

**Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2023
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
1 JANUARY 2023**

08 FEBRUARY 2023

This report is being furnished to The Bank of New York Mellon as trustee for the Senior Notes of Sappi Papier Holding GmbH due 2026 issued pursuant to the indentures dated as of March 12, 2019; and the Senior Notes of Sappi Papier Holding GmbH due 2028 issued pursuant to the indentures dated as of March 10, 2021; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this report may constitute “forward-looking statements.” The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- the Covid-19 pandemic;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to the 2022 Annual Integrated Report as disclosed in the “Bond Reporting Requirements” section of our webpage (www.sappi.com) under “Sappi Papier Holdings”. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this report or as of the date specified therein and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



sappi

First
Quarter
Results

for the period ended December 2022

“Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.”

Our raw material offerings (such as dissolving pulp, wood pulp, biomaterials and timber) and end-use products (packaging and speciality papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams.

Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

	Quarter ended		
	Dec 2022	Dec 2021	Sept 2022
Key figures: (US\$ million)			
Sales	1,660	1,697	1,923
Operating profit excluding special items ⁽¹⁾	225	161	318
Special items – loss (gain) ⁽²⁾	(6)	(8)	213
EBITDA excluding special items ⁽¹⁾	290	240	391
Profit for the period	190	123	26
Basic earnings per share (US cents)	34	22	5
EPS excluding special items (US cents) ⁽³⁾	30	20	44
Net debt ⁽³⁾	1,241	1,917	1,163
Key ratios: (%)			
Operating profit excluding special items to sales	13.6	9.5	16.5
Operating profit excluding special items to capital employed (ROCE) ⁽³⁾	24.7	16.5	34.4
EBITDA excluding special items to sales	17.5	14.1	20.3
Net debt to EBITDA excluding special items	0.9	2.8	0.9
Covenant leverage ratio ⁽³⁾	0.9	2.9	0.9
Interest cover ⁽³⁾	17.6	6.7	15.6
Net asset value per share (US cents) ⁽³⁾	447	353	417

⁽¹⁾ Refer to note 2 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to operating profit by segment and profit for the period.

⁽²⁾ Refer to note 2 to the group results for details on special items.

⁽³⁾ Refer to supplemental information for the definition of the term.

Highlights for the quarter

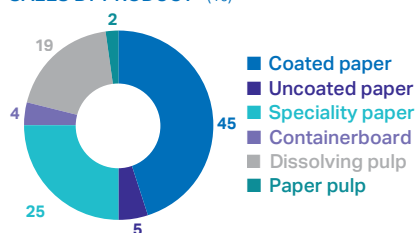
EBITDA excluding
special items
US\$290 million
(Q1 FY22: US\$ 240 million)

Net debt of
US\$1,241 million
(Q1 FY22: US\$1,917 million)

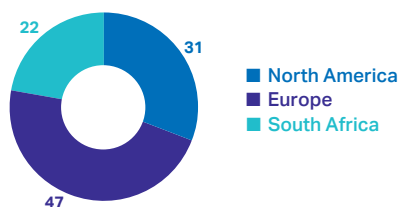
Profit for the period
US\$190 million
(Q1 FY22: US\$123 million)

EPS excluding
special items
30 US cents
(Q1 FY22: 20 US cents)

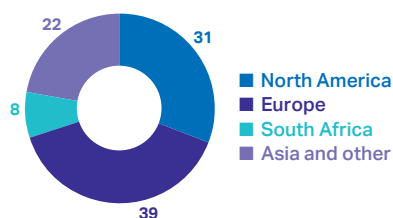
SALES BY PRODUCT* (%)



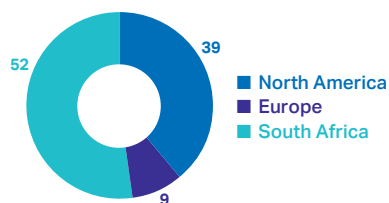
SALES BY SOURCE* (%)



SALES BY DESTINATION* (%)



NET OPERATING ASSETS** (EX CORPORATE) (%)



* For the period ended December 2022.

