Sappi Group
(Sappi Limited)
THIRD QUARTER: FISCAL YEAR 2021
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
27 JUNE 2021

6 AUGUST 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.

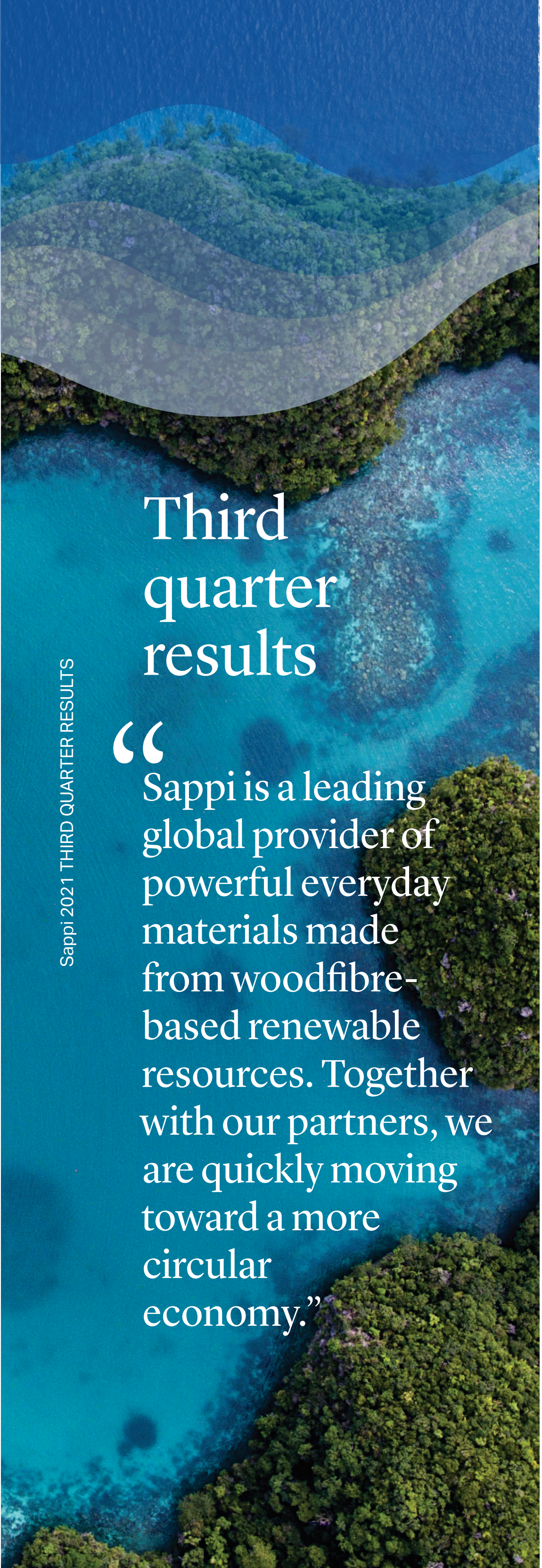
For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to the 2020 Annual Integrated Report as disclosed in the “Bond Reporting Requirements” section of our webpage (www.sappi.com) under “Sappi Papier Holdings”. These factors are not 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.

Third quarter results

for the period ended June 2021

sappi



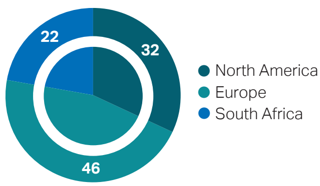
Third quarter results

"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."

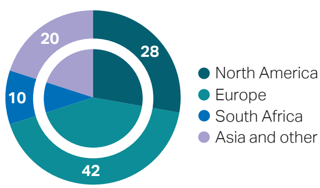
Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and specialities papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production 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.

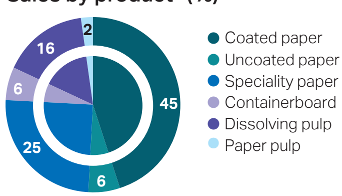
Sales by source* (%)



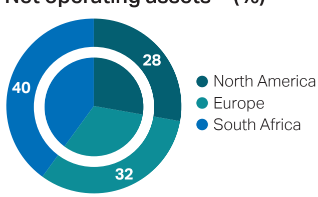
Sales by destination* (%)



Sales by product* (%)

