



sappi

# Third Quarter Results

for the period ended June 2023

“Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.”

Our raw material offerings (such as dissolving pulp, wood pulp, biomaterials and timber) and end-use products (packaging papers, speciality 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.

Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

	Quarter ended			Nine months ended	
	Jun 2023	Jun 2022	Mar 2023	Jun 2023	Jun 2022
<b>Key figures (US\$ million)</b>					
Sales	<b>1,326</b>	1,818	1,442	<b>4,428</b>	5,373
Operating profit (loss) excluding special items <sup>(1)</sup>	<b>41</b>	300	101	<b>367</b>	720
Special items – loss (gain) <sup>(2)</sup>	<b>(15)</b>	34	(7)	<b>(28)</b>	55
EBITDA excluding special items <sup>(1)</sup>	<b>106</b>	371	167	<b>563</b>	948
Profit (Loss) for the period	<b>40</b>	199	69	<b>299</b>	510
Basic earnings per share (US cents)	<b>7</b>	35	12	<b>53</b>	91
EPS excluding special items (US cents) <sup>(3)</sup>	<b>5</b>	39	11	<b>46</b>	94
Net debt <sup>(3)</sup>	<b>1,176</b>	1,530	1,225	<b>1,176</b>	1,530
<b>Key ratios (%)</b>					
Operating profit (loss) excluding special items to sales	<b>3.1</b>	16.5	7.0	<b>8.3</b>	13.4
Operating profit (loss) excluding special items to capital employed (ROCE) <sup>(3)</sup>	<b>4.4</b>	29.8	11.0	<b>13.6</b>	24.5
EBITDA excluding special items to sales	<b>8.0</b>	20.4	11.6	<b>12.7</b>	17.6
Net debt to EBITDA excluding special items	<b>1.2</b>	1.4	1.0	<b>1.2</b>	1.4
Covenant leverage ratio <sup>(3)</sup>	<b>1.2</b>	1.4	0.9	<b>1.2</b>	1.4
Interest cover <sup>(3)</sup>	<b>9.6</b>	12.2	13.4	<b>9.6</b>	12.2
Net asset value per share (US cents) <sup>(3)</sup>	<b>446</b>	421	447	<b>446</b>	421

<sup>(1)</sup> 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.

<sup>(2)</sup> Refer to note 2 to the group results for details on special items.

<sup>(3)</sup> Refer to supplemental information for the definition of the term.

# Highlights for the quarter

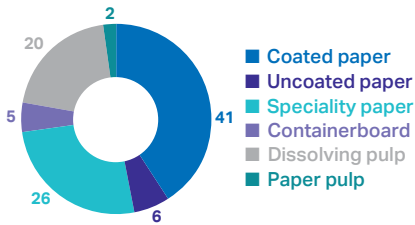
EBITDA excluding special items  
**US\$106 million**  
 (Q3 FY22: US\$371 million)

Net debt of  
**US\$1,176 million**  
 (Q3 FY22: US\$1,530 million)

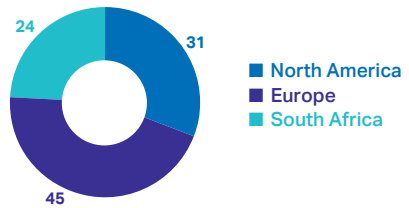
Profit for the period  
**US\$40 million**  
 (Q3 FY22: US\$199 million)

EPS excluding special items  
**5 US cents**  
 (Q3 FY22: 39 US cents)

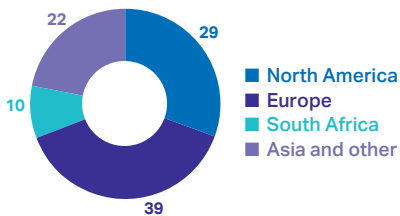
SALES BY PRODUCT\* (%)



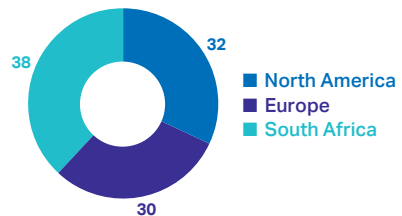
SALES BY SOURCE\* (%)



SALES BY DESTINATION\* (%)



NET OPERATING ASSETS\*\* (EX CORPORATE) (%)



\* For the period ended June 2023.

\*\* As at June 2023.

