take the second question first, and then Mike can come back to you on the disclosure question that I think you raised. The decision that we arrived at yesterday, which we announced yesterday evening, took into account numerous different factors. Clearly, there isn't any one factor that is paramount in that. We have to consider, firstly, all our stakeholder requirements. Clearly, as we said in the announcement, we considered our decision in light of our corporate values and as we best understand how the situation may evolve.

So I wouldn't want to pick out any one issue which was decisive in that decision. It's a combination of all those factors which one comes to, but I'm convinced that this is the right path to take, and we'll be pursuing it aggressively from today. But, maybe, Mike, you can add something on the disclosure question.

Mike Powell

Yeah, we'll continue to give disclosures. As I say, we only discussed and made the decision yesterday, Cole, so we've clearly got quite a lot of work to do. As a guide – and, again, it varies – capex for Russia is about €100 million, to try to be helpful. But, again, my worry with giving any number is that those numbers vary. I know everybody's trying to make this into precise science; it isn't. And we'll clearly give the correct and helpful disclosure at the time, but, if you wanted a rough idea for Russia, it's about €100 million of capex.

Andrew King

And, clearly, that will all need to be considered in light of the fact that we have now suspended all significant capex projects in Russia. So I'm not sure what the real number will be once we've worked through all of that, so I think anything we'd give you right now is taken with the necessary caveats around that, but we will be trying to be as helpful as we can be, making sure we give the disclosure which is appropriate for the circumstances.

Joffrey Bellicha Meller, Bank of America

Hello, good morning. My first question would be around Russia, again. I was wondering how demand in Russia is holding at this stage. Can you discuss the exit rates you saw in Russia during the March month? And then I have a second question around demand. How are you seeing eCommerce growth in the first quarter or at the beginning of the year across the relevant businesses? Thank you very much.

Andrew King

I think we're certainly not going to give that level of detail because I think, for one thing, taking one month's numbers is potentially misleading. I think, as we emphasised, the Russian business clearly did well in the first quarter, but the situation is extremely fluid, and literally from one month to the next or one week to the next one continues to assess all the implications around the effect of sanctions, the effect of the logistics challenges that continue to mount, and, of course, the changing customer profile, given the fact that obviously we're not exporting to Europe anymore from Russia and we're effectively domesticating the business. All of these factors need to be considered. So I think we're just warning that it is a very fluid situation. Clearly, there are daily challenges from an operating perspective, and one cannot rule out increasing operating disruptions going forward, but right now it continues to operate.

On the eCommerce front, again, I think, like I said earlier, with the corrugated demand picture more broadly, things have come off from the highs of demand growth that we saw last year. Again, eCommerce demand is still good, but it's not quite what it was last year when, as I say, we were coming out of the pandemic and, at the same time, you saw a huge amount of online business. So I think it's natural that it would slow down from the extreme rates of growth that we were seeing, particularly over the last couple of years, but it's still a healthy demand picture.

Justin Jordan, Exane BNP Paribas

Thank you. I've got three quick questions, if I may. Firstly, clearly, a very, very strong pricing versus cost inflation result in Q1 – and commend you both on that – across your three main divisions – corrugated, flexible, uncoated fine – we can see benchmark industry pricing has moved higher in corrugated and uncoated fine in April and possibly even in May as well. In flexible packaging, you commented at the full year results in early March that Q1 customer kraft price is up 20-25% year over year. Can you give us some indication – because that's quite an opaque market for external people to look at – what sort of price increases may be possible in Q2? Because you're talking in terms of further price increases across the business this morning.

Secondly, on the demand side, ex Russia – put that major caveat in – clearly, Mondi serves a variety of consumer and industrial markets globally. We're in an extremely nervous market, where investors are clearly second guessing what may or may not happen macro-economically going forward, but can you give us any indications of what you're seeing on the ground in terms of end market demand for the latter half of Q2, as it were? Have you seen any pockets of slowdown in industrial areas, automotive for example?

