

For further information	Issued by
<p>André F Oberholzer Group Head Corporate Affairs Sappi Limited Tel +27 (0)11 407 8044 Mobile +27 (0)83 235 2973 Andre.Oberholzer@sappi.com</p> <p>Tracy Wessels Group Head Investor Relations and Sustainability Sappi Limited Tel +27 (0)11 407 8391 Mobile +27 (0)83 666 6589 Tracy.wessels@sappi.com</p>	<p>Brunswick on behalf of Sappi Limited Tel +27 (0)11 502 7300</p>

PO Box 52264
2132 Saxonwold
SOUTH AFRICA
Tel +27 (0)11 407 8111

www.sappi.com

Media release

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Sappi delivers record earnings for the third financial quarter 2022

Commenting on the group's results, Sappi Chief Executive Officer Steve Binnie said: "I am very proud of another quarter of record earnings against a backdrop of significant geopolitical turmoil, supply chain headwinds and extraordinary global inflationary pressures.

Strong global paper demand and pricing momentum offset sharply rising costs and the negative impact of scheduled maintenance shuts at four mills. EBITDA improved to a record US\$371 million, up from US\$337 million in the prior quarter and US\$145 million in the equivalent quarter a year ago.

Covid lockdowns in China and the ongoing Russian-Ukrainian conflict exerted renewed pressure on global supply chains and energy prices resulting in further broad-based inflation during the quarter. During April, a flood in South Africa forced the temporary closure of our three mills in the KwaZulu-Natal region and resulted in a loss of 24,000 tons of production and 32,000 tons of inventory which was damaged in a warehouse at the Durban Port.

Despite these challenges, the sizeable cash generation during the quarter of US\$170 million supported our strategic objective to de-gear the balance sheet and accelerated our timeline to reduce debt. To this effect, net debt of US\$1,530 million was US\$525 million less than the prior year and earnings per share excluding special items of 39 US cents was a substantial improvement on the 5 US cents in the prior year."

Looking forward, Binnie stated: "Notwithstanding inflationary cost pressures, we are anticipating another strong performance in the fourth quarter, with EBITDA below the record levels achieved in the third quarter."



Financial summary for the quarter

- EBITDA excluding special items US\$371 million (Q3 FY21 US\$145 million)
- Net debt of US\$1,530 million (Q3 FY21 US\$2,055 million)
- Profit for the period US\$199 million (Q3 FY21 US\$18 million)
- EPS excluding special items 39 US cents (Q3 FY21 5 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.

The hardwood **dissolving pulp** (DP) market price¹ rallied to US\$1,200 per ton on the back of buoyant viscose staple fibre (VSF) prices, which reached their highest level since 2017. Global DP supply-side constraints, including our own flood losses and a major fire at another large market player, served to tighten DP markets which further bolstered the price upswing. However, the profitability of the pulp segment was impacted negatively by the maintenance shuts at all three DP mills, significant input cost inflation and lower than planned sales volumes. Saiccor Mill production was unstable after the floods and the scheduled maintenance shut. In addition, further challenges at the Durban Port after the floods led to renewed congestion which delayed shipments of approximately 24,000 tons at quarter end. Consequently, DP sales volumes were limited to 217,000 tons in the quarter.

The **packaging and speciality papers** segment reached another record level of profitability despite flat year-on-year sales volumes, which were constrained by available capacity and low inventory levels in North America and South Africa. Demand remained robust and further selling price increases lifted margins for the segment.

Graphic paper sales volumes were 4% higher than the prior year. The segment benefited from tight market conditions which supported selling price increases and drove margin growth. These favourable market conditions enabled all assets to run at full operating rates during the quarter.

A substantial improvement in profitability of the **European business** was a result of favourable market conditions, which facilitated selling price increases in the paper segments and enabled the region to offset higher costs across all input categories.

Profitability of the **North American business** continued its upwards trajectory with the region recording yet another record quarterly EBITDA of US\$118 million. Tight markets and higher selling prices contributed to this achievement despite high cost inflation. Further progress was made on optimising the product mix for the assets.

¹ Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

The **South African business** experienced a challenging quarter. Operational activities were negatively impacted by the flood in KwaZulu Natal and the scheduled shuts at the Saiccor and Ngodwana Mills. Saiccor Mill in particular was impacted by these disruptions and the subsequent ramp-up of production at the mill was challenging. Additionally, renewed congestion at the Durban Port delayed deliveries of approximately 24,000 tons.

Outlook

Although macroeconomic uncertainties related to geopolitical volatility within Europe and persistently high global inflation may dampen consumer sentiment and discretionary spend in the short term, we expect the favourable price levels and strong demand for our products to continue in the fourth quarter.

DP markets are expected to remain tight due to ongoing logistical challenges and supply constraints. Demand from our customers remains healthy and the benefit of the higher market pricing in the third quarter will support margins on our contracted sales in the fourth quarter. However, in late June, global recessionary fears prompted a broad-based selloff in commodities which triggered a sharp drop in cotton prices in China. The differential between cotton and VSF pricing has been eroded and VSF pricing may come under pressure which could impact future DP prices.

Despite early indicators of the graphic paper market softening in some of our sales regions, our order books remain healthy. Input cost inflation is likely to weigh upon margins in this segment, but we still anticipate favourable margins significantly above long-term trends.

Demand from our packaging and speciality papers customers remains robust. This segment has proven to be resilient through economic downturns and we will continue to focus our efforts to optimise product mix and maximise sales volumes.

The ongoing threat to gas and energy supplies in Europe poses a potential risk to our European business. To date, our energy risk mitigation strategies have successfully neutralised cost impacts, and we will continue to monitor developments and take action where appropriate.

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.

