

Chief Financial Officer's Report continued

Section 2 Financial performance

The discussion in this section focuses on the group financial performance in 2021 compared with 2020.

A detailed discussion, in local currencies, of each of our three operating regions follows in Section 3.

Income statement

Our group financial results can be summarised as follows:

Metric tons '000	2021	2020	% change
Sales volume	7,339	6,788	8
US\$ million			
Sales revenue	5,265	4,609	14
Variable manufacturing and delivery costs	(3,238)	(2,838)	14
Fixed costs	(1,777)	(1,673)	6
Sundry items ⁽¹⁾	(47)	(41)	15
Operating profit excluding special items	203	57	256
Special items	(57)	(95)	n/a
Operating profit	146	(38)	nm
Net finance costs	(134)	(88)	52
Taxation	1	(9)	nm
Net profit	13	(135)	nm
EPS excluding special items (US cents)	15	(5)	nm

⁽¹⁾ Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity accounted investments.

Sales volume

In 2021, sales volume increased by 551,000 tons compared with 2020. The regional and product segment contributions to sales volume are shown below:

Sales volume Metric tons '000	2021	2020	% change
North America	1,685	1,516	11
Europe	2,817	2,698	4
South Africa	2,837	2,574	10
Group	7,339	6,788	8
Pulp	1,236	1,315	(6)
Packaging and speciality papers	1,464	1,209	21
Graphic papers	3,200	3,096	3
Forestry	1,439	1,168	23

Pulp volumes were down 6% for the year, limited by global logistics challenges, civil unrest and production problems at our South African operations. Customer demand was strong throughout the year and approximately 100,000 tons were delayed into the next fiscal as a result of these challenges.

Packaging and speciality papers segment volume growth was experienced in all our regions as the conversion projects in North America and Europe started to take full effect.

Graphic papers volumes improved steadily during the year with the recovery in Europe lagging North America due to stricter lockdowns in the European Union. Significant capacity closures in both markets assisted with improving capacity utilisation in the remaining operating facilities. The European operations nevertheless recorded 367,000 tons of commercial downtime for the year.

Capacity utilisation improved to an average of 84% for the group as improved packaging and speciality papers and graphic paper markets assisted us in taking less production downtime during the year.

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Sales volume to capacity	2021 %	2020 %
North America	94	85
Europe	82	73
South Africa	80	81
Group	84	78

Sales revenue

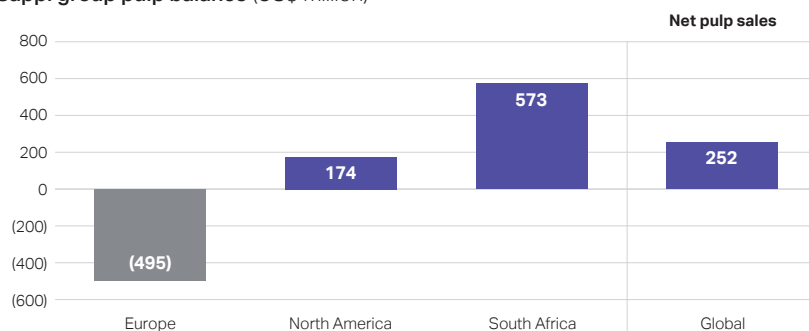
Sales revenue increased by 14% from US\$4.6 billion in 2020 to US\$5.3 billion in 2021. Selling price and mix improvements resulted in sales revenue improving by US\$395 million. Consolidated volumes were up on last year as discussed above resulting in sales revenue improving by US\$88 million. The weaker US Dollar resulted in a positive US\$173 million conversion impact.

Variable and delivery costs

Variable and delivery costs increased by US\$400 million from 2020. The volume increase of 8% contributed to the bulk of the increase. Delivery costs per ton increased as a result of global supply chain challenges while fibre and chemical costs followed general commodity increases as global markets recovered from the low pricing experienced during the pandemic.

The net pulp purchases and sales of the Sappi group is detailed in the graph below.

Sappi group pulp balance (US\$ million)



The table below reflects the breakdown of variable and delivery costs by type.

Variable manufacturing and delivery costs US\$ million	2021	2020	% change
Wood	573	561	2
Energy	437	352	24
Chemicals	784	679	15
Pulp and other	958	851	13
Delivery	486	395	23
Group	3,238	2,838	14

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Fixed costs

Fixed costs increased by US\$105 million from fiscal 2020. Furloughing, government subsidies and salary sacrifices recorded during 2020 were not repeated in 2021 resulting in personnel costs increasing by 12%. Similarly, maintenance work delayed during the height of the pandemic in 2020 was resumed during 2021. The reduction in ‘Other’ is mainly a credit to inventory movement as a result of a stock build. The stronger ZAR and EUR resulted in an increase in US Dollar costs (US\$76 million). Excluding the currency impact fixed costs increased by US\$28 million.

