

**Sappi Group
(Sappi Limited)
THIRD QUARTER: FISCAL YEAR 2022
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
3 JULY 2022**

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

For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to the 2021 Annual Integrated Report as disclosed in the “Bond Reporting Requirements” section of our webpage (www.sappi.com) under “Sappi Papier Holdings”. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

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

sappi



THIRD
QUARTER RESULTS
for the period ended June 2022

THIRD QUARTER RESULTS

“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.

EBITDA excluding
special items

US\$371 million

Q3 FY21: US\$145 million

Net debt of

US\$1,530 million

Q3 FY21: US\$2,055 million

Profit for the period

US\$199 million

Q3 FY21: profit of
US\$18 million

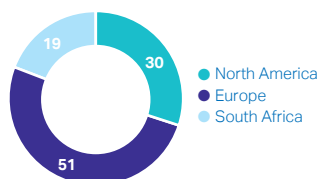
EPS excluding
special items

39 US cents

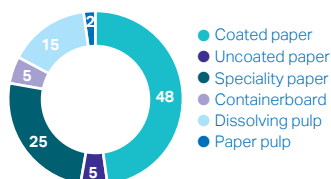
Q3 FY21: profit of
5 US cents

Highlights for the quarter

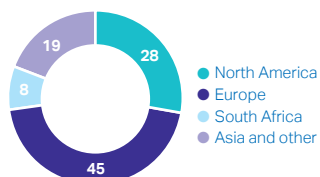
Sales by source* (%)



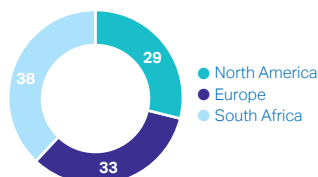
Sales by product* (%)



Sales by destination* (%)



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



* For the period ended June 2022.

** As at June 2022.

	Quarter ended			Nine months ended	
	Jun 2022	Jun 2021	Mar 2022	Jun 2022	Jun 2021
Key figures: (US\$ million)					
Sales	1,818	1,393	1,858	5,373	3,840
Operating profit (loss) excluding special items ⁽¹⁾	300	64	259	720	111
Special items – loss (gain) ⁽²⁾	34	11	29	55	23
EBITDA excluding special items ⁽¹⁾	371	145	337	948	355
Profit (Loss) for the period	199	18	188	510	(22)
Basic earnings per share (US cents)	35	3	33	91	(4)
EPS excluding special items (US cents) ⁽³⁾	39	5	35	94	3
Net debt ⁽³⁾	1,530	2,055	1,793	1,530	2,055
Key ratios: (%)					
Operating profit (loss) excluding special items to sales	16.5	4.6	13.9	13.4	2.9
Operating profit (loss) excluding special items to capital employed (ROCE) ⁽³⁾	29.8	6.4	25.8	24.5	3.9
EBITDA excluding special items to sales	20.4	10.4	18.1	17.6	9.2
Net debt to EBITDA excluding special items	1.4	4.7	2.0	1.4	4.7
Covenant leverage ratio ⁽³⁾	1.4	4.7	2.0	1.4	4.7
Interest cover ⁽³⁾	12.2	4.8	9.5	12.2	4.8
Net asset value per share (US cents) ⁽³⁾	421	362	417	421	362

⁽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⁾

The group generated a record quarterly EBITDA excluding special items of US\$371 million, an excellent achievement against a backdrop of significant geopolitical turmoil, supply chain headwinds and extraordinary global inflationary pressures. Strong global paper demand and pricing momentum offset sharply rising costs and the negative impact of the maintenance shuts in the pulp segment. The sizeable cash generation during the quarter supported our strategic objective to de-gear the balance sheet and accelerated our timeline to reduce debt.

Covid lockdowns in China and the ongoing Russian-Ukrainian conflict exerted renewed pressure on global supply chains and energy prices resulting in further broad-based inflation during the quarter.