# Commentary on the quarter<sup>(1)</sup>

**The group faced persistent challenges in the global economy and encountered ongoing weakness in paper and pulp markets, leading to a reduction in EBITDA to US\$106 million for the quarter ended June 2023. Specifically, the paper businesses experienced a significant downstream destocking cycle. Customers reduced their inventories in anticipation of lower prices, thereby affecting demand. In response, we proactively curtailed excess production in Europe and North America, implemented various cost-saving initiatives across our operations, and applied measures to optimise working capital. The profitability of the South African business was more stable, bolstered by the dissolving pulp business. Despite the challenging economic environment, we generated cash in the quarter and liquidity in the group remained strong.**

Demand for dissolving pulp (DP) remained positive supported by sustained high operating rates for viscose staple fibre (VSF) and a recovery in pricing for alternative textile fibres such as cotton. However, the hardwood DP market price<sup>(2)</sup> declined from US\$920/ton to US\$870/ton during the quarter, driven primarily by the weak Chinese Renminbi exchange rate against the US Dollar, relatively low VSF pricing and the sluggish global economy. Our mills were fully sold supported by long-term contracts. Enhanced plant stability at the Saiccor Mill and the absence of maintenance shuts at the Ngodwana and Cloquet Mills

resulted in improved production volumes for the segment. Operations in the comparative quarter of last year were constrained by the floods in South Africa, and contributed to the pulp segment increasing sales volumes by 46% year-on-year. The higher sales volumes offset the negative impact of lower selling prices and the segment maintained flat year-on-year EBITDA margins.

Continued weakness in graphic paper markets during the quarter was driven primarily by the destocking cycle and negative consumer sentiment. Selling prices remained resilient at 5% above

<sup>(1)</sup> "year-on-year" or "prior/previous/last year" is a comparison between Q3 FY2023 versus Q3 FY2022; "quarter-on-quarter" or "prior/previous/last quarter" is a comparison between Q3 FY2023 and Q2 FY2023.

<sup>(2)</sup> Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

last year's levels, despite facing a 45% reduction in sales volumes compared to the prior year. However, the combination of reduced sales volumes and higher costs had an adverse effect on segmental EBITDA, leading to a substantial decline in margins compared to the previous year's highs.

Similarly, weak trading conditions and high inventory levels were observed in the packaging and speciality papers segment where sales volumes decreased by 26% compared to the prior year. Although year-on-year selling prices were higher and variable costs were lower, the impact of the lower sales volumes resulted in reduced profitability in the segment.

Earnings per share excluding special items for the quarter was 5 US cents, a decrease from the 39 US cents in the prior year. Special items increased earnings by US\$15 million due to a positive plantation fair value adjustment of US\$20 million offset primarily by insurance-related adjustments.

## **CASH FLOW AND DEBT**

Net cash generated for the quarter of US\$73 million was impacted by the lower profitability and was thus substantially below the US\$170 million in the prior year. Capital expenditure of US\$62 million was aligned with the anticipated spend for the year. Working capital reduced by US\$89 million.

Despite the difficult economic environment and the share buyback of US\$22 million during the quarter, further progress was made towards our net debt target of US\$1 billion. Net debt decreased by US\$49 million from the prior quarter to US\$1,176 million. A stronger Euro/US Dollar exchange rate resulted in Euro-denominated debt being converted at a higher rate and negatively impacted net debt by US\$105 million for the year to date. Liquidity remains healthy with cash on hand of US\$504 million and US\$668 million from unutilised committed revolving credit facilities (RCF) in South Africa and Europe.

# Operating review for the quarter

## Europe

Sales offices

12

Production facilities

10



## EUROPE

€ million	Quarter ended				
	Jun 2023	Mar 2023	Dec 2022	Sept 2022	Jun 2022
Sales – tons	434	438	568	757	780
Sales	543	592	783	982	943
Operating profit excluding special items	(16)	–	73	102	173
<i>Operating profit excluding special items to sales (%)</i>	<i>(2.9)</i>	–	9.3	10.4	18.3
EBITDA excluding special items	3	20	91	130	200
<i>EBITDA excluding special items to sales (%)</i>	<i>0.6</i>	3.4	11.6	13.2	21.2
RONOA <i>pa (%)</i>	<i>(5.5)</i>	–	23.8	30.7	49.0

The weak European economy and ongoing downstream destocking created difficult trading conditions for our European business. Production was proactively adjusted to align with lower market demand and working capital was managed accordingly. Despite benefiting from a 4% increase in year-on-year selling prices, the region's profitability was negatively impacted by variable cost inflation and lower sales volumes.

The destocking cycle and uncertain economic outlook caused a 47% decrease in year-on-year sales volumes of graphic papers. The packaging and

speciality papers segment also experienced a decline but at a relatively lower rate of 34%. Sales volumes in both segments were flat compared to the prior quarter signalling that the destocking cycle has potentially reached its lowest point.

Variable costs across most input categories reduced during the quarter although this was partially offset by reduced operational efficiencies due to the extensive operational downtime. Fixed costs were 7% below the prior year predominantly due to personnel cost savings.