** As at December 2022.

Commentary on the quarter⁽¹⁾

The group delivered another strong performance, which was well above pre-Covid-19 levels and the best ever first quarter results. EBITDA excluding special items of US\$290 million was 21% above the prior year (which included an additional sales week) and in line with guidance provided in the prior quarter. The positive results were underpinned by year-on-year pricing gains for paper products which offset cost inflation, lower sales volumes and delivered an EBITDA margin of 17.5%.

The lower profits relative to the record levels in the prior quarter were reflective of the slowing global economy. Ongoing geopolitical turmoil in Russia/Ukraine, rampant inflation, rising interest rates and an underperforming Chinese economy all continued to weigh heavily on our markets, which resulted in a softening of demand for our products. In addition, a rapid downstream inventory accumulation in all our major product categories also suppressed underlying demand. This inventory build began with the lifting of Covid-19 restrictions in late 2021 and the subsequent chronic global logistical bottlenecks which hindered material flows. Recent improvements in global supply chains resulted in a reduction in delivery lead times and a surge in customer inventory levels.

A series of price increases in the previous year neutralised the impact of cost inflation and lower sales volumes in the graphic papers segment. Margins remained healthy but reduced relative to the highs of recent quarters.

Sales volumes were down 31% compared to the prior year and production rates were optimised to match sales.

Underlying demand in the packaging and speciality papers segment remained relatively stable. Selling price realisation more than offset the lower sales volumes and supported year-on-year margin expansion for the segment. Sales volumes were down 14% compared to the prior year, driven primarily by the large customer inventory build.

The same market dynamics of elevated retailer stock levels and general concerns over negative consumer sentiment adversely impacted demand for all textile fibres. Viscose staple fibre (VSF) pricing came under pressure and producers lowered their production significantly. As a result, the hardwood dissolving pulp (DP) market price⁽²⁾ followed VSF trends and decreased to US\$900 per ton by quarter end. Despite the recent DP pricing pressures, the net average sales price for the pulp segment was 9% higher

⁽¹⁾ "year-on-year" or "prior/previous year" is a comparison between Q1 FY2023 versus Q1 FY2022; "quarter-on-quarter" or "prior/previous quarter" is a comparison between Q1 FY2023 and Q4 FY2022.

⁽²⁾ Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

than the prior year. The pricing gains were offset by an 8% reduction in sales volumes, linked primarily to low activity in China, and substantially higher costs, which squeezed margins in the segment.

Earnings per share excluding special items for the quarter was 30 US cents, which was a substantial improvement on the 20 US cents in the prior year. Special items increased earnings by US\$6 million due to a positive plantation fair value adjustment.

CASH FLOW AND DEBT

Net cash generated for the quarter was US\$23 million compared to a utilisation of US\$11 million in the prior year. The higher cash generation was due to improved profitability offset somewhat by a larger outflow of working capital due to higher selling prices incorporated into receivables. Capital expenditure of US\$58 million was below last year but in line with our plan and will increase from the second quarter as the Somerset PM2 conversion and expansion project gains momentum.

The improved cash generation contributed to a significant reduction in net debt, which ended the quarter at US\$1,241 compared to the prior year of US\$1,917 million. An increase in net debt compared to the prior quarter was driven

by a weakening of the US dollar, which increased the Euro-denominated debt converted at a higher rate. Liquidity comprised cash on hand of US\$593 million and US\$668 million from the committed unutilised revolving credit facilities (RCF) in South Africa and Europe.

In October 2022, a tender offer to purchase for cash a portion of the outstanding 3.125% Senior Notes due 2026 was concluded. As a result, US\$206 million of the aggregate principal amount of the 2026 bonds in the tender offer was repurchased at a purchase price of 92.41% (plus accrued and unpaid interest).



Operating review for the quarter

Europe

Sales offices

15

Production facilities

10



EUROPE

Quarter ended

EUR million	Dec 2022	Sept 2022	Jun 2022	Mar 2022	Dec 2021
Sales – tons	568	757	780	801	837
Sales	783	982	943	839	740
Operating profit excluding special items	73	102	173	98	11
<i>Operating profit excluding special items to sales (%)</i>	9.3	10.4	18.3	11.7	1.5
EBITDA excluding special items	91	130	200	124	40
<i>EBITDA excluding special items to sales (%)</i>	11.6	13.2	21.2	14.8	5.4
<i>RONOA pa (%)</i>	23.8	30.7	49.0	29.1	3.4

Profitability of the European region improved substantially compared to the prior year as pricing gains offset cost inflation. Sales volumes in the quarter came under pressure from weakening demand for paper products and the significant downstream inventory build due to earlier inflated customer orders and a simultaneous release of logistic bottlenecks.

