

Section 3: Regional businesses performance

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	2023	2022	% change
Sales volume	1,373	1,758	(22)
Pulp	483	483	–
Packaging and speciality papers	375	523	(28)
Graphic papers	515	752	(32)

	US\$ million 2023	US\$ million 2022	% change	US\$ per ton 2023	US\$ per ton 2022	% change
Sales	1,810	2,200	(18)	1,318	1,251	5
Variable manufacturing and delivery costs	(1,199)	(1,386)	(13)	(873)	(788)	11
Contribution	611	814	(25)	445	463	(4)
Fixed costs	(551)	(560)	(2)	(401)	(319)	26
Sundry items and consolidation entries	115	115	–	83	66	26
Operating profit excluding special items	175	369	(53)	127	210	(40)
EBITDA excluding special items	267	464	(42)	194	264	(27)

The North American sales volumes reduced by 22% registering a 74% capacity utilisation. Good management of net selling prices relative to variable cost movements ensured the business maintained contribution per ton at levels similar to the previous year. Fixed costs were well controlled at a 2% reduction relative to last year. Full year EBITDA of US\$267 million was the second highest in the region's history. The lower sales volumes increased the overhead absorption rate by 26% per ton, and resulted in EBITDA margin reducing from 21% to 15%. The strategic project to convert and expand Somerset PM2 from coated woodfree paper to solid bleached sulphate paperboard incurred approximately US\$100 million capital expenditure during the year. The project is planned to start up in 2025 at a total cost of US\$418 million.

Section 3: *continued*

Regional businesses performance *continued*

Europe

Metric tons '000	2023	2022	% change
Sales volume	1,909	3,175	(40)
Packaging and speciality papers	452	636	(29)
Graphic papers	1,457	2,539	(43)

	€ million 2023	€ million 2022	% change	€ per ton 2023	€ per ton 2022	% change
Sales	2,455	3,504	(30)	1,286	1,104	16
Variable manufacturing and delivery costs	(1,550)	(2,177)	(29)	(812)	(686)	18
Contribution	905	1,327	(32)	474	418	13
Fixed costs	(774)	(781)	(1)	(405)	(246)	65
Sundry items and consolidation entries	(124)	(164)	(24)	(65)	(52)	25
Operating profit excluding special items	7	382	(98)	4	120	(97)
EBITDA excluding special items	116	493	(76)	61	155	(61)

The weak European economy and downstream destocking severely impacted the profitability of the European business. Substantial production curtailments were required to manage the weak demand for our products. The sales volume reduction of 40% created selling price pressure towards the end of the year, however, year-on-year net selling prices improved by 16%. Variable cost increases were offset by the increased selling prices resulting in an improved contribution per ton of 13%. The significant drop in demand more than offset any contribution per ton improvement resulting in EBITDA margins reducing from 14 – 5%. The packaging and speciality papers segment was influenced by elevated downstream inventories throughout the fiscal and although destocking was nearing completion, depressed macroeconomic conditions suppressed underlying demand for consumer goods. The graphic papers markets showed signs of recovery during quarter four of the fiscal but demand was unlikely to return to previous levels. The region recognised the low operating rates were unsustainable and capacity reduction was required to reduce the overhead structure. The region announced the consultation process for the closure of Stockstadt Mill during July 2023 and initiated a consultation process for the potential closure of the Lanaken Mill.

South Africa*

Metric tons '000	2023	2022	% change
Sales volume*	1,610	1,535	5
Pulp	1,034	938	10
Packaging and speciality papers	424	444	(5)
Graphic papers	152	153	(1)

	ZAR million 2023	ZAR million 2022	% change	ZAR per ton 2023	ZAR per ton 2022	% change
Sales	25,687	21,133	22	15,955	13,767	16
Variable manufacturing and delivery costs	(15,997)	(13,463)	19	(9,936)	(8,771)	13
Contribution	9,690	7,670	26	6,019	4,996	20
Fixed costs	(7,453)	(6,708)	11	(4,629)	(4,370)	6
Sundry items and consolidation entries	2,199	2,984	(26)	1,365	1,945	(30)
Operating profit excluding special items	4,436	3,946	12	2,755	2,571	7
EBITDA excluding special items	6,035	5,271	14	3,748	3,434	9

* Excludes Forestry.

The South African business delivered a record EBITDA of ZAR6.035 billion for the year in a challenging environment. Pulp volumes increased by 10% compared to the prior year due to improved plant stability and operating rates. Strong demand and improved logistics supported the increased production levels. Containerboard volumes were 5% lower as high inventory levels in the downstream value chain and competition from imports suppressed demand. The lower demand was offset by selling price increases. Increased wood, energy and chemical costs were partially offset by lower ocean freight costs. Fixed costs increased by 11% due to higher personnel, maintenance and insurance costs.

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%	27	19	285	–	63
Dissolving pulp prices	US\$10	–	3	195	–	13
Variable costs	1%	16	9	160	–	34
Energy costs	1%	3	1	26	–	6
Sales volume	1%	9	7	104	–	23
Fixed costs	1%	7	5	69	–	17
Paper pulp price	US\$10	5	1	1	–	7
Oil price	US\$1	3	2	2	–	5
ZAR/US\$ (weakening)	10 cents	–	–	97	(2)	4
Euro/US\$ (weakening)	10 cents	(12)	(5)	–	(13)	(32)

* 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.