

Section 3

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and South African operations.

North America Metric tons '000	2021	2020	% change
Sales volume	1,685	1,516	11
Pulp	453	453	–
Packaging and speciality papers	485	330	47
Graphic papers	747	733	2

	US\$ million 2021	US\$ million 2020	% change	US\$ per ton 2021	US\$ per ton 2020	% change
Sales	1,688	1,385	22	1,002	914	10
Variable manufacturing and delivery costs	(1,122)	(968)	16	(666)	(639)	4
Contribution	566	417	36	336	275	22
Fixed costs	(535)	(508)	5	(318)	(335)	(5)
Sundry items and consolidation entries	74	64	16	44	42	5
Operating profit excluding special items	105	(27)	nm	62	(18)	nm
EBITDA excluding special items	209	79	165	124	52	138

The North American business recorded its best result in over 10 years. Volumes in the packaging and speciality papers segment increased by 47% as the region improved the mix of products on the converted paper machine at Somerset Mill. The substantial reduction of capacity in the North American graphic papers market combined with logistics challenges on imported graphic paper products created tight market conditions and the opportunity to increase selling prices and restore margins in that segment. The region also benefited from a recovery in DP selling prices resulting in overall EBITDA ex SI margins improving from 6% in 2020 to 12% in 2021. The integration of the Matane Mill systems and procedures were successfully completed during the year.

Europe Metric tons '000	2021	2020	% change
Sales volume	2,817	2,698	4
Packaging and speciality papers	525	478	10
Graphic papers	2,292	2,220	3

	€ million 2021	€ million 2020	% change	€ per ton 2021	€ per ton 2020	% change
Sales	2,090	2,067	1	724	766	(3)
Variable manufacturing and delivery costs	(1,350)	(1,268)	6	(479)	(470)	2
Contribution	740	799	(7)	263	296	(11)
Fixed costs	(702)	(722)	(3)	(249)	(268)	(7)
Sundry items and consolidation entries	(82)	(70)	17	(30)	(25)	20
Operating profit excluding special items	(44)	7	nm	(16)	3	nm
EBITDA excluding special items	78	128	nm	28	47	(40)

The European region struggled to reverse the downward selling price trend which had started during the last quarter of the previous fiscal. Selling prices remained at low levels for the first three quarters of the current fiscal and recovered during the last quarter. There was a strong recovery in volumes with packaging and speciality papers volumes increasing by 10%. Logistics challenges hampered a volume recovery in the graphics markets as container availability limited export volumes. The fourth quarter graphic papers volumes were, however, 37% up on the same quarter last year as supply chain restrictions eased. Variable costs, in particular purchased pulp, increased substantially during the year resulting in margin squeeze. The region managed to offset the reduced contribution by reducing fixed costs by 3%. The European operations were nevertheless forced to take 376,000 tons of production downtime during the year. EBITDA ex SI margins reduced from 6% to 4% as a consequence.

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South Africa*

Metric tons '000	2021	2020	% change
Sales volume*	1,398	1,406	(1)
Pulp	784	861	(9)
Packaging and speciality papers	459	399	15
Graphic papers	155	146	6

	ZAR million 2021	ZAR million 2020	% change	ZAR per ton 2021	ZAR per ton 2020	% change
Sales*	16,083	14,928	8	11,504	10,617	8
Variable manufacturing and delivery costs	(9,995)	(9,460)	6	(7,149)	(6,728)	6
Contribution	6,088	5,468	11	4,355	3,889	12
Fixed costs	(5,985)	(5,809)	3	(4,281)	(4,132)	4
Sundry items and consolidation entries	2,139	1,558	37	1,530	1,190	38
Operating profit excluding special items	2,242	1,217	84	1,604	866	85
EBITDA excluding special items	3,386	2,450	38	2,422	1,743	39

* Excludes Forestry.

The missed opportunities in the South African region dented the good year-on-year recovery. Net selling prices of DP increased 15% from the historic lows of the previous year while packaging selling prices remained in line with the previous year. Despite the strong market demand for all the region's products, sales volumes were restricted by civil unrest, production problems and logistics challenges. DP sales volumes of 82,000 tons were delayed into the following fiscal due to unavailability of ocean freight vessels. Vessel scarcity resulted in delivery costs increasing 6% during the year. Variable costs, predominantly energy and chemicals, increased by 6% during the year as well. Commissioning of the Saiccor Mill expansion project began during the fourth quarter and additional production will commence in the first quarter of fiscal 2022. Fixed costs were restricted to an increase of 3% despite personnel cost increases matching inflationary increases of 5%. As a consequence of the above, EBITDA ex SI margins increased from 16% in the previous year to 21%

The region's capital expenditure focused on increasing DP capacity during the year.

Major sensitivities

Some of the more important factors which impact the group's EBITDA excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below:

Sensitivities	Change	Europe € million	North America US\$ million	South Africa ZAR million	Translation impact* US\$ million	Group US\$ million
Net selling prices	1%	25	18	233	–	63
Dissolving pulp prices	US\$10	–	3	158	–	14
Variable costs	1%	15	9	120	–	34
Sales volume	1%	8	7	96	–	23
Fixed costs	1%	7	5	57	–	16
Paper pulp price	US\$10	6	1	6	–	8
Oil price	US\$1	3	–	–	–	3
ZAR/US\$ (weakening)	10 cents	–	–	83	(2)	3
Euro/US\$ (weakening)	10 cents	(2)	(3)	–	(11)	(16)

* Based on currency impact on translation of EBITDA ex SI.

The table demonstrates that EBITDA excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not consider potential management interventions to mitigate negative impacts or enhance benefits.