Sappi Group
(Sappi Limited)
SECOND QUARTER: FISCAL YEAR 2021
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
28 MARCH 2021

06 MAY 2021

This report is being furnished to The Bank of New York Mellon as trustee for the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; and the Senior Secured Notes of Sappi Papier Holding GmbH due 2023 issued pursuant to the indentures dated as of March 31, 2016; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

On 31 August 2016, Sappi has released all existing security previously granted to secure certain indebtedness, including these 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 cyclicality, 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 2020 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.

Second quarter results

for the period ended March 2021

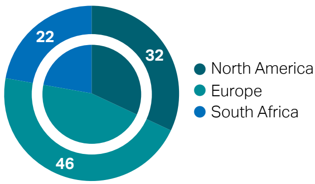
Second quarter results

> "Sappi is a leading global provider of powerful everyday materials made from woodfibre-based renewable resources. Together with our partners, we are quickly moving toward a more circular economy."

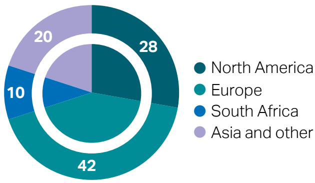
Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and specialities papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production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

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

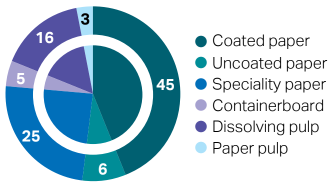
Sales by source* (%)



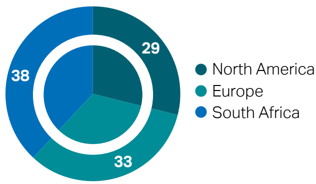
Sales by destination* (%)



Sales by product* (%)



Net operating assets (%)**



* *For the period ended March 2021.*
** *As at March 2021.*

Highlights for the quarter

EBITDA excluding special items
US$112 million
(Q2 FY20: US$131 million)

EPS excluding special items
–1 US cent
(Q2 FY20: 4 US cents)

Loss for the period
US$23 million
(Q2 FY20: profit of US$2 million)

Net debt of
US$2,070 million
(Q2 FY20: US$1,879 million)

	Quarter ended			Half-year ended	
	Mar 2021	Mar 2020	Dec 2020	**Mar 2021**	Mar 2020
Key figures: (US$ million)					
Sales	**1,284**	1,308	1,163	**2,447**	2,610
Operating profit (loss) excluding special items(1)	**31**	52	16	**47**	114
Special items – loss (gain)(2)	**12**	29	–	**12**	36
EBITDA excluding special items(1)	**112**	131	98	**210**	270
Profit (Loss) for the period	**(23)**	2	(17)	**(40)**	26
Basic earnings per share (US cents)	**(4)**	–	(3)	**(7)**	5
EPS excluding special items (US cents)(3)	**(1)**	4	(1)	**(2)**	10
Net debt(3)	**2,070**	1,879	2,056	**2,070**	1,879
Key ratios: (%)					
Operating profit (loss) excluding special items to sales	**2.4**	4.0	1.4	**1.9**	4.4
Operating profit (loss) excluding special items to capital employed (ROCE)(3)	**3.2**	5.4	1.7	**2.5**	6.4
EBITDA excluding special items to sales	**8.7**	10.0	8.4	**8.6**	10.3
Net debt to EBITDA excluding special items	**6.5**	3.3	6.1	**6.5**	3.3
Covenant leverage ratio(3), (4)	**6.7**	3.1	6.2	**6.7**	3.1
Interest cover(3), (4)	**3.7**	7.5	4.1	**3.7**	7.5
Net asset value per share (US cents)(3)	**345**	329	327	**345**	329

(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.*
(4) *The current covenant suspension period ends in September 2021.*

Commentary on the quarter

The steady recovery from the ongoing challenges of the Covid-19 pandemic continued during the second quarter. A strong packaging and specialities performance combined with solid results from dissolving pulp (DP) offset the weak demand and margin squeeze in graphic paper. Consequently, group EBITDA excluding special items of US$112 million was a further increase on the US$98 million achieved in the first quarter. The North American and South African regions recorded improvements in profitability. This was in contrast to Europe where extended lockdowns and restrictions on economic activity hindered the performance. Logistics issues across all regions, including congested networks, shipping line schedule disruptions, lack of containers and vessel space constraints negatively impacted sales volumes and delivery costs in a number of product categories.

Our comprehensive Covid-19 action plan is fully entrenched in all of our operations and employee safety remains a top priority. The rate of employee and contractor infections reduced significantly during the quarter across all regions and as a consequence there was minimal impact on mill operations.

