Sappi Group
(Sappi Limited)
SECOND QUARTER: FISCAL YEAR 2023
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
2 APRIL 2023

10 MAY 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.

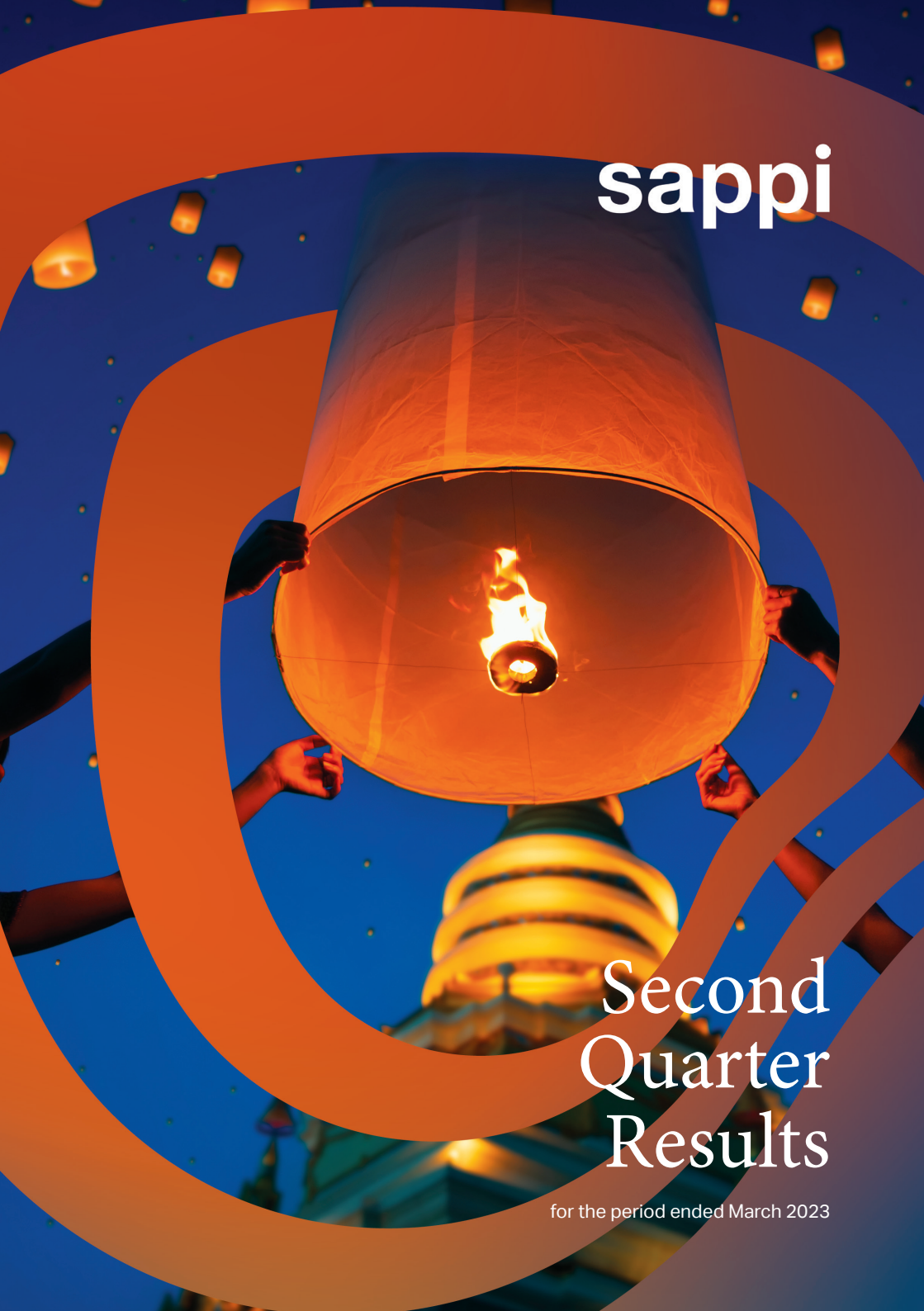
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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 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;
- 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

