Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2022
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
2 JANUARY 2022

14 FEBRUARY 2022

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;
- 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.

FIRST QUARTER RESULTS

for the period ended December 2021

sappi

FIRST QUARTER RESULTS

EBITDA excluding special items
US$240 million
(Q1 FY21 US$98 million)

Net debt of
US$1,917 million
(Q1 FY21 US$2,056 million)

Profit for the period
US$123 million
(Q1 FY21 loss of US$17 million)

EPS excluding special items
20 US cents
(Q1 FY21 loss of 1 US cents)

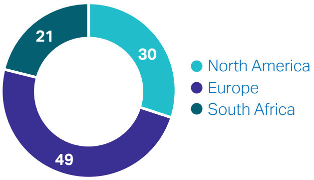
“Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.”

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

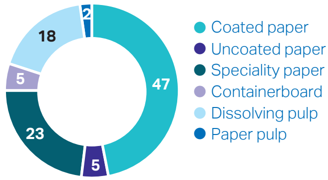
Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

Highlights for the quarter

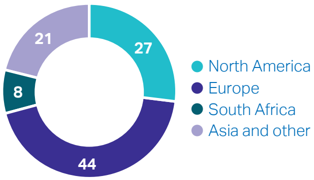
Sales by source* (%)



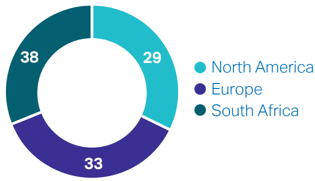
Sales by product* (%)



Sales by destination* (%)



Net operating assets** (ex Corporate) (%)



* *For the period ended December 2021.*

** *As at December 2021.*

	Quarter ended		
	Dec 2021	**Dec 2020**	**Sept 2021**
Key figures: (US$ million)			
Sales	**1,697**	1,163	1,425
Operating profit (loss) excluding special items[1]	**161**	16	92
Special items – loss (gain)[2]	**(8)**	–	34
EBITDA excluding special items[1]	**240**	98	177
Profit (Loss) for the period	**123**	(17)	35
Basic earnings per share (US cents)	**22**	(3)	6
EPS excluding special items (US cents)[3]	**20**	(1)	11
Net debt[3]	**1,917**	2,056	1,946
Key ratios: (%)			
Operating profit (loss) excluding special items to sales	**9.5**	1.4	6.5
Operating profit (loss) excluding special items to capital employed (ROCE)[3]	**16.5**	1.7	9.3
EBITDA excluding special items to sales	**14.1**	8.4	12.4
Net debt to EBITDA excluding special items	**2.8**	6.1	3.7
Covenant leverage ratio[3]	**2.9**	6.2	3.7
Interest cover[3]	**6.7**	4.1	5.5
Net asset value per share (US cents)[3]	**353**	327	351

(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.*

Commentary on the quarter[1]

Operating performance for the quarter exceeded expectations. The group generated EBITDA excluding special items of US$240 million, a substantial improvement over the prior quarter and more than double the equivalent quarter in 2021. Robust market demand in all product segments combined with the implementation of higher sales prices to offset rising costs and a focus on product and customer mix optimisation facilitated the growth.

An additional sales week in the quarter augmented sales and boosted EBITDA by approximately US$25 million.

Global logistical challenges continued unabated and posed headwinds for our export sales and raw material procurement in all regions. Substantial energy, raw material and delivery cost inflation in the quarter was offset by selling price increases in the paper business.

Pulp sales volumes increased by 48% compared to the prior quarter as we secured more shipping capacity for our South African exports. The hardwood dissolving pulp (DP) market price[2] decreased to US$905 per ton during the quarter on the back of weakening viscose staple fibre (VSF) demand and pricing in China. However, demand for Sappi Verve[3] remained strong and our mills were fully sold with sales volumes of 334,000 tons in the quarter aligned to production. VSF prices rebounded towards the end of the quarter which stabilised DP pricing. The ongoing logistical challenges and adverse weather conditions in December at the Durban Port prevented any reduction of the 100,000 ton sales backlog from the fourth quarter of FY2021. Constrained global container vessel supply necessitated the use of alternative non-contracted ocean carriers and breakbulk shipping to fulfil customer shipping requirements, which negatively impacted delivery costs.