A positive highlight for the quarter was the continued rapid recovery of DP markets. The Chinese market price surged by US$340 per ton during the quarter to US$1,066 per ton and peaked in April to the highest level since May 2012. The key factors supporting the positive sentiment in the sector include continued tight DP supply, low VSF inventory levels throughout the textile value chain, improved apparel retail demand in the US and Asia which favourably impacted all textile fibre prices, higher paper pulp prices and a continued weaker US$/Renminbi exchange rate. Due to the lag impact of selling prices incorporated into our major contracts, these higher DP prices will only be realised in future quarters. A relative increase in costs related to the stronger ZAR/US$ exchange rate partially offset the US Dollar selling price gains during the quarter. Included in the DP segment were 57,000 tons of bleached chemi-thermo mechanical pulp (BCTMP) and paper pulp sales volumes.

Sales volumes in the packaging and specialities segment increased by 25% compared to last year due to a further ramp-up of board products in North America and strong containerboard demand in South Africa. While demand for most categories in Europe was positive, some non-essential products were affected by Covid-19-related lockdowns. Profitability in Europe was partially reduced by lower selling prices.

The steady rate of recovery in graphic paper demand over the last two quarters slowed and sales volumes in the segment were 17% lower than the same quarter last year. Market capacity closures enabled Sappi to gain market share but the pressure on input costs, particularly pulp, and rising delivery charges impacted profitability negatively.

Earnings per share excluding special items for the quarter was a loss of 1 US cent, a decrease from the 4 US cents generated in the equivalent quarter last year.

Cash flow and debt

Capital expenditure of US$70 million was comparable to the equivalent quarter of last year. Net cash utilised for the quarter was US$53 million compared to a breakeven in the equivalent quarter last year and was primarily due to an increase in working capital from improving operations. Net debt increased by only US$14 million from December 2020 to US$2,070 million, benefiting from a stronger US Dollar which reduced the Euro denominated debt converted at a lower rate. Liquidity comprised cash on hand of US$350 million and US$660 million available from the undrawn committed revolving credit facilities (RCF) in South Africa and Europe.

Favourable market conditions provided the group with the opportunity to refinance the €350 million 2023 bonds during the quarter at par. Strong investor demand provided the opportunity to upsize the replacement 2028 bond to €400 million at a coupon 3.625%, with the additional proceeds used to repay the partly drawn RCF in Europe.

The net finance costs of US$46 million included a further non-cash fair value adjustment of US$16 million arising from the revaluation of the conversion rights for the Sappi Southern Africa R1.8 billion convertible bonds issued in the first quarter. The requirement for revaluations is applicable to the period between the bond placement and shareholder approval for the issue of new shares, which was obtained at the AGM in February, and therefore no further revaluation adjustments will be required. Also included in the finance costs was US$3 million relating to the refinancing of the 2023 bonds.

The covenant suspension period ends in September 2021 and financial covenants have to be measured again from December 2021. The following leverage covenants (net debt:EBITDA) have been agreed with our banking group as we exit the covenant suspension period: December 2021: 5.50; March 2022: 5.25; June 2022: 4.75; September and December 2022: 4.50 and March 2023: 4.25. The interest coverage covenant will be reinstated at its previous level of 2.50 times.

Operating review for the quarter

Europe

EUR million	Mar 2021	Dec 2020	Sept 2020	Jun 2020	Mar 2020
		Quarter ended			
Sales – tons	**669**	658	570	540	793
Sales	**483**	482	422	420	606
Operating profit (loss) excluding special items	**(8)**	–	(19)	(32)	25
Operating profit (loss) excluding special items to sales (%)	***(1.7)***	–	*(4.5)*	*(7.6)*	*4.1*
EBITDA excluding special items	**23**	29	13	(1)	54
EBITDA excluding special items to sales (%)	***4.8***	*6.0*	*3.1*	*(0.2)*	*8.9*
RONOA pa (%)	***(2.5)***	–	*(5.8)*	*(9.5)*	*7.2*

Recovery in Europe slowed during the quarter due to renewed Covid-19 lockdowns. Sales volumes were 2% up on the prior quarter but 16% down relative to last year. The region was forced to take commercial downtime in the graphic paper segment of 115,000 tons, which was slightly below the 125,000 tons in the prior quarter. Demand from export markets improved but ongoing logistics issues, which were further exacerbated by the Suez Canal blockage in March, continue to severely limit our ability to serve these markets. Paper selling prices were also under pressure due to historically low paper pulp prices.

Demand for coated woodfree and coated mechanical papers remained weak with our sales volumes declining 18% and 20% respectively compared to last year. Price increases were announced across all European domestic and export graphic paper grades to counter rising input costs, particularly pulp.