Second Quarter Results

for the period ended March 2023

"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 papers, 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			Half-year ended	
	Mar 2023	Mar 2022	Dec 2022	**Mar 2023**	Mar 2022
Key figures (US$ million)					
Sales	**1,442**	1,858	1,660	**3,102**	3,555
Operating profit (loss) excluding special items[1]	**101**	259	225	**326**	420
Special items – loss (gain)[2]	**(7)**	29	(6)	**(13)**	21
EBITDA excluding special items[1]	**167**	337	290	**457**	577
Profit (Loss) for the period	**69**	188	190	**259**	311
Basic earnings per share (US cents)	**12**	33	34	**46**	55
EPS excluding special items (US cents)[3]	**11**	35	30	**41**	55
Net debt[3]	**1,225**	1,793	1,241	**1,225**	1,793
Key ratios (%)					
Operating profit (loss) excluding special items to sales	**7.0**	13.9	13.6	**10.5**	11.8
Operating profit (loss) excluding special items to capital employed (ROCE)[3]	**10.7**	25.8	24.7	**17.9**	20.9
EBITDA excluding special items to sales	**11.6**	18.1	17.5	**14.7**	16.2
Net debt to EBITDA excluding special items	**1.0**	2.0	0.9	**1.0**	2.0
Covenant leverage ratio[3]	**0.9**	2.0	0.9	**0.9**	2.0
Interest cover[3]	**13.4**	9.5	17.6	**13.4**	9.5
Net asset value per share (US cents)[3]	**447**	417	447	**447**	417

(1) *Refer to note 2 to the group results for the reconciliation of EBITDA 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

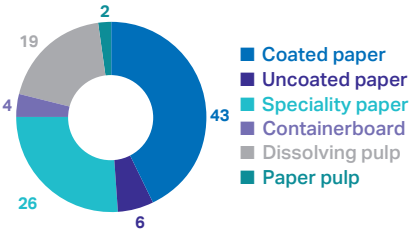
EBITDA excluding special items
US$167 million
(Q2 FY22: US$337 million)

Net debt of
US$1,225 million
(Q2 FY22: US$1,793 million)

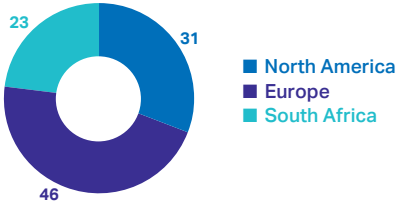
Profit for the period
US$69 million
(Q2 FY22: US$188 million)

EPS excluding special items
11 US cents
(Q2 FY22: 35 US cents)

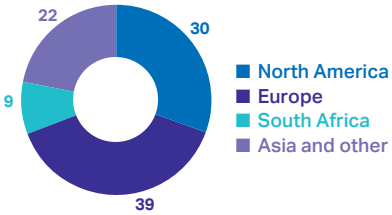
SALES BY PRODUCT* (%)



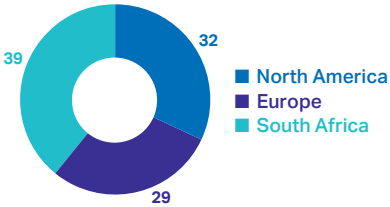
SALES BY SOURCE* (%)



SALES BY DESTINATION* (%)



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



* *For the period ended March 2023.*
** *As at March 2023.*

Commentary on the quarter[1]

Sappi delivered an EBITDA excluding special items of US$167 million against a backdrop of a challenging global economy and significantly weaker paper and pulp markets. Following the record profitability achieved last year, the group faced a severe downstream inventory destocking cycle. This led to production curtailment in both the European and North American regions to match the sluggish market demand and to prevent excess inventory accumulation. Profitability was negatively affected by reduced sales volumes, cost inflation and operational inefficiencies associated with the commercial downtime.

However, paper selling prices remained relatively stable through the quarter and were significantly above the levels in the prior year.

Graphic paper markets were weaker, with demand across all product categories lower due to the ongoing industry-wide destocking cycle and negative consumer sentiment related to a slowing global economy. Additionally, the packaging and speciality business faced significant headwinds from elevated downstream inventories. In South Africa, production difficulties at the Ngodwana Mill following heavy rains and challenges associated with the recent upgrade of the containerboard machine, further impacted supply. As a result of these difficult conditions, sales volumes for graphic papers and packaging and speciality papers were 42% and 29% below the prior year, respectively.

Dissolving pulp (DP) market conditions improved during the quarter. Downstream inventories in the textile value chain dropped from the peaks of last year and clothing retail sales were better than expected. Viscose staple fibre (VSF) operating rates in China improved through the quarter with renewed economic activity following the Lunar New Year celebrations in January 2023 and the opening of the economy following the relaxation of COVID-19 pandemic restrictions. The hardwood DP market price responded positively to the improved sentiment and increased to US$920 per ton from a low of US$883 per ton in January. Sales volumes for the pulp segment were 7% below the prior year primarily due to the reduced demand at the beginning of the quarter and a swing to more paper pulp production at the Cloquet Mill. Lower net selling prices and higher input costs relative to the prior year depressed margins for the segment.

Earnings per share excluding special items for the quarter was 11 US cents, a decrease from the 35 US cents in the prior year. Special items increased earnings by US$7 million due to a positive

[1] *"year-on-year" or "prior/previous year" is a comparison between Q2 FY2023 versus Q2 FY2022; "quarter-on-quarter" or "prior/previous quarter" is a comparison between Q2 FY2023 and Q1 FY2023.*

plantation fair value adjustment of US$12 million offset by insurance-related adjustments in South Africa.