During April, a flood in South Africa forced the temporary closure of our three mills in the KwaZulu-Natal region and resulted in a loss of 24,000 tons of production and

32,000 tons of inventory which was damaged in a warehouse at the Durban port. The insured margin on the damaged inventory and business interruption of US\$19 million were recognised in EBITDA.

The hardwood dissolving pulp (DP) market price⁽²⁾ rallied to US\$1,200 per ton on the back of buoyant viscose staple fibre (VSF) prices, which reached their highest level since 2017. Global DP supply-side constraints, including our own flood losses and a major fire at another large market player, served to tighten DP markets which further bolstered the price upswing. However, the profitability of the pulp segment was impacted negatively by the maintenance shuts at all three DP mills, significant input cost inflation and lower than planned sales volumes. Saiccor Mill production was unstable after the floods and the scheduled maintenance shut. In addition, further challenges at the Durban port after the floods led to renewed congestion which delayed shipments of approximately 24,000 tons at quarter end. Consequently, DP sales volumes were limited to 217,000 tons in the quarter.

⁽¹⁾ "year-on-year" or "prior year" is a comparison between Q3 FY2021 versus Q3 FY2022; "quarter-on-quarter" or "prior quarter" is a comparison between Q3 FY2022 and Q2 FY2022.

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

Graphic paper sales volumes were 4% higher than the prior year. The segment benefited from tight market conditions which supported selling price increases and drove margin growth. These favourable market conditions enabled all assets to run at full operating rates during the quarter.

The packaging and speciality papers segment reached another record level of profitability despite flat year-on-year sales volumes, which were constrained by available capacity and low inventory levels in North America and South Africa. Demand remained robust and further selling price increases lifted margins for the segment.

Earnings per share excluding special items of 39 US cents was a substantial improvement on the 5 US cents in the prior year. Special items reduced earnings by US\$34 million, related mainly to a negative plantation fair value adjustment of US\$16 million and the net loss after insurance proceeds for the South African floods of US\$19 million.

Cash flow and debt

Due to the higher profitability, net cash generated for the quarter of US\$170 million was substantially better than the US\$49 million in the prior year, despite an outflow of working capital related to inflationary increases for inventories and accounts receivables. Capital expenditure of US\$93 million was in line with expectations.

Net debt of US\$1,530 million was US\$525 million less than the prior year as a result of strong cash generation and a positive translation impact of a weaker EUR/US Dollar exchange rate on the predominantly Euro-denominated debt.

In terms of the relevant banking facilities, the covenant leverage ratio reduced to 1.4 times at the end of June 2022; a significant improvement on the 4.7 times last year and 2.0 times in the prior quarter.

Liquidity comprised cash on hand of US\$570 million and US\$643 million from the undrawn committed revolving credit facilities (RCFs) in South Africa and Europe.



Europe

EUR million	Quarter ended				
	Jun 2022	Mar 2022	Dec 2021	Sept 2021	Jun 2021
Sales – tons	780	801	837	757	733
Sales	943	839	740	589	536
Operating profit (loss) excluding special items	173	98	11	(21)	(15)
<i>Operating profit (loss) excluding special items to sales (%)</i>	18.3	11.7	1.5	(3.6)	(2.8)
EBITDA excluding special items	200	124	40	12	14
<i>EBITDA excluding special items to sales (%)</i>	21.2	14.8	5.4	2.0	2.6
RONOA <i>pa (%)</i>	49.0	29.1	3.4	(6.6)	(4.7)

A substantial improvement in profitability of the European business was a result of favourable market conditions, which facilitated selling price increases in the paper segments and enabled the region to offset higher costs across all input categories.

Renewed volatility in energy pricing towards the latter part of the quarter was fuelled by concerns of potential gas shortages linked to the Russian-Ukrainian conflict. Similarly, chemical, pulp and delivery costs escalated substantially.

Sales volumes in the packaging and speciality papers segment grew by 16% compared to the prior year. Average selling prices in the segment increased despite some lag impact related to term contracts. Paperboard, consumer goods, self-adhesives and label paper demand

was solid during the quarter. The new label paper offerings from Gratkorn Mill were well received in the market and the ramp-up of sales is proceeding faster than anticipated.