Performance in the packaging and specialities segment was mixed. Paperboard demand was strong but some products in non-essential categories were negatively affected by Covid-19.

Increased costs relative to the prior quarter were primarily due to rising purchased pulp prices.

North America

US$ million	Mar 2021	Dec 2020	Sept 2020	Jun 2020	Mar 2020
		Quarter ended			
Sales – tons	**426**	421	416	307	416
Sales	**408**	384	361	267	387
Operating profit (loss) excluding special items	**11**	(2)	–	(32)	4
Operating profit (loss) excluding special items to sales (%)	***2.7***	*(0.5)*	–	*(12.0)*	*1.0*
EBITDA excluding special items	**35**	27	30	(7)	31
EBITDA excluding special items to sales (%)	***8.6***	*7.0*	*8.3*	*(2.6)*	*8.0*
RONOA pa (%)	***3.3***	*(0.6)*	–	*(9.5)*	*1.2*

Strong sales volumes in the packaging and specialities segment and improved DP selling prices enabled the region to build on its performance in the first quarter to achieve an EBITDA of US$35 million, which was an improvement on both the prior quarter and the equivalent quarter last year.

The recovery from the impact of Covid-19 in the graphics segment continued and sales volumes were 85% of last year. The market decline is estimated to be 25% but we benefited from industry capacity closures and gained substantial market share. No commercial downtime was required due to the transition towards packaging products at Somerset Mill.

The packaging and specialities segment volumes grew 56% year-on-year and 18% compared to the prior quarter. The ramp-up of paperboard grades at Somerset and strong demand in label paper facilitated the growth.

Higher selling prices for DP and BCTMP significantly improved profitability of the DP segment. Sales volumes in the quarter were negatively impacted by global logistical challenges.

Fixed costs were flat year-on-year, but variable costs were negatively impacted by an increase in delivery costs due to logistics issues as well as higher purchased pulp prices.

South Africa

ZAR million	Mar 2021	Dec 2020	Sept 2020	Jun 2020	Mar 2020
		Quarter ended			
Sales – tons	**744**	604	707	515	683
Sales	**4,743**	3,489	4,202	3,650	4,223
Operating profit excluding special items	**438**	267	306	266	321
Operating profit excluding special items to sales (%)	***9.2***	*7.7*	*7.3*	*7.3*	*7.6*
EBITDA excluding special items	**707**	550	644	562	626
EBITDA excluding special items to sales (%)	***14.9***	*15.8*	*15.3*	*15.4*	*14.8*
RONOA pa (%)	***6.6***	*4.1*	*4.8*	*4.2*	*5.2*

The South African business delivered an improved performance with a 13% year-on-year increase in EBITDA. Higher sales volumes in packaging and improved DP selling prices were the main positive factors. The stronger ZAR/US$ exchange rate partially offset the benefit from the US$ price increases in the DP segment.

DP sales volumes were 37% higher than the prior quarter due in part to the spill-over of shipments, which were delayed due to logistics issues. Sales volumes in the second quarter were constrained by those same logistical challenges and DP production curtailment of 23,000 tons at Ngodwana Mill due to the oxygen supply issues.

Packaging sales volumes increased by 28% year-on-year driven by a strong demand in the agriculture sector for fruit exports. Covid-19 had a negative impact on sales for the other paper categories.

Fixed and variable costs were 4% and 2% higher respectively than a year ago due to rising raw material costs and wage increases. Logistics issues, specifically shipping line schedule disruptions and vessel space constraints necessitated the use of alternate carriers at higher freight rates to secure deliveries.

Outlook

DP market indicators remain positive and demand from our customers currently exceeds our capacity. As at 30 April 2021, the Chinese DP market price was US$1,100 per ton. However, pricing for VSF and other textile fibres has reduced in recent weeks. Much of the benefit from the material recovery of DP prices in the second quarter will be realised in subsequent quarters due to the lag in contractual pricing. A prolonged stronger ZAR/US$ exchange rate will temper some of the pricing benefits for the South African DP segment.

The underlying demand in the packaging and specialities segment in North America and South Africa remains robust and our focus is shifting to improving margins through machine efficiencies, mix optimisation and price realisation. However, as long as there is uncertainty in Europe regarding the continuing lockdowns due to Covid-19, the sluggish economic activity in this region is expected to impact demand for non-essential consumer products.

Graphic paper markets remain challenging and demand is still well below the long term pre-Covid-19 trend levels. The persistent weak demand in Europe is likely to keep the market in oversupply and diminish pricing power. The lag in sales price increase realisation in combination with rising raw material and logistics costs could exacerbate the margin squeeze even further in that region.