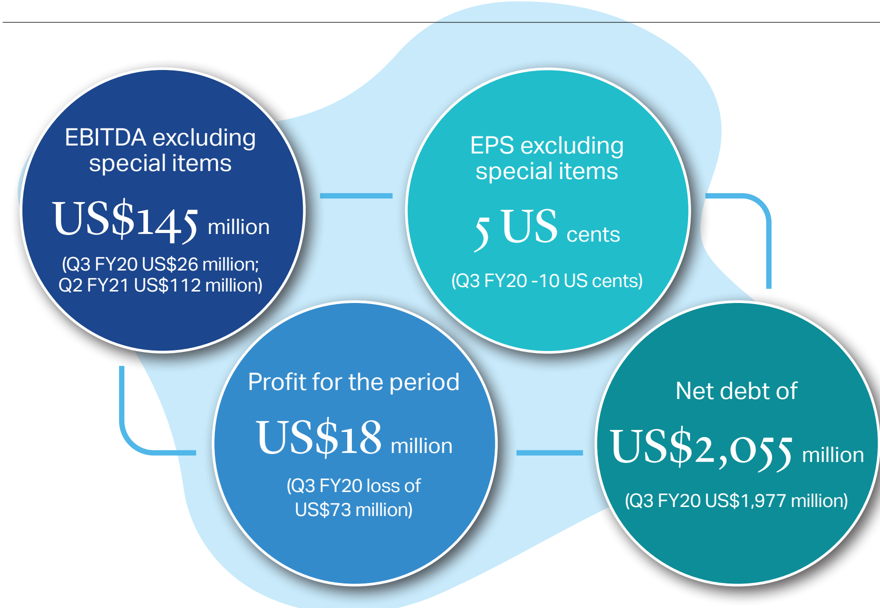


Net operating assets (%)**



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

Highlights for the quarter



	Quarter ended			Nine months ended	
	Jun 2021	Jun 2020	Mar 2021	**Jun 2021**	Jun 2020
Key figures: (US$ million)					
Sales	**1,393**	907	1,284	**3,840**	3,517
Operating profit (loss) excluding special items[1]	**64**	(52)	31	**111**	62
Special items – loss (gain)[2]	**11**	20	12	**23**	56
EBITDA excluding special items[1]	**145**	26	112	**355**	296
Profit (Loss) for the period	**18**	(73)	(23)	**(22)**	(47)
Basic earnings per share (US cents)	**3**	(13)	(4)	**(4)**	(9)
EPS excluding special items (US cents)[3]	**5**	(10)	(1)	**3**	(1)
Net debt[3]	**2,055**	1,977	2,070	**2,055**	1,977
Key ratios: (%)					
Operating profit (loss) excluding special items to sales	**4.6**	(5.7)	2.4	**2.9**	1.8
Operating profit (loss) excluding special items to capital employed (ROCE)[3]	**6.4**	(5.6)	3.2	**3.9**	2.3
EBITDA excluding special items to sales	**10.4**	2.9	8.7	**9.2**	8.4
Net debt to EBITDA excluding special items	**4.7**	4.1	6.5	**4.7**	4.1
Covenant leverage ratio[3], [4]	**4.7**	4.0	6.7	**4.7**	4.0
Interest cover[3], [4]	**4.8**	6.2	3.7	**4.8**	6.2
Net asset value per share (US cents)[3]	**362**	326	345	**362**	326

[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 Covid-19 pandemic continued to evolve. In response, countries moved in and out of restrictions of varying stringency over the past 18 months with many facing considerable pressure to relax public health and social measures. A more favourable economic climate in the majority of our trading regions during the quarter boosted financial performance.

The group delivered EBITDA excluding special items of US$145 million, which was a material improvement on the second quarter EBITDA of US$112 million and resulted in an overall return to profit for the quarter of US$18 million. Strong dissolving pulp (DP) prices and an excellent performance from the packaging and specialities segment contributed to the success. These were partially offset by lower profitability in Europe due to significant input cost inflation. Global logistical challenges continued to impact sales volumes and delivery charges escalated materially.

Higher selling prices facilitated a substantial increase in EBITDA for the DP segment compared to the second quarter. The average Chinese market price for hardwood DP during the quarter was US$1,088 per ton, a 19% increase on the prior quarter average price of US$918 per ton. Due to the lag impact of selling prices incorporated into our major contracts, the benefit of higher third quarter DP market prices will only be realised in the fourth quarter. Sentiment generally remained buoyant on the back of steadily improving retail demand in the apparel sector. However, increased stock levels of viscose staple fibre (VSF), yarn and grey fabric through the supply chain exerted some downward pressure on the VSF price and consequently led to a gradual reduction in the DP price to US$1,050 per ton at the end of June. The DP segment sales volumes for the quarter were below expectations and 14% lower than the second quarter due to a loss of production volumes at the Saiccor Mill and shipping delays in both South Africa and North America. The planned maintenance shut at Saiccor Mill in May was extended and the subsequent start-up took longer than planned, which resulted in a production loss of approximately 40,000 tons. Due to Covid-19 travel restrictions, original equipment vendors were unable to travel to South Africa. As a consequence, the execution of a number of critical projects during the shut was negatively impacted. Vessel delays at quarter end further reduced DP sales volumes by 21,000 tons. Included in the DP segment were 37,000 tons of bleached chemi-thermo mechanical pulp (BCTMP) sales volumes.

The strategic decision taken to reduce exposure to graphic paper through diversification into packaging and specialities grades continued to yield benefits. The EBITDA in this segment reached a new record high and contributed almost half of the group EBITDA. Sales volumes increased by 23% compared to the equivalent quarter in the prior year. The growth in sales volumes and the improved margins in the segment are reflective of the encouraging progress in North America to optimise the product mix at the Somerset Mill and a strong containerboard performance in South Africa.