Markets for packaging and speciality papers continued to be robust across all regions with our sales volumes up 26% on a year ago. The successful implementation of price increases combined with product mix optimisation led to further progress in profitability for the segment.

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(1) *"year-on-year" or "prior year" is a comparison between Q1 FY2021 versus Q1 FY2022; "quarter-on-quarter" or "prior quarter" is a comparison between Q4 FY2021 and Q1 FY2022.*
(2) *Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.*
(3) *Sappi Verve – brand name for dissolving pulp.*

Buoyant demand for graphic papers boosted sales volumes by 20% compared to last year and provided support for price increases, which were necessary to offset significant cost inflation and restore EBITDA margins for the segment. Notably, all assets ran at full operating capacity during the quarter.

Earnings per share excluding special items for the quarter was 20 US cents, which was a substantial improvement on the 11 US cents in the prior quarter and indicative of the excellent recovery of profitability. Special items increased earnings by US$8 million primarily due to a US$26 million settlement of a US pension liability offset by a loss on plantation price fair value adjustments of US$15 million.

Cash flow and debt

Net cash utilised for the quarter was US$11 million, compared to zero in the equivalent quarter of last year. The cash utilisation was due to a typical seasonal working capital outflow in the first quarter which included additional inventory build and creditors payments associated with the extra trading week in the quarter.

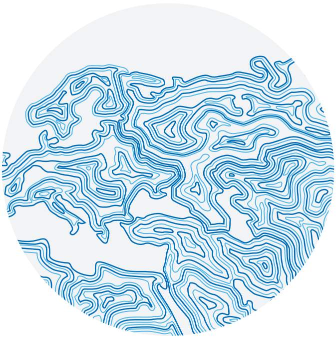
Capital expenditure of US$72 million included certain payments for the Saiccor Mill expansion.

Net debt of US$1,917 million was US$139 million less than at the end of the equivalent quarter of last year. The debt reduction was as a result of higher profitability over the past year and a comparatively stronger US Dollar, which reduced the Euro-denominated debt converted at a lower rate. In terms of the relevant banking facilities, the leverage covenant was reduced to 2.9 times at the end of the quarter, which was a substantial improvement on the 6.2 times in the equivalent Covid-19 impacted quarter of the previous year. Liquidity comprised cash on hand of US$334 million and US$706 million from the committed revolving credit facilities (RCF) in South Africa and Europe.

Operating review for the quarter

Europe

EUR million	Quarter ended Dec 2021	Sept 2021	Jun 2021	Mar 2021	Dec 2020
Sales – tons	**837**	757	733	669	658
Sales	**740**	589	536	483	482
Operating profit (loss) excluding special items	**11**	(21)	(15)	(8)	–
Operating profit (loss) excluding special items to sales (%)	***1.5***	*(3.6)*	*(2.8)*	*(1.7)*	–
EBITDA excluding special items	**40**	12	14	23	29
EBITDA excluding special items to sales (%)	***5.4***	*2.0*	*2.6*	*4.8*	*6.0*
RONOA pa (%)	***3.4***	*(6.6)*	*(4.7)*	*(2.5)*	–



Renewed strong demand in domestic and export markets supported price increases across all paper grades and facilitated the return of the European business to profitability. An unprecedented surge in energy prices for gas, power and coal compelled the implementation of an energy surcharge on all European products during the quarter. This extraordinary measure was a key component of our strategy to offset the escalating energy costs and restore margins in the European business.

The renewed demand, combined with substantial capacity that exited the market in the intervening period, tightened graphic paper markets and facilitated a recovery of the segmental sales volumes to 99% of the equivalent quarter of 2019. The recovery was constrained somewhat by logistical issues which impacted export markets.

The packaging and speciality papers business experienced sales growth of 25% over the prior year. Demand for containerboard, self-adhesives and consumer packaging was particularly strong. A year-on-year average sales price increase of 13% provided some relief for margins which still remained below last year due to a significant rise in input costs and a lag in the implementation of sales price increases for annually contracted business.