## North America

Sales offices

6

Production facilities

4



### NORTH AMERICA

US\$ million	Quarter ended				
	Jun 2023	Mar 2023	Dec 2022	Sept 2022	Jun 2022
Sales – tons	305	330	378	423	437
Sales	395	458	526	586	566
Operating profit excluding special items	4	43	91	121	97
<i>Operating profit excluding special items to sales (%)</i>	<b>1.0</b>	9.4	17.3	20.6	17.1
EBITDA excluding special items	27	66	114	143	118
<i>EBITDA excluding special items to sales (%)</i>	<b>6.8</b>	14.4	21.7	24.4	20.8
RONOA <i>pa (%)</i>	<b>1.2</b>	12.6	27.6	37.1	29.2

Paper sales volumes declined sharply during the quarter due to ongoing destocking throughout the supply chain. The region's profitability was adversely impacted by a combination of 30% lower sales volumes, higher variable costs and flat selling prices relative to the prior year.

Sales volumes of graphic paper reduced by 46% compared to the previous year and were 21% below the prior quarter. The contraction in sales volumes for packaging and speciality paper was comparatively less severe, with declines of 37% and 9% from the prior year and previous quarter respectively.

In the pulp segment, overall sales volumes were marginally better than last

year as bleached hardwood kraft (BHK) market sales were able to offset lower volumes for bleached chemi-thermomechanical pulp (BCTMP) and somewhat lower volumes for Verve<sup>(3)</sup>. However, profitability of the segment was impacted by a reduction in selling prices for both Verve<sup>(3)</sup> and BCTMP, which dropped from the highs of the prior year.

Variable costs reduced during the quarter but the benefits were insufficient to offset the reduction in net selling prices, which decreased 7% compared to the prior quarter. Fixed costs were 9% below the prior year primarily driven by reductions in maintenance and personnel costs.

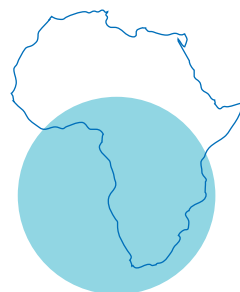
<sup>(3)</sup> Verve is the brand name for Sappi dissolving pulp.

# Operating review for the quarter

continued

## South Africa

Sales offices | 6  
Production facilities | 5



## SOUTH AFRICA

ZAR million	Quarter ended				
	Jun 2023	Mar 2023	Dec 2022	Sept 2022	Jun 2022
Sales – tons	773	765	722	801	654
Sales	6,781	6,604	6,602	6,326	4,202
Operating profit excluding special items	942	959	1,109	1,511	214
<i>Operating profit excluding special items to sales (%)</i>	13.9	14.5	16.8	23.9	5.1
EBITDA excluding special items	1,335	1,332	1,514	1,881	556
<i>EBITDA excluding special items to sales (%)</i>	19.7	20.2	22.9	29.7	13.2
RONOA <i>pa (%)</i>	12.5	12.7	15.0	21.4	3.0

Profitability of the South African business was stable relative to the prior quarter and significantly higher than the previous year. Higher sales volumes for Verve<sup>(3)</sup> and a weaker Rand/US Dollar exchange rate offset cost inflation.

Verve<sup>(3)</sup> sales volumes more than doubled compared to the previous year due to improved plant stability and operating rates following an annual maintenance shut at the Saiccor Mill. Sales volumes in the prior year had been constrained by a scheduled maintenance shut at the Ngodwana Mill and the floods in KwaZulu-Natal, which impacted both operations and sales. A reduction in year-on-year average US Dollar selling prices was more than offset by the significantly weaker

Rand/US Dollar exchange rate, which boosted Rand selling prices by 15%.

Containerboard demand was lower due to a downstream inventory build as customers imported product at the end of 2022. Nonetheless, higher year-on-year selling prices offset cost inflation and improved margins for the segment.

Demand for office paper and newsprint slowed during the quarter as improved global logistics and falling international market prices created an opportunity for imports. Nevertheless, higher selling prices offset cost inflation resulting in year-on-year margin gains for these product categories.

<sup>(3)</sup> Verve is the brand name for Sappi dissolving pulp.



The region continued to adjust to the challenges posed by poor domestic rail service, necessitating reliance on road transport routes. Variable costs were 3% higher than the prior year driven by substantially higher wood, energy and chemical costs, which were partially offset by lower ocean freight delivery costs. Fixed costs increased by 6%, predominantly due to higher labour costs.

## POST-BALANCE SHEET EVENTS

On 06 July 2023, it was announced that a consultation process has been initiated at the Stockstadt Mill involving management and the Works Council to discuss the future of the mill. This process includes considering the potential closure of the mill and the sale of the site. Consequently, the pulp mill and paper machine may cease operations. In light of these developments, we anticipate incurring a net asset impairment and additional costs related to restructuring and closure.

## OUTLOOK

Weak global macroeconomic conditions and a slower than anticipated recovery in the Chinese economy continue to weigh on general consumer sentiment.