Ongoing worldwide logistical challenges of container shortages, port congestion and availability of vessel capacity pose a risk to export volumes from all regions in the third quarter.

Capital expenditure in FY2021 is estimated to be US$400 million and the Saiccor Mill expansion project is expected to commence production in the fourth quarter. Liquidity headroom within the group is good. The successful reinstatement of our leverage covenants as described earlier provides a comfortable level of headroom when covenant measurement commences again from December 2021.

Given the favourable market conditions for DP and packaging and specialities, offset partially by the weak graphic paper demand and global logistical challenges, we expect the third quarter EBITDA to improve relative to the second quarter. However, earnings in the European business will be lower due to rising pulp costs.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

6 May 2021

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 cyclicality, 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 Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Sales		**1,284**	1,308	**2,447**	2,610
Cost of sales		**1,163**	1,160	**2,224**	2,305
Gross profit		**121**	148	**223**	305
Selling, general and administrative expenses		**95**	96	**180**	188
Other operating expenses		**7**	27	**8**	39
Share of profit (loss) from equity accounted investees		**–**	2	**–**	–
Operating profit (loss)	3	**19**	23	**35**	78
Net finance costs		**46**	23	**80**	43
Finance costs		**32**	24	**56**	46
Finance income		**(2)**	(1)	**(5)**	(3)
Net fair value loss on financial instruments	8	**16**	–	**29**	–
Profit (Loss) before taxation		**(27)**	–	**(45)**	35
Taxation		**(4)**	(2)	**(5)**	9
Profit (Loss) for the period		**(23)**	2	**(40)**	26
Basic earnings per share (US cents)	4	**(4)**	–	**(7)**	5
Weighted average number of shares in issue (millions)		**547.4**	546.1	**546.9**	544.8
Diluted earnings per share (US cents)	4	**(4)**	–	**(7)**	5
Weighted average number of shares on fully diluted basis (millions)		**603.9**	547.3	**602.7**	546.1

Condensed group statement of other comprehensive income

US$ million	Note	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Profit (Loss) for the period		**(23)**	2	**(40)**	26
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to profit or loss		**96**	32	**96**	32
Actuarial gains on post-employment benefit funds	8	**100**	35	**100**	35
Tax effect on above item		**(4)**	(3)	**(4)**	(3)
Items that may be reclassified subsequently to profit or loss		**(7)**	(280)	**159**	(183)
Exchange differences on translation of foreign operations	8	**(9)**	(270)	**161**	(178)
Movements in hedging reserves		**6**	(15)	**–**	(8)
Movement in available for sale financial assets		**(1)**	–	**(1)**	–
Tax effect on above items		**(3)**	5	**(1)**	3
Total comprehensive income for the period		**66**	(246)	**215**	(125)

Condensed group balance sheet

US$ million	Note	Reviewed Mar 2021	Sept 2020
ASSETS			
Non-current assets		**4,221**	3,891
Property, plant and equipment		**3,261**	3,103
Right-of-use assets		**118**	101
Plantations	5	**486**	419
Deferred tax assets		**61**	59
Goodwill and intangible assets		**119**	113
Equity accounted investees		**11**	11
Other non-current assets		**165**	85
Current assets		**1,800**	1,564
Inventories		**762**	673
Trade and other receivables		**671**	584
Derivative financial assets		**3**	3
Taxation receivable		**8**	19
Cash and cash equivalents	8	**350**	279
Assets held for sale		**6**	6
Total assets		**6,021**	5,455
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,889**	1,632
Non-current liabilities		**2,935**	2,700
Interest-bearing borrowings	8	**2,049**	1,861
Lease liabilities		**103**	81
Deferred tax liabilities		**351**	304
Defined benefit and other liabilities		**425**	445
Derivative financial liabilities		**7**	9
Current liabilities		**1,197**	1,123
Interest-bearing borrowings		**247**	270
Lease liabilities		**21**	24
Trade and other payables		**899**	797
Provisions		**10**	19
Derivative financial liabilities	8	**6**	2
Taxation payable		**14**	11
Total equity and liabilities		**6,021**	5,455
Number of shares in issue at balance sheet date (millions)		**547.4**	546.1

