

Chief Financial Officer's report



“The strength of our balance sheet has enabled us to comfortably manage the challenges without deviating from the **Thrive** strategy”

Glen Pearce Chief Financial Officer (CFO)

Section 1: Financial highlights

US\$ million	2023	2022	% change
Sales	5,809	7,296	(20)
EBITDA excluding special items	731	1,339	(45)
Operating profit excluding special items	432	1,038	(58)
Profit for the year	259	536	(52)
EBITDA excluding special items to sales %	12.6	18.4	n/a
Operating profit excluding special items to sales %	7.4	14.2	n/a
Operating profit excluding special items to capital employed (ROCE) %	12.3	27.9	n/a
Net cash generated	210	506	(58)
Net debt	1,085	1,163	(7)
Basic earnings per share (US cents)	46	95	(52)

Lower end demand combined with substantial destocking across the value chain generated weak order books and low capacity utilisation throughout fiscal 2023. Destocking continued to below-average inventory levels in anticipation of reduced selling prices as intermediaries delayed placing orders by favouring just-in-time processes. Selling prices peaked during the first quarter and progressively weakened the remainder of the fiscal year yielding to the pressure of lower demand. Delivery, chemical and energy costs reduced during the last nine months of the fiscal, however, wood costs remained at elevated levels. The net reduction in variable input costs resulted in variable contribution margins per ton improving relative to the previous year. Under these challenging circumstances, the South African business delivered record EBITDA (in ZAR) and North America the second highest ever EBITDA.

Sales volumes reduced by 21% and caused overhead absorption rates to increase which offset the improved variable contribution margins. The average operating rate of the group dropped from 91% last year to 69% resulting in consolidated EBITDA margins reducing from 18% to 13% in the current year.

Section 1 *continued*

Financial highlights *continued*

The graphic papers segment recorded a 38% reduction in sales volumes as merchants and printers destocked and responded to reduced end demand. The low occupancy rates in Europe forced a review of available capacity resulting in the announced closure of the Stockstadt Mill and a consultation process for the potential closure of the Lanaken Mill. The North American operating rates recovered towards the end of the year and will be assisted by the conversion of a paper machine at the Somerset Mill due for completion early 2025. The packaging and speciality papers segment experienced similar destocking activity and lower end demand as sales volumes reduced by 22%.

The pulp segment experienced strong demand throughout the year and sales volumes increased by 7% supported by improved production performances at Saiccor Mill and Ngodwana Mill. Pulp selling prices followed general commodity prices and reduced by 4% relative to last year. The resultant lower margins reduced EBITDA from US\$325 million to US\$238 million in the current year.

The group generated cash of US\$210 million after a reduction in net working capital of US\$178 million and capex of US\$382 million. The net working capital reduction reflected the reduced level of operations as the group managed net working capital as a percentage of sales within the target of 9%. Cash generated was partially offset by adverse exchange rate movements as net debt reduced by US\$78 million to US\$1,085 million. Profit for the year of US\$259 million (2022: US\$536 million) included special item costs of US\$52 million. Earnings per share excluding special items reduced from US138 cents to US52 cents. The directors declared a dividend of US15 cents per share at three times earnings cover adjusted for non-cash items.

Segment reporting

Our reporting is based on the geographical location of our businesses, ie, Europe, North America and South Africa.

The selected product line information is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented in this report to assist our stakeholders in obtaining a complete understanding of our business.

Exchange rates and their impact on the group's results

The group reports its results in US Dollar and, as such, the main foreign exchange rates used in the preparation of the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2023	2022	2023	2022
€1 = US\$	1.0679	1.0853	1.0572	0.9801
US\$1 = ZAR	18.1791	15.7829	18.9299	18.1537

Two of our three geographic business units (Europe and South Africa) have home or 'functional' currencies of Euro and ZAR respectively. The results and cash flows of these two non-US Dollar units are translated into US Dollar at the average exchange rate for the reporting period in order to arrive at the consolidated US Dollar results and cash flows. When exchange rates differ from one period to the next, the impact of translation from the functional currency to reporting currency can be significant.