Lower demand occurred across all product categories with certain packaging and speciality papers faring slightly better than graphic paper grades. Operations were curtailed to match demand and manage working capital.

Selling prices remained stable quarter-on-quarter which protected margins.

Variable costs were 42% higher than the prior year due to extraordinary cost inflation across all input categories. Natural gas prices in the EU fell significantly during the quarter on the back of mandatory storage filling and a milder than anticipated winter season, which reduced demand. These savings were negated by higher pulp and wood costs. The increase in fixed costs was in line with inflation.

North America

Sales offices

6

Production facilities

4



NORTH AMERICA

	Quarter ended				
US\$ million	Dec 2022	Sept 2022	Jun 2022	Mar 2022	Dec 2021
Sales – tons	378	423	437	445	453
Sales	526	586	566	536	512
Operating profit excluding special items	91	121	97	88	63
<i>Operating profit excluding special items to sales (%)</i>	17.3	20.6	17.1	16.4	12.3
EBITDA excluding special items	114	143	118	114	89
<i>EBITDA excluding special items to sales (%)</i>	21.7	24.4	20.8	21.3	17.4
<i>RONOA pa (%)</i>	27.6	37.1	29.2	26.4	19.1

The North American region delivered another strong performance with profitability significantly better than the prior year. Selling price gains offset significant cost inflation but sales volumes were negatively impacted by a broad-based softening in paper demand towards the latter part of the quarter. Demand contraction was largely driven by the surge in downstream inventories, concerns about the economy and a sharp rebound in imported paper volumes due to improved logistics. Production was adjusted to match sales demand. The Somerset Mill annual maintenance outage and a reel upgrade project at Cloquet Mill were successfully completed during the quarter.

Verve⁽³⁾ sales volumes were slightly down on the prior year and in line with the previous quarter despite weakening VSF markets. Pulp sales volumes included 41,000 tons of high-yield bleached chemi-thermomechanical pulp (BCTMP). Year-on-year selling price increase realisation for the segment was achieved, which mostly offset the significant cost inflation.

An 18% year-on-year rise in variable costs was driven by significant price escalation across all raw material categories. Fixed costs were well managed and were 1% below the previous year, primarily driven by lower personnel costs.

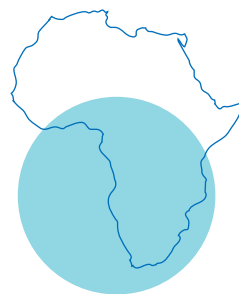
⁽³⁾ Verve is the brand name for Sappi dissolving pulp.

Operating review for the quarter

continued

South Africa

Sales offices **6**
Production facilities **5**



SOUTH AFRICA

	Quarter ended				
ZAR million	Dec 2022	Sept 2022	Jun 2022	Mar 2022	Dec 2021
Sales – tons	722	801	654	812	737
Sales	6,602	6,326	4,202	6,229	5,765
Operating profit excluding special items	1,109	1,511	214	911	1,310
<i>Operating profit excluding special items to sales (%)</i>	16.8	23.9	5.1	14.6	22.7
EBITDA excluding special items	1,514	1,881	556	1,231	1,603
<i>EBITDA excluding special items to sales (%)</i>	22.9	29.7	13.2	19.8	27.8
RONOA <i>pa (%)</i>	15.0	21.4	3.0	12.9	19.0

Significant year-on-year cost inflation and slightly reduced sales volumes negatively impacted profitability of the South African region despite a higher average US dollar selling price for Verve⁽³⁾ and a significant rand/US dollar exchange rate benefit on the rand selling price. A fire in a municipal electrical substation disrupted production at the three operations in the KwaZulu-Natal region.

Demand for Verve was weaker due to lower economic activity in China combined with the elevated textile retail inventories, which resulted in reduced operating rates within the VSF industry. Supply chain disruptions eased and the establishment of alternative modes of shipping continued to alleviate the bottlenecks at the Durban port. Good progress was made shipping from the Maputo port with 20% of Ngodwana Mill Verve sales volumes shipped via this alternate route.