Shareholders are referred to the announcement released on the Stock Exchange News Service on 14 April 2023 wherein it was advised that the date for completion of the suspensive conditions contained in the agreement to sell three European graphic paper mills to Aurelius has lapsed and therefore the transaction will not proceed. Reducing exposure to graphic paper markets remains a strategic imperative and Sappi will explore all options for these assets. Collectively these graphic paper mills contribute positively to EBITDA and in the interim, continue to be held-for-sale.

CASH FLOW AND DEBT

Net cash generated for the quarter of US$38 million was lower than the US$105 million generated during the prior year. This was due to lower profitability and the dividend payment of US$85 million, partially offset by a US$99 million inflow of working capital related to the lower operating activities. Capital expenditure for the quarter of US$83 million was higher than the previous year due to the commencement of the Somerset PM2 conversion and expansion project.

Our long-term net debt target of approximately US$1 billion remains a strategic imperative and we continued to progress towards this goal. Net debt decreased by US$568 million compared to the prior year and ended the quarter at US$1,225 million. A stronger Euro/US Dollar exchange rate resulted in Euro-denominated debt being converted at a higher rate and increased net debt by US$112 million for the six months to March 2023. Net debt/EBITDA improved materially to 1.0 from 2.0 in the prior year. Our liquidity position included US$557 million in cash on hand and US$670 million from committed but unutilised revolving credit facilities (RCF) in South Africa and Europe.



EUROPE

€ million	Quarter ended Mar 2023	Dec 2022	Sept 2022	Jun 2022	Mar 2022
Sales – tons	**438**	568	757	780	801
Sales	**592**	783	982	943	839
Operating profit excluding special items	**–**	73	102	173	98
Operating profit excluding special items to sales (%)	**–**	*9.3*	*10.4*	*18.3*	*11.7*
EBITDA excluding special items	**20**	91	130	200	124
EBITDA excluding special items to sales (%)	***3.4***	*11.6*	*13.2*	*21.2*	*14.8*
RONOA pa (%)	**–**	*23.8*	*30.7*	*49.0*	*29.1*

The European profitability was negatively impacted by weak paper markets. Higher year-on-year average selling prices were insufficient to offset substantially lower sales volumes.

Domestic and export graphic paper markets were under significant pressure with high downstream inventory levels suppressing demand. Similarly, sales volumes in the packaging and speciality papers segment were affected by the destocking cycle with the lower demand reflective of negative consumer sentiment.

Operations were curtailed to match market demand and proactively manage working capital. The extensive downtime resulted in operational inefficiencies and increased variable costs resulting in reduced margins. Fixed costs were 5% below the prior year predominantly due to personnel savings.



North America

Sales offices 6
Production facilities 4

NORTH AMERICA

US$ million	Quarter ended Mar 2023	Dec 2022	Sept 2022	Jun 2022	Mar 2022
Sales – tons	**330**	378	423	437	445
Sales	**458**	526	586	566	536
Operating profit excluding special items	**43**	91	121	97	88
Operating profit excluding special items to sales (%)	***9.4***	*17.3*	*20.6*	*17.1*	*16.4*
EBITDA excluding special items	**66**	114	143	118	114
EBITDA excluding special items to sales (%)	***14.4***	*21.7*	*24.4*	*20.8*	*21.3*
RONOA pa (%)	***12.6***	*27.6*	*37.1*	*29.2*	*26.4*

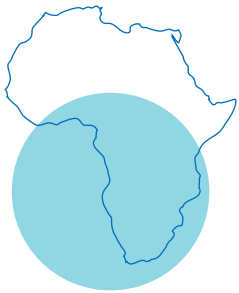
The North American profitability was negatively affected by the global paper destocking cycle. Paper sales volumes contracted sharply, driven by elevated downstream inventories and general concerns about the economy. In response, production curtailment was implemented to match market demand and manage working capital. Year-on-year paper selling price gains were insufficient to offset the significant cost inflation and lost revenue due to reduced sales volumes.

Verve[2] sales volumes were slightly down on the prior year due to a strategic decision to make more paper pulp at Cloquet Mill to optimise profitability.

Margins for the pulp segment were negatively impacted by lower selling prices and higher costs relative to the previous year. Pulp sales volumes included 45,000 tons of high yield bleached chemi-thermomechanical pulp (BCTMP). BCTMP pricing followed global paper pulp trends and came under pressure during the quarter.

Variable costs were 18% higher year-on-year, driven by significant price escalation across all raw material categories, most notably wood. Furthermore, commercial downtime negatively affected operational efficiencies and thereby impacted variable costs per ton. Fixed costs were 7% above the previous year, primarily driven by higher maintenance costs.

