First quarter results

for the period ended December 2020

sappi

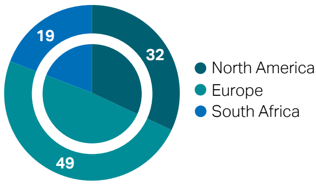
First quarter results

"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."

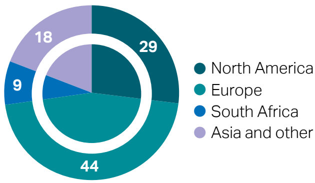
Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and specialities papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production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

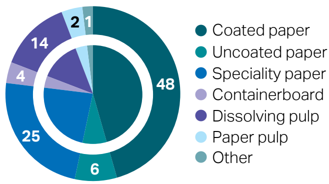
Sales by source* (%)



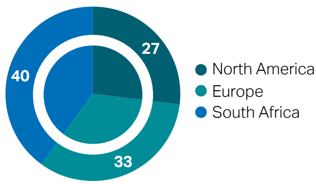
Sales by destination* (%)



Sales by product* (%)



Net operating assets** (%)



* *For the period ended December 2020.*
** *As at December 2020.*

Highlights for the quarter

EBITDA excluding special items
US$98 million
(Q1 FY20: US$139 million)

EPS excluding special items
–1 US cent
(Q1 FY20: 6 US cents)

Loss for the period
US$17 million
(Q1 FY20: profit of US$24 million)

Net debt of
US$2,056 million
(Q1 FY20: US$1,916 million)

	Quarter ended		
	Dec 2020	**Dec 2019**	**Sept 2020**
Key figures: (US$ million)			
Sales	**1,163**	1,302	1,092
Operating profit (loss) excluding special items[1]	**16**	62	(5)
Special items – loss (gain)[2]	**–**	7	39
EBITDA excluding special items[1]	**98**	139	82
Profit (Loss) for the period	**(17)**	24	(88)
Basic earnings per share (US cents)	**(3)**	4	(16)
EPS excluding special items (US cents)[3]	**(1)**	6	(4)
Net debt[3]	**2,056**	1,916	1,957
Key ratios: (%)			
Operating profit (loss) excluding special items to sales	**1.4**	4.8	(0.5)
Operating profit (loss) excluding special items to capital employed (ROCE)[3]	**1.7**	6.7	(0.5)
EBITDA excluding special items to sales	**8.4**	10.7	7.5
Net debt to EBITDA excluding special items	**6.1**	3.0	5.2
Covenant leverage ratio[3]	**6.2**	2.8	5.0
Interest cover[3]	**4.1**	8.4	4.7
Net asset value per share (US cents)[3]	**327**	379	299

(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

Despite the ongoing challenges of the Covid-19 pandemic ("Covid"), the group outperformed the guidance for EBITDA provided at the end of the last quarter as the profitability in all reporting segments exceeded expectations. EBITDA excluding special items for the quarter increased to US$98 million compared to US$82 million for the previous quarter. The improvement was due mainly to dissolving pulp ("DP") markets and graphic paper demand in North America recovering at a faster rate than anticipated. These benefits were partially offset by the impact of the Ngodwana Mill maintenance shut, which had been rescheduled from the third quarter of last year, as well as the scheduled Somerset Mill maintenance shut.

Ensuring the safety of our employees and supporting our customers and communities is a priority and our comprehensive Covid action plan remains relevant and in place. During the quarter, the global surge of Covid infections and the related employee absenteeism put all of our operations under pressure. In spite of the unprecedented obstacles that have arisen as a result of the pandemic and through the dedication and resilience of our workforce, our mills remained fully operational.

The economic effects of the Covid pandemic continued to impact performance with graphic sales still well below 2019 levels. The pandemic also severely affected global shipping and container availability which somewhat reduced our DP sales volumes in the quarter.

DP markets tightened considerably and market prices rallied by US$106/ton through the quarter. Key drivers behind the price increase included DP capacity curtailment, resurgent viscose staple fibre ("VSF") demand and prices, higher paper pulp prices and a weaker US$/Renminbi exchange rate. The shipping challenges referred to above combined with the Ngodwana Mill shut and reduced production volumes from the Saiccor Mill due to the temporary halting of the calcium line, reduced DP sales volumes by 16% compared to the same quarter last year. The segment also includes 53,000 tons of bleached chemi-thermo mechanical pulp ("BCTMP") from the Matane Mill which were sold in external markets.