Variable costs were 40% higher than the prior year driven by extraordinary raw material and energy cost inflation. However, pulp prices in Europe started to reduce in US Dollar terms during the quarter but remained at relatively high Euro prices due to the strengthening of the US Dollar. A 20% year-on-year rise in delivery charges was reflective of the unrelenting logistical challenges in both export and domestic European markets. Fixed costs were 9% higher than the prior year due to higher maintenance and personnel costs associated with improved operating rates and the absence of temporary Covid-19-related subsidies.

North America

US$ million	Dec 2021	Sept 2021	Jun 2021	Mar 2021	Dec 2020
	Quarter ended				
Sales – tons	**453**	418	420	426	421
Sales	**512**	458	438	408	384
Operating profit (loss) excluding special items	**63**	65	31	11	(2)
Operating profit (loss) excluding special items to sales (%)	***12.3***	*14.2*	*7.1*	*2.7*	*(0.5)*
EBITDA excluding special items	**89**	90	57	35	27
EBITDA excluding special items to sales (%)	***17.4***	*19.7*	*13.0*	*8.6*	*7.0*
RONOA pa (%)	***19.1***	*19.5*	*9.1*	*3.3*	*(0.6)*

The North American region delivered a record first quarter EBITDA of US$89 million, which was more than triple the prior year. This achievement was despite significantly higher costs. The US$22 million negative impact of the extended cold mill outage at Somerset Mill was partly offset by the additional trading week.

The tight market situation for graphic paper, driven by a rebound in demand and capacity closures in previous years, boosted profitability in this segment. The supply chain challenges also limited imports to the region. Selling prices were up 21% over last year to offset the impact of higher costs. The packaging and speciality papers business continued to strengthen with sales volume growth of 19% and an improvement in both product and customer mix.

Sappi Verve sales volumes were higher than the equivalent quarter of last year due to strong demand and average net selling prices improved by 39%. The North American pulp segmental sales volumes for the quarter also included 44,000 tons of high yield bleached chemi-thermo mechanical pulp (BCTMP) and 10,000 tons of kraft paper pulp.

A 15% year-on-year rise in variable costs was driven by significant price escalation across all raw material categories. Higher export shipping rates, fuel costs and domestic transport charges pushed up delivery costs by 20%. Fixed costs increased by 11%, mainly due to higher personnel costs and higher maintenance costs associated with the extended Somerset Mill outage.

South Africa

ZAR million	Quarter ended Dec 2021	Sept 2021	Jun 2021	Mar 2021	Dec 2020
Sales – tons	**737**	720	769	744	604
Sales	**5,765**	4,320	4,764	4,743	3,489
Operating profit excluding special items	**1,310**	793	744	438	267
Operating profit excluding special items to sales (%)	***22.7***	*18.4*	*15.6*	*9.2*	*7.7*
EBITDA excluding special items	**1,603**	1,100	1,029	707	550
EBITDA excluding special items to sales (%)	***27.8***	*25.5*	*21.6*	*14.9*	*15.8*
RONOA pa (%)	***19.0***	*11.8*	*11.2*	*6.6*	*4.1*

Year-on-year profitability of the South African business was positively impacted by improved sales volumes and pricing in all segments. EBITDA was 46% higher than the prior quarter despite significant cost increases and logistical challenges.

Demand for Sappi Verve was strong but ongoing shipping challenges and adverse weather in the Durban Port prevented any reduction in the sales backlog from the prior quarter. A highlight for the quarter was the introduction of breakbulk shipping from Durban which provides additional opportunities to increase sales volumes and reduce the backlog inventory. Ramp-up of the Saiccor Mill expansion project began during the quarter and is proceeding as planned.

Higher year-on-year packaging sales volumes were driven by robust demand for containerboard as customers sought to replenish low stock levels following a very successful citrus export season. Graphic papers sales volumes and pricing benefited from improved retail demand for office paper and resurgent demand for newsprint.

Variable costs rose 13% year-on-year due to higher timber and chemical prices. Delivery costs increased by 65% due to substantial freight rate escalation associated with alternate higher cost carrier usage which was required to secure DP sales volumes. Fixed costs were well controlled and were 3% below last year.