Graphic paper markets remained tight during the quarter despite Finnish capacity re-entering the market after resolution of an extended strike. Sales volumes were 4% higher than the prior year and the selling price increases implemented during the quarter offset rising costs and drove margin expansion for the segment.

Extraordinary inflation across all input categories, especially energy, increased variable costs by 47% compared to the prior year. Fixed costs were 14% higher year-on-year due to escalating personnel and maintenance costs.



North America

US\$ million	Quarter ended				
	Jun 2022	Mar 2022	Dec 2021	Sept 2021	Jun 2021
Sales – tons	437	445	453	418	420
Sales	566	536	512	458	438
Operating profit excluding special items	97	88	63	65	31
<i>Operating profit excluding special items to sales (%)</i>	17.1	16.4	12.3	14.2	7.1
EBITDA excluding special items	118	114	89	90	57
<i>EBITDA excluding special items to sales (%)</i>	20.8	21.3	17.4	19.7	13.0
RONOA <i>pa (%)</i>	29.2	26.4	19.1	19.5	9.1

Profitability of the North American business continued its upwards trajectory with the region recording yet another record quarterly EBITDA of US\$118 million. Tight markets and higher selling prices contributed to this achievement despite high cost inflation. Further progress was made on optimising the product mix for the assets.

US graphic paper markets continued to be tightly supplied. Strong demand enabled the region to increase sales volumes in the segment by 2%. Inventory levels remained low due to higher sales over the past year.

Sales volumes for the packaging and speciality papers segment were

constrained by available capacity; however, higher selling prices and improved mix led to record profitability for this segment.

Demand for Sappi Verve⁽³⁾ and high yield BCTMP was strong but higher costs and the annual maintenance outages at Cloquet and Matane Mills resulted in a quarter-on-quarter margin squeeze in the pulp segment. Sales volumes in the segment of 116,000 tons included 42,000 tons of BCTMP⁽⁴⁾ pulp.

Variable costs increased 19% year-on-year due to inflation across all input categories. Fixed costs were 9% higher, mainly due to maintenance and personnel cost increases.

⁽³⁾ Sappi Verve – brand name for dissolving pulp.

⁽⁴⁾ BCTMP – bleached chemi-thermomechanical pulp.



South Africa

ZAR million	Quarter ended				
	Jun 2022	Mar 2022	Dec 2021	Sept 2021	Jun 2021
Sales – tons	654	812	737	720	769
Sales	4,202	6,229	5,765	4,320	4,764
Operating profit excluding special items	214	911	1,310	793	744
<i>Operating profit excluding special items to sales (%)</i>	5.1	14.6	22.7	18.4	15.6
EBITDA excluding special items	556	1,231	1,603	1,100	1,029
<i>EBITDA excluding special items to sales (%)</i>	13.2	19.8	27.8	25.5	21.6
RONOA <i>pa (%)</i>	3.0	12.9	19.0	11.8	11.2

The South African business experienced a challenging quarter. Operational activities were negatively impacted by the flood in KwaZulu-Natal and the scheduled shuts at the Saiccor and Ngodwana Mills. Saiccor Mill in particular was impacted by these disruptions and the subsequent ramp-up of production at the mill was challenging. Additionally, renewed congestion at the Durban port delayed deliveries of approximately 24,000 tons.

Profitability of the pulp segment was negatively impacted by a combination of reduced sales volumes, lower Verve contract pricing based on the prior quarter's weaker market price, and substantial cost inflation.

Packaging paper sales volumes were constrained by low inventory levels following a strong start to the year and exacerbated by lost production and damaged stock due to the flood.

Tissue, office and newsprint paper markets remained tight and customer demand exceeded supply in these categories. The positive market environment supported price increases, which were necessary to offset rising costs.

Substantial raw material inflation across all categories and operational inefficiencies at Saiccor drove a year-on-year variable costs increase of 46%. Fixed costs increased by 12% primarily due to personnel and additional maintenance costs associated with the shuts at Saiccor and Ngodwana Mills.