Demand for graphic paper improved during the quarter as a result of renewed economic activity as countries eased Covid-19 lockdown restrictions and vaccination programmes gained momentum. Sales volumes in the segment reached 90% of volumes in the pre-Covid-19 equivalent quarter in 2019. The substantial capacity that exited the sector also tightened the market balance. However, profitability in the segment remained under pressure due to spiralling purchased pulp input costs, particularly in Europe, in combination with a lag in selling price increases.

Earnings per share excluding special items of 5 US cents was a substantial improvement on the loss of 1 US cent in the second quarter and the loss of 10 US cents in the equivalent quarter of the prior year and is indicative of the steady recovery from the negative impacts of Covid-19.

Cash flow and debt

Net cash generated for the quarter was US$49 million compared to US$67 million utilised in the equivalent quarter of the prior year primarily as a result of the improved profitability, lower finance charges and a positive movement in working capital. Capital expenditure of US$79 million was comparable to the second quarter and the equivalent quarter of the prior year. The finance charges normalised compared to the two prior quarters with no further charges associated with the revaluation of the equity option for the South African subsidiary's convertible bond. Subsequent to quarter-end, the group has received conversion notices for the convertible bond of just over 26% of the initial offering of ZAR1,800 million. The convertible bond will be settled by the issue of approximately 14 million Sappi Limited shares.

Net debt decreased by US$15 million from March 2021 to US$2,055 million with the cash generation of US$49 million offset by currency movements on the translation of Euro and ZAR debt. The leverage ratio at quarter-end was substantially reduced compared to the second quarter and is expected to continue to reduce progressively as the low EBITDA Covid-19 impacted quarters are eliminated from the calculation. Liquidity remains strong with cash on hand of US$405 million and US$690 million available from the undrawn committed revolving credit facilities (RCF) in South Africa and Europe.

Operating review for the quarter

Europe

EUR million	Jun 2021	Mar 2021	Dec 2020	Sept 2020	Jun 2020
		Quarter ended			
Sales – tons	**733**	669	658	570	540
Sales	**536**	483	482	422	420
Operating profit (loss) excluding special items	**(15)**	(8)	–	(19)	(32)
Operating profit (loss) excluding special items to sales (%)	***(2.8)***	*(1.7)*	–	*(4.5)*	*(7.6)*
EBITDA excluding special items	**14**	23	29	13	(1)
EBITDA excluding special items to sales (%)	***2.6***	*4.8*	*6.0*	*3.1*	*(0.2)*
RONOA pa (%)	***(4.7)***	*(2.5)*	–	*(5.8)*	*(9.5)*

Relaxation of Covid-related lockdown measures and resumption of economic activity in Europe had a positive impact on sales volumes in the region, which increased 10% from the prior quarter. However, ongoing limitations on container availability and vessel space resulted in longer export delivery lead times which constrained sales. The region was still forced to take commercial downtime in the graphic paper segment of 85,000 tons.

Sales volumes in the graphics segment increased quarter-on-quarter with coated woodfree and coated mechanical sales reaching 94% and 79% of pre-Covid 2019 levels respectively. A steady growth in order intake was observed as the quarter progressed as a result of improved customer activity and market share gains due to industry capacity closures. The improved demand enabled selling price increases to gain traction at quarter-end, but these were insufficient to offset rapidly escalating purchased pulp input costs and consequently profit margins deteriorated compared to the second quarter.

Sales volumes in the packaging and specialities segment increased 9% from the prior quarter. Demand for paperboard and self-adhesives was strong, however, consumer packaging and digital solutions remained relatively weak but is expected to improve steadily with resumption of retail activity as Covid-19 lockdown restrictions continue to ease. Price increases will only be realised in the fourth quarter due to the term contracts for a large portion of the volumes in this segment and therefore the higher purchased pulp input costs exerted downward pressure on margins.

Fixed costs were well controlled quarter-on-quarter, but variable costs were 10% higher driven by sharp increases in purchased pulp, latex and energy costs. Delivery costs were 6% higher due to limited availability of containers and vessel space.

North America

US$ million	Jun 2021	Mar 2021	Dec 2020	Sept 2020	Jun 2020
		Quarter ended			
Sales – tons	**420**	426	421	416	307
Sales	**438**	408	384	361	267
Operating profit (loss) excluding special items	**31**	11	(2)	–	(32)
Operating profit (loss) excluding special items to sales (%)	***7.1***	*2.7*	*(0.5)*	–	*(12.0)*
EBITDA excluding special items	**57**	35	27	30	(7)
EBITDA excluding special items to sales (%)	***13.0***	*8.6*	*7.0*	*8.3*	*(2.6)*
RONOA pa (%)	***9.1***	*3.3*	*(0.6)*	–	*(9.5)*

An improvement in demand and higher selling prices across all three product segments enabled the North American business to deliver an excellent performance with an EBITDA of US$57 million for the quarter.