Outlook

The demand for DP continues to be strong. VSF pricing and operating rates improved in January which stabilised DP market prices at US$905 per ton ahead of the Chinese New Year. An extremely high differential between cotton and VSF prices should support fibre substitution in future quarters which would be positive for DP demand and pricing. Furthermore, the addition of breakbulk shipping is expected to aid in the reduction of the DP sales backlog.

The recovery of sales for graphic papers across all regions combined with industry capacity closures has tightened the market balance. Additionally, the underlying demand in the packaging and speciality papers segment remains robust. The stronger markets for all our paper products should support announced price increase realisation which is necessary to offset extraordinarily high input costs.

Global logistical challenges and vessel shortages are likely to continue through FY2022, and our objective is to secure sufficient transport capacity to support the strong demand for our products and optimise delivery costs.

Timber, pulp, chemicals, energy and delivery costs are expected to remain at elevated levels through the current financial year. Specifically, in South Africa the higher delivery, timber and chemical prices will impact the margins for the pulp business.

As previously disclosed, capital expenditure is estimated to be US$395 million for FY2022.

Given the favourable demand outlook for all of our product segments we anticipate a further improvement in EBITDA for the second quarter of FY2022 from the excellent results achieved in the first quarter.

On behalf of the board

SR Binnie
Director

GT Pearce
Director

09 February 2022

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 Dec 2021	Quarter ended Reviewed Dec 2020
Sales		**1,697**	1,163
Cost of sales		**1,444**	1,061
Gross profit		**253**	102
Selling, general and administrative expenses		**108**	85
Other operating (income) expenses	7	**(24)**	1
Operating profit	3	**169**	16
Net finance costs		**27**	34
Finance costs		**29**	24
Finance income		**(2)**	(3)
Net fair value loss on financial instruments		**–**	13
Profit (Loss) before taxation		**142**	(18)
Taxation		**19**	(1)
Profit (Loss) for the period		**123**	(17)
Basic earnings per share (US cents)		**22**	(3)
Weighted average number of shares in issue (millions)	4	**561.6**	546.4
Diluted earnings per share (US cents)		**20**	(3)
Weighted average number of shares on fully diluted basis (millions)	4	**601.8**	546.8

Condensed group statement of other comprehensive income

US$ million	Note	Quarter ended Dec 2021	Quarter ended Reviewed Dec 2020
Profit (Loss) for the period		**123**	(17)
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or (losses)		**(33)**	–
Actuarial gains on post-employment benefit funds	7	**(33)**	–
Tax effect on above item		**–**	–
Items that may be reclassified subsequently to profit or loss		**(78)**	173
Exchange differences on translation of foreign operations		**(69)**	170
Movements in hedging reserves		**(10)**	2
Tax effect on above items		**1**	1
Total comprehensive income for the period		**12**	156

Condensed group balance sheet

US$ million	Note	Dec 2021	Reviewed Sept 2021
ASSETS			
Non-current assets		**4,083**	4,255
Property, plant and equipment		**3,199**	3,325
Right-of-use assets		**110**	110
Plantations		**438**	477
Deferred tax assets		**57**	59
Goodwill and intangible assets		**116**	110
Equity accounted investees		**9**	10
Other non-current assets	7	**154**	164
Current assets		**1,955**	1,931
Inventories		**905**	841
Trade and other receivables		**696**	703
Derivative financial assets		**3**	4
Taxation receivable		**7**	7
Cash and cash equivalents		**334**	366
Assets held for sale		**10**	10
Total assets		**6,038**	6,186
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,984**	1,970
Non-current liabilities		**2,823**	2,907
Interest-bearing borrowings		**2,003**	2,062
Lease liabilities		**94**	94
Deferred tax liabilities		**335**	345
Defined benefit and other liabilities		**387**	400
Derivative financial liabilities		**4**	6
Current liabilities		**1,231**	1,309
Interest-bearing borrowings		**128**	132
Lease liabilities		**26**	24
Trade and other payables		**1,050**	1,131
Provisions		**8**	10
Derivative financial liabilities		**9**	4
Taxation payable		**10**	8
Total equity and liabilities		**6,038**	6,186
Number of shares in issue at balance sheet date (millions)		**561.8**	561.5