Outlook

Although macroeconomic uncertainties related to geopolitical volatility within Europe and persistently high global inflation may dampen consumer sentiment and discretionary spend in the short term, we expect the favourable price levels and strong demand for our products to continue in the fourth quarter.

DP markets are expected to remain tight due to ongoing logistical challenges and supply constraints. Demand from our customers remains healthy and the benefit of the higher market pricing in the third quarter will support margins on our contracted sales in the fourth quarter. However, in late June, global recessionary fears prompted a broad-based selloff in commodities which triggered a sharp drop in cotton prices in China. The differential between cotton and VSF pricing has been eroded and VSF pricing may come under pressure which could impact future DP prices.

Despite early indicators of the graphic paper market softening in some of our sales regions, our order books remain healthy. Input cost inflation is likely to weigh upon margins in this segment, but we still anticipate favourable margins significantly above long-term trends.

Demand from our packaging and speciality papers customers remains robust. This segment has proven to be resilient through economic downturns and we will continue to focus our efforts to optimise product mix and maximise sales volumes.

The ongoing threat to gas and energy supplies in Europe poses a potential risk to our European business. To date, our energy risk mitigation strategies have successfully neutralised cost impacts, and we will continue to monitor developments and take action where appropriate.

Capital expenditure is estimated to be US\$395 million for FY2022.

Notwithstanding inflationary cost pressures, we are anticipating another strong performance in the fourth quarter, with EBITDA below the record levels achieved in the third quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

4 August 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 cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
 - the Covid-19 pandemic;
 - the impact on our business of adverse changes in global economic conditions;
 - unanticipated production disruptions (including as a result of planned or unexpected power outages);
 - changes in environmental, tax and other laws and regulations;
 - adverse changes in the markets for our products;
 - the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
 - consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
 - adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
 - the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies;
 - currency fluctuations.
- We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Condensed group income statement

US\$ million	Note	Quarter ended		Nine months ended	
		Jun 2022	Jun 2021	Jun 2022	Jun 2021
Sales		1,818	1,393	5,373	3,840
Cost of sales		1,449	1,253	4,399	3,477
Gross profit		369	140	974	363
Selling, general and administrative expenses		107	90	320	270
Other operating (income) expenses	8	(2)	(3)	(9)	5
Share of profit from equity accounted investees		(2)	–	(2)	–
Operating profit	3	266	53	665	88
Net finance costs		22	28	75	108
Finance costs		27	28	83	84
Finance income		(3)	(1)	(6)	(6)
Net foreign exchange gain		(2)	(1)	(2)	(1)
Net fair value loss on financial instruments		–	2	–	31
Profit (Loss) before taxation		244	25	590	(20)
Taxation		45	7	80	2
Profit (Loss) for the period		199	18	510	(22)
Basic earnings per share (US cents)	4	35	3	91	(4)
Weighted average number of shares in issue (millions)		564.6	547.4	562.6	547.1
Diluted earnings per share (US cents)	4	33	3	86	(4)
Weighted average number of shares on fully diluted basis (millions)		602.4	604.4	600.0	603.7

Condensed group statement of other comprehensive income

US\$ million	Note	Quarter ended		Nine months ended	
		Jun 2022	Jun 2021	Jun 2022	Jun 2021
Profit (Loss) for the period		199	18	510	(22)
Other comprehensive income, net of tax					
<i>Items that will not be reclassified subsequently to profit or loss</i>		(24)	–	(34)	96
Actuarial gains (losses) on post-employment benefit funds	8	(32)	–	(60)	100
Tax effect	8	8	–	26	(4)
<i>Items that may be reclassified subsequently to profit or loss</i>		(148)	73	(79)	232
Exchange differences on translation of foreign operations		(129)	69	(56)	230
Movements in hedging reserves		(22)	3	(23)	3
Tax effect		3	–	–	(1)
Total comprehensive income for the period		27	91	397	306

