Q4 FY22

sappi

FY22 Q 4 Results — the period ended September 2022

Highlights for the year

EBITDA excl special items	**Profit** for the period	**Net debt**	**EPS** excl special items	Resumption of dividend
US$1,339 million	US$536 million	US$1,163 million	138US¢	15US¢
FY21: US$532 million	FY21: US$13 million	FY21: US$1,946 million	FY21: 15US¢	per share

Highlights for the quarter

EBITDA excl special items	**Profit** for the period	**EPS** excl special items
US$391 million	US$26 million	44US¢
FY21 Q4: US$177 million	FY21 Q4: US$35 million	FY21 Q4: 11US¢

	US$ million	Quarter ended Sep 2022	Quarter ended Sep 2021	Quarter ended Jun 2022	Year ended Sep 2022	Year ended Sep 2021
Key figures	Sales	**1,923**	1,425	1,818	**7,296**	5,265
	Operating profit (loss) excl special items[1]	**318**	92	300	**1,038**	203
	Special items loss (gain)[1]	**213**	34	34	**268**	57
	EBITDA excluding special items[1]	**391**	177	371	**1,339**	532
	Profit (Loss) for the period	**26**	35	199	**536**	13
	Basic EPS (US cents)	**5**	6	35	**95**	2
	EPS excluding special items (US cents)[1]	**44**	11	39	**138**	15
	Net debt[1]	**1,163**	1,946	1,530	**1,163**	1,946
Key ratios (%)	Operating profit excl special items[1] to sales	**16.5**	6.5	16.5	**14.2**	3.9
	ROCE[1] Operating profit excluding special items[1] to capital employed	**34.4**	9.3	29.8	**27.9**	5.4
	EBITDA excl special items[1] to sales	**20.3**	12.4	20.4	**18.4**	10.1
	Net debt to EBITDA excl special items[1]	**0.9**	3.7	1.4	**0.9**	3.7
	Covenant leverage ratio	**0.9**	3.7	1.4	**0.9**	3.7
	Interest cover[1]	**15.6**	5.5	12.2	**15.6**	5.5
	Net asset value per share[1] (US cents)	**417**	351	421	**417**	351

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

Commentary on the year

The group delivered exceptional results with **record EBITDA**, well above the previous record set in FY2000 (US$1,052 million). In addition, Q4 EBITDA improved on last quarter's record.

Substantially improved market conditions and **record operating profitability** translated to a profit of US$536 million.

Margins improved in all product segments.

The strategic investment in **packaging and speciality papers** in recent years reaped rewards amidst **robust global demand and renewed growth in Europe.**

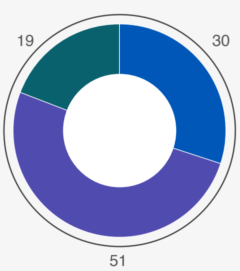
Pulp segment sales volumes increased 15% compared to the prior year on the back of **strong market demand** and improved logistics. Demand for Verve was particularly strong but sales were constrained by available production. The hardwood dissolving pulp market price rallied during the first half of the year peaking at US$1,220 per ton in July but began to soften in late August 2022.

The graphic paper segment capitalised on an **unprecedented global shortage**, generating EBITDA of US$650 million — a remarkable turnaround from the 2020 lows.

Net finance costs decreased a significant US$37 million.

Net operating assets and sales distribution

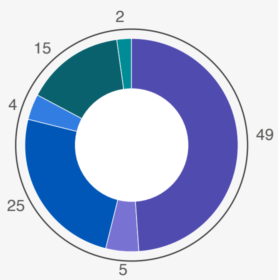
Sales by source (%)



North America
Europe
Southern Africa

for the period ended September 2022

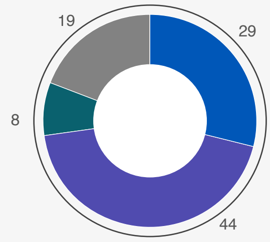
Sales by product (%)



Coated paper
Containerboard
Uncoated paper
Dissolving pulp
Speciality paper
Paper pulp

for the period ended September 2022

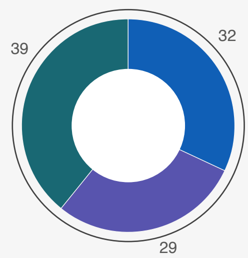
Sales by destination (%)



North America
Europe
Southern Africa
Asia and other

for the period ended September 2022

Net operating assets (%)
(ex Corporate)



North America
Europe
Southern Africa

as at September 2022

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

Outlook

Macroeconomic uncertainty increased considerably in recent weeks. Ongoing lockdowns in China, the geopolitical turmoil in Europe and unprecedented inflation are increasing the likelihood of a **global recession** in 2023. This poses a risk to our business as weakening consumer sentiment and diminishing discretionary spend will likely weaken demand in our graphic paper and dissolving pulp segments. Order activity in these segments has slowed and destocking is occurring across the value chain.