[2] *Verve is the brand name for Sappi dissolving pulp.*



South Africa

Sales offices	6
Production facilities	5

SOUTH AFRICA

ZAR million	Quarter ended Mar 2023	Dec 2022	Sept 2022	Jun 2022	Mar 2022
Sales – tons	**765**	722	801	654	812
Sales	**6,604**	6,602	6,326	4,202	6,229
Operating profit excluding special items	**959**	1,109	1,511	214	911
Operating profit excluding special items to sales (%)	***14.5***	*16.8*	*23.9*	*5.1*	*14.6*
EBITDA excluding special items	**1,332**	1,514	1,881	556	1,231
EBITDA excluding special items to sales (%)	***20.2***	*22.9*	*29.7*	*13.2*	*19.8*
RONOA pa (%)	***12.7***	*15.0*	*21.4*	*3.0*	*12.9*

Profitability of the South African business improved marginally year-on-year despite significant cost inflation and slightly reduced sales volumes. The improvement was driven by higher paper net selling prices and a significant Rand/US Dollar exchange rate benefit on the Rand selling price for Verve[2].

Demand for Verve[2] improved steadily during the quarter as VSF operating rates increased following the Chinese Lunar New Year. Although the average US Dollar selling prices reduced year-on-year, the significantly weaker Rand/US Dollar exchange rate boosted Rand selling prices, resulting in improved margins for the segment. A bonded warehouse was established in China and the first shipment was made in March. Approximately 17% of the Ngodwana Mill quarterly pulp sales volumes were shipped via Maputo port, which remains a strategic logistics risk mitigation for shipments from South Africa.

Operational challenges associated with the upgrade of the Ngodwana Mill containerboard line and severe rainfall events constrained packaging sales volumes. Containerboard demand softened slightly during the quarter due to a weaker-than-anticipated table grape season and a slow start to the apple season. Sales price increases only partially offset cost inflation, resulting in a contraction of margins for the segment.

[2] *Verve is the brand name for Sappi dissolving pulp.*

Office paper and newsprint sales volumes were in line with the prior year and significantly improved pricing helped to offset variable cost pressures.

Variable costs were 20% higher than the prior year primarily due to higher wood, energy and chemical costs. Ongoing poor rail service levels necessitated increased road transport to ensure reliable timber and raw material deliveries to the mills. However, reduced ocean freight rates and bunker fuel charges provided some relief during the quarter. Fixed costs were well managed with a below-inflation year-on-year increase due to savings in personnel and maintenance expenditures.

POST-BALANCE SHEET EVENTS

At the AGM held on 3 February 2023, special resolution number 1 was passed granting general authority for the repurchase of shares (not exceeding 10% of the number of Sappi shares in issue). As at 3 May 2023, the group repurchased 9,256,685 shares at an average price of ZAR43.21 per share for a combined value of US$23 million (ZAR400 million), representing 1.62% of Sappi shares in issue. The repurchased Sappi shares were cancelled and reverted to authorised share capital.

OUTLOOK

VSF and DP markets are recovering and demand from our major customers is healthy. The short-term DP supply/demand landscape is expected to remain relatively balanced. However, the DP market price remains range-bound at current levels by stagnant textile fibre pricing, which would need to increase to support further DP pricing gains. A planned maintenance shut at Saiccor as well as lower contract pricing for certain customers will impact margins and profitability for the pulp segment in the third quarter.

High levels of downstream inventory are obscuring our short-term visibility of underlying paper demand and market conditions are anticipated to remain weak until the destocking cycle is complete. Global logistics challenges are mostly resolved and destocking may take longer than expected if customers delay replenishing their supply chains and drive down inventories below historical levels in anticipation of pricing adjustments.

We will continue to diligently manage working capital through production curtailments and adapt our product and market mix to match demand. Some relief may be expected from lower input costs as many variable cost categories have passed their pricing peak and we anticipate input cost benefits to be realised in the coming quarters.

Capital expenditure is estimated to be US$410 million for FY2023 and includes US$70 million for the Somerset PM2 conversion and expansion project.

Operating review for the quarter

continued

The third quarter is seasonally the weakest in terms of demand for our products. Given that global macroeconomic uncertainties continue to weigh on consumer sentiment and paper markets have yet to show signs of a sustained recovery in demand, we anticipate that EBITDA for the third quarter of FY2023 will be below that of the second quarter.

Sappi is well positioned to withstand the current market pressures given our significantly reduced debt profile and healthy cash reserves. We remain committed to our strategy to reduce exposure to graphic paper markets while investing for growth in renewable packaging, dissolving pulp and biomaterials.