Condensed group statement of cash flows

US$ million	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Profit (Loss) for the period	**(23)**	2	**(40)**	26
Adjustment for:				
Depreciation, fellings and amortisation	**99**	97	**198**	191
Taxation	**(4)**	(2)	**(5)**	9
Net finance costs	**46**	23	**80**	43
Defined post-employment benefits paid	**(7)**	(8)	**(14)**	(16)
Plantation fair value adjustments	**(18)**	(22)	**(41)**	(47)
Asset impairments	**7**	11	**7**	11
Equity accounted investees impairments	**1**	–	**1**	–
Net restructuring provisions	**–**	12	**–**	13
(Profit) Loss on disposal and written off assets	**(2)**	–	**(2)**	–
Other non-cash items[1]	**8**	3	**21**	22
Cash generated from operations	**107**	116	**205**	252
Movement in working capital	**(72)**	(14)	**(61)**	(90)
Finance costs paid	**(21)**	(18)	**(55)**	(53)
Finance income received	**2**	1	**5**	3
Taxation (paid) refund	**(3)**	(11)	**8**	(43)
Cash generated from operating activities	**13**	74	**102**	69
Cash utilised in investing activities	**(66)**	(74)	**(155)**	(347)
Capital expenditure	**(70)**	(70)	**(152)**	(182)
Proceeds on disposal of assets	**3**	–	**3**	–
Acquisition of subsidiary	**–**	–	**–**	(158)
Other non-current asset movements	**1**	(4)	**(6)**	(7)
Net cash (utilised) generated	**(53)**	–	**(53)**	(278)
Cash effects of financing activities	**5**	4	**109**	151
Proceeds from interest-bearing borrowings	**931**	23	**1,303**	204
Repayment of interest-bearing borrowings	**(919)**	(14)	**(1,180)**	(43)
Lease repayments	**(7)**	(5)	**(14)**	(10)
Net movement in cash and cash equivalents	**(48)**	4	**56**	(127)
Cash and cash equivalents at beginning of period	**410**	270	**279**	393
Translation effects	**(12)**	(6)	**15**	2
Cash and cash equivalents at end of period	**350**	268	**350**	268

[1] *Other non-cash items for the half-year ended March 2021 primarily relate to non-cash movements in the defined benefit liabilities and plan assets of US$17 million (2020: US$17 million).*

Condensed group statement of changes in equity

	Reviewed Half-year ended	
US$ million	Mar 2021	Mar 2020
Balance – beginning of period	**1,632**	1,948
Profit (Loss) for the period	**(40)**	26
Other comprehensive income for the period	**255**	(151)
Convertible bond – equity portion	**37**	–
Transfers of vested share options	**–**	(1)
Share-based payment reserve	**5**	5
Balance – end of period	**1,889**	1,827
Comprising		
Ordinary share capital and premium	**851**	689
Non-distributable reserves	**119**	93
Foreign currency translation reserves	**(199)**	(238)
Hedging reserves	**(44)**	(46)
Retained earnings	**1,162**	1,329
Total equity	**1,889**	1,827

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and half-year ended March 2021 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, G T Pearce, CA(SA) and were authorised for issue on 6 May 2021.

The condensed consolidated financial statements for the half-year ended March 2021 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report, together with the accompanying financial information, from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

Going concern

The group incurred a loss of US$40 million for the half-year ended March 2021 (2020: Profit of US$26 million) which includes a fair value loss of US$29 million relating to the financial instruments (refer note 8). The group's performance for the half year was adversely impacted by the continued Covid-19 pandemic and the economic after-effect. The group has agreed a covenant suspension period for the measurement of the financial covenants applicable to its debt facilities until September 2021 with the first measurement due at the end of December 2021. Revised leverage covenants (net debt: EBITDA) have also been agreed with the group's banking group when the covenant suspension period is exited. The impact of Covid-19 on its results and future covenant compliance are continuously assessed and monitored by the group.

As a result, the group continues to focus on the preservation of liquidity and cash flow, and implement various cost saving measures across all operations, curtail excess production and where possible defer non-essential capital expenditure and apply measures to optimise working capital. The directors have reviewed the group's financial position, existing borrowing facilities and cash on hand, and are satisfied that the group will continue as a going concern for the foreseeable future.

2. Segment information

Metric tons (000's)	Quarter ended Mar 2021	Quarter ended Mar 2020	Half-year ended Mar 2021	Half-year ended Mar 2020
Sales volume				
North America	**426**	416	**847**	793
Europe	**669**	793	**1,327**	1,588
South Africa – Pulp and paper	**414**	389	**710**	727
Forestry	**330**	294	**638**	625
Total	**1,839**	1,892	**3,522**	3,733
Which consists of:				
Dissolving pulp	**362**	361	**660**	685
Packaging and specialities	**373**	299	**680**	534
Graphics	**774**	938	**1,544**	1,889
Forestry	**330**	294	**638**	625