Condensed group statement of cash flows

US$ million	Note	Quarter ended Dec 2021	Reviewed Dec 2020
Profit (Loss) for the period		**123**	(17)
Adjustment for:			
Depreciation, fellings and amortisation		**95**	99
Taxation		**19**	(1)
Net finance costs		**27**	34
Defined post-employment benefits paid		**(5)**	(7)
Plantation fair value adjustments		**(5)**	(23)
Net restructuring provisions		**1**	–
Other non-cash items	7	**(19)**	13
Cash generated from operations		**236**	98
Movement in working capital		**(134)**	11
Finance costs paid		**(28)**	(34)
Finance income received		**1**	3
Taxation (paid) refund		**(4)**	11
Cash generated from operating activities		**71**	89
Cash utilised in investing activities		**(82)**	(89)
Capital expenditure		**(72)**	(82)
Other non-current asset movements		**(10)**	(7)
Net cash generated (utilised)		**(11)**	–
Cash effects of financing activities		**(5)**	104
Proceeds from interest-bearing borrowings[1]		**48**	134
Repayment of interest-bearing borrowings[1]		**(47)**	(23)
Lease repayments		**(6)**	(7)
Net movement in cash and cash equivalents		**(16)**	104
Cash and cash equivalents at beginning of period		**366**	279
Translation effects		**(16)**	27
Cash and cash equivalents at end of period		**334**	410

[1] *Proceeds from short-term refinancing transactions and repayments of short-term financing transactions relating to the group's revolving credit facilities were previously presented on a gross basis as part of "Proceeds from interest-bearing borrowings" and "Repayment of interest-bearing borrowings", respectively. Due to the short-term nature of refinancing the revolving credit facilities (less than three months) and to achieve better presentation of the movement in cash balances, cash flows from short-term refinancing transactions are now being presented, as allowed by IAS 7* Statement of Cash Flows *on a net basis, as opposed to a gross basis as previously presented. The comparative numbers have been adjusted by US$238 million on both proceeds and repayments of interest-bearing borrowings.*

Previously reported	**Dec 2020**
Proceeds from interest-bearing borrowings	**372**
Repayment of interest-bearing borrowings	**(261)**

Condensed group statement of changes in equity

	Quarter ended	
US$ million	Dec 2021	Reviewed Dec 2020
Balance – beginning of period	**1,970**	1,632
Profit (Loss) for the period	**123**	(17)
Other comprehensive income for the period	**(111)**	173
Share-based payment reserve	**2**	2
Balance – end of period	**1,984**	1,790
Comprising		
Ordinary share capital and premium	**820**	834
Non-distributable reserves	**115**	119
Foreign currency translation reserves	**(200)**	(212)
Hedging reserves	**(50)**	(40)
Retained earnings	**1,299**	1,089
Total equity	**1,984**	1,790

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter ended December 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 quarter ended December 2021 comprised 14 weeks whereas the quarter ended December 2020 comprised 13 weeks.

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 9 February 2022.

The results are unaudited.

2. Segment information

	Quarter ended	
Metric tons (000's)	**Dec 2021**	**Dec 2020**
Sales volume		
North America	**453**	421
Europe	**837**	658
South Africa – Pulp and paper	**406**	296
Forestry	**331**	308
Total	**2,027**	1,683
Which consists of:		
Dissolving pulp	**388**	298
Packaging and speciality papers	**386**	307
Graphic papers	**922**	770
Forestry	**331**	308

