Q2 FY23

sappi

Q 2 FY23 financial results — the period ended March 2023

Highlights for the quarter

EBITDA excl special items	**Profit** for the period	**Net debt**	**EPS** excl special items
US$167 million	US$69 million	US$1,225 million	11 US¢
Q2FY22 US$337 million	Q2FY22 US$188 million	Q2FY22 US$1,793 million	Q2FY22 35 US¢

		Quarter ended			Half-year ended	
	US$ million	**Mar 2023**	Mar 2022	Dec 2022	**Mar 2023**	Mar 2022
Key figures	Sales	**1,442**	1,858	1,660	**3,102**	3,555
	Operating profit (loss) excl special items[1]	**101**	259	225	**326**	420
	Special items loss (gains)[1]	**(7)**	29	(6)	**(13)**	21
	EBITDA excluding special items[1]	**167**	337	290	**457**	577
	Profit (Loss) for the period	**69**	188	190	**259**	311
	Basic EPS (US cents)	**12**	33	34	**46**	55
	EPS excluding special items (US cents)[1]	**11**	35	30	**41**	55
	Net debt[1]	**1,225**	1,793	1,241	**1,225**	1,793
Key ratios (%)	Operating profit (loss) excl special items[1] to sales	**7.0**	13.9	13.6	**10.5**	11.8
	ROCE[1] Operating profit excluding special items[1] to capital employed	**10.7**	25.8	24.7	**17.9**	20.9
	EBITDA excl special items to sales	**11.6**	18.1	17.5	**14.7**	16.2
	Net debt to EBITDA excl special items[1]	**1.0**	2.0	0.9	**1.0**	2.0
	Covenant leverage ratio	**0.9**	2.0	0.9	**0.9**	2.0
	Interest cover[1]	**13.4**	9.5	17.6	**13.4**	9.5
	Net asset value per share[1] (US cents)	**447**	417	447	**447**	417

1 See published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

Commentary

In a challenging global economy and significantly weaker paper and pulp markets, the group faced a **severe downstream inventory destocking cycle**.

Production was **curtailed** in the European and North American regions to match sluggish market demand and prevent excess inventory accumulation.

Profitability was **negatively affecte**d by reduced sales volumes, cost inflation and operational inefficiencies associated with commercial downtime

Paper selling prices remained relatively stable through the quarter; significantly above prior year levels.

As a result of **weaker demand** amidst the industry wide destocking cycle across all product categories and production difficulties at the Ngodwana mill, **sales volumes** for graphic papers were **down** 42%; packaging and speciality papers were down 29% compared to the prior year.

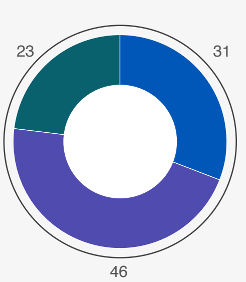
The hardwood dissolving pulp **market price responded positively** to improved market conditions and sentiment. Sales volumes for the segment were 7% below the prior year. Lower net selling prices and higher input costs depressed margins relative to the prior year.

Debt reduction progress

Our long-term net debt target of approximately US$1 billion remains a strategic imperative and we continued to progress towards this goal. Net debt decreased 31.6% (US$568 million) compared to the prior year ending the quarter at US$1,225 million.

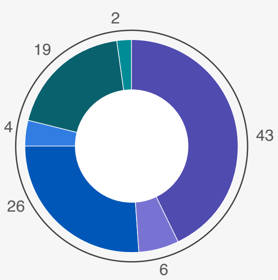
Net operating assets and sales distribution

Sales by source (%)



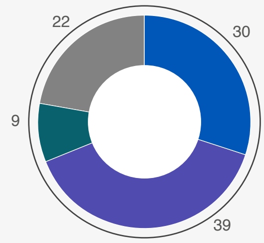
for the period ended March 2023

Sales by product (%)



for the period ended March 2023

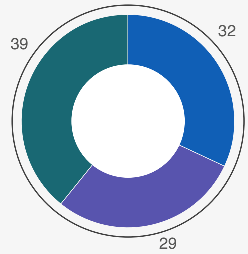
Sales by destination (%)



for the period ended March 2023

Net operating assets (%)

(Ex Corporate)



as at March 2023

Registration number: 1936/008963/06 Issuer code: SAWI JSE Code: SAP ISIN: ZAE000006284

www.sappi.com

Outlook

Viscose staple fibre (VSF) and dissolving pulp (DP) **markets are recovering**; **demand from our major customers is healthy**.