DP demand remains strong but there are mixed influences on pricing as the high VSF operating rates and a recovery in cotton prices are offset by lower paper pulp prices. DP market prices have reduced by a further US\$30 per ton in July, however, the relatively low stocks of VSF in the value chain may provide some resistance against further price deterioration.

The paper businesses face short-term challenges as the destocking cycle is taking longer than expected. The uncertain economic outlook and reducing commodity prices will likely add pressure as customers are reluctant to build stock and are opting to manage their paper supply on a just-in-time basis. There are, however, indications that the destocking cycle is nearing completion and it is expected that demand will gradually improve throughout the fourth quarter. Sappi is well positioned to benefit from a recovery.

Capital expenditure is estimated to be US\$410 million for FY2023 and includes US\$79 million for the Somerset PM2 conversion and expansion project. Management remains committed to continued disciplined capital allocation.

Despite the challenging market conditions, liquidity remains healthy and we will continue to diligently manage working capital through production curtailment and adapt our product mix to match demand.

Despite the slow recovery of paper demand and notwithstanding continued margin pressure in all of our market segments, EBITDA in the fourth quarter is likely to be marginally above that of the third quarter.

On behalf of the board

**SR Binnie**  
*Director*

**GT Pearce**  
*Director*

03 August 2023

# 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 cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);

- 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; and
- 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	Quarter ended		Nine months ended	
		Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Sales</b>		<b>1,326</b>	1,818	<b>4,428</b>	5,373
Cost of sales		<b>1,200</b>	1,449	<b>3,770</b>	4,399
Gross profit		<b>126</b>	369	<b>658</b>	974
Selling, general and administrative expenses		<b>79</b>	107	<b>261</b>	320
Other operating (income) expenses		<b>(8)</b>	(2)	<b>2</b>	(9)
Share of (profit) loss from equity accounted investees		<b>(1)</b>	(2)	<b>-</b>	(2)
<b>Operating profit</b>	3	<b>56</b>	266	<b>395</b>	665
Net finance costs		<b>14</b>	22	<b>32</b>	75
Finance costs		<b>25</b>	27	<b>79</b>	83
Finance income		<b>(7)</b>	(3)	<b>(39)</b>	(6)
Net foreign exchange gain		<b>(4)</b>	(2)	<b>(8)</b>	(2)
<b>Profit before taxation</b>		<b>42</b>	244	<b>363</b>	590
Taxation		<b>2</b>	45	<b>64</b>	80
<b>Profit for the period</b>		<b>40</b>	199	<b>299</b>	510
<b>Basic earnings per share (US cents)</b>	4	<b>7</b>	35	<b>53</b>	91
Weighted average number of shares in issue (millions)		<b>561.2</b>	564.6	<b>565.1</b>	562.6
<b>Diluted earnings per share (US cents)</b>	4	<b>7</b>	33	<b>50</b>	86
Weighted average number of shares on fully diluted basis (millions)		<b>599.9</b>	602.4	<b>603.9</b>	600.0

# Condensed group statement of other comprehensive income

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
Profit for the period	40	199	299	510
<b>Other comprehensive income, net of tax</b>				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Actuarial gains (losses) on post-employment benefit funds	–	(24)	(2)	(34)
Tax effect	–	8	1	26
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translation of foreign operations	(72)	(148)	(67)	(79)
Movements in hedging reserves	(73)	(129)	(97)	(56)
Tax effect	1	(22)	33	(23)
	–	3	(3)	–
<b>Total comprehensive income for the period</b>	<b>(32)</b>	27	<b>230</b>	397

# Condensed group balance sheet

US\$ million	Note	Jun 2023	Reviewed Sept 2022
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>3,536</b>	3,430
Property, plant and equipment		2,764	2,705
Right-of-use assets		76	76
Plantations		406	382
Deferred tax assets		54	46
Goodwill and intangible assets		92	89
Equity accounted investees		9	8
Other non-current assets		134	123
Derivative financial instruments		1	1
<b>Current assets</b>		<b>2,165</b>	2,799
Inventories		756	780
Trade and other receivables		520	939
Derivative financial assets		3	8
Taxation receivable		4	1
Cash and cash equivalents		504	780
Assets held for sale	9	378	291
<b>Total assets</b>		<b>5,701</b>	6,229
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Ordinary shareholders' interest	8	2,489	2,358
<b>Non-current liabilities</b>		<b>2,008</b>	2,347
Interest-bearing borrowings		1,329	1,688
Lease liabilities		64	66
Deferred tax liabilities		378	361
Defined benefit and other liabilities		237	232
<b>Current liabilities</b>		<b>1,204</b>	1,524
Interest-bearing borrowings		267	171
Lease liabilities		20	18
Trade and other payables		695	1,045
Provisions		2	4
Derivative financial liabilities		9	21
Taxation payable		46	25
Liabilities associated with assets held for sale	9	165	240
<b>Total equity and liabilities</b>		<b>5,701</b>	6,229
Number of shares in issue at balance sheet date (millions)		<b>558.1</b>	565.2

