Chief Financial Officer's report continued

Section 2 continued
Financial performance continued

Taxation
A regional breakdown of the tax charge is provided below.

(US$ million)	Profit (loss) before tax	Tax (charge) relief	Effective tax rate %
Europe	(103)	9	(9)
North America	(75)	(18)	24
South Africa	52	–	1
Total	**126**	**(9)**	7

In Europe, the total tax relief mainly relates to the reassessment and consequent increase in the deferred tax asset and settlements in tax audits at Austrian subsidiaries. This was partially offset by a derecognition of the deferred tax asset in Belgium.

In North America, the company derecognised the deferred tax asset for its US operations after reassessing the recoverability of accumulated losses over the next five years.

The South African tax charge on annual taxable profits is offset by a positive impact from the settlement of a tax audit.

Net profit, earnings per share and dividends
After taking into account net finance costs and taxation, our net profit and earnings per share for 2020, with comparatives for 2019, were as follows:

(US$ million)	2020	2019
Operating profit	(38)	383
Net finance costs	88	85
Profit (loss) before taxation	(126)	298
Taxation	9	87
Profit (loss) for the period	**(135)**	211
Weighted average number of shares in issue (millions)	545.5	542.0
Basic earnings per share (US cents)	**(25)**	39

The directors have elected not to declare a dividend and temporarily halt dividends until such time as market conditions improve.

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 Southern African operations.

North America

(Metric tons '000)	2020	2019	% change
Sales volume	1,516	1,379	10
Dissolving pulp	453	285	59
Packaging and specialities	330	190	74
Graphics	733	904	(19)

	US$ million 2020	US$ million 2019	% change	US$ per ton 2020	US$ per ton 2019	% change
Sales	1,385	1,466	(6)	914	1,063	(14)
Variable manufacturing and delivery costs	(968)	(924)	5	(639)	(670)	(5)
Contribution	417	542	(23)	275	393	(30)
Fixed costs	(508)	(501)	1	(335)	(363)	(8)
Sundry costs and consolidation entries	64	(14)	(557)	42	(10)	(520)
Operating profit excluding special items	**(27)**	27	(200)	**(18)**	20	(190)
EBITDA excluding special items	**79**	110	(28)	**52**	80	(35)

EBITDA of US$79 million was 28% lower than the previous year while EBITDA margin declined from 8% to 6%. The lower profitability was due mainly to the lower DP prices and the impact of Covid-19 on graphics and DP demand. Higher packaging and specialties sales due to the continued ramp-up of the paperboard business and the strong demand for C1S packaging during the pandemic offset some of the sales miss in DP and graphics. As a result of the weak graphics market, the region took 187,000 tons of production downtime to balance supply with balance and to lower fixed costs. During the year, the acquisition of the Matane Mill was completed and the integration of the mill proceeded as planned. Volume for 2020 include 208,000 tons of pulp sales from the Matane Mill. Excluding this volume, sales tons were down 5% versus the previous year.

Europe

(Metric tons '000)	2020	2019	% change
Sales volume	2,698	3,241	(17)
Packaging and specialities	478	477	0
Graphics	2,220	2,764	(20)

	€ million 2020	€ million 2019	% change	€ per ton 2020	€ per ton 2019	% change
Sales	2,067	2,587	(20)	766	798	(4)
Variable manufacturing and delivery costs	(1,268)	(1,707)	(26)	(470)	(527)	(11)
Contribution	799	880	(9)	296	271	9
Fixed costs	(722)	(762)	(5)	(268)	(235)	14
Sundry costs and consolidation entries	(70)	(25)	180	(25)	(7)	257
Operating profit excluding special items	**7**	93	(92)	**3**	29	(90)
EBITDA excluding special items	**128**	206	(38)	**47**	64	(27)

Market conditions for graphic paper in Europe were challenging as demand shrunk by 20%. The European operations were able to reduce the impact of the demand reduction by increasing market share but were nevertheless forced to take 727,000 tons of production downtime during the year. Selling prices were resilient in the face of the declining demand as the region managed the effects of the lower demand. Packaging and speciality volumes were in line with the previous year as growth in the food packaging sectors was offset by reductions in the luxury goods markets.