Details of the make-up of fixed costs are provided in the table below.

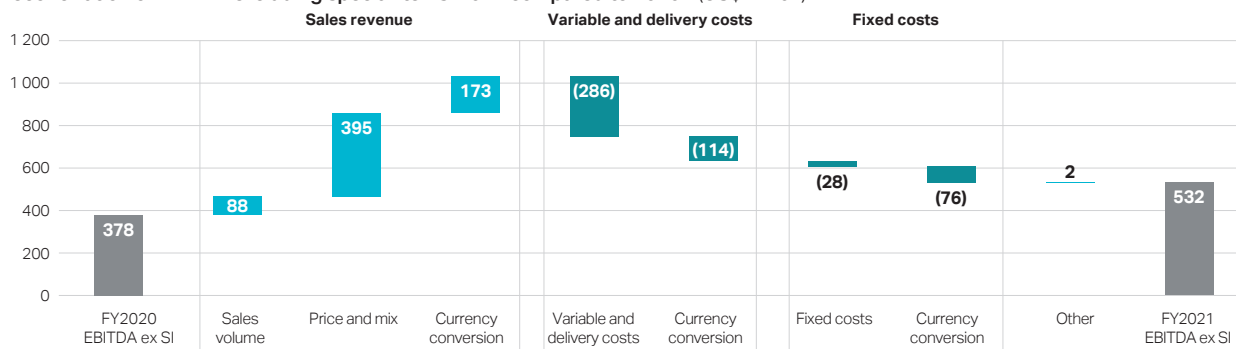
Fixed costs US\$ million	2021	2020	% change
Personnel	1,077	959	12
Maintenance	240	217	11
Depreciation	319	313	2
Other	141	184	(23)
Group	1,777	1,673	6

EBITDA and operating profit excluding special items

EBITDA excluding special items increased to US\$532 million, 41% higher than the previous year. Operating profit excluding special items increased from US\$57 million last year to US\$203 million in 2021.

The EBITDA ex SI bridge reflected in the graph below shows the impact on profitability from lower sales volumes and selling prices offset by reduced variable and fixed costs.

Reconciliation of EBITDA excluding special items: 2021 compared to 2020⁽¹⁾ (US\$ million)



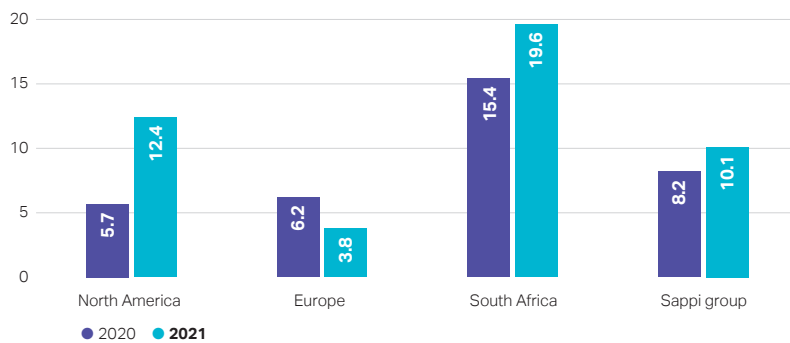
⁽¹⁾ All variances were calculated excluding Sappi Forestry.

⁽²⁾ ‘Current conversion’ reflects translation and transactional effect on consolidation.

The tables below detail the EBITDA and operating profit excluding special items of the business for both 2021 and 2020 and the margins of each.

EBITDA excluding special items by region US\$ million	2021	2020
North America	209	79
Europe	94	143
South Africa	228	151
Corporate and other	1	5
Group	532	378

EBITDA ex SI margin by region (%)



EBITDA excluding special items by product category US\$ million	2021	2020
Pulp	197	63
Packaging and speciality papers	214	179
Graphic papers	120	131
Other	1	5
Group	532	378

Operating profit excluding special items by region US\$ million	2021	2020
North America	105	(27)
Europe	(52)	8
South Africa	151	75
Corporate and other	(1)	1
Group	203	57