# Condensed group statement of cash flows

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Profit for the period</b>	<b>40</b>	199	<b>299</b>	510
Adjustment for:				
Depreciation, fellings and amortisation	<b>82</b>	84	<b>245</b>	270
Taxation	<b>2</b>	45	<b>64</b>	80
Net finance costs	<b>14</b>	22	<b>32</b>	75
Defined post-employment benefits paid	<b>(5)</b>	(5)	<b>(23)</b>	(16)
Plantation fair value adjustments	<b>(38)</b>	(3)	<b>(92)</b>	(14)
(Profit) Loss on disposal of held-for-sale assets	-	-	<b>1</b>	-
Equity accounted investees impairments	-	(3)	-	(3)
(Profit) Loss on disposal and written-off assets	-	24	-	44
Other non-cash items	<b>(4)</b>	(12)	<b>7</b>	(31)
<b>Cash generated from operations</b>	<b>91</b>	351	<b>533</b>	915
Movement in working capital	<b>89</b>	(71)	<b>14</b>	(348)
Finance costs paid	<b>(33)</b>	(14)	<b>(98)</b>	(52)
Finance income received	<b>7</b>	2	<b>22</b>	5
Taxation (paid) refund	<b>(14)</b>	(7)	<b>(28)</b>	(15)
Dividend paid	-	-	<b>(85)</b>	-
<b>Cash generated from operating activities</b>	<b>140</b>	261	<b>358</b>	505
<b>Cash utilised in investing activities</b>	<b>(67)</b>	(91)	<b>(224)</b>	(241)
Capital expenditure	<b>(62)</b>	(93)	<b>(203)</b>	(234)
Proceeds on disposal of assets	-	-	<b>1</b>	1
Proceeds on held-for-sale assets	-	-	<b>10</b>	-
Other non-current asset movements	<b>(5)</b>	2	<b>(32)</b>	(8)

# Condensed group statement of cash flows continued

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Net cash generated (utilised)</b>	<b>73</b>	170	<b>134</b>	264
<b>Cash effects of financing activities</b>	<b>(130)</b>	(4)	<b>(447)</b>	(15)
Proceeds from interest-bearing borrowings	–	1	–	48
Repayment of interest-bearing borrowings	<b>(102)</b>	1	<b>(408)</b>	(46)
Share repurchase	<b>(22)</b>	–	<b>(22)</b>	–
Capital lease repayments	<b>(6)</b>	(6)	<b>(17)</b>	(17)
<b>Net movement in cash and cash equivalents</b>	<b>(57)</b>	166	<b>(313)</b>	249
Cash and cash equivalents at beginning of period	<b>557</b>	440	<b>780</b>	366
Translation effects	<b>4</b>	(36)	<b>37</b>	(45)
<b>Cash and cash equivalents at end of period</b>	<b>504</b>	570	<b>504</b>	570

# Condensed group statement of changes in equity

US\$ million	Nine months ended	
	Jun 2023	Jun 2022
Balance – beginning of period	2,358	1,970
Profit (Loss) for the period	299	510
Other comprehensive income for the period	(69)	(113)
Issue of shares	3	6
Dividend – 15 US cents	(85)	–
Share repurchases	(22)	–
Share-based payment reserve	5	6
<b>Balance – end of period</b>	<b>2,489</b>	2,379
<b>Comprising</b>		
Ordinary share capital and premium	683	806
Non-distributable reserves	109	116
Foreign currency translation reserves	(243)	(168)
Hedging reserves	(52)	(60)
Retained earnings	1,992	1,685
<b>Total equity</b>	<b>2,489</b>	2,379



# Notes to the condensed group results

## 1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and nine months ended June 2023 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 nine months ended June 2023 comprised 39 weeks whereas the nine months ended June 2022 comprised 40 weeks.

The preparation of these condensed consolidated financial statements was supervised by the Chief Financial Officer, GT Pearce, CA(SA) and were authorised for issue on 03 August 2023.

The results are unaudited.

## 2. Segment information

Metric tons (000's)	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Sales volume</b>				
North America	305	437	1,013	1,335
Europe	434	780	1,440	2,418
South Africa – Pulp and paper	399	286	1,179	1,131
Forestry	374	368	1,081	1,072
<b>Total</b>	<b>1,512</b>	1,871	<b>4,713</b>	5,956
Which consists of:				
Pulp	378	259	1,103	1,043
Packaging and speciality papers	296	399	927	1,207
Graphic papers	464	845	1,602	2,634
Forestry	374	368	1,081	1,072

