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Media release

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Sappi delivered excellent results during the second financial quarter 2022

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "I am very proud of the excellent performance during the quarter particularly in light of the impact of Covid-19 in the last two years and the global economic turmoil. Tight global paper markets were the principal factor behind the quarter's success and enabled the implementation of higher selling prices which offset extraordinary cost inflation. The Russian-Ukrainian conflict triggered renewed volatility in global commodity markets and further disrupted already constrained global supply chains, which intensified cost inflation across all regions and all product segments.

Despite these headwinds we were able to improve EBITDA by 40% on the prior quarter from US\$240 million to US\$337 million and three-fold over the equivalent quarter in 2021. Net debt was reduced to US\$1,793 million (from US\$2,070 million a year ago) and earnings per share excluding special items for the quarter was 35 US cents, a further improvement on the 20 US cents in the prior quarter, providing further evidence of the steadily improving profitability of the group."

Looking forward, Binnie stated: "In light of the favourable operating environment, the group is in a strong position to maintain the recent momentum and the underlying EBITDA for the third quarter should be consistent with that of the second quarter subject to the impacts of the annual maintenance shuts."

Financial summary for the quarter

- EBITDA excluding special items **US\$337 million** (Q2 FY21 US\$112 million)
- Net debt of **US\$1,793 million** (Q2 FY21 US\$2,070 million)
- Profit for the period **US\$188 million** (Q2 FY21 loss of US\$23 million)
- EPS excluding special items **35 US cents** (Q2 FY21 loss of 1 US cents)

Global logistical challenges continued unabated and posed headwinds for our export sales and raw material procurement in all regions. Substantial energy, raw material and delivery cost inflation in the quarter was offset by selling price increases in the paper business.

Sales volumes in the pulp segment increased by 9% compared to the prior year on the back of robust demand and improved logistics in South Africa. Rising global paper pulp prices, driven by supply constraints due to unplanned production downtime, provided further support for both dissolving pulp (DP) and bleached thermomechanical (BCTMP) pricing. DP production volumes for the quarter were approximately 57,000 tons below expectation at Saiccor Mill due to unplanned Eskom power outages, raw material supply disruptions and operational challenges which severely disrupted the mill stability. However, the equipment related to the Saiccor Mill expansion project performed in line with expectations.

Packaging and speciality papers sales volumes grew 13% year-on-year, driven by robust global demand and renewed volume growth in Europe. Successful selling price increases and mix improvement offset rising costs and aided margin expansion for the segment. However, periodic contractual commitments deferred some increases in selling prices, particularly in Europe, that are required to restore margins to normalised levels.

A significant recovery in graphic paper demand combined with a reduction in supply, ongoing logistical challenges, and a prolonged labour strike at Finnish paper mills led to an unprecedented global shortage of graphic paper. Sales volumes for the segment increased 12% year-on-year and the tight market dynamics allowed all assets to run at full operating rates during the quarter. Successful implementation of a series of selling price increases and energy/freight surcharges offset significantly higher costs and facilitated margin restoration for the segment.

A highlight for the quarter was the turnaround of the European business, which achieved a strong second quarter EBITDA of €124 million. The success was despite geopolitical uncertainty and significant input cost inflation.

The North American business delivered another excellent quarter with EBITDA of US\$114 million. Tight markets and significantly higher year-on-year selling prices across all product segments contributed to this achievement. However, cost inflation and ongoing logistical supply chain challenges remained as noteworthy headwinds for the business.

The South African business was impacted by significant cost increases, lower net selling prices for DP and production challenges at Saiccor Mill. Year-on-year variable costs rose 23% due to inflation across all categories. Expanding fruit export markets and constrained paper imports into South Africa contributed towards healthy market dynamics for packaging paper. Customer demand exceeded supply for all paper categories.



Outlook

Markets across all of our key product segments remain encouraging and selling prices continued to rise in April. Continuing tight graphic paper markets provide an opportunity to maintain profitability in Europe and North America. Additionally, the demand in the packaging and specialities segment remains robust.

DP market indicators remain positive despite operating curtailments in April within the textile value chain in China due to another wave of Covid infections. The differential between cotton and VSF prices continues to be elevated, which should support DP pricing. Subsequent to quarter-end, the market price for hardwood DP increased sharply to US\$1,100 per ton. The benefit of the improved DP pricing will be realised in the fourth quarter due to the lag in certain contractual pricing. DP sales volumes in the third quarter will be lower than the prior quarter due to scheduled annual maintenance shuts at Cloquet, Ngodwana and Saiccor Mills, which will have an estimated US\$50 million impact on profitability.

In early April, heavy rainfall and extreme storms in the KwaZulu-Natal province of South Africa led to widespread flooding and destruction of infrastructure. Saiccor, Tugela and Stanger mills, as well as the export warehouse facilities at the Durban Port, were impacted and production was temporarily halted. There was no material damage to any of the plants and mill operations resumed from 21 April 2022. Although the Port of Durban officially resumed operations, export deliveries could be negatively impacted for some time due to damage to access roads, congestion and limited availability of vessel space. The estimated impact of the floods was described in a SENS announcement issued on 21 April 2022. We anticipate that there will be no material impact on EBITDA for the year. However, after external insurance proceeds, the estimated net loss of approximately US\$28 million will be reflected as a special item expense in the third quarter.

An inflationary macroeconomic environment continues to exert pressures on our cost base across all regions. Additionally, geopolitical volatility within Europe poses a risk to energy and natural gas supplies in the region. Therefore, we anticipate delivery, chemicals and energy costs to increase further in the third quarter. To counteract the cost inflation, we will continue to focus on improved operating efficiencies, price and mix management.

As previously disclosed, capital expenditure is estimated to be US\$395 million for FY2022.

ENDS

The full results announcement is available at www.sappi.com

There will be a conference call to which investors are invited. Full details are available at www.sappi.com using the links Investors; Latest financial results



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 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.