Steadily recovering graphics demand combined with industry capacity closures in 2020 resulted in a tight market balance within the region and customer demand for Sappi grades exceeded capacity in the quarter. The benefit of the higher selling prices in the segment were partially offset by increased variable costs, predominantly due to the rise in purchased pulp costs.

The packaging and specialities segment volumes grew 38% year-on-year and 7% compared to the prior quarter. The final ramp-up of paperboard grades on the converted Somerset Mill machine facilitated the growth. The optimisation of the product mix to higher margin grades further contributed to the substantial improvement in EBITDA margin for the segment.

Higher selling prices for DP and BCTMP significantly improved profitability for the quarter. Approximately 11,000 tons of DP sales volumes were delayed into the fourth quarter due to logistical challenges and vessel movements at quarter-end.

Fixed costs were 4% up on the prior quarter primarily due to the annual maintenance shut at Cloquet and Matane Mills. Variable costs increased 5% quarter-on-quarter due to increased raw material costs, particularly purchased pulp, which was partially offset by lower energy costs.

South Africa

ZAR million	Quarter ended Jun 2021	Mar 2021	Dec 2020	Sept 2020	Jun 2020
Sales – tons	**769**	744	604	707	515
Sales	**4,764**	4,743	3,489	4,202	3,650
Operating profit excluding special items	**744**	438	267	306	266
Operating profit excluding special items to sales (%)	***15.6***	*9.2*	*7.7*	*7.3*	*7.3*
EBITDA excluding special items	**1,029**	707	550	644	562
EBITDA excluding special items to sales (%)	***21.6***	*14.9*	*15.8*	*15.3*	*15.4*
RONOA pa (%)	***11.2***	*6.6*	*4.1*	*4.8*	*4.2*

Despite the extended Saiccor Mill maintenance shut, the South African region delivered a significant improvement in EBITDA due to the increase in DP prices. The stronger ZAR/US$ exchange rate partially offset some of the US$ price benefits.

The DP sales volumes were negatively impacted by 40,000 tons of lost production from the extended Saiccor Mill shut as well as a movement of 10,000 tons of sales into the fourth quarter due to vessel delays. Demand from both contract and spot customers remained strong and the machines were fully sold.

Higher sales prices and variable cost savings in the packaging segment led to improved profitability compared to the second quarter and offset weaker printing paper and tissue demand and pricing.

Fixed costs were 2% higher than the prior quarter due to increased personnel costs and maintenance costs associated with the Saiccor Mill shut. Variable cost savings across all of the mills were partially offset by unfavourable usage at Saiccor Mill due to plant instability during the extended start-up after the shut. Overall variable costs for the region were 2% below the prior quarter. Delivery costs were negatively impacted by port congestion and limited vessel space availability, which necessitated the use of alternative higher-cost shipping lines.

Outlook

Although many businesses have re-opened and Covid-related restrictions have loosened, a new wave of infections is developing in countries around the globe. The negative impact of Covid-19 on global economic activity has diminished but the continuing uncertainties represent an ongoing risk to the business performance. Our focus is to keep our employees safe and encourage participation in vaccination programmes.

A brief period of civil unrest in South Africa during July caused major disruptions to raw material supplies and forced the temporary closure of the Saiccor, Tugela and Stanger Mills in KwaZulu-Natal. A combined total of 28,000 tons of DP and 7,000 tons of paper production were lost, which will have an estimated negative impact on fourth quarter EBITDA of approximately US$16 million. The completion and commissioning of the Saiccor Mill expansion project was also negatively impacted by the unrest and ongoing Covid-19 travel restrictions. Therefore, the start-up is projected to be delayed until early in the new financial year.

The outlook for the DP segment remains positive despite a gradual weakening of market pricing in the third quarter. Prices of VSF, cotton and polyester all increased during July which should support DP prices. The fundamental driver of market dynamics in the DP segment is apparel sales, which continue to improve globally quarter-on-quarter as economic activity resumes. The demand from Sappi's DP customers remains strong and much of the benefit of the elevated third quarter pricing will be realised in the fourth quarter due to the lag in contractual pricing.

The underlying demand in the packaging and specialities segment remains robust particularly in South Africa and North America and opportunities for further growth in sales volumes exist in Europe. The outlook for graphic paper in the fourth quarter is encouraging and market conditions are anticipated to steadily recover as activities in the travel and entertainment sectors normalise. This improvement in combination with global industry capacity closures are expected to tighten market supply and allow for price increase traction. However, purchased pulp, chemicals and logistics cost inflation are anticipated to continue into the fourth quarter and will negatively impact margins.

Global logistical challenges including container shortages, port congestion and availability of vessel capacity are still adversely impacting deliveries in all regions. Furthermore, on 22 July the South African port operator, Transnet, was the victim of a cyber-attack which severely disrupted port, rail and road operations and further exacerbated the congestion and inefficiencies in the Durban Port due to the civil unrest.

Capital expenditure in FY2021 is estimated to be US$400 million and liquidity headroom within the group remains strong.