Chief Financial Officer's report continued

Variable costs per ton reduced by 11% relative to last year due mainly to lower purchased pulp prices. Sundry costs include the closure of the PM2 machine at Stockstadt Mill. The reduction in fixed costs by €40 million lessened the impact of the 9% reduction in contribution. EBITDA margins reduced from 8% to 3% as a consequence.

South Africa

(Metric tons '000)	2020	2019	% change
Sales volume*	1,406	1,639	(14)
Dissolving pulp	861	999	(14)
Packaging and specialities	399	438	(9)
Graphics	146	202	(28)

	ZAR million 2020	ZAR million 2019	% change	ZAR per ton 2020	ZAR per ton 2019	% change
Sales*	14,928	19,253	(22)	10,617	11,747	(10)
Variable manufacturing and delivery costs	(9,460)	(11,764)	(20)	(6,728)	(7,178)	(6)
Contribution	5,468	7,489	(27)	3,889	4,569	(15)
Fixed costs	(5,809)	(5,896)	(1)	(4,132)	(3,597)	15
Sundry costs and consolidation entries	1,558	2,239	(30)	1,109	1,366	(19)
Operating profit excluding special items	1,217	3,832	(68)	866	2,338	(63)
EBITDA excluding special items	2,450	4,864	(50)	1,743	2,968	(41)

* *Excludes Forestry.*

Net selling prices of DP reduced to historic lows in US Dollar terms, the full impact diluted by a weaker exchange rate. Volumes during the height of the pandemic reduced to over 50% for a short period, only to recover to available capacity by the end to the fiscal. A decision to stop production on the calcium line at Saiccor Mill resulted in the closure of Lignotech, our joint venture with Borregaard. The recovery of demand during Q4 to pre-pandemic levels resulted in constrained capacity as we were unable to return the calcium line to full capacity following the Lignotech closure. Full capacity will be restored following the completion of the Saiccor Mill expansion project in Q4 2021. Variable costs per ton reduced by 6% mainly due to lower purchased pulp costs and chemicals. Fixed costs were well controlled despite wage inflationary increases of approximately 7%. The net result of the above is a decrease in EBITDA to ZAR2,450 million with annual operating profit of ZAR1,217 million.

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	Southern Africa ZAR million	Translation Impact* US$ million	Group US$ million
Net selling prices	1%	22	16	184	–	51
Dissolving pulp prices	US$10	–	2	158	–	11
Variable costs	1%	12	8	103	–	27
Sales volume	1%	8	6	68	–	19
Fixed costs	1%	6	5	54	–	15
Paper pulp price	US$10	5	1	7	–	6
Oil price	US$1	2	0	3	–	3
ZAR/US$ (Weakening)	10 cents	–	–	54	(1)	2
Euro/US$ (Weakening)	10 cents	(2)	(4)	–	(15)	(21)

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

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.

Section 4
Cash flow

In the table below, we present the group's cash flow statement for 2020 and 2019 in a summarised format:

(US$ million)	2020	2019
Operating profit excluding special items	57	402
Depreciation and amortisation	321	285
EBITDA excluding special items	378	687
Contributions to post-employment benefits	(40)	(41)
Other non-cash items	(15)	27
Cash generated from operations	323	673
Movement in working capital	65	(15)
Net finance costs	(102)	(42)
Taxation	(26)	(51)
Dividend paid	–	(92)
Capital expenditure	(351)	(471)
Net proceeds on disposal of assets	1	3
Acquisition	(160)	–
Other	(7)	(4)
Net cash generated (utilised)	(257)	1

Net cash utilised for the financial year was US$257 million (FY2019: US$1 million generated). The deterioration in cash generation was largely due to the impact Covid-19 had on sales volumes, lower average DP prices, the acquisition of the Matane Pulp Mill and an increase in finance costs. Reduced capital expenditure and a reduction in working capital offset these impacts.

Investment in fixed assets versus depreciation (US$ million)