The pandemic illustrated the resilience of underlying demand for packaging and speciality papers in economic downturns, particularly for product categories in food, beverage and healthcare. In addition, the shift from plastic to paper offers significant opportunity to grow this segment.

Although prices for some raw materials, specifically natural gas and pulp, have decreased in recent weeks, rising input costs remain a risk. We remain focused on maximising operational efficiency and balancing production with demand to proactively manage costs and preserve pricing.

In South Africa, a fire at a municipal electrical substation impacted production at three mills for a few days in October 2022. A strike at Transnet impacted DP supply chains once again and we anticipate severe congestion at the Durban port may impact sales volumes in the first quarter. Sales volumes in North America will be impacted by the annual maintenance shut at Somerset Mill.

Deleveraging of our balance sheet has been material and combined with substantial cash reserves we are well positioned to navigate any market downturn. **We remain encouraged by the increasing resilience of our business and opportunities for growth in our packaging and speciality papers segment.**

Thrive 25 — Investment

Demand for packaging and speciality papers in North America is particularly robust and our **customers are actively seeking to increase their volumes**. Aligned with our Thrive25 strategic focus to reduce our exposure to declining graphic paper markets and transition our portfolio to packaging and speciality papers, pulp and biomaterials, Sappi will invest US$418 million at Somerset Mill to convert PM2 from coated woodfree graphic paper to solid bleached sulphate board. Machine capacity will be nearly doubled to 470,000 tons per annum. The project is expected to be completed in early 2025 and will be funded from free cash flow from operations. The capital expenditure will be phased over three years with the majority of the spend taking place in FY2024 and FY2025.

Dividends

A dividend (number 89) of **15 US cents per share** will be paid to shareholders on 16 January 2023. This dividend will be funded from cash reserves. The 2022 dividend is covered 9 times by basic earnings per share, excluding special items. **The group aims to declare ongoing annual dividends.**

Cash flow and Capex

Net cash generated for the year was US$506 million compared to US$29 million in the prior year. The noteworthy improvement in cash generation was largely due to substantially higher profitability despite a large investment in working capital of US$270 million related to inflationary increases for inventories and accounts receivables. Capital expenditure of US$368 million for the year was below expectations due to timing of certain payments and consequently approximately US$20 million will roll over into the 2023 financial year.

At year-end, liquidity comprised cash on hand of US$780 million and US$615 million from the committed unutilised revolving credit facilities (RCF) in South Africa and Europe.

Capital expenditure in FY2023 is estimated to be US$430 million and includes approximately US$70 million for the Somerset PM2 conversion project, US$60 million for sustainability projects and US$20 million capex spill-over from FY2022.

Thrive 25 — Balance sheet reset

Our Thrive25 strategic objective to reset the balance sheet was largely achieved. Net debt at financial year-end decreased to US$1,163 million (FY2021 US$1,946 million) as a result of the substantial cash generation and a positive translation impact of a weaker EUR/US Dollar exchange rate on the predominantly Euro-denominated debt. **This is the lowest net debt level in over 20 years.**

We recognise that global macroeconomic volatility and uncertainty remain significant risks to our business and have therefore set a new long-term strategic objective to target net debt of approximately US$1 billion. **This materially lower debt level will provide more flexibility to withstand market downturns and, combined with strong anticipated future cash generation, should provide sufficient opportunity to fund growth in our targeted market segments.**

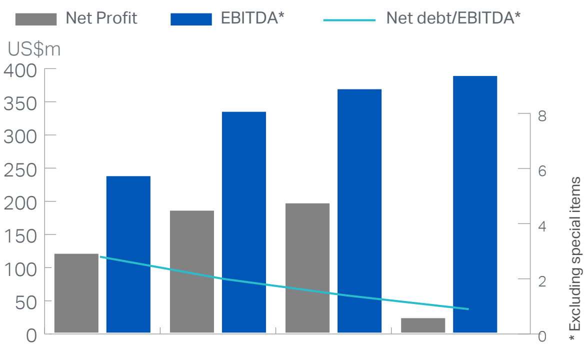
Thrive 25 — Sustainability targets

We are **on track to meet or exceed our Thrive25 sustainability targets**. The validation of our 2030 decarbonisation targets by the Science Based Targets initiative, reinforces our commitment to climate action.

Thrive 25 — Divestments

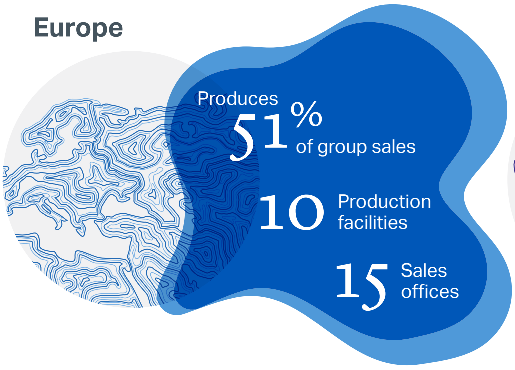
Despite extraordinary tight market conditions, graphic paper markets are in long-term decline. Indications are that demand will be under pressure again in FY23. A key element of our **Thrive25 strategy** is to reduce our exposure to this declining market. To that end, Sappi is divesting Maastricht, Stockstadt and Kirkniemi Mills, **significantly reducing our exposure to graphic paper markets**. The sale is anticipated to close in FY23 Q2. Proceeds will be used to further reduce debt.