Given the favourable conditions for DP and packaging and specialties combined with tighter graphic paper markets, despite the loss of production volumes from the South African civil unrest and higher raw material costs, we expect an improvement in the fourth quarter EBITDA relative to the third quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

5 August 2021

Forward-looking statements

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- *the Covid-19 pandemic;*
- *the impact on our business of adverse changes in global economic conditions;*
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- *changes in environmental, tax and other laws and regulations;*
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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;*
- *currency fluctuations.*

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Condensed group income statement

US$ million	Note	Quarter ended Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Sales		**1,393**	907	**3,840**	3,517
Cost of sales		**1,253**	895	**3,477**	3,200
Gross profit		**140**	12	**363**	317
Selling, general and administrative expenses		**90**	68	**270**	256
Other operating expenses		**(3)**	16	**5**	55
Operating profit (loss)	3	**53**	(72)	**88**	6
Net finance costs		**28**	24	**108**	67
Finance costs		**28**	24	**84**	70
Finance income		**(1)**	(1)	**(6)**	(4)
Net foreign exchange gain		**(1)**	1	**(1)**	1
Net fair value loss on financial instruments	8	**2**	–	**31**	–
Profit (Loss) before taxation		**25**	(96)	**(20)**	(61)
Taxation		**7**	(23)	**2**	(14)
Profit (Loss) for the period		**18**	(73)	**(22)**	(47)
Basic earnings per share (US cents)	4	**3**	(13)	**(4)**	(9)
Weighted average number of shares in issue (millions)		**547.4**	546.1	**547.1**	545.3
Diluted earnings per share (US cents)	4	**3**	(13)	**(4)**	(9)
Weighted average number of shares on fully diluted basis (millions)		**604.4**	547.4	**603.7**	546.9

Condensed group statement of other comprehensive income

		Quarter ended		Nine months ended	
US$ million	Note	**Jun 2021**	**Jun 2020**	**Jun 2021**	**Jun 2020**
Profit (Loss) for the period		**18**	(73)	**(22)**	(47)
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to profit or loss		**–**	–	**96**	32
Actuarial gains on post-employment benefit funds	8	**–**	–	**100**	35
Tax effect on above item		**–**	–	**(4)**	(3)
Items that may be reclassified subsequently to profit or loss		**73**	24	**232**	(159)
Exchange differences on translation of foreign operations	8	**69**	22	**230**	(156)
Movements in hedging reserves		**3**	3	**3**	(5)
Movement in available for sale financial assets		**1**	–	**–**	–
Tax effect on above items		**–**	(1)	**(1)**	2
Total comprehensive income for the period		**91**	(49)	**306**	(174)

Condensed group balance sheet

US$ million	Note	Jun 2021	Reviewed Sept 2020
ASSETS			
Non-current assets		**4,332**	3,891
Property, plant and equipment		**3,356**	3,103
Right-of-use assets		**117**	101
Plantations	5	**505**	419
Deferred tax assets		**61**	59
Goodwill and intangible assets		**115**	113
Equity accounted investees		**11**	11
Other non-current assets		**167**	85
Current assets		**1,914**	1,564
Inventories		**784**	673
Trade and other receivables		**702**	584
Derivative financial assets		**6**	3
Taxation receivable		**7**	19
Cash and cash equivalents	8	**405**	279
Assets held for sale		**10**	6
Total assets		**6,246**	5,455
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,982**	1,632
Non-current liabilities		**2,981**	2,700
Interest-bearing borrowings	8	**2,088**	1,861
Lease liabilities		**102**	81
Deferred tax liabilities		**374**	304
Defined benefit and other liabilities		**410**	445
Derivative financial liabilities		**7**	9
Current liabilities		**1,283**	1,123
Interest-bearing borrowings		**247**	270
Lease liabilities		**23**	24
Trade and other payables		**991**	797
Provisions		**7**	19
Derivative financial liabilities	8	**5**	2
Taxation payable		**10**	11
Total equity and liabilities		**6,246**	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 Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Profit (Loss) for the period	**18**	(73)	**(22)**	(47)
Adjustment for:				
Depreciation, fellings and amortisation	**98**	91	**296**	282
Taxation	**7**	(23)	**2**	(14)
Net finance costs	**28**	24	**108**	67
Defined post-employment benefits paid	**(24)**	(7)	**(38)**	(23)
Plantation fair value adjustments	**(10)**	(22)	**(51)**	(69)
Asset impairments	**–**	–	**7**	11
Asset impairment reversals	**(4)**	–	**(4)**	–
Equity accounted investees impairments	**–**	10	**1**	10
Net restructuring provisions	**–**	5	**–**	18
(Profit) Loss on disposal and written off assets	**–**	(1)	**(2)**	(1)
Other non-cash items[1]	**13**	21	**34**	43
Cash generated from operations	**126**	25	**331**	277
Movement in working capital	**37**	20	**(24)**	(70)
Finance costs paid	**(31)**	(48)	**(86)**	(101)
Finance income received	**2**	1	**7**	4
Taxation (paid) refund	**(5)**	13	**3**	(30)
Cash generated from operating activities	**129**	11	**231**	80
Cash utilised in investing activities	**(80)**	(78)	**(235)**	(425)
Capital expenditure	**(79)**	(74)	**(231)**	(256)
Proceeds on disposal of assets	**–**	–	**3**	–
Acquisition of subsidiary	**–**	(2)	**–**	(160)
Other non-current asset movements	**(1)**	(2)	**(7)**	(9)
Net cash (utilised) generated	**49**	(67)	**(4)**	(345)
Cash effects of financing activities	**(5)**	(7)	**104**	144
Proceeds from interest-bearing borrowings[2]	**2**	154	**646**	358
Repayment of interest-bearing borrowings[2]	**(1)**	(154)	**(522)**	(197)
Lease repayments	**(6)**	(7)	**(20)**	(17)
Net movement in cash and cash equivalents	**44**	(74)	**100**	(201)
Cash and cash equivalents at beginning of period	**350**	268	**279**	393
Translation effects	**11**	(4)	**26**	(2)
Cash and cash equivalents at end of period	**405**	190	**405**	190