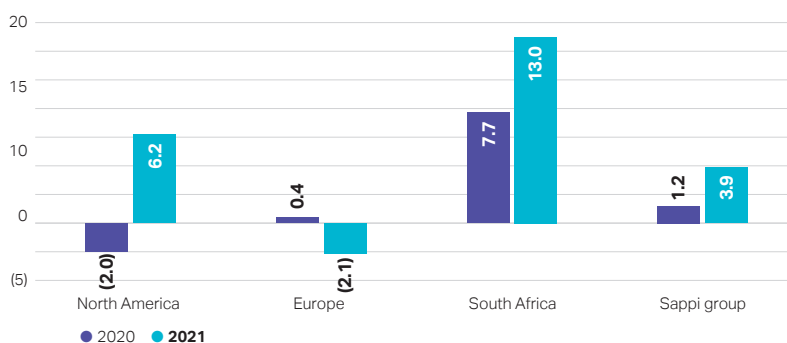
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Operating profit margin by region (%)

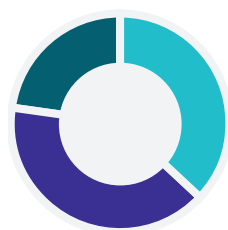


Operating profit excluding special items by product category
US\$ million

	2021	2020
Pulp	127	(2)
Packaging and speciality papers	109	88
Graphic papers	(32)	(30)
Other	(1)	1
Group	203	57

In the chart below, 77% of the group's EBITDA ex SI originates from growing markets in the pulp and packaging and speciality papers segments. The graphic papers segment, which contributes 23% of the EBITDA ex SI remains an important strategic component of our business.

EBITDA excluding special items by product 2021: US\$ 532 million



- Pulp (US\$197 million)
- Packaging and speciality papers (US\$214 million)
- Graphic papers (US\$120 million)

For information regarding the financial performance of the regions, please refer to Section 3 of this report.

Key operating targets

Our financial targets and performance against the key operating targets are dealt with in the **Letter to Shareholders** section.

Special items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2021 and 2020 is reflected in the table below:

Special items – gain (loss) US\$ million	2021	2020
Plantation price fair value adjustment	(13)	20
Acquisition costs	–	(6)
Net restructuring provisions	(2)	(34)
Profit (loss) on disposal and written off assets	1	1
Net asset (impairment) reversals	(15)	(15)
Equity accounted investees impairments	(4)	(19)
Insurance recoveries	(1)	–
Fire, flood, storm and other events	(23)	(42)
Total	(57)	(95)

The net impact of special items in 2021 was US\$57 million. The major components are described below:

- A negative non-cash US\$13 million plantation price fair value adjustment was recognised following decreases to the market price of timber.
- Asset impairments of US\$7 million were recorded against our Lomati Sawmill and the change to the PM2 newsprint machine at Ngodwana Mill, US\$12 million against our mechanical coated cash-generating unit and US\$4 million against the Forestry First equity investment. A gain on remeasurement of US\$4 million was recorded on our held-for-sale assets.
- Fire, flood, storm and other events includes fire and turbine damage at the Alfeld and Maastricht Mills of US\$7 million, flood damage at Matane Mill of US\$4 million, provision for environment claims of US\$4 million, strike related costs in South Africa of US\$3 million and fire and hail damaged timber of US\$2 million.

Net finance costs US\$ million	2021	2020
Finance costs	112	93
Finance income	(8)	(5)
Net foreign exchange gains	(1)	–
Net fair loss on financial instruments	31	–
Total	134	88

Finance costs of US\$134 million were higher than the prior year primarily due to the non-cash fair value adjustments arising from revaluation of the conversion rights for the Sappi Southern Africa Limited's US\$123 million (R1.8 billion) convertible bond issued in the first quarter and refinancing costs in the second quarter for the new 2028 bonds.

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Taxation

A regional breakdown of the tax charge is provided below.

US\$ million	Profit (loss) before tax	Tax (charge) relief	Effective tax rate %
Europe	(145)	7	5
North America	77	(2)	5
South Africa	80	(4)	4
Total	12	7	(8)

The difference between the effective and statutory tax rates of the European entities is mainly due to non-valued losses carried forward in Belgium, Netherlands, Finland and Austria.

In North America, effective and statutory tax rates differ predominantly due to non-valued losses carried forward in the United States of America.

The South African effective tax rate is mainly as a result of special and normal tax allowances relating to the Saiccor Mill expansion.

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2021, with comparatives for 2020, were as follows:

US\$ million	2021	2020
Operating profit	146	(38)
Net finance costs	134	88
Profit (loss) before taxation	12	(126)
Taxation	(1)	9
Profit (loss) for the period	13	(135)
Weighted average number of shares in issue (millions)	549.7	545.5
Basic earnings per share (US cents)	2	(25)

The directors have elected not to declare a dividend and temporarily halt dividends until such time as market conditions improve.