Packaging and specialities sales volumes in all three regions experienced encouraging growth compared to the prior year. While demand for most categories was positive, some non-essential products in Europe were affected by the Covid-related lockdowns and other governmental measures. Profitability was partially reduced by lower selling prices linked to depressed pulp prices. The postponement of the shut at the Ngodwana Mill from the third quarter of last year to the current quarter reduced EBITDA in the segment to marginally below the corresponding quarter in the prior year.

Graphic paper demand continued to slowly recover from the impact of Covid and volumes were down 19% compared to the same quarter last year, an improvement on the

32% reduction experienced in the prior quarter. While North America recorded a strong recovery, soft coated mechanical ("CM") demand in Europe, weak export markets in South America and Australasia and low selling prices were a drag on profitability in this segment. The group took production downtime of 125,000 tons in the quarter, entirely in Europe, which was less than the 321,000 tons required by the group in the prior quarter. South African newsprint and uncoated woodfree demand continued to be adversely impacted by the weaker domestic economy.

Net finance costs were US$34 million compared to US$20 million in the equivalent quarter last year. The increase includes a non-cash fair value adjustment expense of US$13 million from the revaluation of the conversion rights related to the convertible bonds issued during the quarter. This is discussed in more detail in the cash flow section.

Earnings per share excluding special items for the quarter was a loss of 1 US cent.

Cash flow and debt

Net cash generated for the quarter was zero, compared to a cash outflow of US$278 million in the equivalent quarter last year, which included the purchase of the Matane Mill for US$158 million. Capital expenditure of US$82 million was lower than the US$112 million last year, which was mainly due to the timing of payments for the expansion of DP capacity at the Saiccor Mill.

Net debt for the quarter increased by US$99 million to US$2,056 million as a result of Euro and ZAR denominated debt being converted at stronger quarter end exchange rates. At the end of December 2020, liquidity comprised cash on hand of US$410 million and US$622 million from the committed revolving credit facilities ("RCF") in South Africa and Europe, respectively.

Sappi Southern Africa Limited issued 5-year convertible bonds with a principal amount of ZAR1.8 billion during the quarter. The bonds are convertible into ordinary shares of Sappi Limited subject to shareholder approval on 3 February 2021. Prior to shareholder approval, the revaluation of the fair value of the equity option is charged to the income statement. Following shareholder approval, there is no subsequent requirement to fair value the option. The net proceeds from the bonds will be used to fund the remaining capital expenditure required for the expansion of the Saiccor Mill.

The covenant suspension period negotiated in 2020 is applicable to our debt facilities financial covenants until September 2021 with the first measurement due at the end of December 2021.

Operating review on the quarter

Europe

EUR million	Quarter ended Dec 2020	Sept 2020	Jun 2020	Mar 2020	Dec 2019
Sales	**482**	422	420	606	619
Operating profit (loss) excluding special items	**–**	(19)	(32)	25	33
Operating profit (loss) excluding special items to sales (%)	**–**	*(4.5)*	*(7.6)*	*4.1*	*5.3*
EBITDA excluding special items	**29**	13	(1)	54	62
EBITDA excluding special items to sales (%)	***6.0***	*3.1*	*(0.2)*	*8.9*	*10.0*
RONOA pa (%)	**–**	*(5.8)*	*(9.5)*	*7.2*	*9.5*

Market conditions in Europe continued their slow recovery which facilitated a 15% improvement in sales volumes and a doubling of EBITDA relative to the previous quarter. Profitability was still significantly below the prior year as Covid infections in Europe led to renewed and stricter lockdowns which slowed the rate of economic recovery. Paper selling prices were also under pressure due to historically low pulp prices.

Coated woodfree ("CWF") and CM sales volumes improved progressively each month but were still only 86% and 60% respectively of the equivalent quarter last year. A portion of the CM reduction is attributable to the exit of production at the Lanaken Mill. Although domestic CWF volumes rebounded significantly, export markets and CM products were still under severe pressure and global shipping issues added to the challenges. As a result, the region incurred 125,000 tons of commercial downtime.

The packaging and specialities markets were resilient and sales volumes increased quarter on quarter with the performance of paperboard and other packaging products particularly strong.