# Notes to the condensed group results continued

## 2. Segment information continued

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Sales</b>				
North America	395	566	1,379	1,614
Europe	595	1,011	2,035	2,801
South Africa – Pulp and paper	341	246	1,047	987
Forestry	21	22	62	64
Delivery costs revenue adjustment <sup>(1)</sup>	(26)	(27)	(95)	(93)
<b>Total</b>	<b>1,326</b>	1,818	<b>4,428</b>	5,373
Which consists of:				
Pulp	313	226	972	913
Packaging and speciality papers	413	545	1,332	1,557
Graphic papers	605	1,052	2,157	2,932
Forestry	21	22	62	64
Delivery costs revenue adjustment <sup>(1)</sup>	(26)	(27)	(95)	(93)
<b>Operating profit (loss) excluding special items</b>				
North America	4	97	138	248
Europe	(16)	190	60	312
South Africa	50	13	167	158
Unallocated and eliminations <sup>(2)</sup>	3	–	2	2
<b>Total</b>	<b>41</b>	300	<b>367</b>	720
Which consists of:				
Pulp	23	12	119	146
Packaging and speciality papers	19	84	105	207
Graphic papers	(4)	204	141	365
Unallocated and eliminations <sup>(2)</sup>	3	–	2	2
<b>Special items – (gains) losses</b>				
North America	7	–	8	(29)
Europe	1	–	2	18
South Africa	(22)	56	(39)	85
Unallocated and eliminations <sup>(2)</sup>	(1)	(22)	1	(19)
<b>Total</b>	<b>(15)</b>	34	<b>(28)</b>	55

<sup>(1)</sup> Relates to delivery costs netted off against revenue.

<sup>(2)</sup> Includes the group's treasury operations and insurance captive.

## 2. Segment information continued

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Operating profit (loss) by segment</b>				
North America	(3)	97	130	277
Europe	(17)	190	58	294
South Africa	72	(43)	206	73
Unallocated and eliminations <sup>(2)</sup>	4	22	1	21
<b>Total</b>	<b>56</b>	266	<b>395</b>	665
<b>EBITDA excluding special items</b>				
North America	27	118	207	321
Europe	5	218	121	404
South Africa	71	35	232	220
Unallocated and eliminations <sup>(2)</sup>	3	–	3	3
<b>Total</b>	<b>106</b>	371	<b>563</b>	948
Which consists of:				
Pulp	42	31	174	201
Packaging and speciality papers	43	108	177	281
Graphic papers	18	232	209	463
Unallocated and eliminations <sup>(2)</sup>	3	–	3	3

<sup>(2)</sup> 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 to profit for the period and operating profit excluding special items to operating profit

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

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>EBITDA excluding special items</b>	<b>106</b>	371	<b>563</b>	948
Depreciation and amortisation	<b>(65)</b>	(71)	<b>(196)</b>	(228)
<b>Operating profit excluding special items</b>	<b>41</b>	300	<b>367</b>	720
Special items – gains (losses)	<b>15</b>	(34)	<b>28</b>	(55)
Plantation price fair value adjustment	<b>20</b>	(16)	<b>38</b>	(44)
Profit (Loss) on disposal and written-off assets	<b>–</b>	(24)	<b>–</b>	(44)
Profit (Loss) on disposal of held-for-sale assets	<b>–</b>	–	<b>(1)</b>	–
Equity-accounted investees impairment reversal	<b>–</b>	3	<b>–</b>	3
Insurance recoveries	<b>10</b>	24	<b>9</b>	24
Fire, flood, storm and other events	<b>(15)</b>	(21)	<b>(18)</b>	6
<b>Operating profit</b>	<b>56</b>	266	<b>395</b>	665
Net finance costs	<b>(14)</b>	(22)	<b>(32)</b>	(75)
<b>Profit before taxation</b>	<b>42</b>	244	<b>363</b>	590
Taxation	<b>(2)</b>	(45)	<b>(64)</b>	(80)
<b>Profit for the period</b>	<b>40</b>	199	<b>299</b>	510

## 2. Segment information continued

US\$ million	Nine months ended	
	Jun 2023	Jun 2022
<b>Net operating assets</b>		
North America	1,360	1,300
Europe	1,267	1,509
South Africa	1,603	1,712
Unallocated and eliminations <sup>(2)</sup>	(4)	19
<b>Total</b>	<b>4,226</b>	4,540
<b>Reconciliation of net operating assets to total assets</b>		
<b>Segment assets</b>	<b>4,226</b>	4,540
Deferred tax assets	54	50
Cash and cash equivalents	504	570
Trade and other payables	695	1,113
Provisions	2	4
Derivative financial instruments	9	4
Taxation payable	46	26
Liabilities associated with assets held for sale	165	–
<b>Total assets</b>	<b>5,701</b>	6,307

<sup>(2)</sup> Includes the group's treasury operations and insurance captive.