Tight containerboard markets created robust demand for our packaging grades as customers sought to replenish low stock levels. Sales volumes were constrained by production which was lower than planned due to a slower than expected ramp-up after the extended shut in the prior quarter for the containerboard machine upgrade at Ngodwana Mill. Pricing gains boosted profitability for the segment.

Improved office paper and newsprint sales volumes and pricing helped to offset variable cost pressures and substantially improved profitability in the graphic papers segment compared to the previous year.

Variable costs were 28% higher than the prior year primarily due to higher wood and chemical costs. Fixed costs rose by 12% primarily due to higher maintenance expenditure.

⁽³⁾ Verve is the brand name for Sappi dissolving pulp.

Outlook

Although the global economy will undoubtedly face significant challenges in 2023, the recent easing of the energy crisis in Europe, slowing of global inflation and the opening of the Chinese economy are positive economic indicators. Nevertheless, the short-term outlook is expected to be negatively impacted by the combination of the final phase of the downstream inventory destocking cycle, the resulting impact on sales volumes across all market segments and the relatively high cost base – albeit this is starting to turn.

The opening of the Chinese economy following the relaxation of Covid-19 restrictions and strengthening of the renminbi against the US dollar represents upside potential toward the second half of the calendar year for the DP segment. VSF producer operating rates and pricing are slowly increasing and order activity in China has resumed in recent weeks.

Downstream inventory levels for our paper products declined in recent months but remain at historically elevated levels. It may take a further few months before order activity normalises.

Cost inflation is expected to recede in FY2023. Specifically, lower European natural gas prices are expected to have a positive impact on European costs. Globally, paper pulp prices are expected to decline as new Latin American capacity enters the market. It should be noted that pulp prices in the US and Europe are lagging relative to Asia and therefore it

may take time for benefits to be realised. Logistics bottlenecks are steadily improving, and delivery costs are anticipated to reduce through FY2023. Similarly, chemical costs have started to decline in recent weeks.

Capital expenditure is estimated to be US\$430 million for FY2023 and includes US\$70 million for the Somerset PM2 conversion and expansion project.

The divestment of three European mills announced in September 2022 is expected to close during the second quarter. The cash proceeds and receivables will be collected in the second and third quarters.

Factoring in the protracted macroeconomic uncertainty, and coming off three quarters of outperformance, we anticipate a return to a normalised level of earnings in FY2023. The second quarter will likely be the most challenging with a recovery in earnings expected later in the financial year. EBITDA for the second quarter of FY2023 is expected to be below that of the first quarter.

On behalf of the board

SR Binnie
Director

GT Pearce
Director

08 February 2023

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- *the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- *the Covid-19 pandemic;*
- *the impact on our business of adverse changes in global economic conditions;*
- *unanticipated production disruptions (including as a result of planned or unexpected power outages);*
- *changes in environmental, tax and other laws and regulations;*
- *adverse changes in the markets for our products;*
- *the emergence of new technologies and changes in consumer trends including increased preferences for digital media;*
- *consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;*
- *adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;*
- *the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies;*
- *currency fluctuations.*

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Condensed group income statement

US\$ million	Note	Quarter ended	
		Dec 2022	Dec 2021
Sales		1,660	1,697
Cost of sales		1,332	1,444
Gross profit		328	253
Selling, general and administrative expenses		96	108
Other operating (income) expenses		–	(24)
Share of profit from equity accounted investees		1	–
Operating profit	3	231	169
Net finance costs		–	27
Finance costs		25	29
Finance income		(23)	(2)
Net foreign exchange gain		(2)	–
Net fair value loss on financial instruments		–	–
Profit before taxation		231	142
Taxation		41	19
Profit for the period		190	123
Basic earnings per share (US cents)	4	34	22
Weighted average number of shares in issue (millions)		566.2	561.6
Diluted earnings per share (US cents)	4	32	20
Weighted average number of shares on fully diluted basis (millions)		602.7	601.8