And, thirdly, in Russia, I appreciate the clarity that the Board has given yesterday, and I'm not trying to second guess what the process and timelines will be from here, but just operationally, on the ground – on 10 March you talked about challenges regarding inputs, process materials such as chemicals and spare parts. What are you seeing on the ground regarding those challenges? Have you been able to replace externally sourced European materials with domestically sourced Russian materials? And, in terms of uncoated fine paper demand in Russia, I assume volume demand is down year over year because of, clearly, the macro situation domestically in Russia.

Mike Powell

Thanks. I'll take the Russian question first, and then Andrew can take the others. No, the demand, which I think was the last part of your question – domestic demand remains robust in Russia. The demand for paper is still good in UFP. In terms of spare parts, sure, there are Russian businesses springing up to counter the Western sanctions, so there is, a churn of supply and demand going on, and new industries are starting up in Russia as opposed to importing product.

That's clearly a direct effect of sanctions and the Russian response, but that is all being worked through. It's quite hard to generalise, because clearly you need every part and every widget to continue to operate. But, generally, no, there are new industries being born there for sure, and we're working through that, clearly, with our Russian colleagues, so far successfully. But, as Andrew says, the environment remains very difficult and somewhat unpredictable. But so far we've continued to operate well.

Andrew King

On your first question on the kraft paper increases, I'm certainly not going to be discussing with you increases that we are currently discussing with our customers, but I think it's safe to say that it is an extremely tight market. We are working extremely hard to try to fulfil all our customer requirements. At the same time, the cost pressures are there. So there will be further price increases that we are looking at, but, as I say, I can't quantify them now, because it's incumbent on us to be talking to our customers first about those.

In terms of the end-market demand question, I think this is a question we're all asking ourselves, and we try to understand, as you say, maybe the canary in the cage as regards macroeconomic slowdown. I think it's maybe in some ways too early, but we are – if I look at the subcategories, probably there are some industrial applications in the corrugated space which would appear to be slightly softer on a relative basis than some of the other categories. I'm not sure whether that is a genuine end demand problem or whether it's more a supply chain problem that our customers are experiencing, because, as I alluded to earlier, I think everyone across all industries are battling with supply chain issues.

So is it because some of our customers are not making more product to sell, because they don't have an end market, or because they are challenged by their own supply chain problems. It's difficult to distinguish that at different times, but I would say it is a bit softer on what I call the business to business industrial applications as opposed to the consumer applications and the like, but I think I wouldn't read a lot into that at this stage. One has to keep a watch over it. But, outside of that, as I say, I think the demand picture is still good. Our flexibles range – the demand is extremely good, and there's no particular evidence of slowdown there at this stage.

Mikael Doepel, UBS

Thank you, and good morning, everybody. A couple of questions here from my side. First of all, on the sack paper or kraft paper markets, I'm just wondering if you could tell us – what's the size of the brown sack paper market in particular in Europe? And what kind of a share has Russia typically been supplying into that market? I hear that you're talking about an extremely tight market, but I was wondering if you would be able to quantify a bit the impact of no Russian supply into the brown sack paper market, in particular in Europe.

And the second question is on the containerboard market dynamics. Now, we talked about the demand trends – still growing, but the growth seems to be normalising. But what do you see in terms of inventory levels currently across the value chain? What do you see in terms of trade flows? And there I'm in particular thinking about kraftliner imports from the US, Russian exports to Europe as well as European recycled exports outside of the region. Anything you could add on that would be helpful. Thank you very much.

Andrew King

Your first question, on how important Russia is for the European sack kraft market - roughly speaking, Europe is around a 1 million tonne market, and we understand Russia was probably around 100,000 tonnes of exports on an annual basis, so 10% of supply, that order of magnitude. So clearly important in what is a tight market.

I think your question on inventory levels – clearly, we don't have exact transparency across the value chain. I don't sense that there's a big inventory build taking place. The big challenge for some time now – and of course it's different for each category. Certainly, in the product we've just been talking about, kraft paper and the like, I don't believe that's the case at all, because of the challenges in securing supply right now. So I certainly don't believe people are building inventory. Similarly, on the containerboard front, I don't sense that there's been a big inventory build at all, and this is more driven largely by true underlying demand, and I think you can see that in the corrugated numbers, which is of course the end use demand indicator.