Condensed group balance sheet

US\$ million	Note	Jun 2022	Reviewed Sept 2021
ASSETS			
Non-current assets		3,870	4,255
Property, plant and equipment		3,092	3,325
Right-of-use assets		96	110
Plantations		410	477
Deferred tax assets	8	50	59
Goodwill and intangible assets		96	110
Equity accounted investees		9	10
Other non-current assets	8	117	164
Current assets		2,437	1,931
Inventories	8	918	841
Trade and other receivables	8	928	703
Derivative financial assets		9	4
Taxation receivable		2	7
Cash and cash equivalents		570	366
Assets held for sale		10	10
Total assets		6,307	6,186
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest	8	2,379	1,970
Non-current liabilities		2,571	2,907
Interest-bearing borrowings		1,808	2,062
Lease liabilities		82	94
Deferred tax liabilities	8	327	345
Defined benefit and other liabilities		354	400
Derivative financial liabilities		—	6
Current liabilities		1,357	1,309
Interest-bearing borrowings		185	132
Lease liabilities		25	24
Trade and other payables		1,113	1,131
Provisions		4	10
Derivative financial liabilities		4	4
Taxation payable		26	8
Total equity and liabilities		6,307	6,186
Number of shares in issue at balance sheet date (millions)		565.2	561.5

Condensed group statement of cash flows

US\$ million	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Profit (Loss) for the period	199	18	510	(22)
<i>Adjustment for:</i>				
Depreciation, felling and amortisation	84	98	270	296
Taxation	45	7	80	2
Net finance costs	22	28	75	108
Defined post-employment benefits paid	(5)	(24)	(16)	(38)
Plantation fair value adjustments	(3)	(10)	(14)	(51)
Asset impairments	-	-	-	7
Asset impairment reversals	-	(4)	-	(4)
Equity accounted investees impairments	(3)	-	(3)	1
(Profit) Loss on disposal and written off assets	24	-	44	(2)
Other non-cash items	(12)	13	(31)	34
Cash generated from operations	351	126	915	331
Movement in working capital	(71)	37	(348)	(24)
Finance costs paid	(14)	(31)	(52)	(86)
Finance income received	2	2	5	7
Taxation (paid) refund	(7)	(5)	(15)	3
Cash generated from operating activities	261	129	505	231
Cash utilised in investing activities	(91)	(80)	(241)	(235)
Capital expenditure	(93)	(79)	(234)	(231)
Proceeds on disposal of assets	-	-	1	3
Other non-current asset movements	2	(1)	(8)	(7)

US\$ million	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Net cash generated (utilised)	170	49	264	(4)
Cash effects of financing activities	(4)	(5)	(15)	104
Proceeds from interest-bearing borrowings	1	2	48	646
Repayment of interest-bearing borrowings	1	(1)	(46)	(522)
Lease repayments	(6)	(6)	(17)	(20)
Net movement in cash and cash equivalents	166	44	249	100
Cash and cash equivalents at beginning of period	440	350	366	279
Translation effects	(36)	11	(45)	26
Cash and cash equivalents at end of period	570	405	570	405

Condensed group statement of changes in equity

US\$ million	Nine months ended	
	Jun 2022	Jun 2021
Balance – beginning of period	1,970	1,632
Profit (Loss) for the period	510	(22)
Other comprehensive income for the period	(113)	328
Issue of shares	6	–
Convertible bond – equity portion	–	37
Share-based payment reserve	6	7
Balance – end of period	2,379	1,982
Comprising		
Ordinary share capital and premium	806	899
Non-distributable reserves	116	126
Foreign currency translation reserves	(168)	(184)
Hedging reserves	(60)	(39)
Retained earnings	1,685	1,180
Total equity	2,379	1,982

Notes to the condensed group results

1. Basis of preparation

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

The nine months ended June 2022 comprised 40 weeks whereas the nine months ended June 2021 comprised 39 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 4 August 2022.

The results are unaudited.