On behalf of the board

SR Binnie
Director

GT Pearce
Director

11 May 2023

Forward-looking statements

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- *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; and*
- *currency fluctuations.*

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Condensed group income statement

US$ million	Note	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Sales		**1,442**	1,858	**3,102**	3,555
Cost of sales		**1,238**	1,506	**2,570**	2,950
Gross profit		**204**	352	**532**	605
Selling, general and administrative expenses		**86**	105	**182**	213
Other operating (income) expenses		**10**	17	**10**	(7)
Share of (profit) loss from equity accounted investees		**–**	–	**1**	–
Operating profit	3	**108**	230	**339**	399
Net finance costs		**18**	26	**18**	53
Finance costs		**29**	27	**54**	56
Finance income		**(9)**	(1)	**(32)**	(3)
Net foreign exchange gain		**(2)**	–	**(4)**	–
Profit before taxation		**90**	204	**321**	346
Taxation		**21**	16	**62**	35
Profit for the period		**69**	188	**259**	311
Basic earnings per share (US cents)	4	**12**	33	**46**	55
Weighted average number of shares in issue (millions)		**568.1**	561.8	**567.1**	561.7
Diluted earnings per share (US cents)	4	**12**	32	**43**	52
Weighted average number of shares on fully diluted basis (millions)		**606.7**	602.3	**605.7**	602.1

Condensed group statement of other comprehensive income

US$ million	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Profit for the period	**69**	188	**259**	311
Other comprehensive income, net of tax				
Items that will not be reclassified subsequently to profit (loss)	**(2)**	23	**(2)**	(10)
Actuarial gains (losses) on post-employment benefit funds	**(3)**	5	**(3)**	(28)
Tax effect	**1**	18	**1**	18
Items that may be reclassified subsequently to profit (loss)	**(65)**	147	**5**	69
Exchange differences on translation of foreign operations	**(63)**	142	**(24)**	73
Movements in hedging reserves	**(3)**	9	**32**	(1)
Tax effect	**1**	(4)	**(3)**	(3)
Total comprehensive income for the period	**2**	358	**262**	370

Condensed group balance sheet

US$ million	Note	Reviewed Mar 2023	Sept 2022
ASSETS			
Non-current assets		**3,594**	3,430
Property, plant and equipment		**2,814**	2,705
Right-of-use assets		**79**	76
Plantations		**411**	382
Deferred tax assets		**53**	46
Goodwill and intangible assets		**96**	89
Equity accounted investees		**9**	8
Other non-current assets		**131**	123
Derivative financial instruments		**1**	1
Current assets		**2,411**	2,799
Inventories		**863**	780
Trade and other receivables		**593**	939
Derivative financial assets		**4**	8
Taxation receivable		**4**	1
Cash and cash equivalents		**557**	780
Assets held for sale	9	**390**	291
Total assets		**6,005**	6,229
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest	8	**2,541**	2,358
Non-current liabilities		**2,148**	2,347
Interest-bearing borrowings		**1,446**	1,688
Lease liabilities		**67**	66
Deferred tax liabilities		**398**	361
Defined benefit and other liabilities		**237**	232
Current liabilities		**1,316**	1,524
Interest-bearing borrowings		**247**	171
Lease liabilities		**22**	18
Trade and other payables		**806**	1,045
Provisions		**2**	4
Derivative financial liabilities		**6**	21
Taxation payable		**53**	25
Liabilities associated with assets held for sale	9	**180**	240
Total equity and liabilities		**6,005**	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 Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Profit for the period	**69**	188	**259**	311
Adjustment for:				
Depreciation, fellings and amortisation	**83**	91	**163**	186
Taxation	**21**	16	**62**	35
Net finance costs	**18**	26	**18**	53
Defined post-employment benefits paid	**(13)**	(6)	**(18)**	(11)
Plantation fair value adjustments	**(30)**	(6)	**(54)**	(11)
(Profit) Loss on disposal of held-for-sale assets	**–**	–	**1**	–
Net restructuring provisions	**–**	(1)	**–**	–
(Profit) Loss on disposal and written-off assets	**–**	20	**–**	20
Other non-cash items	**–**	–	**11**	(19)
Cash generated from operations	**148**	328	**442**	564
Movement in working capital	**99**	(143)	**(75)**	(277)
Finance costs paid	**(26)**	(10)	**(65)**	(38)
Finance income received	**8**	2	**15**	3
Taxation (paid) refund	**(11)**	(4)	**(14)**	(8)
Dividend paid	**(85)**	–	**(85)**	–
Cash generated from operating activities	**133**	173	**218**	244
Cash utilised in investing activities	**(95)**	(68)	**(157)**	(150)
Capital expenditure	**(83)**	(69)	**(141)**	(141)
Proceeds on disposal of assets	**1**	1	**1**	1
Proceeds on held-for-sale assets	**–**	–	**10**	–
Other non-current asset movements	**(13)**	–	**(27)**	(10)