Costs were lower than the comparable period last year with savings across all major categories.

North America

US$ million	Dec 2020	Sept 2020	Jun 2020	Mar 2020	Dec 2019
		Quarter ended			
Sales	**384**	361	267	387	370
Operating profit (loss) excluding special items	**(2)**	–	(32)	4	1
Operating profit (loss) excluding special items to sales (%)	***(0.5)***	–	*(12.0)*	*1.0*	*0.3*
EBITDA excluding special items	**27**	30	(7)	31	25
EBITDA excluding special items to sales (%)	***7.0***	*8.3*	*(2.6)*	*8.0*	*6.8*
RONOA pa (%)	***(0.6)***	–	*(9.5)*	*1.2*	*0.3*

The North American business made an encouraging start to the financial year and achieved EBITDA of US$27 million, which was 8% above the corresponding quarter in the prior year. A faster revival of graphic paper sales, the ramp-up of packaging sales and higher DP pricing contributed to the improvement. The planned Somerset Mill shut was successfully completed during the quarter.

The recovery in the graphics segment continued, and sales reached 83% of the corresponding quarter in the prior year, despite ongoing Covid-related challenges. The progress ensured no commercial downtime was required in the region. Although selling prices continued to decline in the quarter, they are expected to increase in the second quarter due to recently announced price increases.

The packaging and specialities segment expanded further driven by continued robust demand for packaging grades, the ramp-up of paperboard production at the Somerset Mill and a significant improvement in release paper demand. Packaging and specialties sales volume more than doubled compared to the corresponding quarter in the prior year.

Healthy DP demand led to a 25% increase in sales volumes compared to the previous quarter. The increase in DP selling prices also boosted profitability in the segment.

Costs were well managed with variable cost savings achieved in energy, wood and chemicals and fixed costs marginally below last year.

South Africa

ZAR million	Dec 2020	Quarter ended Sept 2020	Jun 2020	Mar 2020	Dec 2019
Sales	**3,489**	4,202	3,650	4,223	3,843
Operating profit excluding special items	**267**	306	266	321	324
Operating profit excluding special items to sales (%)	***7.7***	*7.3*	*7.3*	*7.6*	*8.4*
EBITDA excluding special items	**550**	644	562	626	618
EBITDA excluding special items to sales (%)	***15.8***	*15.3*	*15.4*	*14.8*	*16.1*
RONOA pa (%)	***4.1***	*4.8*	*4.2*	*5.2*	*5.6*

The South African business was impacted significantly by the shift of the Ngodwana Mill shut into the current quarter from the third quarter of last year. Also, DP sales volumes were adversely affected by shipping and logistical challenges which resulted in higher inventory at the end of the quarter. While higher US Dollar DP prices partially offset these factors, a stronger ZAR/US$ exchange rate reduced the benefit from the price increases.

DP sales volumes were 23% below those of last year. As mentioned last quarter, production on the calcium line at the Saiccor Mill was temporarily halted during the third and fourth quarters of 2020 due to the Covid outbreak, however the line was restarted during the current quarter. The excess inventory mentioned above is expected to be shipped in subsequent quarters as logistical and shipping challenges are resolved.

Demand for containerboard continued to be resilient driven by strong demand for export fruit products. However, sales volumes for uncoated woodfree, newsprint and tissue were lower than last year due to a sluggish domestic economy linked to Covid and related lockdowns.

Variable costs were in line with last year. However, cash fixed costs were up by 8% due to the expenses associated with the movement of the Ngodwana Mill maintenance shut and the annual wage increase.

Outlook

There has been a pronounced recovery of pricing and demand in DP markets. As of 29 January 2021, the Chinese market price had improved to US$895/ton, driven by a number of positive factors including low inventory levels, rebounding textile demand, higher VSF prices and favourable US$/Renminbi currency movements. The full benefit of the rising DP prices will be phased through future quarters due to the quarterly lag in contract pricing. A strengthening ZAR/US$ exchange rate is expected to negate some of the pricing benefits for the South African DP segment. Despite the improved market conditions, we are encountering logistical and production challenges at our South African DP facilities as a result of Covid. Notably, a severe second wave of Covid infections in South Africa has necessitated a prioritisation of oxygen supplies into the health care sector. Consequent restrictions on the procurement and transport of oxygen to the South African mills have resulted in a temporary curtailment of DP production at the Ngodwana Mill in the second quarter.