US$ million	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Sales				
North America	**408**	387	**792**	757
Europe	**583**	669	**1,157**	1,354
South Africa – Pulp and paper	**296**	261	**501**	502
Forestry	**19**	16	**36**	36
Delivery costs revenue adjustment[2]	**(22)**	(25)	**(39)**	(39)
Total	**1,284**	1,308	**2,447**	2,610
Which consists of:				
Dissolving pulp	**248**	222	**441**	440
Packaging and specialities	**390**	321	**717**	589
Graphics	**649**	774	**1,292**	1,584
Forestry	**19**	16	**36**	36
Delivery costs revenue adjustment[2]	**(22)**	(25)	**(39)**	(39)

[2] *Relates to delivery costs netted off against revenue.*

2. Segment information continued

US$ million	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Operating profit (loss) excluding special items				
North America	**11**	4	**9**	5
Europe	**(9)**	27	**(9)**	64
South Africa	**29**	21	**46**	43
Unallocated and eliminations[1]	**–**	–	**1**	2
Total	**31**	52	**47**	114
Which consists of:				
Dissolving pulp	**16**	–	**31**	9
Packaging and specialities	**27**	27	**35**	43
Graphics	**(12)**	25	**(20)**	60
Unallocated and eliminations[1]	**–**	–	**1**	2
Special items – (gains) losses				
North America	**1**	1	**1**	6
Europe	**(3)**	27	**(2)**	29
South Africa	**10**	(3)	**9**	(3)
Unallocated and eliminations[1]	**4**	4	**4**	4
Total	**12**	29	**12**	36
Operating profit (loss) by segment				
North America	**10**	3	**8**	(1)
Europe	**(6)**	–	**(7)**	35
South Africa	**19**	24	**37**	46
Unallocated and eliminations[1]	**(4)**	(4)	**(3)**	(2)
Total	**19**	23	**35**	78

[1] *Includes the group's treasury operations and insurance captive.*

2. Segment information continued

US$ million	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
EBITDA excluding special items				
North America	**35**	31	**62**	56
Europe	**28**	60	**63**	129
South Africa	**47**	41	**82**	83
Unallocated and eliminations[1]	**2**	(1)	**3**	2
Total	**112**	131	**210**	270
Which consists of:				
Dissolving pulp	**33**	16	**64**	41
Packaging and specialities	**53**	50	**88**	86
Graphics	**24**	66	**55**	141
Unallocated and eliminations[1]	**2**	(1)	**3**	2

[1] *Includes the group's treasury operations and insurance captive.*

2. Segment information continued

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

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

	Quarter ended		Reviewed Half-year ended	
US$ million	Mar 2021	Mar 2020	Mar 2021	Mar 2020
EBITDA excluding special items	**112**	131	**210**	270
Depreciation and amortisation	**(81)**	(79)	**(163)**	(156)
Operating profit excluding special items	**31**	52	**47**	114
Special items – gains (losses)	**(12)**	(29)	**(12)**	(36)
Plantation price fair value adjustment	**(1)**	3	**3**	9
Acquisition costs	**–**	–	**–**	(5)
Net restructuring provisions	**–**	(12)	**–**	(13)
Profit (Loss) on disposal and written off assets	**2**	–	**2**	–
PPE impairments	**(7)**	(11)	**(7)**	(11)
Equity accounted investees impairments	**(1)**	–	**(1)**	–
Fire, flood, storm and other events	**(5)**	(9)	**(9)**	(16)
Operating profit	**19**	23	**35**	78
Net finance costs	**(46)**	(23)	**(80)**	(43)
Profit (Loss) before taxation	**(27)**	–	**(45)**	35
Taxation	**4**	2	**5**	(9)
Profit (Loss) for the period	**(23)**	2	**(40)**	26

2. Segment information continued

US$ million	Reviewed Mar 2021	Sept 2020
Net operating assets		
North America	**1,376**	1,284
Europe	**1,521**	1,494
South Africa	**1,782**	1,500
Unallocated and eliminations[1]	**2**	10
Total	**4,681**	4,288
Reconciliation of net operating assets to total assets		
Segment assets	**4,681**	4,288
Deferred tax assets	**61**	59
Cash and cash equivalents	**350**	279
Trade and other payables	**899**	797
Provisions	**10**	19
Derivative financial instruments	**6**	2
Taxation payable	**14**	11
Total assets	**6,021**	5,455