# Notes to the condensed group results continued

## 3. Operating profit (loss)

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
Included in operating profit are the following items:				
Depreciation and amortisation	65	71	196	228
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	17	13	49	42
Growth	(18)	(19)	(54)	(58)
Plantation price fair value adjustment	(1)	(6)	(5)	(16)
	(20)	16	(38)	44
	(21)	10	(43)	28
(Profit) Loss on disposal and written-off assets	-	24	-	44
Asset impairments	(1)	-	-	-
(Profit) Loss on disposal of held-for-sale assets	-	-	1	-
Equity-accounted investees impairment reversal	-	(3)	-	(3)
Insurance recoveries	(10)	(24)	(9)	(24)

#### 4. Earnings per share

US\$ million	Quarter ended		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
Basic earnings per share (US cents)	7	35	53	91
Headline earnings per share (US cents)	7	35	53	93
EPS excluding special items (US cents)	5	39	46	94
Weighted average number of shares in issue (millions)	561.2	564.6	565.1	562.6
Diluted earnings per share (US cents)	7	33	50	86
Diluted headline earnings per share (US cents)	7	33	50	88
Weighted average number of shares on fully diluted basis (millions)	599.9	602.4	603.9	600.0
<b>Calculation of headline earnings</b>				
Profit (Loss) for the period	40	199	299	510
(Profit) Loss on disposal and write off of property, plant and equipment	-	-	-	20
(Profit) Loss on disposal of held-for-sale assets	-	-	1	-
Equity-accounted investees impairment reversal	-	(3)	-	(3)
Tax effect of above items	-	-	(1)	(5)
<b>Headline earnings</b>	<b>40</b>	196	<b>299</b>	522
<b>Calculation of earnings excluding special items</b>				
Profit (Loss) for the period	40	199	299	510
Special items after tax	(12)	18	(22)	26
Special items	(15)	34	(28)	55
Tax effect	3	(16)	6	(29)
Finance costs	-	-	(15)	-
Tax special items	-	6	-	(5)
<b>Earnings excluding special items</b>	<b>28</b>	223	<b>262</b>	531

# Notes to the condensed group results continued

## 5. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and investment 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 <sup>(1)</sup>	
			Jun 2023	Reviewed Sept 2022
Investment funds <sup>(2)</sup>	FV through OCI	Level 1	4	6
Derivative financial assets	FV through PL	Level 2	4	9
Derivative financial liabilities	FV through PL	Level 2	9	21

<sup>(1)</sup> The fair value of the financial instruments is equal to their carrying value.

<sup>(2)</sup> 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 following inputs: 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 and current interest-bearing borrowings approximate their fair values.

## 6. Capital commitments

US\$ million	Jun 2023	Reviewed Sept 2022
Contracted	309	108
Approved but not contracted	380	255
	689	363



## 7. Interest-bearing borrowings, lease liabilities and cash and cash equivalents

US\$ million	Jun 2023	Reviewed Sept 2022
Non-current and current interest-bearing borrowings	1,596	1,859
Non-current and current lease liabilities	84	84
Less: Cash and cash equivalents	(504)	(780)
Net debt	1,176	1,163
As at June 2023 the group was in compliance with its debt covenants:		
Covenant leverage ratio	1.2	0.9
Interest cover	9.6	15.6

## 8. Material balance sheet movements

Since the 2022 financial year-end, the Euro and the ZAR have strengthened and weakened by approximately 11.34% and 3.75% respectively against the US Dollar, the group's presentation currency. This has resulted in an increase of the group's European assets and liabilities and a decrease of the group's South African assets and liabilities, which are held in the aforementioned functional currency, on translation to the presentation currency at period-end.

### Ordinary shareholders' interest

The group issued 1.6 million ordinary shares in December 2022, amounting to US\$3 million, to settle just over 2.9% of its subsidiary's convertible bond initial offering of ZAR1.8 billion.

During April and May, the group repurchased 9,256,685 ordinary shares for US\$22 million (ZAR400 million) in accordance with its general authority to repurchase shares.

### Cash and interest-bearing borrowings

In October 2022, the group offered to purchase for cash a portion of its outstanding 3.125% Senior Notes due in 2026. The result of this tender offer was a repurchase of US\$206 million (€210 million) of nominal Senior Notes in the tender offer at a purchase price of 92.41%, yielding a gain of US\$15 million (€15 million) net of the accelerated amortisation of upfront costs.

### Inventories, trade and other receivables and trade and other payables

The decrease in inventories, trade and other receivables and trade and other payables is largely attributable to lower demand and subsequent lower operating rates.

## 9. Held-for-sale assets and liabilities

In the prior fiscal year on 29 September 2022, Sappi signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills, being Kirknemi, Stockstadt and Maastricht, to Aurelius Investment Lux One Sarl. The suspensive conditions were regrettably not met and therefore the transaction lapsed. The group continues to hold these graphic paper mills as held-for-sale. The balance sheet values have been updated to June and include trade receivables of US\$99 million (€91 million) previously excluded from held-for-sale under the former transaction. There was no impact on the income statement.