Underlying demand for packaging and speciality products remains resilient as consumer preferences default to more sustainable alternatives. We continue to ramp-up sales and production in North America and Europe following the completion of the Somerset and Maastricht conversions. However, Covid may adversely impact demand for certain non-essential consumer products.

The global resurgence of Covid and associated extended lockdowns and restrictions on economic activity are expected to stall the graphic market recovery, particularly in Europe. A rapid and significant rise in paper pulp costs is expected to reduce margins in this segment. Whilst we have announced selling price increases in most of our markets to mitigate this risk, there will be a lag before the benefits of the increases are realised. The recent series of paper machine and mill closures or conversions in the industry are expected to improve the supply/demand balance resulting in a recovery of operating rates in the coming quarter and year.

The strong demand of our packaging and speciality grades combined with the sharp recovery in DP markets support our strategic focus as we transition the business towards higher growth segments.

Capital expenditure in FY2021 is estimated to be US$400 million and includes the approximately US$100 million related to the Saiccor Mill expansion project. The increase in estimated capital expenditure from the previous guidance of US$370 million is as a result of the strengthening ZAR and Euro relative to the US$. The Saiccor Mill expansion project is scheduled to start production during the fourth quarter.

Second quarter earnings will be tempered by the production curtailments related to oxygen availability at our Ngodwana Mill, global logistical challenges and the negative impact of Covid on our European graphics segment. However, there are no material annual maintenance shuts planned for the quarter and we anticipate good performance from our packaging and specialities segment. Therefore, we expect the second quarter EBITDA to improve relative to the first quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

3 February 2021

Forward-looking statements

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

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

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

Condensed group income statement

US$ million	Note	Reviewed Quarter ended Dec 2020	Dec 2019
Sales		**1,163**	1,302
Cost of sales		**1,061**	1,145
Gross profit		**102**	157
Selling, general and administrative expenses		**85**	92
Other operating expenses		**1**	12
Share of profit (loss) from equity-accounted investees		**–**	(2)
Operating profit (loss)	3	**16**	55
Net finance costs		**34**	20
Finance costs		**24**	22
Finance income		**(3)**	(2)
Net fair value loss on financial instruments	8	**13**	–
Profit (Loss) before taxation		**(18)**	35
Taxation		**(1)**	11
Profit (Loss) for the period		**(17)**	24
Basic earnings per share (US cents)	4	**(3)**	4
Weighted average number of shares in issue (millions)		**546.4**	543.6
Diluted earnings per share (US cents)	4	**(3)**	4
Weighted average number of shares on fully diluted basis (millions)		**546.8**	544.7

Condensed group statement of other comprehensive income

US$ million	Note	Reviewed Quarter ended Dec 2020	Dec 2019
Profit (Loss) for the period		**(17)**	24
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss		**173**	97
Exchange differences on translation of foreign operations	8	**170**	92
Movements in hedging reserves		**2**	7
Tax effect on above items		**1**	(2)
Total comprehensive income for the period		**156**	121

Condensed group balance sheet

US$ million	Note	Reviewed Dec 2020	Sept 2020
Assets			
Non-current assets		**4,239**	3,891
Property, plant and equipment		**3,339**	3,103
Right-of-use assets		**115**	101
Plantations	5	**497**	419
Deferred tax assets		**64**	59
Goodwill and intangible assets		**122**	113
Equity accounted investees		**12**	11
Other non-current assets		**90**	85
Current assets		**1,773**	1,564
Inventories		**767**	673
Trade and other receivables		**581**	584
Derivative financial assets		**3**	3
Taxation receivable		**6**	19
Cash and cash equivalents	8	**410**	279
Assets held for sale		**6**	6
Total assets		**6,012**	5,455
Equity and liabilities			
Shareholders' equity			
Ordinary shareholders' interest		**1,790**	1,632
Non-current liabilities		**2,959**	2,700
Interest-bearing borrowings	8	**2,038**	1,861
Lease liabilities		**95**	81
Deferred tax liabilities		**349**	304
Defined benefit and other liabilities		**466**	445
Derivative financial liabilities		**11**	9
Current liabilities		**1,263**	1,123
Interest-bearing borrowings		**308**	270
Lease liabilities		**25**	24
Trade and other payables		**865**	797
Provisions		**12**	19
Derivative financial liabilities	8	**41**	2
Taxation payable		**12**	11
Total equity and liabilities		**6,012**	5,455
Number of shares in issue at balance sheet date (millions)		**547.4**	546.1