[1] *Includes the group's treasury operations and insurance captive.*

3. Operating profit (loss)

	Quarter ended		Reviewed Half-year ended	
US$ million	**Mar 2021**	**Mar 2020**	**Mar 2021**	**Mar 2020**
Included in operating profit are the following items:				
Depreciation and amortisation	**81**	79	**163**	156
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**18**	18	**35**	35
Growth	**(19)**	(19)	**(38)**	(38)
	(1)	(1)	**(3)**	(3)
Plantation price fair value adjustment	**1**	(3)	**(3)**	(9)
	–	(4)	**(6)**	(12)
Net restructuring provisions	**–**	12	**–**	13
(Profit) Loss on disposal and written off assets	**(2)**	–	**(2)**	–
PPE impairments[1]	**7**	11	**7**	11
Equity accounted investees impairments	**1**	–	**1**	–

[1] *Due to difficult current market conditions, asset impairments of US$7 million were recorded against our Lomati sawmill and the PM2 at Ngodwana within the SSA region.*

4. Earnings per share

US$ million	Quarter ended Mar 2021	Quarter ended Mar 2020	Reviewed Half-year ended Mar 2021	Reviewed Half-year ended Mar 2020
Basic earnings per share (US cents)	**(4)**	–	**(7)**	5
Headline earnings per share (US cents)	**(3)**	2	**(7)**	6
EPS excluding special items (US cents)	**(1)**	4	**(2)**	10
Weighted average number of shares in issue (millions)	**547.4**	546.1	**546.9**	544.8
Diluted earnings per share (US cents)(1)	**(4)**	–	**(7)**	5
Diluted headline earnings per share (US cents)(1)	**(3)**	2	**(7)**	6
Weighted average number of shares on fully diluted basis (millions)	**603.9**	547.3	**602.7**	546.1
Calculation of headline earnings				
Profit (Loss) for the period	**(23)**	2	**(40)**	26
(Profit) Loss on disposal and written off assets	**(2)**	–	**(2)**	–
PPE impairments	**7**	11	**7**	11
Equity accounted investees impairments	**1**	–	**1**	–
Tax effect of above items	**(2)**	(3)	**(2)**	(3)
Headline earnings	**(19)**	10	**(36)**	34
Calculation of earnings excluding special items				
Profit (Loss) for the period	**(23)**	2	**(40)**	26
Special items after tax	**12**	22	**10**	28
Special items	**12**	29	**12**	36
Tax effect	**–**	(7)	**(2)**	(8)
Finance costs	**7**	–	**20**	–
Earnings excluding special items	**(4)**	24	**(10)**	54

(1) *The effects of anti-dilutive potential ordinary shares are ignored in the calculation of diluted earnings per share and diluted headline earnings per share.*

5. Plantations

Plantations are stated at fair value less cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are market prices less cost of delivery, discount rates and volume and growth estimations.

Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices. Mature timber that is to be felled in more than 12 months from the reporting date is valued using a 12 quarter rolling historical average price. Immature timber is valued using a discounted cash flow method taking into account the growth cycle of a plantation.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*.

	Reviewed	
US$ million	**Mar 2021**	**Sept 2020**
Fair value of plantations at beginning of year	**419**	451
Additions	**–**	2
Gains arising from growth	**38**	72
Fire, flood, storm and other events	**(1)**	(11)
In-field inventory	**–**	1
Gain arising from fair value price changes	**3**	20
Harvesting – agriculture produce (fellings)	**(35)**	(63)
Translation difference	**62**	(53)
Fair value of plantations at end of period	**486**	419

6. 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] Reviewed Mar 2021	Sept 2020
Investment funds[2]	FV through OCI	Level 1	**6**	6
Derivative financial assets	FV through PL	Level 2	**3**	3
Derivative financial liabilities	FV through PL	Level 2	**13**	11

[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.

7. Capital commitments

US$ million	Reviewed Mar 2021	Sept 2020
Contracted	**143**	89
Approved but not contracted	**135**	232
	278	321

8. Material balance sheet movements

Since the 2020 financial year-end, the ZAR has strengthened by approximately 15% against the US Dollar, the group's presentation currency. This has resulted in a similar increase of the group's South African assets and liabilities and equity, which are held in the aforementioned functional currency, on translation to the presentation currency at period end.

Cash and non-current interest-bearing borrowings and derivative liabilities

On 25 November 2020, Sappi Southern Africa Limited, a wholly owned subsidiary of Sappi Limited, issued ZAR1.8 billion (US$123 million) senior, unsecured, convertible bonds due in 2025. The bonds were issued at par and carry a fixed term interest rate coupon of 5.25% per annum. The initial conversion price of ZAR33.16 was set at a premium of 32.5% above the reference share price of ZAR25.03. A derivative liability for the conversion option was initially recognised at ZAR321 million (US$22 million) and was subsequently revalued to US$51 million at the date of shareholder approval with US$29 million recognised in profit or loss as finance costs for the six months ended March 2021. Following shareholder approval, the derivative liability met the definition of equity and was reclassified to equity, net of tax and will not be revalued any further. Interest-bearing borrowings increased by ZAR1,479 million (US$101 million), which excludes the derivative liability, following the issuance of the convertible bond.