The short-term DP supply/demand landscape is expected to remain relatively balanced. However, the DP market price remains range-bound at current levels by stagnant textile fibre pricing, which would need to increase to support further DP pricing gains.

A planned maintenance shut at Saiccor as well as lower contract pricing for certain customers will impact margins and profitability for the pulp segment in the third quarter.

High levels of downstream inventory are obscuring our short-term visibility of **underlying paper demand and market conditions are anticipated to remain weak until the destocking cycle is complete**.

Global logistics challenges are mostly resolved and destocking may take longer than expected if customers delay replenishing their supply chains and drive down inventories below historical levels in anticipation of pricing adjustments.

We will continue to diligently manage working capital through production curtailments and adapt our product and market mix to match demand. Some relief may be expected from lower input costs as **many variable cost categories have passed their pricing peak** and we anticipate input cost benefits to be realised in the coming quarters.

Capital expenditure is estimated to be **US$410 million** for FY2023 and includes US$70 million for the Somerset PM2 conversion and expansion project.

The third quarter is seasonally the weakest in terms of demand for our products.

Given that global macroeconomic uncertainties continue to weigh on consumer sentiment and paper markets have yet to show signs of a sustained recovery in demand, we anticipate that **EBITDA for the third quarter of FY2023 will be below that of the second quarter**.

Sappi is **well positioned** to withstand the current market pressures given our significantly reduced debt profile and **healthy cash reserves**. We remain committed to our strategy to reduce exposure to graphic paper markets while investing for growth in renewable packaging, dissolving pulp and biomaterials.

Strategic imperative

The sale of three European graphic paper mills will not proceed. **Reducing exposure to graphic paper markets remains a strategic imperative** and Sappi will explore all options for these assets. Collectively these graphic paper mills contribute positively to EBITDA and in the interim **they** continue to be held-for-sale.

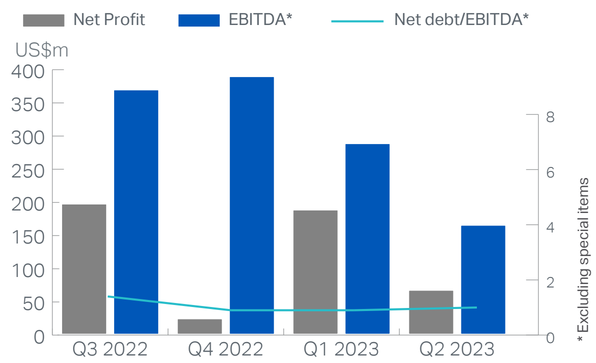
Logistics

Global logistics challenges are mostly resolved. A bonded warehouse was established in China and the first shipment was made in March. Approximately 17% of the Ngodwana Mill quarterly pulp sales volumes were shipped via Maputo port, which remains a strategic logistics risk mitigation strategy for shipments from South Africa.

Shares repurchased

As at 3 May 2023, the group repurchased 9,256,685 shares at an average price of ZAR43.21 per share for a combined value of US$23 million (ZAR400 million), representing 1.62% of Sappi shares in issue. The repurchased Sappi shares were cancelled and reverted to authorised share capital.

Q-on-Q earnings, profit & debt



Our purpose

Sappi exists to build a thriving world by unlocking the power of renewable resources to benefit people, communities, and the planet.

Our business strategy

Through collaboration and innovation we will grow profitably, using our strength as a sustainable and diversified global woodfibre group, focused on dissolving pulp, graphic, packaging and speciality papers, and biomaterials. Our strategy demands a clear focus on four key fundamentals: Grow our business • Sustain our financial health • Drive operational excellence • Enhance trust.

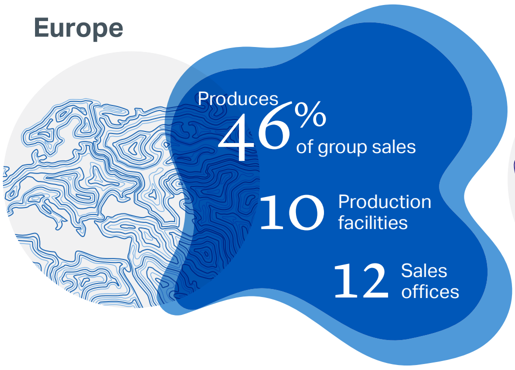
Our sustainability strategy

We will create long-term value for all stakeholders from relevant sustainable woodfibre products and through ongoing improvement in key areas.