(1) *Other non-cash items for the nine months ended June 2021 primarily relate to non-cash movements in the defined benefit liabilities and plan assets of US$24 million (2021: US$22 million).*

(2) *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, on a net basis, as opposed to a gross basis as previously presented. There was no impact on the comparative numbers.*

Condensed group statement of changes in equity

US$ million	Nine months ended Jun 2021	Jun 2020
Balance – beginning of period	**1,632**	1,948
Profit (Loss) for the period	**(22)**	(47)
Other comprehensive income for the period	**328**	(127)
Convertible bond – equity portion	**37**	–
Transfers of vested share options	**–**	(1)
Share-based payment reserve	**7**	8
Balance – end of period	**1,982**	1,781
Comprising		
Ordinary share capital and premium	**899**	706
Non-distributable reserves	**126**	97
Foreign currency translation reserves	**(184)**	(233)
Hedging reserves	**(39)**	(45)
Retained earnings	**1,180**	1,256
Total equity	**1,982**	1,781

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and nine months ended June 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 5 August 2021.

The results are unaudited.

Going concern

The group incurred a loss of US$22 million for the nine months ended June 2021 (2020: Loss of US$47 million) which includes a fair value loss of US$31 million relating to the financial instruments (refer note 8). The group's performance for the nine months 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. The new covenants applicable from December 2021 as previously advised provide good headroom and will be monitored continuously.

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 Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Sales volume				
North America	**420**	307	**1,267**	1,100
Europe	**733**	540	**2,060**	2,128
South Africa – Pulp and paper	**372**	310	**1,082**	1,037
Forestry	**397**	205	**1,035**	830
Total	**1,922**	1,362	**5,444**	5,095
Which consists of:				
Dissolving pulp	**313**	289	**973**	974
Packaging and specialities	**401**	327	**1,081**	861
Graphics	**811**	541	**2,355**	2,430
Forestry	**397**	205	**1,035**	830

US$ million	Quarter ended Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Sales				
North America	**438**	267	**1,230**	1,024
Europe	**645**	461	**1,802**	1,815
South Africa – Pulp and paper	**310**	187	**811**	689
Forestry	**23**	8	**59**	44
Delivery costs revenue adjustment[2]	**(23)**	(16)	**(62)**	(55)
Total	**1,393**	907	**3,840**	3,517
Which consists of:				
Dissolving pulp	**270**	166	**711**	606
Packaging and specialities	**431**	315	**1,148**	904
Graphics	**692**	434	**1,984**	2,018
Forestry	**23**	8	**59**	44
Delivery costs revenue adjustment[2]	**(23)**	(16)	**(62)**	(55)

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

Notes to the condensed group results continued

2. Segment information continued

US$ million	Quarter ended Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Operating profit (loss) excluding special items				
North America	**31**	(32)	**40**	(27)
Europe	**(18)**	(35)	**(27)**	29
South Africa	**51**	14	**97**	57
Unallocated and eliminations[1]	**–**	1	**1**	3
Total	**64**	(52)	**111**	62
Which consists of:				
Dissolving pulp	**39**	(8)	**70**	1
Packaging and specialities	**41**	25	**76**	68
Graphics	**(16)**	(70)	**(36)**	(10)
Unallocated and eliminations[1]	**–**	1	**1**	3
Special items – (gains) losses				
North America	**(4)**	–	**(3)**	6
Europe	**1**	8	**(1)**	37
South Africa	**11**	4	**20**	1
Unallocated and eliminations[1]	**3**	8	**7**	12
Total	**11**	20	**23**	56
Operating profit (loss) by segment				
North America	**35**	(32)	**43**	(33)
Europe	**(19)**	(43)	**(26)**	(8)
South Africa	**40**	10	**77**	56
Unallocated and eliminations[1]	**(3)**	(7)	**(6)**	(9)
Total	**53**	(72)	**88**	6

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

2. Segment information continued

US$ million	Quarter ended Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
EBITDA excluding special items				
North America	**57**	(7)	**119**	49
Europe	**17**	(1)	**80**	128
South Africa	**71**	30	**153**	113
Unallocated and eliminations[1]	**–**	4	**3**	6
Total	**145**	26	**355**	296
Which consists of:				
Dissolving pulp	**56**	8	**120**	49
Packaging and specialities	**69**	46	**157**	132
Graphics	**20**	(32)	**75**	109
Unallocated and eliminations[1]	**–**	4	**3**	6

[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 believe are material by nature or amount to the operating results and require separate disclosure.