Condensed group statement of cash flows continued

US$ million	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Net cash generated (utilised)	**38**	105	**61**	94
Cash effects of financing activities	**(74)**	(6)	**(317)**	(11)
Proceeds from interest-bearing borrowings	**–**	(1)	**–**	47
Repayment of interest-bearing borrowings	**(68)**	–	**(306)**	(47)
Lease repayments	**(6)**	(5)	**(11)**	(11)
Net movement in cash and cash equivalents	**(36)**	99	**(256)**	83
Cash and cash equivalents at beginning of period	**593**	334	**780**	366
Translation effects	**–**	7	**33**	(9)
Cash and cash equivalents at end of period	**557**	440	**557**	440

Condensed group statement of changes in equity

US$ million	Reviewed Half-year ended Mar 2023	Mar 2022
Balance – beginning of period	**2,358**	1,970
Profit (Loss) for the period	**259**	311
Other comprehensive income for the period	**3**	59
Issue of shares	**3**	–
Dividend – 15 US cents	**(85)**	–
Share-based payment reserve	**3**	4
Balance – end of period	**2,541**	2,344
Comprising		
Ordinary share capital and premium	**745**	894
Non-distributable reserves	**108**	129
Foreign currency translation reserves	**(211)**	(145)
Hedging reserves	**(53)**	(44)
Retained earnings	**1,952**	1,510
Total equity	**2,541**	2,344

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and half-year ended March 2023 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 11 May 2023.

The condensed consolidated financial statements for the half-year ended March 2023 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.

2. Segment information

Metric tons (000's)	Quarter ended Mar 2023	Quarter ended Mar 2022	Half-year ended Mar 2023	Half-year ended Mar 2022
Sales volume				
North America	**330**	445	**708**	898
Europe	**438**	801	**1,006**	1,638
South Africa – Pulp and paper	**399**	439	**780**	845
South Africa – Forestry	**366**	373	**707**	704
Total	**1,533**	2,058	**3,201**	4,085
Which consists of:				
Pulp	**368**	396	**725**	784
Packaging and speciality papers	**299**	422	**631**	808
Graphic papers	**500**	867	**1,138**	1,789
Forestry	**366**	373	**707**	704

US$ million	Reviewed Quarter ended Mar 2023	Reviewed Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Sales				
North America	**458**	536	**984**	1,048
Europe	**640**	943	**1,440**	1,790
South Africa – Pulp and paper	**351**	386	**706**	741
South Africa – Forestry	**21**	23	**41**	42
Delivery costs revenue adjustment[1]	**(28)**	(30)	**(69)**	(66)
Total	**1,442**	1,858	**3,102**	3,555
Which consists of:				
Pulp	**316**	345	**659**	687
Packaging and speciality papers	**440**	547	**919**	1,012
Graphic papers	**693**	973	**1,552**	1,880
Forestry	**21**	23	**41**	42
Delivery costs revenue adjustment[1]	**(28)**	(30)	**(69)**	(66)

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

2. Segment information continued

US$ million	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Operating profit (loss) excluding special items				
North America	**43**	88	**134**	151
Europe	**1**	110	**76**	122
South Africa	**54**	60	**117**	145
Unallocated and eliminations[2]	**3**	1	**(1)**	2
Total	**101**	259	**326**	420
Which consists of:				
Pulp	**38**	51	**96**	134
Packaging and speciality papers	**22**	78	**86**	123
Graphic papers	**39**	129	**145**	161
Unallocated and eliminations[2]	**2**	1	**(1)**	2
Special items – (gains) losses				
North America	**–**	–	**1**	(29)
Europe	**–**	16	**1**	18
South Africa	**(12)**	14	**(17)**	29
Unallocated and eliminations[2]	**5**	(1)	**2**	3
Total	**(7)**	29	**(13)**	21

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

2. Segment information continued

US$ million	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Operating profit (loss) by segment				
North America	**43**	88	**133**	180
Europe	**1**	94	**75**	104
South Africa	**66**	46	**134**	116
Unallocated and eliminations[2]	**(2)**	2	**(3)**	(1)
Total	**108**	230	**339**	399
EBITDA excluding special items				
North America	**66**	114	**180**	203
Europe	**23**	140	**116**	186
South Africa	**75**	81	**161**	185
Unallocated and eliminations[2]	**3**	2	**–**	3
Total	**167**	337	**457**	577
Which consists of:				
Pulp	**56**	69	**132**	170
Packaging and speciality papers	**46**	102	**134**	173
Graphic papers	**62**	164	**191**	231
Unallocated and eliminations[2]	**3**	2	**–**	3

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

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.

