For further information	Issued by
André F Oberholzer Group Head Corporate Affairs Sappi Limited Tel +27 (0)11 407 8044 Mobile +27 (0)83 235 2973 Andre.Oberholzer@sappi.com Tracy Wessels Group Head Investor Relations and Sustainability Sappi Limited Tel +27 (0)11 407 8391 Mobile +27 (0)83 666 6589 Tracy.wessels@sappi.com	Brunswick on behalf of Sappi Limited Tel + 27 (0) 11 502 7300

PO Box 52264
2132 Saxonwold
SOUTH AFRICA
Tel +27 (0)11 407 8111

www.sappi.com

Media release

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Sappi delivers results ahead of expectations for the second financial quarter

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "Within the context of subdued underlying market conditions due to the challenging macroeconomic environment I am pleased that the group delivered EBITDA of US$183 million, which was 10% above the prior year."

The increase was primarily due to an improvement from the pulp segment and significant costs savings, which included a 9% reduction in cash fixed costs following the closure of the Stockstadt and Lanaken Mills in Europe. Included in EBITDA was a positive plantation fair value price adjustment of US$3 million. A modest recovery in global paper markets was also observed following the extended destocking cycle in 2023.

Looking forward to Sappi's third quarter, Binnie stated: "While we expect a gradual improvement in paper markets there will be a reduction in output due to a number of planned maintenance shuts in the quarter. We therefore anticipate that EBITDA (excluding a slightly negative fair value price adjustment) for the third quarter of FY2024 will be below that of the second quarter but substantially above last year."

Financial summary for the quarter

- EBITDA excluding special items US$183 million (Q2 FY23 US$167 million)
- EPS excluding special items 12 US cents (Q2 FY23 11 US cents)
- Net debt US$1,366 million (Q2 FY23 US$1,225 million)
- Closure of Stockstadt and Lanaken Mills completed

Dissolving pulp (DP) demand was strong throughout the quarter boosted by a tight supply landscape, low downstream inventory levels and high viscose staple fibre (VSF) operating rates following the Chinese Lunar New Year celebrations. Sales volumes for the pulp segment increased by 2% year-on-year and hardwood DP spot prices closed the quarter higher at US$940/ton. Profitability for the segment was further supported by significant cost savings, particularly for wood and chemicals.

Packaging and speciality papers demand rebounded during the quarter. Sales volumes improved by 9% compared to the prior year with a mixed performance across the regions. Selling prices came under significant pressure in the second half of FY2023 and were 13% below the prior year. Cost savings were insufficient to offset the negative impact of lower selling prices and profitability for the segment declined compared to last year.

The gradual recovery of graphic papers demand continued throughout the quarter as downstream value chain inventories normalised causing sales volumes to increase by 7% compared to the prior year. However, there has been a structural decline in demand from the highs of 2022. The combination of increased sales volumes and cost savings facilitated a year-on-year improvement in profitability for the segment.

Profitability of the European business continued to recover slowly from the lows of the second half of FY2023. The improvement was driven by increased year-on-year sales volumes and cost savings, offset to some extent by selling price reductions across all product categories. A notable increase in capacity utilisation was achieved due to the successful transfer of Stockstadt and Lanaken sales volumes to our other assets following the termination of production at both mills in the prior quarter. Variable costs were 16% below last year driven by lower purchased pulp and wood costs. However, variable costs increased from the prior quarter on the back of rising pulp prices which were boosted by supply disruptions in Europe due to the Finnish port strikes and mechanical failures at a number of European pulp mills. Fixed costs were 17% below the prior year due to the strategic restructuring of the European business.

The North American business delivered a good performance despite a slower than expected recovery in demand for graphic paper. A strong increase in paperboard sales volumes combined with cost savings offset lower selling prices for packaging. Variable costs were 9% below last year with savings achieved for all major input categories. Fixed costs were 5% above the prior year primarily due to higher personnel costs.

The South African business delivered a solid performance with profitability benefiting from significant cost savings and a ZAR56 million forestry fair value price adjustment. Variable costs were 7% below the prior year due to lower wood, chemical and delivery costs. Fixed costs were well managed with a year-on-year increase of 6%.

Outlook

The third quarter is seasonally the weakest in terms of demand for our products. However, market sentiment is generally improving across all of our product segments and Sappi is well positioned with healthy cash reserves and liquidity to manage current market uncertainties.

Dissolving pulp demand remains healthy, buoyed by low inventory levels across the VSF value chain. VSF pricing has faced downward pressure in recent weeks, which could be a risk for DP pricing in the third quarter. However, the high operating rates through the VSF value chain and relatively constrained DP supply landscape continue to offering some support for DP prices.

Graphic papers demand is expected to continue its slow recovery in the third quarter, but the market fundamentally remains in oversupply and industry operating rates remain below historical levels. Our European restructuring programme has significantly increased our capacity utilisation which, combined with the fixed costs savings, is expected to improve our competitive position. We continue to diligently adapt our product and market mix to match demand in North America ahead of the Somerset PM2 conversion and expansion in 2025. The sale of the Stockstadt Mill site is on track to be concluded in the third quarter.

Packaging and speciality paper markets continue to improve across all regions, and we expect good demand in North America and South Africa. Market conditions in Europe generally remain subdued due to the persistently weak economy and low consumer confidence.

Variable costs have reduced substantially from the peak in 2023 but have plateaued in the second quarter and remain above historical levels for many of our input categories. Globally, pulp market prices have started rising which could negatively impact the profitability of our paper businesses, particularly in Europe where proactive margin management will be required. In the third quarter, the Saiccor and Somerset Mills will take scheduled maintenance shuts, which will have an estimated impact of US$30 million on group profitability.

Capital expenditure for FY2024 is expected to be in the region of US$500 million and as previously communicated includes approximately US$154 million for the Somerset PM2 conversion and expansion project. We remain committed to disciplined capital allocation as we execute our strategy to reduce exposure to graphic paper markets while investing for growth in renewable packaging, dissolving pulp and biomaterials.

The plantation fair value price adjustment for the third quarter is expected to be slightly negative due to higher fuel costs and discount rates.

ENDS

The full results announcement is available at www.sappi.com

There will be a conference call to which investors are invited. Full details are available at www.sappi.com using the links Investors; Latest financial results

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

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

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.