	US\$ million
Property, plant and equipment	128
Right-of-use assets	11
Other non-current assets	17
Inventories	108
Trade and other receivables	114
<b>Assets held for sale</b>	<b>378</b>
Other non-current liabilities	39
Other current liabilities	126
<b>Liabilities associated with assets held for sale</b>	<b>165</b>
<b>Net assets classified as held for sale</b>	<b>213</b>

## 10. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2022 financial year-end.

## 11. Events after balance sheet date

On 06 July 2023, the group announced that it had begun a consultation process for the potential closure of its Stockstadt Mill within its European segment. Estimated pre-tax restructuring and asset impairment charges of US\$55 million (€52 million) are expected to be incurred in the fourth fiscal quarter.

## 12. Accounting standards, interpretations and amendments to existing standards that are not yet effective

There has been no significant change to management's 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

**Capital employed** – shareholders' equity plus net debt

**Covenant leverage ratio** – net debt divided by the 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 1/2021, issued by the South African Institute of Chartered Accountants in March 2021, 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** – 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 believe 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 settlement gains or losses on defined benefit obligations

*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		Nine months ended	
	Jun 2023	Jun 2022	Jun 2023	Jun 2022
<b>Key figures (ZAR million)</b>				
Sales	<b>24,772</b>	28,382	<b>79,802</b>	82,796
Operating profit excluding special items <sup>(1)</sup>	<b>766</b>	4,683	<b>6,614</b>	11,095
Special items – (gains) losses <sup>(1)</sup>	<b>(280)</b>	531	<b>(505)</b>	848
EBITDA excluding special items <sup>(1)</sup>	<b>1,980</b>	5,792	<b>10,146</b>	14,608
Profit for the period	<b>747</b>	3,107	<b>5,389</b>	7,859
Basic earnings per share (SA cents)	<b>133</b>	550	<b>954</b>	1,397
Net debt <sup>(1)</sup>	<b>22,149</b>	25,097	<b>22,149</b>	25,097
<b>Key ratios (%)</b>				
Operating profit excluding special items to sales	<b>3.1</b>	16.5	<b>8.3</b>	13.4
Operating profit excluding special items to capital employed (ROCE) <sup>(1)</sup>	<b>4.5</b>	30.0	<b>13.3</b>	24.1
EBITDA excluding special items to sales	<b>8.0</b>	20.4	<b>12.7</b>	17.6

<sup>(1)</sup> 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; and
- income, expenditure and cash flow items at average exchange rates.

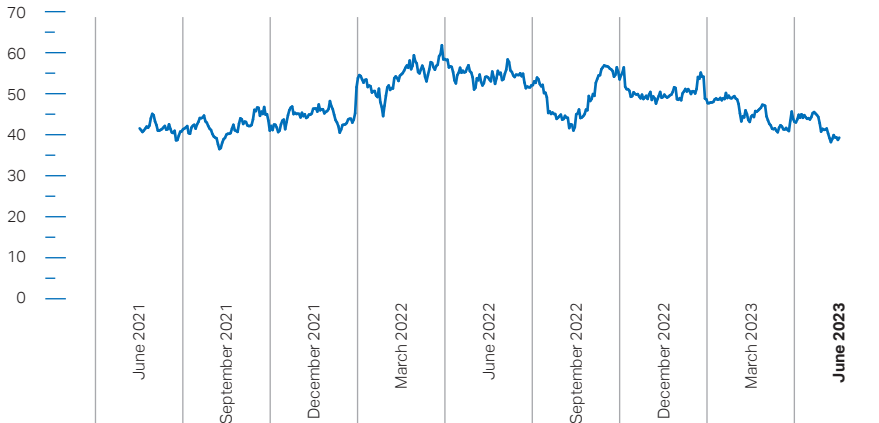
# Supplemental information continued

(this information has not been audited or reviewed)

## Exchange rates

	Jun 2023	Mar 2023	Dec 2022	Sept 2022	Jun 2022
<b>Exchange rates:</b>					
Period-end rate: US\$1 = ZAR	<b>18,8338</b>	17,7927	17,0119	18,1537	16,4033
Average rate for the quarter: US\$1 = ZAR	<b>18,6817</b>	17,7489	17,6063	17,0501	15,6115
Average rate for the year to date: US\$1 = ZAR	<b>18,0221</b>	17,6792	17,6063	15,7829	15,4097
Period-end rate: €1 = US\$	<b>1,0912</b>	1,0841	1,0704	0,9801	1,0429
Average rate for the quarter: €1 = US\$	<b>1,0887</b>	1,0729	1,0220	1,0066	1,0638
Average rate for the year to date: €1 = US\$	<b>1,0612</b>	1,0475	1,0220	1,0853	1,1108

## Sappi share price – June 2021 to June 2023



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

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

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## **Our purpose**

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