Our commitment to sustainability underpins our strategy and is based on being a trusted, transparent, and innovative partner in building a biobased circular economy.

Registration number: 1936/008963/06 Issuer code: SAWI JSE Code: SAP ISIN: ZAE000006284

Europe



Profitability was negatively impacted by **weak paper markets**.

Higher year-on-year average selling prices were insufficient to offset substantially lower sales volumes.

Domestic and export graphic paper **markets** were **under significant pressure** with high downstream inventory levels suppressing demand.

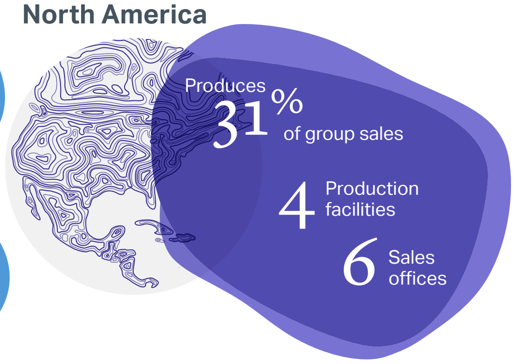
Similarly, sales volumes in the packaging and speciality papers segment were affected by the **destocking cycle** with the lower demand reflective of **negative consumer sentiment**.

Operations were curtailed to match market demand and proactively manage working capital.

The extensive downtime resulted in operational inefficiencies and increased variable costs resulting in reduced margins.

Fixed costs were 5% below the prior year predominantly due to personnel savings.

North America



Profitability was negatively affected by the global paper destocking cycle.

Paper sales volumes contracted sharply, driven by elevated downstream inventories and general concerns about the economy. In response, production curtailment was implemented to match market demand and manage working capital. Year-on-year paper selling price gains were insufficient to offset the significant cost inflation and lost revenue due to reduced sales volumes.

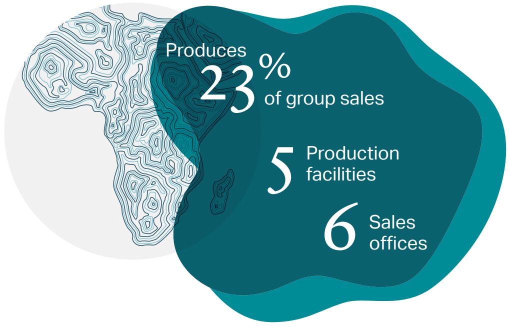
Dissolving pulp sales volumes were slightly down on the prior year due to a strategic decision to make more paper pulp at Cloquet Mill to optimise profitability. Margins for the pulp segment were negatively impacted by lower selling prices and higher costs relative to the previous year. Pulp sales volumes included 45,000 tons of high yield bleached chemi-thermomechanical pulp (BCTMP). BCTMP pricing followed global paper pulp trends and came under pressure during the quarter.

Variable costs were 18% higher year-on-year, driven by significant price escalation across all raw material categories, most notably wood.

Commercial downtime negatively affected operational efficiencies, impacting variable costs per ton.

Fixed costs were 7% above the previous year, primarily driven by higher maintenance costs.

Southern Africa



Profitability improved marginally year-on-year despite significant cost inflation and slightly reduced sales volumes.

Demand for **dissolving pulp improved** steadily during the quarter as VSF operating rates increased following the Chinese Lunar New Year.

Challenges associated with the upgrade of the Ngodwana Mill containerboard line and severe rainfall events **constrained packaging sales volumes**.

Containerboard demand softened slightly. Sales price increases partially offset cost inflation, resulting in margin contraction.

Office paper and newsprint sales volumes were in line with the prior year and **significantly improved pricing** helped to offset variable cost pressures.

Variable costs were 20% higher than the prior year primarily due to higher wood, energy and chemical costs.

Ongoing poor rail service levels necessitated increased road transport to ensure reliable timber and raw material deliveries to the mills.

Reduced ocean freight rates and bunker fuel charges provided some relief during the quarter.

Fixed costs were well managed with a below-inflation year-on-year increase due to savings in personnel and maintenance expenditures.

Marco Eikelenboom
Chief Executive Officer
Sappi Europe

Mike Haws
President and Chief Executive Officer
Sappi North America

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

Our values As OneSappi, we do business safely, with integrity and courage, making smart decisions that we execute with speed.

Registration number: 1936/008963/06 Issuer code: SAWI JSE Code: SAP ISIN: ZAE000006284