Condensed group statement of other comprehensive income

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Profit for the period	190	123
Other comprehensive income, net of tax		
<i>Items that will not be reclassified subsequently to profit or loss</i>	–	(33)
Actuarial gains (losses) on post-employment benefit funds	–	(33)
Tax effect	–	–
<i>Items that may be reclassified subsequently to profit or loss</i>	70	(78)
Exchange differences on translation of foreign operations	39	(69)
Movements in hedging reserves	35	(10)
Tax effect	(4)	1
Total comprehensive income for the period	260	12

Condensed group balance sheet

US\$ million	Note	Dec 2022	Reviewed Sept 2022
ASSETS			
Non-current assets		3,628	3,430
Property, plant and equipment		2,844	2,705
Right-of-use assets		76	76
Plantations		417	382
Deferred tax assets		51	46
Goodwill and intangible assets		104	89
Equity accounted investees		9	8
Other non-current assets		127	123
Derivative financial instruments		–	1
Current assets		2,605	2,799
Inventories		848	780
Trade and other receivables		838	939
Derivative financial assets		10	8
Taxation receivable		9	1
Cash and cash equivalents	8	593	780
Assets held for sale	9	307	291
Total assets		6,233	6,229
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest	8	2,538	2,358
Non-current liabilities		2,280	2,347
Interest-bearing borrowings	8	1,565	1,688
Lease liabilities		65	66
Deferred tax liabilities		405	361
Defined benefit and other liabilities		245	232
Current liabilities		1,415	1,524
Interest-bearing borrowings		184	171
Lease liabilities		20	18
Trade and other payables		796	1,045
Provisions		2	4
Derivative financial liabilities		7	21
Taxation payable		55	25
Liabilities associated with assets held for sale	9	262	240
Shareholders for dividend		89	–
Total equity and liabilities		6,233	6,229
Number of shares in issue at balance sheet date (millions)		568.1	565.2

Condensed group statement of cash flows

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Profit for the period	190	123
<i>Adjustment for:</i>		
Depreciation, fellings and amortisation	80	95
Taxation	41	19
Net finance costs	–	27
Defined post-employment benefits paid	(5)	(5)
Plantation fair value adjustments	(24)	(5)
(Profit) Loss on disposal of held-for-sale assets	1	–
Net restructuring provisions	–	1
Other non-cash items	11	(19)
Cash generated from operations	294	236
Movement in working capital	(174)	(134)
Finance costs paid	(39)	(28)
Finance income received	7	1
Taxation (paid) refund	(3)	(4)
Cash generated from operating activities	85	71
Cash utilised in investing activities	(62)	(82)
Capital expenditure	(58)	(72)
Proceeds on held-for-sale assets	10	–
Other non-current asset movements	(14)	(10)
Net cash generated (utilised)	23	(11)
Cash effects of financing activities	(243)	(5)
Proceeds from interest-bearing borrowings	–	48
Repayment of interest-bearing borrowings	(238)	(47)
Lease repayments	(5)	(6)
Net movement in cash and cash equivalents	(220)	(16)
Cash and cash equivalents at beginning of period	780	366
Translation effects	33	(16)
Cash and cash equivalents at end of period	593	334

Condensed group statement of changes in equity

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Balance – beginning of period	2,358	1,970
Profit (Loss) for the period	190	123
Other comprehensive income for the period	70	(111)
Issue of shares	3	–
Dividend – 15 US cents	(85)	–
Share-based payment reserve	2	2
Balance – end of period	2,538	1,984
Comprising		
Ordinary share capital and premium	780	820
Non-distributable reserves	115	115
Foreign currency translation reserves	(191)	(200)
Hedging reserves	(51)	(50)
Retained earnings	1,885	1,299
Total equity	2,538	1,984

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter ended December 2022 are prepared in accordance with the International Financial Reporting Standards, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards as issued by the IASB and are consistent with those applied in the previous annual financial statements.

The preparation of these condensed consolidated financial statements was supervised by the Chief Financial Officer, GT Pearce, CA(SA) and were authorised for issue on 08 February 2023.

The results are unaudited.