		Quarter ended		Reviewed Half-year ended	
US$ million	Note	Mar 2023	Mar 2022	Mar 2023	Mar 2022
EBITDA excluding special items		**167**	337	**457**	577
Depreciation and amortisation		**(66)**	(78)	**(131)**	(157)
Operating profit excluding special items		**101**	259	**326**	420
Special items – gains (losses)		**7**	(29)	**13**	(21)
Plantation price fair value adjustment		**12**	(13)	**18**	(28)
Net restructuring provisions		**–**	1	**–**	–
Profit (Loss) on disposal and written-off assets		**–**	(20)	**–**	(20)
Profit (Loss) on disposal of held-for-sale assets		**–**	–	**(1)**	–
Insurance recoveries		**(4)**	–	**(1)**	–
Fire, flood, storm and other events	8	**(1)**	3	**(3)**	27
Operating profit		**108**	230	**339**	399
Net finance costs		**(18)**	(26)	**(18)**	(53)
Profit (Loss) before taxation		**90**	204	**321**	346
Taxation		**(21)**	(16)	**(62)**	(35)
Profit for the period		**69**	188	**259**	311

2. Segment information continued

US$ million	Reviewed Mar 2023	Mar 2022
Net operating assets		
North America	**1,403**	1,357
Europe	**1,265**	1,520
South Africa	**1,693**	1,934
Unallocated and eliminations[2]	**(13)**	(8)
Total	**4,348**	4,803
Reconciliation of net operating assets to total assets		
Segment assets	**4,348**	4,803
Deferred tax assets	**53**	56
Cash and cash equivalents	**557**	440
Trade and other payables	**806**	1,141
Provisions	**2**	5
Derivative financial instruments	**6**	7
Taxation payable	**53**	17
Liabilities associated with assets held for sale	**180**	–
Total assets	**6,005**	6,469

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

3. Operating profit (loss)

	Quarter ended		Reviewed Half-year ended	
US$ million	**Mar 2023**	Mar 2022	**Mar 2023**	Mar 2022
Included in operating profit are the following items:				
Depreciation and amortisation	**66**	78	**131**	157
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**17**	13	**32**	29
Growth	**(18)**	(19)	**(36)**	(39)
	(1)	(6)	**(4)**	(10)
Plantation price fair value adjustment	**(12)**	13	**(18)**	28
	(13)	7	**(22)**	18
Net restructuring provisions	**–**	(1)	**–**	–
(Profit) Loss on disposal and written-off assets	**–**	20	**–**	20
(Profit) Loss on disposal of held-for-sale assets	**–**	–	**1**	–
Insurance recoveries	**4**	–	**1**	–

4. Earnings per share

US$ million	Quarter ended Mar 2023	Quarter ended Mar 2022	Reviewed Half-year ended Mar 2023	Reviewed Half-year ended Mar 2022
Basic earnings per share (US cents)	**12**	33	**46**	55
Headline earnings per share (US cents)	**12**	36	**46**	58
EPS excluding special items (US cents)	**11**	35	**41**	55
Weighted average number of shares in issue (millions)	**568.1**	561.8	**567.1**	561.7
Diluted earnings per share (US cents)	**12**	32	**43**	52
Diluted headline earnings per share (US cents)	**11**	34	**43**	55
Weighted average number of shares on fully diluted basis (millions)	**606.7**	602.3	**605.7**	602.1
Calculation of headline earnings				
Profit (Loss) for the period	**69**	188	**259**	311
(Profit) Loss on disposal and write-off of property, plant and equipment	**–**	20	**–**	20
(Profit) Loss on disposal of held-for-sale assets	**–**	–	**1**	–
Tax effect of above items	**–**	(5)	**(1)**	(5)
Headline earnings	**69**	203	**259**	326
Calculation of earnings excluding special items				
Profit (Loss) for the period	**69**	188	**259**	311
Special items after tax	**(4)**	20	**(10)**	8
Special items	**(7)**	29	**(13)**	21
Tax effect	**3**	(9)	**3**	(13)
Finance costs	**–**	–	**(15)**	–
Tax special items	**–**	(11)	**–**	(11)
Earnings excluding special items	**65**	197	**234**	308

5. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and investment 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.