2. Segment information

Metric tons (000's)	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Sales volume				
North America	437	420	1,335	1,267
Europe	780	733	2,418	2,060
South Africa – Pulp and paper	286	372	1,131	1,082
Forestry	368	397	1,072	1,035
Total	1,871	1,922	5,956	5,444
Which consists of:				
Pulp	259	313	1,043	973
Packaging and speciality papers	399	401	1,207	1,081
Graphic papers	845	811	2,634	2,355
Forestry	368	397	1,072	1,035

Notes to the condensed group results continued

2. Segment information continued

US\$ million	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Sales				
North America	566	438	1,614	1,230
Europe	1,011	645	2,801	1,802
South Africa – Pulp and paper	246	310	987	811
Forestry	22	23	64	59
Delivery costs revenue adjustment ⁽¹⁾	(27)	(23)	(93)	(62)
Total	1,818	1,393	5,373	3,840
Which consists of:				
Pulp	226	270	913	711
Packaging and speciality papers	545	431	1,557	1,148
Graphic papers	1,052	692	2,932	1,984
Forestry	22	23	64	59
Delivery costs revenue adjustment ⁽¹⁾	(27)	(23)	(93)	(62)
Operating profit (loss) excluding special items				
North America	97	31	248	40
Europe	190	(18)	312	(27)
South Africa	13	51	158	97
Unallocated and eliminations ⁽²⁾	–	–	2	1
Total	300	64	720	111
Which consists of:				
Pulp	12	39	146	70
Packaging and speciality papers	84	41	207	76
Graphic papers	204	(16)	365	(36)
Unallocated and eliminations ⁽²⁾	–	–	2	1
Special items – (gains) losses				
North America	–	(4)	(29)	(3)
Europe	–	1	18	(1)
South Africa	56	11	85	20
Unallocated and eliminations ⁽²⁾	(22)	3	(19)	7
Total	34	11	55	23

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

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

2. Segment information continued

US\$ million	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Operating profit (loss) by segment				
North America	97	35	277	43
Europe	190	(19)	294	(26)
South Africa	(43)	40	73	77
Unallocated and eliminations ⁽¹⁾	22	(3)	21	(6)
Total	266	53	665	88
EBITDA excluding special items				
North America	118	57	321	119
Europe	218	17	404	80
South Africa	35	71	220	153
Unallocated and eliminations ⁽¹⁾	–	–	3	3
Total	371	145	948	355
Which consists of:				
Pulp	31	56	201	120
Packaging and speciality papers	108	69	281	157
Graphic papers	232	20	463	75
Unallocated and eliminations ⁽¹⁾	–	–	3	3

⁽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		Nine months ended	
		Jun 2022	Jun 2021	Jun 2022	Jun 2021
EBITDA excluding special items		371	145	948	355
Depreciation and amortisation		(71)	(81)	(228)	(244)
Operating profit excluding special items		300	64	720	111
Special items – gains (losses)		(34)	(11)	(55)	(23)
Plantation price fair value adjustment		(16)	(11)	(44)	(8)
Acquisition costs		–	(1)	–	(1)
Profit (Loss) on disposal and written off assets	8	(24)	–	(44)	2
Asset impairments		–	–	–	(7)
Asset impairment reversals		–	4	–	4
Equity accounted investees impairment reversal		3	–	3	(1)
Insurance recoveries		24	–	24	–
Fire, flood, storm and other events	8	(21)	(3)	6	(12)
Operating profit		266	53	665	88
Net finance costs		(22)	(28)	(75)	(108)
Profit (Loss) before taxation		244	25	590	(20)
Taxation		(45)	(7)	(80)	(2)
Profit (Loss) for the period		199	18	510	(22)

2. Segment information continued

US\$ million	Nine months ended	
	Jun 2022	Jun 2021
Net operating assets		
North America	1,300	1,346
Europe	1,509	1,537
South Africa	1,712	1,871
Unallocated and eliminations ⁽¹⁾	19	13
Total	4,540	4,767
Reconciliation of net operating assets to total assets		
Segment assets	4,540	4,767
Deferred tax assets	50	61
Cash and cash equivalents	570	405
Trade and other payables	1,113	991
Provisions	4	7
Derivative financial instruments	4	5
Taxation payable	26	10
Total assets	6,307	6,246

⁽¹⁾ Includes the group's treasury operations and insurance captive.