	Quarter ended		Nine months ended	
US$ million	Jun 2021	Jun 2020	Jun 2021	Jun 2020
EBITDA excluding special items	**145**	26	**355**	296
Depreciation and amortisation	**(81)**	(78)	**(244)**	(234)
Operating profit excluding special items	**64**	(52)	**111**	62
Special items – gains (losses)	**(11)**	(20)	**(23)**	(56)
Plantation price fair value adjustment	**(11)**	5	**(8)**	14
Acquisition costs	**(1)**	–	**(1)**	(5)
Net restructuring provisions	**–**	(5)	**–**	(18)
Profit (Loss) on disposal and written off assets	**–**	1	**2**	1
Asset impairments	**–**	–	**(7)**	(11)
Asset impairment reversals	**4**	–	**4**	–
Equity accounted investees impairments	**–**	(10)	**(1)**	(10)
Fire, flood, storm and other events	**(3)**	(11)	**(12)**	(27)
Operating profit	**53**	(72)	**88**	6
Net finance costs	**(28)**	(24)	**(108)**	(67)
Profit (Loss) before taxation	**25**	(96)	**(20)**	(61)
Taxation	**(7)**	23	**(2)**	14
Profit (Loss) for the period	**18**	(73)	**(22)**	(47)

2. Segment information continued

US$ million	Nine months ended Jun 2021	Jun 2020
Net operating assets		
North America	**1,346**	1,284
Europe	**1,537**	1,494
South Africa	**1,871**	1,500
Unallocated and eliminations[1]	**13**	10
Total	**4,767**	4,288
Reconciliation of net operating assets to total assets		
Segment assets	**4,767**	4,288
Deferred tax assets	**61**	59
Cash and cash equivalents	**405**	279
Trade and other payables	**991**	797
Provisions	**7**	19
Derivative financial instruments	**5**	2
Taxation payable	**10**	11
Total assets	**6,246**	5,455

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

3. Operating profit (loss)

	Quarter ended		Nine months ended	
US$ million	**Jun 2021**	Jun 2020	**Jun 2021**	Jun 2020
Included in operating profit are the following items:				
Depreciation and amortisation	**81**	78	**244**	234
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**17**	13	**52**	48
Growth	**(21)**	(17)	**(59)**	(55)
	(4)	(4)	**(7)**	(7)
Plantation price fair value adjustment	**11**	(5)	**8**	(14)
	7	(9)	**1**	(21)
Net restructuring provisions	**–**	5	**–**	18
(Profit) Loss on disposal and written off assets	**–**	(1)	**(2)**	(1)
Assets impairments[1]	**(4)**	–	**(4)**	–
	–	–	**7**	11
Equity accounted investees impairments	**–**	10	**1**	10

[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. An asset impairment reversal of US$4 million was recorded within our North American region writing up the held-for-sale assets to their fair value less cost of disposal.*

4. Earnings per share

US$ million	Quarter ended Jun 2021	Quarter ended Jun 2020	Nine months ended Jun 2021	Nine months ended Jun 2020
Basic earnings per share (US cents)	**3**	(13)	**(4)**	(9)
Headline earnings per share (US cents)	**3**	(12)	**(4)**	(6)
EPS excluding special items (US cents)	**5**	(10)	**3**	(1)
Weighted average number of shares in issue (millions)	**547.4**	546.1	**547.1**	545.3
Diluted earnings per share (US cents)[1]	**3**	(13)	**(4)**	(9)
Diluted headline earnings per share (US cents)[1]	**3**	(12)	**(4)**	(6)
Weighted average number of shares on fully diluted basis (millions)	**604.4**	547.4	**603.7**	546.9
Calculation of headline earnings				
Profit (Loss) for the period	**18**	(73)	**(22)**	(47)
(Profit) Loss on disposal and written off assets	**–**	(1)	**(2)**	(1)
Asset impairment reversals	**(4)**	–	**(4)**	–
Asset impairments	**–**	–	**7**	11
Equity accounted investees impairments	**–**	10	**1**	10
Tax effect of above items	**–**	(1)	**(2)**	(4)
Headline earnings	**14**	(65)	**(22)**	(31)
Calculation of earnings excluding special items				
Profit (Loss) for the period	**18**	(73)	**(22)**	(47)
Special items after tax	**7**	16	**17**	44
Special items	**11**	20	**23**	56
Tax effect	**(4)**	(4)	**(6)**	(12)
Finance costs	**3**	–	**23**	–
Earnings excluding special items	**28**	(57)	**18**	(3)

[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*.