2. Segment information

Metric tons (000's)	Quarter ended	
	Dec 2022	Dec 2021
Sales volume		
North America	378	453
Europe	568	837
South Africa – Pulp and paper	381	406
Forestry	341	331
Total	1,668	2,027
Which consists of:		
Pulp	357	388
Packaging and speciality papers	332	386
Graphic papers	638	922
Forestry	341	331

Notes to the condensed group results continued

2. Segment information continued

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Sales		
North America	526	512
Europe	800	847
South Africa – Pulp and paper	355	355
Forestry	20	19
Delivery costs revenue adjustment ⁽¹⁾	(41)	(36)
Total	1,660	1,697
Which consists of:		
Pulp	343	342
Packaging and speciality papers	479	465
Graphic papers	859	907
Forestry	20	19
Delivery costs revenue adjustment ⁽¹⁾	(41)	(36)
Operating profit (loss) excluding special items		
North America	91	63
Europe	75	12
South Africa	63	85
Unallocated and eliminations ⁽²⁾	(4)	1
Total	225	161
Which consists of:		
Pulp	58	83
Packaging and speciality papers	64	45
Graphic papers	106	32
Unallocated and eliminations ⁽²⁾	(3)	1
Special items – (gains) losses		
North America	1	(29)
Europe	1	2
South Africa	(5)	15
Unallocated and eliminations ⁽²⁾	(3)	4
Total	(6)	(8)

⁽¹⁾ Relates to delivery costs netted off against revenue.

⁽²⁾ Includes the group's treasury operations and insurance captive.

2. Segment information continued

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Operating profit (loss) by segment		
North America	90	92
Europe	74	10
South Africa	68	70
Unallocated and eliminations ⁽²⁾	(1)	(3)
Total	231	169
EBITDA excluding special items		
North America	114	89
Europe	93	46
South Africa	86	104
Unallocated and eliminations ⁽²⁾	(3)	1
Total	290	240
Which consists of:		
Pulp	76	101
Packaging and speciality papers	88	71
Graphic papers	129	67
Unallocated and eliminations ⁽²⁾	(3)	1

⁽²⁾ Includes the group's treasury operations and insurance captive.

Notes to the condensed group results continued

2. Segment information continued

Reconciliation of EBITDA excluding special items to profit for the period and operating profit excluding special items to operating profit

Special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure.

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
EBITDA excluding special items	290	240
Depreciation and amortisation	(65)	(79)
Operating profit excluding special items	225	161
Special items – gains (losses)	6	8
Plantation price fair value adjustment	6	(15)
Net restructuring provisions	–	(1)
Profit (Loss) on disposal of held-for-sale assets	(1)	–
Insurance recoveries	3	–
Fire, flood, storm and other events	(2)	24
Operating profit	231	169
Net finance costs	–	(27)
Profit before taxation	231	142
Taxation	(41)	(19)
Profit for the period	190	123
Net operating assets		
North America	1,333	1,314
Europe	1,321	1,497
South Africa	1,793	1,750
Unallocated and eliminations ⁽²⁾	(69)	9
Total	4,378	4,570
Reconciliation of net operating assets to total assets		
Segment assets	4,378	4,570
Deferred tax assets	51	57
Cash and cash equivalents	593	334
Trade and other payables	796	1,050
Provisions	2	8
Derivative financial instruments	7	9
Taxation payable	55	10
Liabilities associated with assets held for sale	262	–
Total assets	6,233	6,038

⁽²⁾ Includes the group's treasury operations and insurance captive.

3. Operating profit (loss)

US\$ million	Quarter ended	
	Dec 2022	Dec 2021
Included in operating profit are the following items:		
Depreciation and amortisation	65	79
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	15	16
Growth	(18)	(20)
	(3)	(4)
Plantation price fair value adjustment	(6)	15
	(9)	11
Net restructuring provisions	–	1
(Profit) Loss on disposal of held-for-sale assets	1	–
Insurance recoveries	(3)	–
4. Earnings per share		
Basic earnings per share (US cents)	34	22
Headline earnings per share (US cents)	34	22
EPS excluding special items (US cents)	30	20
Weighted average number of shares in issue (millions)	566.2	561.6
Diluted earnings per share (US cents)	32	20
Diluted headline earnings per share (US cents)	32	20
Weighted average number of shares on fully diluted basis (millions)	602.7	601.8
Calculation of headline earnings		
Profit (Loss) for the period	190	123
(Profit) Loss on disposal of held-for-sale assets	1	–
Tax effect of above items	(1)	–
Headline earnings	190	123
Calculation of earnings excluding special items		
Profit (Loss) for the period	190	123
Special items after tax	(6)	(12)
Special items	(6)	(8)
Tax effect	–	(4)
Finance costs	(15)	–
Earnings excluding special items	169	111

5. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and investments funds. These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

US\$ million	Classification	Fair value hierarchy	Fair value ⁽¹⁾	
			Dec 2022	Reviewed Sept 2022
Investment funds ⁽²⁾	FV through OCI	Level 1	4	6
Derivative financial assets	FV through PL	Level 2	10	9
Derivative financial liabilities	FV through PL	Level 2	7	21

⁽¹⁾ The fair value of the financial instruments are equal to their carrying value.

⁽²⁾ Included in other non-current assets.

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the following inputs, the movement of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

The carrying amounts of other financial instruments which include cash and cash equivalents, trade and other receivables, certain investments, trade and other payables and current interest-bearing borrowings approximate their fair values.

6. Capital commitments

US\$ million	Dec 2022	Reviewed Sept 2022
Contracted	233	108
Approved but not contracted	393	255
	626	363

7. Interest-bearing borrowings, lease liabilities and cash and cash equivalents

US\$ million	Dec 2022	Reviewed Sept 2022
Non-current and current interest-bearing borrowings	1,749	1,859
Non-current and current lease liabilities	85	84
Less: Cash and cash equivalents	(593)	(780)
Net debt	1,241	1,163
As at December 2022 the Group was in compliance with its debt covenants:		
Covenant leverage ratio	0.9	0.9
Interest cover	17.6	15.6

8. Material balance sheet movements

Since the 2022 financial year-end, both the Euro and the ZAR have strengthened by approximately 9.2% and 6.3% respectively against the US Dollar, the group's presentation currency. This has resulted in an increase of the group's European and South African assets and liabilities, which are held in the aforementioned functional currency, on translation to the presentation currency at period end.

Ordinary shareholders' interest

The group issued 1.6 million ordinary shares in December 2022 amounting to US\$3 million to settle just over 2.9% of its subsidiary's convertible bond initial offering of ZAR1.8 billion.

Cash and interest-bearing borrowings

In October 2022, the group offered to purchase for cash a portion of its outstanding 3.125% Senior Notes due in 2026. The result of this tender offer was a repurchase of US\$206 million (€210 million) of nominal Senior Notes in the tender offer at a purchase price of 92.41%, yielding a gain of US\$15 million (€15 million) net of the accelerated amortisation of upfront costs.

9. Held-for-sale assets and liabilities

In the prior year on 29 September 2022, Sappi signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills, being Kirkniemi, Stockstadt and Maastricht, to Aurelius Investment Lux One S.à.r.l for a consideration of €272 million consisting of:

	EURO
Cash	41
Retained receivables	170
Assumed liabilities	61
	272

In terms of the agreement which is structured in the form of a share deal, the purchaser will acquire the specific legal entities which own and control the assets and liabilities of the individual mills. The disposal group of assets were written down in fiscal 2022 by US\$183 million (€169 million) to fair value less costs to sell. The transaction is expected to close once all conditions precedent have been fulfilled in the first calendar quarter of 2023. The major classes of assets held for sale or liabilities associated with assets held for sale are as follows:

	US\$
Property, plant and equipment	111
Right-of-use assets	10
Other non-current assets	1
Inventories	132
Trade and other receivables	53
Assets held for sale	307
Other non-current liabilities	40
Other current liabilities	222
Liabilities associated with assets held for sale	262
Net assets classified as held for sale	45

10. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2022 financial year-end.

11. Events after balance sheet date

There have been no reportable events that occurred between the balance sheet date and the date of authorisation for issue of these financial statements.

12. Accounting standards, interpretations and amendments to existing standards that are not yet effective

There has been no significant change to management's estimates in respect of new accounting standards, amendments and interpretations to existing standards that have been published which are not yet effective and which have not yet been adopted by the group.