			Fair value[1]	
US$ million	Classification	Fair value hierarchy	**Reviewed Mar 2023**	**Reviewed Sept 2022**
Investment funds[2]	FV through OCI	Level 1	**4**	6
Derivative financial assets	FV through PL	Level 2	**5**	9
Derivative financial liabilities	FV through PL	Level 2	**6**	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	Reviewed Mar 2023	Sept 2022
Contracted	**249**	108
Approved but not contracted	**345**	255
	594	363

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

US$ million	Reviewed Mar 2023	Sept 2022
Non-current and current interest-bearing borrowings	**1,693**	1,859
Non-current and current lease liabilities	**89**	84
Less: Cash and cash equivalents	**(557)**	(780)
Net debt	**1,225**	1,163
As at March 2023, the group was in compliance with its debt covenants:		
Covenant leverage ratio	**0.9**	0.9
Interest cover	**13.4**	17.6

8. Material balance sheet movements

Since the 2022 financial year-end, both the Euro and the ZAR have strengthened by approximately 10.61% and 1.99% respectively against the US Dollar, the group's presentation currency. This has resulted in an increase in 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 fiscal 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 Sarl. The suspensive conditions were regretfully not met and therefore the transaction lapsed. The group continues to hold these graphic paper mills as held-for-sale. The balance sheet values have been updated to March and include trade receivables of US$99 million (€91 million) previously excluded from held-for-sale under the former transaction. There was no impact on the income statement.

US$ million	
Property, plant and equipment	127
Right-of-use assets	11
Other non-current assets	16
Inventories	108
Trade and other receivables	128
Assets held for sale	390
Other non-current liabilities	39
Other current liabilities	141
Liabilities associated with assets held for sale	180
Net assets classified as held for sale	210

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

In April and May, the group repurchased 9,256,685 ordinary shares for US$23 million (ZAR400 million) in accordance with its general authority to repurchase shares.

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 of existing standards that have been published which are not yet effective nor have 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 – 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 (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		Half-year ended	
	Mar 2023	**Mar 2022**	**Mar 2023**	**Mar 2022**
Key figures (ZAR million)				
Sales	**25,594**	28,266	**54,841**	54,458
Operating profit excluding special items[1]	**1,793**	3,940	**5,763**	6,434
Special items – (gains) losses[1]	**(124)**	441	**(230)**	322
EBITDA excluding special items[1]	**2,964**	5,127	**8,079**	8,839
Profit for the period	**1,225**	2,860	**4,579**	4,764
Basic earnings per share (SA cents)	**216**	509	**807**	848
Net debt[1]	**21,796**	26,294	**21,796**	26,294
Key ratios (%)				
Operating profit excluding special items to sales	**7.0**	13.9	**10.5**	11.8
Operating profit excluding special items to capital employed (ROCE)[1]	**10.9**	25.6	**17.6**	21.6
EBITDA excluding special items to sales	**11.6**	18.1	**14.7**	16.2

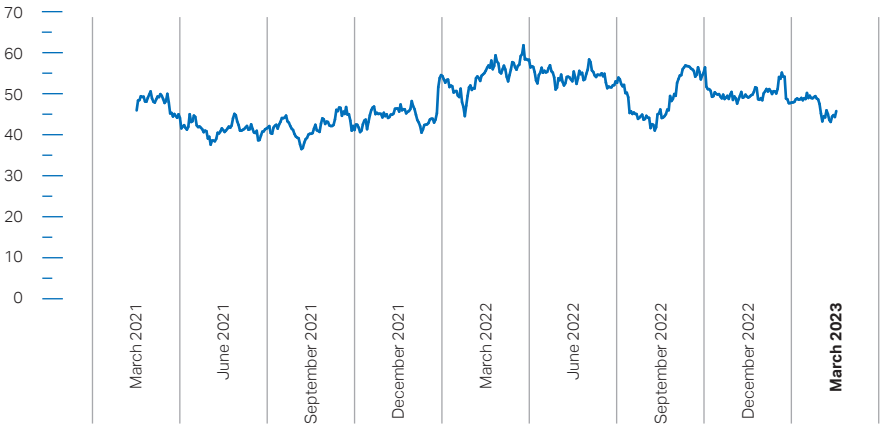
[1] *Refer to supplemental information for the definition of the term.*

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.

Exchange rates

	Mar 2023	Dec 2022	Sept 2022	Jun 2022	Mar 2022
Exchange rates:					
Period-end rate: US$1 = ZAR	**17.7927**	17.0119	18.1537	16.4033	14.6650
Average rate for the quarter: US$1 = ZAR	**17.7489**	17.6063	17.0501	15.6115	15.2130
Average rate for the year to date: US$1 = ZAR	**17.6792**	17.6063	15.7829	15.4097	15.3186
Period-end rate: €1 = US$	**1.0841**	1.0704	0.9801	1.0429	1.1055
Average rate for the quarter: €1 = US$	**1.0729**	1.0220	1.0066	1.0638	1.1214
Average rate for the year to date: €1 = US$	**1.0475**	1.0220	1.0853	1.1108	1.1335

Sappi share price – March 2021 to March 2023



Our purpose

Sappi exists to build a thriving world by unlocking the power of renewable resources to benefit people, communities and the planet.



www.sappi.com

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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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