US$ million	**Jun 2021**	**Reviewed Sept 2020**
Fair value of plantations at beginning of year	**419**	451
Additions	**–**	2
Gains arising from growth	**59**	72
Fire, flood, storm and other events	**(1)**	(11)
In-field inventory	**–**	1
Gain arising from fair value price changes	**(8)**	20
Harvesting – agriculture produce (fellings)	**(52)**	(63)
Translation difference	**88**	(53)
Fair value of plantations at end of period	**505**	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.

			Fair value[1]	
US$ million	Classification	Fair value hierarchy	**Jun 2021**	**Reviewed Sept 2020**
Investment funds[2]	FV through OCI	Level 1	**6**	6
Derivative financial assets	FV through PL	Level 2	**6**	3
Derivative financial liabilities	FV through PL	Level 2	**12**	11

(1) *The fair value of the financial instruments are equal to their carrying value.*
(2) *Included in other non-current assets.*

6. Financial instruments continued

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	Jun 2021	Reviewed Sept 2020
Contracted	**135**	89
Approved but not contracted	**122**	232
	257	321

8. Material balance sheet movements

Since the 2020 financial year-end, the ZAR has strengthened by approximately 17% 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 a 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$31 million recognised in profit or loss as finance costs for the nine months ended June 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.

8. Material balance sheet movements continued

In March 2021, 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.

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 $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

Subsequent to quarter end, the group has received conversion notices for its South African subsidiary's convertible bond of just over 26% of the initial offering of ZAR1.8 billion. The convertible bond will be settled by the issue of approximately 14 million Sappi Limited shares.

Additionally, incidents of civil unrest in South Africa in July caused major disruptions to raw material supplies and necessitated the temporary closure of our Saiccor, Tugela and Stanger Mills in KwaZulu-Natal. The estimated impact is US$16 million on EBITDA.

11. 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 1/2019, 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

(this information has not been audited or reviewed)

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

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

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

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

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

Special items – special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and 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		Nine months ended	
	Jun 2021	**Jun 2020**	**Jun 2021**	**Jun 2020**
Key figures: (ZAR million)				
Sales	**19,724**	16,303	**57,362**	56,214
Operating profit excluding special items[1]	**906**	(935)	**1,658**	991
Special items – (gains) losses[1]	**156**	359	**344**	895
EBITDA excluding special items[1]	**2,053**	467	**5,303**	4,731
Profit for the period	**255**	(1,312)	**(329)**	(751)
Basic earnings per share (SA cents)	**47**	(240)	**(60)**	(138)
Net debt[1]	**29,076**	34,074	**29,076**	34,074
Key ratios: (%)				
Operating profit excluding special items to sales	**4.6**	(5.7)	**2.9**	1.8
Operating profit excluding special items to capital employed (ROCE)[1]	**6.2**	(5.7)	**3.7**	2.3
EBITDA excluding special items to sales	**10.4**	2.9	**9.2**	8.4

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

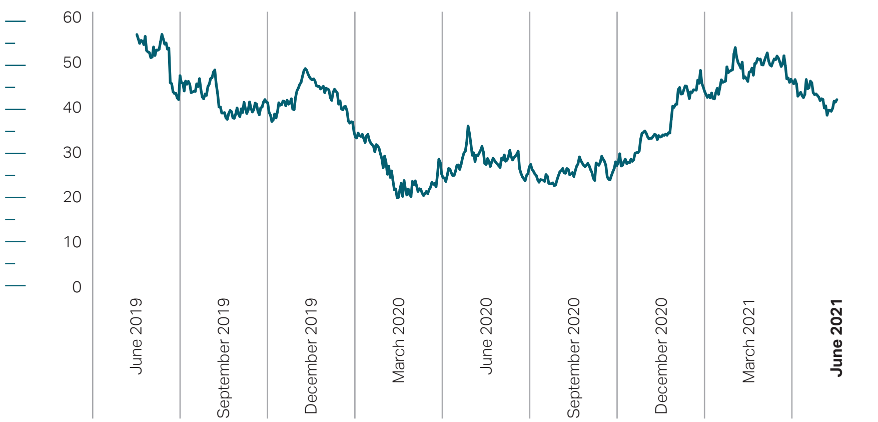
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end; and
– income, expenditure and cash flow items at average exchange rates.

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

Exchange rates

	Jun 2021	Mar 2021	Dec 2020	Sept 2020	Jun 2020
Exchange rates:					
Period end rate: US$1 = ZAR	**14.1487**	14.9558	14.5750	17.1311	17.2350
Average rate for the quarter: US$1 = ZAR	**14.1593**	14.9469	15.7164	16.9157	17.9747
Average rate for the year to date: US$1 = ZAR	**14.9379**	15.3290	15.7164	16.2265	15.9835
Period end rate: €1 = US$	**1.1935**	1.1798	1.2206	1.1632	1.1219
Average rate for the quarter: €1 = US$	**1.2042**	1.2074	1.1901	1.1674	1.1005
Average rate for the year to date: €1 = US$	**1.2005**	1.1987	1.1901	1.1195	1.1035

Sappi share price – June 2019 to June 2021



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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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