Condensed group statement of cash flows

	Reviewed Quarter ended	
US$ million	Dec 2020	Dec 2019
Profit (Loss) for the period	**(17)**	24
Adjustment for:		
Depreciation, fellings and amortisation	**99**	94
Taxation	**(1)**	11
Net finance costs	**34**	20
Defined post-employment benefits paid	**(7)**	(8)
Plantation fair value adjustments	**(23)**	(25)
Net restructuring provisions	**–**	1
Other non-cash items	**13**	19
Cash generated from operations	**98**	136
Movement in working capital	**11**	(76)
Finance costs paid	**(34)**	(35)
Finance income received	**3**	2
Taxation (paid) refund	**11**	(32)
Cash generated from operating activities	**89**	(5)
Cash utilised in investing activities	**(89)**	(273)
Capital expenditure	**(82)**	(112)
Acquisition of subsidiary	**–**	(158)
Other non-current asset movements	**(7)**	(3)
Net cash (utilised) generated	**–**	(278)
Cash effects of financing activities	**104**	147
Proceeds from interest-bearing borrowings	**372**	181
Repayment of interest-bearing borrowings	**(261)**	(29)
Lease repayments	**(7)**	(5)
Net movement in cash and cash equivalents	**104**	(131)
Cash and cash equivalents at beginning of period	**279**	393
Translation effects	**27**	8
Cash and cash equivalents at end of period	**410**	270

Condensed group statement of changes in equity

US$ million	Reviewed Quarter ended Dec 2020	Dec 2019
Balance – beginning of period	**1,632**	1,948
Profit (Loss) for the period	**(17)**	24
Other comprehensive income for the period	**173**	97
Share-based payment reserve	**2**	3
Balance – end of period	**1,790**	2,071
Comprising		
Ordinary share capital and premium	**834**	866
Non-distributable reserves	**119**	110
Foreign currency translation reserves	**(212)**	(164)
Hedging reserves	**(40)**	(36)
Retained earnings	**1,089**	1,295
Total equity	**1,790**	2,071

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter ended December 2020 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 3 February 2021.

The condensed consolidated interim financial statements for the quarter ended December 2019 and December 2020 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group's auditors, KPMG Inc. Their review report, which includes an unmodified review conclusion, is available for inspection at the company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement/ financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

Going concern

The group incurred a loss of US$17 million for the quarter ended December 2020 (2019: Profit of US$24 million) which includes a fair value loss of US$13 million relating to financial instruments (refer note 8). The group's performance for the quarter was adversely impacted by the continued Covid-19 pandemic and the economic after effect which may continue for the remainder of the 2021 financial year due to the uncertainty around the pandemic. 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 impact of Covid-19 on its results and future covenant compliance are continuously assessed and monitored by the group.

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 Dec 2020	Quarter ended Dec 2019
Sales volume		
North America	**421**	377
Europe	**658**	795
South Africa – Pulp and paper	**296**	338
Forestry	**308**	331
Total	**1,683**	1,841
Which consists of:		
Dissolving pulp	**298**	324
Packaging and specialities	**307**	235
Graphics	**770**	951
Forestry	**308**	331

US$ million	Reviewed Quarter ended Dec 2020	Reviewed Quarter ended Dec 2019
Sales		
North America	**384**	370
Europe	**574**	685
South Africa – Pulp and paper	**205**	241
Forestry	**17**	20
Delivery costs revenue adjustment[(2)]	**(17)**	(14)
Total	**1,163**	1,302
Which consists of:		
Dissolving pulp	**193**	218
Packaging and specialities	**327**	268
Graphics	**643**	810
Forestry	**17**	20
Delivery costs revenue adjustment[(2)]	**(17)**	(14)