2. Segment information continued

US$ million	Quarter ended Dec 2021	Quarter ended Reviewed Dec 2020
Sales		
North America	**512**	384
Europe	**847**	574
South Africa – Pulp and paper	**355**	205
Forestry	**19**	17
Delivery costs revenue adjustment[2]	**(36)**	(17)
Total	**1,697**	1,163
Which consists of:		
Dissolving pulp	**342**	193
Packaging and speciality papers	**465**	327
Graphic papers	**907**	643
Forestry	**19**	17
Delivery costs revenue adjustment[2]	**(36)**	(17)
Operating profit (loss) excluding special items		
North America	**63**	(2)
Europe	**12**	–
South Africa	**85**	17
Unallocated and eliminations[1]	**1**	1
Total	**161**	16
Which consists of:		
Dissolving pulp	**83**	15
Packaging and speciality papers	**45**	8
Graphic papers	**32**	(8)
Unallocated and eliminations[1]	**1**	1
Special items – (gains) losses		
North America	**(29)**	–
Europe	**2**	1
South Africa	**15**	(1)
Unallocated and eliminations[1]	**4**	–
Total	**(8)**	–

(1) *Includes the group's treasury operations and insurance captive.*
(2) *Relates to delivery costs netted off against revenue.*

2. Segment information continued

US$ million	Quarter ended Dec 2021	Quarter ended Reviewed Dec 2020
Operating profit (loss) by segment		
North America	**92**	(2)
Europe	**10**	(1)
South Africa	**70**	18
Unallocated and eliminations[(1)]	**(3)**	1
Total	**169**	16
EBITDA excluding special items		
North America	**89**	27
Europe	**46**	35
South Africa	**104**	35
Unallocated and eliminations[(1)]	**1**	1
Total	**240**	98
Which consists of:		
Dissolving pulp	**101**	31
Packaging and speciality papers	**71**	35
Graphic papers	**67**	31
Unallocated and eliminations[(1)]	**1**	1

(1) *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.

US$ million	Note	Quarter ended Dec 2021	Quarter ended Reviewed Dec 2020
EBITDA excluding special items		**240**	98
Depreciation and amortisation		**(79)**	(82)
Operating profit excluding special items		**161**	16
Special items – gains (losses)		**8**	–
Plantation price fair value adjustment		**(15)**	4
Net restructuring provisions		**(1)**	–
Fire, flood, storm and other events	7	**24**	(4)
Operating profit		**169**	16
Net finance costs		**(27)**	(34)
Profit (Loss) before taxation		**142**	(18)
Taxation		**(19)**	1
Profit (Loss) for the period		**123**	(17)

US$ million	Dec 2021	Sept 2021
Net operating assets		
North America	**1,314**	1,322
Europe	**1,497**	1,478
South Africa	**1,750**	1,815
Unallocated and eliminations[1]	**9**	(7)
Total	**4,570**	4,608
Reconciliation of net operating assets to total assets		
Segment assets	**4,570**	4,608
Deferred tax assets	**57**	59
Cash and cash equivalents	**334**	366
Trade and other payables	**1,050**	1,131
Provisions	**8**	10
Derivative financial instruments	**9**	4
Taxation payable	**10**	8
Total assets	**6,038**	6,186

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

3. Operating profit (loss)

US$ million	Quarter ended Dec 2021	Quarter ended Reviewed Dec 2020
Included in operating profit are the following items:		
Depreciation and amortisation	**79**	82
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**16**	17
Growth	**(20)**	(19)
	(4)	(2)
Plantation price fair value adjustment	**15**	(4)
	11	(6)
Net restructuring provisions	**1**	–

4. Earnings per share

	Dec 2021	Reviewed Dec 2020
Basic earnings per share (US cents)	**22**	(3)
Headline earnings per share (US cents)	**22**	(3)
EPS excluding special items (US cents)	**20**	(1)
Weighted average number of shares in issue (millions)	**561.6**	546.4
Diluted earnings per share (US cents)	**20**	(3)
Diluted headline earnings per share (US cents)	**20**	(3)
Weighted average number of shares on fully diluted basis (millions)	**601.8**	546.8
Calculation of headline earnings		
Profit (Loss) for the period	**123**	(17)
Headline earnings	**123**	(17)
Calculation of earnings excluding special items		
Profit (Loss) for the period	**123**	(17)
Special items after tax	**(12)**	–
Special items	**(8)**	–
Tax effect	**(4)**	–
Finance costs	**–**	13
Earnings excluding special items	**111**	(4)