As it relates to exports and imports, clearly the situation is very fluid. Last year you saw much less imports into Europe, and, similarly, fewer exports from Europe, particularly in containerboard, which is the main grade where you see a lot of intercontinental trade flows. I think this year we're seeing a bit more volume from the US, which is normal and frankly required in Europe still, because Europe is short supply of particularly the virgin containerboard grades. But it's early days in the year, and I don't believe there's a clear trend one way or the other, but one would anticipate over time that there would be an increase in some of the import of kraftliner into the European markets, but of course it also depends on the currencies and the like. And with a strong dollar, it makes it pretty unattractive for the US players, and the US market, as we understand it, remains in good shape, and of course it's always better to sell domestically for any producer.

So, in short, I think there has been a bit more imports into Europe from particularly North America over the first quarter by comparison to this time last year, but it's not particularly meaningful at this stage. And I think over time what will be also apparent is that Europe will restart exporting, because last year was very much a year of repatriating all volume into Europe simply because Europe was just short of paper. I suspect over time we might see export volume increasing a bit, because there's plenty of opportunity to export, so I suspect that'll be the likely trend going forward.

Mike Powell

I would just add, Mikael, that I think the day-to-day challenge at the moment is not around inventory and inventory build; it's around supply chain, both input materials and output materials. Do they turn up when they're supposed to? And can we dispatch when we're supposed to? And then do they go from A to B as they're supposed to? That's the environment we're still in and I think we'll be in for some time, along with other industries.

David O'Brien, Goodbody

Good morning, everyone. Firstly, just on the pace of pricing, you note that you realised pricing quicker than anticipated, I guess, through Q1. If we think about corrugated, we've seen a containerboard price increase come through in April. How quickly do you think that'll be fully realised in the box, given the dynamics you see at play at the moment? And, in flexible, similarly, I think a third of contracts typically were annually price set. Have you moved people away from them to get a more dynamic pass through on pricing? Could you just help us unpack that pace of price realisation, please?

Secondly, just on the capital plan, we touched on everyone's supply chain issues. Are you getting the capital away in the year to date as you planned or how much will you be expecting to be spent for 2022?

And then, finally, a little bit more longer term, in terms of the corrugated division, what is the vision for the division now going forward? What are the opportunities to materially outgrow market growth? Are you looking to come more vertically integrated? Can you put down fresh capacity? Just an update, please, on what the vision is…

Andrew King
Thanks, David. On the pass through, as we said, we've been successfully passing on price increases through both the bag and the box. I think there continues to be very strong support for these price increases, partly because, simply put, it's easier to pass through big increases on the paper side than small ones, and the pricing environment on the paper side remains strong, and I suspect these price increases will go through. We normally give the rule of thumb of three to six months, but I think in the current environment it's at the shorter end of that range, very definitively.

And in some ways the same applies to bags. As you rightly say, in the bags business there is more fixed price contract business, but that has become more fluid over time simply because the markets are so much more volatile now. So typically, I think we have increased – call it the shorter dated pricing around that. There's more index business now, so we certainly expect to see a fairly rapid pass through of some of these paper price increases, because, simply put, the converters cannot absorb the levels of price increases that we are seeing on the paper side. So that is going through maybe faster than it would have been historically.

On the future of our corrugated business, I think we have a fantastic platform there. Clearly, I think, as the numbers demonstrate, we're a world class operator in terms of upstream production, where we are underpinned by fantastic low cost production, with a strong vertical integration into our corrugated box network. Clearly, the corrugated box position is very much centred around where we have strength in paper, in the central and eastern European market. In Turkey, we are short of paper and have an extremely strong corrugated position, having been bolstered by the acquisition we made at the beginning of last year, which has gone extremely well with our mix and integration. We are delighted with the business; we are delighted with the colleagues that have joined us from Olmuksan, and it's been a fantastic acquisition for us and opens up further opportunities for growth in the region.