(2) *Relates to delivery costs netted off against revenue.*

2. Segment information continued

US$ million	Reviewed Quarter ended Dec 2020	Dec 2019
Operating profit (loss) excluding special items		
North America	**(2)**	1
Europe	**–**	37
South Africa	**17**	22
Unallocated and eliminations[1]	**1**	2
Total	**16**	62
Which consists of:		
Dissolving pulp	**15**	9
Packaging and specialities	**8**	16
Graphics	**(8)**	35
Unallocated and eliminations[1]	**1**	2
Special items – (gains) losses		
North America	**–**	5
Europe	**1**	2
South Africa	**(1)**	–
Unallocated and eliminations[1]	**–**	–
Total	**–**	7
Operating profit (loss) by segment		
North America	**(2)**	(4)
Europe	**(1)**	35
South Africa	**18**	22
Unallocated and eliminations[1]	**1**	2
Total	**16**	55
EBITDA excluding special items		
North America	**27**	25
Europe	**35**	69
South Africa	**35**	42
Unallocated and eliminations[1]	**1**	3
Total	**98**	139
Which consists of:		
Dissolving pulp	**31**	25
Packaging and specialities	**35**	36
Graphics	**31**	75
Unallocated and eliminations[1]	**1**	3

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

Notes to the condensed group results continued

2. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period

Special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure.

	Reviewed Quarter ended	
US$ million	**Dec 2020**	**Dec 2019**
EBITDA excluding special items	**98**	139
Depreciation and amortisation	**(82)**	(77)
Operating profit excluding special items	**16**	62
Special items – gains (losses)	**–**	(7)
Plantation price fair value adjustment	**4**	6
Acquisition costs	**–**	(5)
Net restructuring provisions	**–**	(1)
Fire, flood, storm and other events	**(4)**	(7)
Operating profit	**16**	55
Net finance costs	**(34)**	(20)
Profit (Loss) before taxation	**(18)**	35
Taxation	**1**	(11)
Profit (Loss) for the period	**(17)**	24
Net operating assets		
North America	**1,255**	1,311
Europe	**1,531**	1,557
South Africa	**1,806**	1,762
Unallocated and eliminations[1]	**16**	36
Total	**4,608**	4,666
Reconciliation of net operating assets to total assets		
Segment assets	**4,608**	4,666
Deferred tax assets	**64**	109
Cash and cash equivalents	**410**	270
Trade and other payables	**865**	883
Provisions	**12**	6
Derivative financial instruments	**41**	7
Taxation payable	**12**	33
Total assets	**6,012**	5,974

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

3. Operating profit (loss)

US$ million	Reviewed Quarter ended Dec 2020	Dec 2019
Included in operating profit are the following items:		
Depreciation and amortisation	**82**	77
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**17**	17
Growth	**(19)**	(19)
	(2)	(2)
Plantation price fair value adjustment	**(4)**	(6)
	(6)	(8)
Net restructuring provisions	**–**	1

4. Earnings per share

US$ million	Reviewed Quarter ended Dec 2020	Dec 2019
Basic earnings per share (US cents)	**(3)**	4
Headline earnings per share (US cents)	**(3)**	4
EPS excluding special items (US cents)	**(1)**	6
Weighted average number of shares in issue (millions)	**546.4**	543.6
Diluted earnings per share (US cents)	**(3)**	4
Diluted headline earnings per share (US cents)	**(3)**	4
Weighted average number of shares on fully diluted basis (millions)	**546.8**	544.7
Calculation of headline earnings		
Profit (Loss) for the period	**(17)**	24
Headline earnings	**(17)**	24
Calculation of earnings excluding special items		
Profit (Loss) for the period	**(17)**	24
Special items after tax	**–**	6
Special items	**–**	7
Tax effect	**–**	(1)
Finance costs	**13**	–
Earnings excluding special items	**(4)**	30

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*.

	Reviewed	
US$ million	**Dec 2020**	**Sept 2020**
Fair value of plantations at beginning of year	**419**	451
Additions	**–**	2
Gains arising from growth	**19**	72
Fire, flood, storm and other events	**–**	(11)
In-field inventory	**(2)**	1
Gain arising from fair value price changes	**4**	20
Harvesting – agriculture produce (fellings)	**(17)**	(63)
Translation difference	**74**	(53)
Fair value of plantations at end of period	**497**	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.

US$ million	Classification	Fair value hierarchy	Fair value[1] Reviewed Dec 2020	Sept 2020
Investment funds[2]	FV through OCI	Level 1	**6**	6
Derivative financial assets	FV through PL	Level 2	**3**	3
Derivative financial liabilities	FV through PL	Level 2	**52**	11

(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 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, bank overdrafts and current interest-bearing borrowings approximate their fair values.

