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)