5. Financial instruments

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

			Fair value[1]	
US$ million	Classification	Fair value hierarchy	Dec 2021	Reviewed Sept 2021
Investment funds[2]	FV through OCI	Level 1	**5**	6
Derivative financial assets	FV through PL	Level 2	**3**	4
Derivative financial liabilities	FV through PL	Level 2	**13**	10

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

(2) *Included in other non-current assets.*

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

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

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

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

6. Capital commitments

US$ million	Dec 2021	Reviewed Sept 2021
Contracted	**80**	116
Approved but not contracted	**141**	144
	221	260

7. Material balance sheet movements

Other non-current assets

In October 2021, the group purchased a group annuity contract for US$508 million to transfer US$535 million of the North American region's retiree pension obligations to an insurance company. The pension obligations were remeasured to their present value, as required, prior to settlement resulting in an actuarial loss of US$33 million. The resulting settlement gain of US$26 million, net of professional fees, was recorded in profit or loss.

8. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2021 financial year-end.

9. 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.

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

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

Supplemental information

(this information has not been audited or reviewed)

General definitions

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

Capital employed – shareholders' equity plus net debt

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

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

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

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

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

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

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

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

Net assets – total assets less total liabilities

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

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

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

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

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

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.

Supplemental information continued

(this information has not been audited or reviewed)

Summary Rand convenience translation

	Quarter ended	
	Dec 2021	**Dec 2020**
Key figures: (ZAR million)		
Sales	**26,159**	18,278
Operating profit excluding special items[1]	**2,482**	251
Special items – (gains) losses[1]	**(123)**	–
EBITDA excluding special items[1]	**3,700**	1,540
Profit for the period	**1,896**	(267)
Basic earnings per share (SA cents)	**338**	(49)
Net debt[1]	**30,671**	29,966
Key ratios: (%)		
Operating profit excluding special items to sales	**9.5**	1.4
Operating profit excluding special items to capital employed (ROCE)[1]	**16.4**	1.7
EBITDA excluding special items to sales	**14.1**	8.4

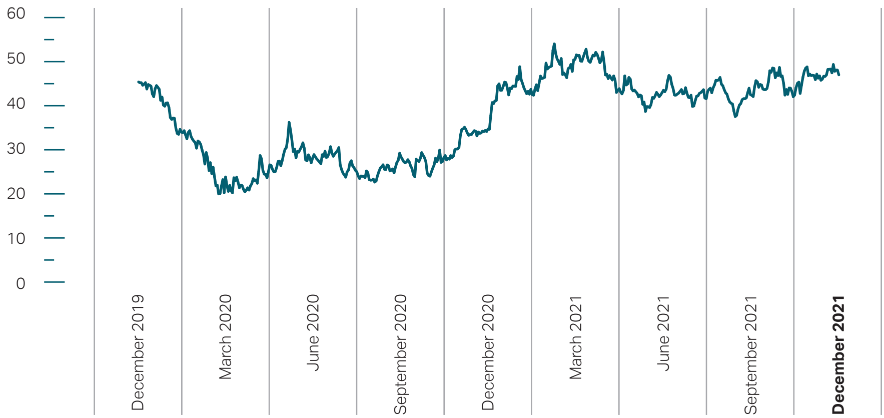
[1] *Refer to supplemental information for the definition of the term.*

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

	Dec 2021	Sept 2021	Jun 2021	Mar 2021	Dec 2020
Exchange rates:					
Period end rate: US$1 = ZAR	**15.9996**	14.9659	14.1487	14.9558	14.5750
Average rate for the quarter: US$1 = ZAR	**15.4148**	14.5837	14.1593	14.9469	15.7164
Average rate for the year to date: US$1 = ZAR	**15.4148**	14.8505	14.9379	15.3290	15.7164
Period end rate: €1 = US$	**1.1370**	1.1716	1.1935	1.1798	1.2206
Average rate for the quarter: €1 = US$	**1.1447**	1.1802	1.2042	1.2074	1.1901
Average rate for the year to date: €1 = US$	**1.1447**	1.1955	1.2005	1.1987	1.1901

Sappi share price – December 2019 to December 2021



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

sappi

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