I think the future growth opportunities come both from backward and forward integration, if that makes sense, both in terms of paper production and corrugated production, both organically where we see ongoing opportunity to invest – the most recent investment is the €95 million that we're investing in our world class Świecie operation to continue to debottleneck, because every tonne we make out of Świecie is a fantastic value add for us. We're also investing heavily in continuing to expand and support the organic growth that we see in our corrugated converting businesses, both in that Central and Eastern European region and into Turkey and the like.

And I think we continue to look on the M&A front to see whether there's opportunity to bolster that platform further, but that clearly has to be things that we believe add to the quality of our offering, add to the customer value proposition that we have and of course come with a price that makes sense for both parties.

So, I think there's a lot more we're doing already and we have to get on with from an organic perspective, and, if we can supplement that with selective inorganic opportunities, then we'll continue to do that. I think Europe and the surrounds – Europe and the adjacent markets is our heartland, and that will continue to be so, and we've got a lot of opportunity on that canvas.

Mike Powell

Thanks, Andrew. On the capex, David, we guided to €700 – 800 million. There's no change in any ambition or anything on that. I think the opportunities, as Andrew has just outlined, continue to present themselves. That said, I think we're probably – if I was to have to guess, I think we'd be at the lower end of that. That's purely just getting hold of parts, managing and executing the projects properly. There's a bit less in for Russia now, as you might expect. So I think €700 – 800 million is still valid, but I think, sat here today, it's probably towards the lower end, but, again, I wouldn't want you to think of an annual cash flow reflecting the ambition. There's no change to the capex programme or ambition. In fact, the opportunities continue to present.

Brian Morgan, RMB Morgan Stanley

Can I just ask a bit about Syktyvkar and long term strategy and optionality etc.? You've always spoken about Syktyvkar as being a key part of your long term option set, long term strategy. It's got a long pulp position; you've got a big uncoated fine paper business that could eventually be converted into packaging. So it has always been this very long term option set available to you. Would you be looking to replace that now with something else? Do you think that there's enough in the Group to keep you busy for the next 10 to 15 years?

Andrew King

Absolutely is the short answer. I mean, as we mentioned at the full year results, we've got this €1 billion capex pipeline. None of that is impacted by the Russian discussions. If anything, as I say, some of it – it has become even more imperative that we get on with it. All of that is building on the fantastic platform we have in our business. I think there are a huge amount of opportunities to continue to reinforce and grow our business. Across the piece – I've just been speaking about the corrugated business and the opportunities there, but I would also emphasise, on the flexibles offering, we do have this unique platform where we offer everything from the upstream kraft paper and all the subgrades within that, the speciality products. We have this fantastic coating business where we can add functionality to that, and we continue to invest and expand that, because of all of these sustainable packaging solutions that hopefully you're now seeing on the supermarket shelf made out of paper but with a functionality added to it. And, of course, we have this great platform of converting businesses where we can be genuinely agnostic as to the substrate we use, depending on what our customer wants.

And I think all of that gives us huge opportunity, so we are continuing to invest hard. Our biggest challenge is, frankly, finding our project managers and not exhausting them, because we have so many things to get on with. And, as I'm sure you've seen from the first quarter results, it's emphasised in there that we have an extremely strong and profitable business outside of Russia that allows us the luxury of continuing to invest for the long term through the cycle in these businesses. So, we have plenty to get on with, and we believe that we have a very exciting future.

And I think that's probably a fantastic way to end, because we do have our AGM this morning. So unfortunately Mike and I are going to have to excuse ourselves and get prepared for that, but, if we haven't been able to get to any other questions, obviously Clara is available at all times, and, similarly, Mike and I can also make ourselves available again.

But we do thank you for your interest, as always. Those of you who might turn up at the AGM – we look forward to seeing you there. Otherwise, we'll no doubt keep in touch. But thank you again for your interest, and maybe I'll hand back to the operator.

ENDS