Notes to the condensed group results continued

3. Operating profit (loss)

US\$ million	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Included in operating profit are the following items:				
Depreciation and amortisation	71	81	228	244
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	13	17	42	52
Growth	(19)	(21)	(58)	(59)
	(6)	(4)	(16)	(7)
Plantation price fair value adjustment	16	11	44	8
	10	7	28	1
(Profit) Loss on disposal and written off assets	24	–	44	(2)
Asset impairments	–	–	–	7
Asset impairment reversals	–	(4)	–	(4)
Equity accounted investees impairment reversal	(3)	–	(3)	1
Insurance recoveries	(24)	–	(24)	–

4. Earnings per share

US\$ million	Note	Quarter ended		Nine months ended	
		Jun 2022	Jun 2021	Jun 2022	Jun 2021
Basic earnings per share (US cents)		35	3	91	(4)
Headline earnings per share (US cents)		35	3	93	(4)
EPS excluding special items (US cents)		39	5	94	3
Weighted average number of shares in issue (millions)		564.6	547.4	562.6	547.1
Diluted earnings per share (US cents)		33	3	86	(4)
Diluted headline earnings per share (US cents)		33	3	88	(4)
Weighted average number of shares on fully diluted basis (millions)		602.4	604.4	600.0	603.7
Calculation of headline earnings					
Profit (Loss) for the period		199	18	510	(22)
(Profit) Loss on disposal and write off of property, plant and equipment		–	–	20	(2)
Asset impairments		–	–	–	7
Asset impairment reversals		–	(4)	–	(4)
Equity accounted investees impairment reversal		(3)	–	(3)	1
Tax effect of above items		–	–	(5)	(2)
Headline earnings		196	14	522	(22)
Calculation of earnings excluding special items					
Profit (Loss) for the period		199	18	510	(22)
Special items after tax		18	7	26	17
Special items		34	11	55	23
Tax effect		(16)	(4)	(29)	(6)
Finance costs		–	3	–	23
Tax special items	8	6	–	(5)	–
Earnings excluding special items		223	28	531	18

5. Financial instruments

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

US\$ million	Classification	Fair value hierarchy	Fair value ⁽¹⁾	
			Jun 2022	Reviewed Sept 2021
Investment funds ⁽²⁾	FV through OCI	Level 1	4	6
Derivative financial assets	FV through PL	Level 2	9	4
Derivative financial liabilities	FV through PL	Level 2	4	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	Jun 2022	Reviewed Sept 2021
Contracted	131	116
Approved but not contracted	161	144
	292	260

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

US\$ million	Jun 2022	Reviewed Sept 2021
Non-current and current interest-bearing borrowings	1,993	2,194
Non-current and current lease liabilities	107	118
Less: Cash and cash equivalents	(570)	(366)
Net debt	1,530	1,946
As at June 2022, the group was in compliance with its debt covenants:		
Covenant leverage ratio	1.4	4.7
Interest cover	12.2	4.8

8. Material balance sheet movements

Ordinary shareholders' interest

The group issued 3.4 million ordinary shares in April 2022 amounting to US\$6 million to settle just over 6% of its subsidiary's convertible bond initial offering of ZAR1.8 billion.

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.

Deferred tax assets and liabilities

On 23 February 2022, the South African Minister of Finance announced that the corporate income tax rate would be reduced from 28% to 27%, effective from years of assessment ending on or after 31 March 2023. The estimated impact of this rate change to the income statement was a credit of US\$11 million.

In March 2022, our North American segment recognised net deferred tax assets that had previously been derecognised related to actuarial losses on its defined benefit plans with US\$18 million recognised directly in other comprehensive income in March 2022.

Inventories, trade and other receivables

In April 2022, severe flooding occurred in the KwaZulu-Natal province of South Africa resulting in widespread damage and losses. As a result, the group's South African segment wrote off inventory, incurred incremental costs and business interruption losses amounting to US\$43 million in the quarter. A related insurance receivable amounting to US\$24 million was also raised.