Q-on-Q earnings, profit & debt



sappi

Europe



The European business delivered an **excellent quarter with EBITDA of €130 million**.

Ongoing **favourable market conditions** supported further selling price increases, but these were insufficient to offset significant cost inflation.

Graphic paper sales volumes were 3% down on the prior year as **demand began to soften**, driven largely by a weaker economy and downstream destocking. Production was adjusted to match demand. Nevertheless, we continued to outperform the market in this segment through market-share gains and year-on-year selling price increases which offset inflation.

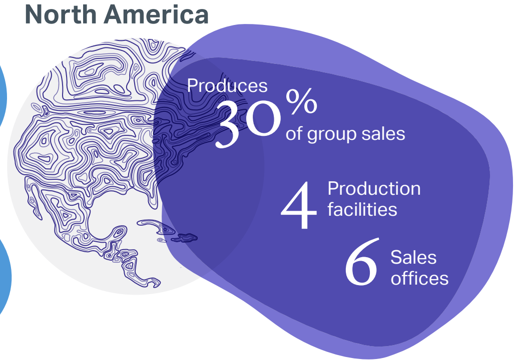
Packaging and speciality paper sales volumes, supported by **faster than anticipated market traction for the label paper offerings from Gratkorn Mill,** were 15% ahead of last year. Selling prices in the segment improved by a further 10% compared to the prior quarter but were not enough to offset cost increases thereby reducing margins in the segment.

Variable costs increased 56% year-on-year driven by **extraordinary cost inflation across all categories** further exacerbated by the weakening of the Euro/US Dollar exchange rate in Q4.

Fixed costs were up 12% year-on-year primarily due to inflationary impacts on personnel costs and **short-term incentives** in recognition of the record annual performance for the region.

Marco Eikelenboom
Chief Executive Officer
Sappi Europe

North America



Fourth quarter EBITDA of US$143 million set **another record** for the region.

The **success** was **broad-based** across all product segments.

Strategic investments in pulp, packaging and speciality papers have created a more **resilient and diversified product portfolio**, significantly enhancing profitability.

Continued tight graphic paper markets supported further price increases, offsetting rising costs, leading to further margin gains. **Demand** for **packaging and speciality paper grades** was **strong** but sales volumes were constrained by low inventory levels. Demand for paperboard products from the converted Somerset PM1 machine **significantly exceeded production capacity**. Reduced graphic paper and increased packaging and speciality papers sales volumes are reflective of the ongoing focus to optimise product mix as we transition graphic paper capacity to speciality papers.

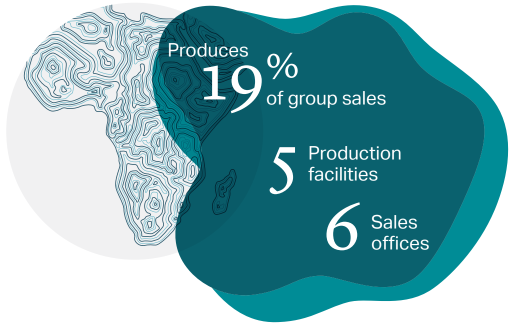
The pulp segmental sales volumes of 111,000 tons were 4% higher than the prior year. **Profitability** was **boosted** by net selling price increases for both the DP and BCTMP product categories.

Variable costs increased 22% year-on-year due to **significant cost inflation across all input categories**.

Fixed costs were 13% up year-on-year due to inflationary impacts and **short-term incentives** recognizing the record annual performance.

Mike Haws
President and Chief Executive Officer
Sappi North America

Southern Africa



Bolstered by a weaker ZAR/US Dollar exchange rate, the business **bounced back** strongly due to improved performance of the pulp business as logistical backlogs were reduced.

Year-on-year net selling **price increases** were achieved in **all product segments** which offset cost inflation.

Strong demand from the agriculture sector and constrained paper imports into South Africa created a **tight supply dynamic for packaging papers**. Sales volumes for the quarter were 13% below last year constrained by production capacity, low inventory levels and an extended shut for the containerboard machine upgrade at the Ngodwana Mill.

Favourable market conditions for **tissue, office** and **newsprint paper** supported price increases, which led to **improved profitability** for these product categories.

Demand for Verve **remained robust** during Q4. Resolving logistical challenges, facilitated a substantial increase in sales volumes. Saiccor Mill operations stabilised after a challenging ramp up post the floods and a maintenance shut in Q3.

Variable costs rose year-on-year due to **escalating costs in all input categories**, particularly wood, chemicals and delivery costs and were partly offset by insurance proceeds from the floods.

Fixed costs were 4% higher than the prior year due to higher personnel, maintenance and depreciation costs.

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.

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