7. Capital commitments

US$ million	Reviewed Dec 2020	Sept 2020
Contracted	**101**	89
Approved but not contracted	**100**	232
	201	321

8. Material balance sheet movements

Since the 2020 financial year-end, the ZAR has strengthened by approximately 15% 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 US$123 million (ZAR1.8 billion) senior, unsecured, convertible bonds due in 2025. The bonds will, subject to certain conditions including shareholder approval, be convertible into ordinary shares of Sappi Limited. 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 US$22 million (ZAR321 million) and was revalued to US$36 million at the quarter ended December 2020 with US$13 million recognised in profit (loss) as finance costs. Following shareholder approval, this option meets the definition of equity and will be accounted within equity. Interest-bearing borrowings increased by US$101 million (ZAR1,479 million).

The fair value of the embedded derivative related to the bond was calculated using option pricing methodologies with the following key assumptions:

	Inception	Quarter end
Implied volatility range	23% – 26%	23% – 26%
Credit spread	5.10%	4.95%
Reference share price	R25.03	R32.51

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

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 managements' 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

Broad-based Black Economic Empowerment (BBBEE) charge – represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in fiscal 2010 in terms of BBBEE legislation in South Africa

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

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

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	
	Dec 2020	**Dec 2019**
Key figures: (ZAR million)		
Sales	**18,278**	19,171
Operating profit excluding special items[1]	**251**	913
Special items – (gains) losses[1]	**–**	103
EBITDA excluding special items[1]	**1,540**	2,047
Profit for the period	**(267)**	353
Basic earnings per share (SA cents)	**(49)**	65
Net debt[1]	**29,966**	26,886
Key ratios: (%)		
Operating profit excluding special items to sales	**1.4**	4.8
Operating profit excluding special items to capital employed (ROCE)[1]	**1.7**	6.7
EBITDA excluding special items to sales	**8.4**	10.7

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

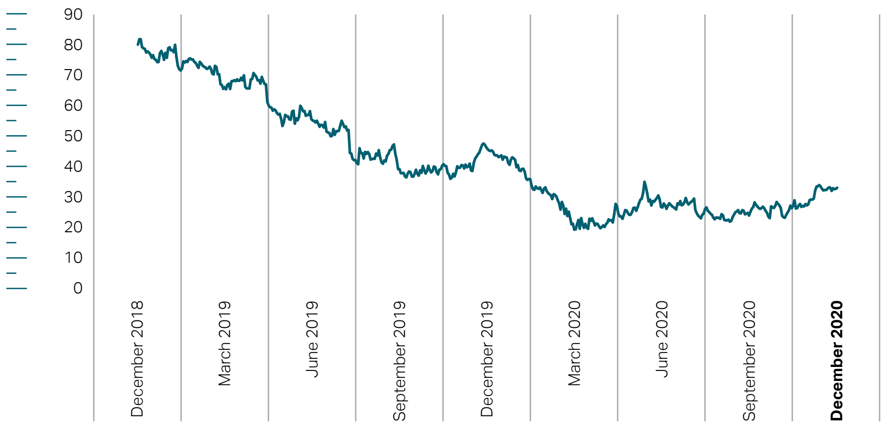
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end
– income, expenditure and cash flow items at average exchange rates.

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

Exchange rates

	Dec 2020	Sept 2020	Jun 2020	Mar 2020	Dec 2019
Exchange rates:					
Period end rate: US$1 = ZAR	**14.5750**	17.1311	17.2350	17.6300	14.0326
Average rate for the quarter: US$1 = ZAR	**15.7164**	16.9157	17.9747	15.2605	14.7241
Average rate for the year to date: US$1 = ZAR	**15.7164**	16.2265	15.9835	14.9919	14.7241
Period end rate: €1 = US$	**1.2206**	1.1632	1.1219	1.1142	1.1177
Average rate for the quarter: €1 = US$	**1.1901**	1.1674	1.1005	1.1033	1.1066
Average rate for the year to date: €1 = US$	**1.1901**	1.1195	1.1035	1.1050	1.1066

Sappi share price – December 2018 to December 2020



sappi

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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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