During the quarter the group raised an aggregate principal amount of €400 million (US$472 million) in new senior unsecured notes due 2028 at a coupon of 3.625% per annum. The proceeds from these notes were used to redeem the full amount of the group's €350 million senior (US$413 million) unsecured notes due 2023 as the group exercised its option to early redeem these notes. In addition to the convertible bond and the new senior unsecured notes, the group utilised and repaid amounts on its available borrowing facilities during the six-month period.

Inventories, trade and other receivables and trade and other payables

The increase in inventories, trade and other receivables and trade and other payables is largely attributable to seasonal working capital movements.

Other non-current assets and liabilities

The group remeasured its post-employment benefit funds as at March 2021 resulting in actuarial gains of US$100 million.

9. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2020 financial year-end.

10. 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.

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

There has been no significant change to managements estimates in respect of new accounting standards, amendments and interpretation 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 1/2019, issued by the South African Institute of Chartered Accountants in December 2019, 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

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 alternative fuel tax credits receivable in cash

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		Half-year ended	
	Mar 2021	**Mar 2020**	**Mar 2021**	**Mar 2020**
Key figures: (Rand million)				
Sales	**19,192**	19,961	**37,510**	39,129
Operating profit excluding special items[1]	**463**	794	**720**	1,709
Special items – (gains) losses[1]	**179**	443	**184**	540
EBITDA excluding special items[1]	**1,674**	1,999	**3,219**	4,048
Profit for the period	**(344)**	31	**(613)**	390
Basic earnings per share (SA cents)	**(63)**	6	**(112)**	72
Net debt[1]	**30,959**	33,127	**30,959**	33,127
Key ratios: (%)				
Operating profit excluding special items to sales	**2.4**	4.0	**1.9**	4.4
Operating profit excluding special items to capital employed (ROCE)[1]	**3.2**	5.2	**2.4**	5.8
EBITDA excluding special items to sales	**8.7**	10.0	**8.6**	10.3

[1] *Refer to supplemental information for the definition of the term.*

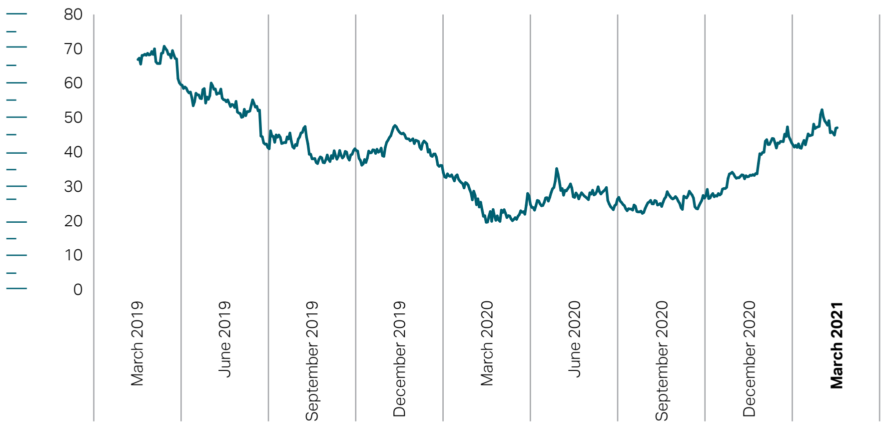
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end; and
– income, expenditure and cash flow items at average exchange rates.

Supplemental information continued
(this information has not been audited or reviewed)

Exchange rates

	Mar 2021	Dec 2020	Sept 2020	Jun 2020	Mar 2020
Exchange rates:					
Period end rate: US$1 = ZAR	**14.9558**	14.5750	17.1311	17.2350	17.6300
Average rate for the quarter: US$1 = ZAR	**14.9469**	15.7164	16.9157	17.9747	15.2605
Average rate for the year to date: US$1 = ZAR	**15.3290**	15.7164	16.2265	15.9835	14.9919
Period end rate: €1 = US$	**1.1798**	1.2206	1.1632	1.1219	1.1142
Average rate for the quarter: €1 = US$	**1.2074**	1.1901	1.1674	1.1005	1.1033
Average rate for the year to date: €1 = US$	**1.1987**	1.1901	1.1195	1.1035	1.1050

Sappi share price – March 2019 to March 2021



sappi

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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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