



Sappi Limited

Johannesburg

Announcement

30 March 2020

Sappi Limited
(Incorporated in the Republic of South Africa)
Registration number: 1936/008963/06
JSE share code: SAP
ISIN code: ZAE000006284
("Sappi" or the "Company")

Sappi update on the impact of Covid-19 and debt covenant relief

Covid-19

Sappi's approach to the outbreak of Covid-19 is guided by our values and purpose. Our priority remains the safety of our people across all of the territories where they are present. Those of our staff who can, follow local work-from-home arrangements. All international travel has ceased, with only exceptional local travel allowed. Meetings occur remotely, and our mills and other facilities apply stringent guidelines for social distancing and sanitising. This ensures that our operations continue in a safe and uninterrupted manner. We remain in close contact with our customers and suppliers as we try to minimise any negative impacts within government constraints, helping local economies to mitigate the negative economic consequences of the various measures imposed. We also assist with efforts to help mitigate the impact of the virus on local communities.

As of 30 March 2020, all our production, warehousing and distribution facilities are fully operational. The Condino mill, located in Italy, was temporarily shut for the week ending 27 March. As governments step up efforts to contain and control the spread of Covid-19 there may be future interruptions, but encouragingly, there has been minimal disruption thus far. In this regard many of our products are required by the sectors ensuring food security and hygiene supplies.

Market update

The pandemic has to date not had a material impact on profitability. However, the actions taken by governments across the world to reduce the spread of the virus have created significant uncertainty in our markets. The closure of many clothing retailers across the world will have a substantial impact on demand for textiles, and consequently dissolving pulp. Order activity for graphic paper has slowed markedly. The packaging segment, with much of our volumes sold into the food industry, should be more resilient during the crisis. Lower oil prices will provide some input cost relief, while the weaker ZAR/USD exchange rate benefits the South African business. We have not experienced any meaningful disruption to inbound or outbound logistics, nor shortage of key raw materials. However, as shutdowns spread across different countries and industries, supply of key raw materials may become affected.



Balance sheet and liquidity

Current liquidity headroom in the group is strong, with cash deposits in excess of US\$200 million and two undrawn revolving credit facilities of approximately US\$640 million. In light of the uncertainty regarding future trading conditions and the importance of ensuring we have adequate liquidity for the duration of this period, we have been in negotiations with the consortium of banks that provide Sappi's European bank facilities that are subject to financial covenants. We are pleased to report strong support from our banking group and that the consortium has agreed to suspend covenant measurement in principle for four quarters from June 2020 to March 2021, subject to completing the documentation in this regard. This suspension is subject to normal conditions for this kind of assistance, which only apply during the suspension period, and include no dividend payments, maximum capex spending limits, a minimum liquidity requirement and no M&A activity without prior bank approval.

Mitigating actions

With a primary focus on liquidity and cash flow, we have taken immediate action and implemented various cost saving measures across our operations, curtailing where possible all non-essential capital expenditure and applying measures to optimise working capital. The declaration by Sappi of force majeure on the Saiccor Mill expansion and upgrade project will delay capital expenditure, and any associated costs as a result of the declaration are not expected to be material.

Dissolving pulp

Sappi have received separate notifications of the intention to reduce dissolving pulp purchase volumes from some major customers in relation to their contractual volume commitments in the coming quarter. Dissolving pulp sales volumes are therefore currently expected to reduce materially in the period April to June 2020. Sappi will update the market as soon as it is in a position to quantify the near-term impact of this development, including the mitigating steps taken.

Earnings forecast suspension

As a result of the global Covid-19 crisis, Sappi Ltd expects lower demand for some of its products, particularly dissolving pulp and graphic paper. The potential impact cannot be estimated reliably due to uncertainty regarding the duration and magnitude of the effects on the global economy arising from Covid-19 and various governments' response thereto. Consequently, Sappi will not be able to provide profit forecasts in the near future.

The information in this announcement has not been reviewed and reported on by Sappi's external auditors.

Sponsor: UBS South Africa (Pty) Ltd