Supplemental information

(this information has not been audited or reviewed)

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Capital employed – shareholders' equity plus net debt

Covenant leverage ratio – net debt divided by last 12 months EBITDA excluding special items as defined by our bank covenants

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items – earnings per share excluding special items and certain once-off finance and tax items

Fellings – the amount charged against the income statement representing the standing value of the plantations harvested

Headline earnings – as defined in circular 1/2021, issued by the South African Institute of Chartered Accountants in March 2021, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings

It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

Interest cover – last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

Net assets – total assets less total liabilities

Net asset value per share – net assets divided by the number of shares in issue at balance sheet date

Net debt – current and non-current interest-bearing borrowings and lease liabilities, bank overdrafts less cash and cash equivalents

Net debt to EBITDA excluding special items – net debt divided by the last 12 months EBITDA excluding special items

Net operating assets – total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings, lease liabilities and overdraft)

Operating profit – a profit from business operations before deduction of net finance costs and taxes

Supplemental information continued

(this information has not been audited or reviewed)

Non-GAAP measures – The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies
- it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

ROCE – annualised return on average capital employed. Operating profit excluding special items divided by average capital employed

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

Special items – special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and settlement gains or losses on defined benefit obligations

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry

Summary Rand convenience translation

	Quarter ended	
	Dec 2022	Dec 2021
Key figures: (ZAR million)		
Sales	29,226	26,159
Operating profit excluding special items ⁽¹⁾	3,961	2,482
Special items – (gains) losses ⁽¹⁾	(106)	(123)
EBITDA excluding special items ⁽¹⁾	5,106	3,700
Profit for the period	3,345	1,896
Basic earnings per share (SA cents)	591	338
Net debt ⁽¹⁾	21,112	30,671
Key ratios: (%)		
Operating profit excluding special items to sales	13.6	9.5
Operating profit excluding special items to capital employed (ROCE) ⁽¹⁾	24.7	16.4
EBITDA excluding special items to sales	17.5	14.1

⁽¹⁾ Refer to supplemental information for the definition of the term.

The above financial results have been translated into Rand from US Dollar as follows:

- assets and liabilities at rates of exchange ruling at period end; and
- income, expenditure and cash flow items at average exchange rates.

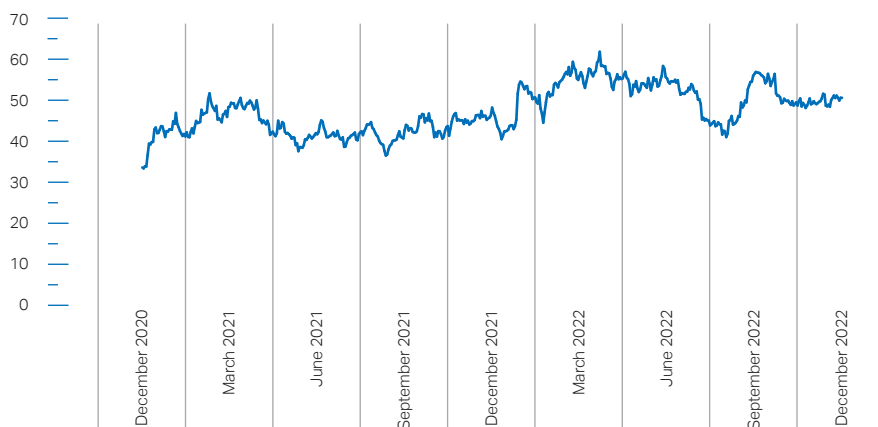
Supplemental information continued

(this information has not been audited or reviewed)

Exchange rates

	Dec 2022	Sept 2022	Jun 2022	Mar 2022	Dec 2021
Exchange rates:					
Period end rate: US\$1 = ZAR	17,0119	18,1537	16,4033	14,6650	15,9996
Average rate for the quarter: US\$1 = ZAR	17,6063	17,0501	15,6115	15,2130	15,4148
Average rate for the year to date: US\$1 = ZAR	17,6063	15,7829	15,4097	15,3186	15,4148
Period end rate: €1 = US\$	1,0704	0,9801	1,0429	1,1055	1,1370
Average rate for the quarter: €1 = US\$	1,0220	1,0066	1,0638	1,1214	1,1447
Average rate for the year to date: €1 = US\$	1,0220	1,0853	1,1108	1,1335	1,1447

Sappi share price – December 2020 to December 2022



Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States

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