9. Related parties

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

10. Events after balance sheet date

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

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

There has been no significant change to 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)

Supplemental **information** continued

(this information has not been audited or reviewed)

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

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

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

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

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

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

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

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

Summary Rand convenience translation

	Quarter ended		Nine months ended	
	Jun 2022	Jun 2021	Jun 2022	Jun 2021
Key figures: (ZAR million)				
Sales	28,382	19,724	82,796	57,362
Operating profit excluding special items ⁽¹⁾	4,683	906	11,095	1,658
Special items – (gains) losses ⁽¹⁾	531	156	848	344
EBITDA excluding special items ⁽¹⁾	5,792	2,053	14,608	5,303
Profit for the period	3,107	255	7,859	(329)
Basic earnings per share (SA cents)	550	47	1,397	(60)
Net debt ⁽¹⁾	25,097	29,076	25,097	29,076
Key ratios: (%)				
Operating profit excluding special items to sales	16.5	4.6	13.4	2.9
Operating profit excluding special items to capital employed (ROCE) ⁽¹⁾	30.0	6.2	24.1	3.7
EBITDA excluding special items to sales	20.4	10.4	17.6	9.2

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

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

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

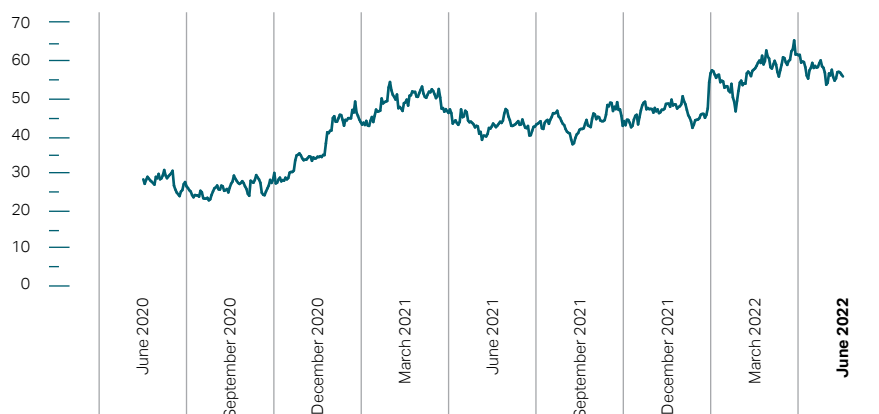
Supplemental information continued

(this information has not been audited or reviewed)

Exchange rates

	Jun 2022	Mar 2022	Dec 2021	Sept 2021	Jun 2021
Exchange rates:					
Period end rate: US\$1 = ZAR	16.4033	14.6650	15.9996	14.9659	14.1487
Average rate for the quarter: US\$1 = ZAR	15.6115	15.2130	15.4148	14.5837	14.1593
Average rate for the year to date: US\$1 = ZAR	15.4097	15.3186	15.4148	14.8505	14.9379
Period end rate: €1 = US\$	1.0429	1.1055	1.1370	1.1716	1.1935
Average rate for the quarter: €1 = US\$	1.0638	1.1214	1.1447	1.1802	1.2042
Average rate for the year to date: €1 = US\$	1.1108	1.1335	1.1447	1.1955	1.2005

Sappi share price – June 2020 to June 2022



sappi

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South Africa

Computershare Investor Services (Pty) Ltd
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
South Africa

Private Bag X9000
Saxonwold, 2132
South Africa

www.computershare.com 

United States ADR Depositary

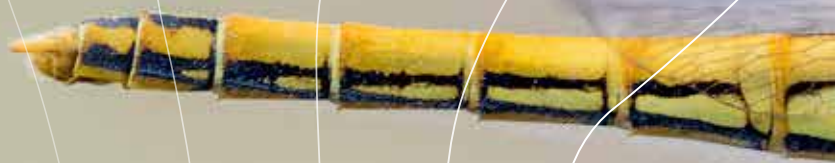
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Investor Relations
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Church Street Station
New York, NY 10286-1258
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