

Chief Financial Officer's report continued

SECTION 2

Financial performance

The discussion in this section focuses on the group financial performance in 2022 compared with 2021. 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	2022	2021	% change
Sales volume	7,937	7,339	8
US\$ million			
Sales revenue	7,296	5,265	39
Variable manufacturing and delivery costs	(4,380)	(3,238)	35
Fixed costs	(1,832)	(1,777)	3
Sundry items ¹	(46)	(47)	(2)
Operating profit excluding special items	1,038	203	411
Special items	(268)	(57)	n/a
Operating profit	770	146	427
Net finance costs	(97)	(134)	(28)
Taxation	(137)	1	nm
Net profit	536	13	4,023
EPS excluding special items (US cents)	138	15	820

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 2022, sales volume increased by 598,000 tons compared with 2021. The regional and product segment contributions to sales volume are shown below:

Sales volume (metric tons '000)	2022	2021	% change
North America	1,758	1,685	4
Europe	3,175	2,817	13
South Africa	3,004	2,837	6
Group	7,937	7,339	8
DP	1,421	1,236	15
Packaging and speciality papers	1,600	1,464	9
Graphic papers	3,447	3,200	8
Forestry	1,469	1,439	2

Pulp volumes were up 15% for the year, on the back of strong market demand and improved logistics as we secured regular breakbulk shipping alternatives for our South African exports. Demand for Verve (Sappi Verve – brand name for DP) during the year was particularly strong and sales were constrained by available production.

Packaging and speciality papers volumes were up 9% for the year driven by robust global demand and renewed growth in Europe. However, sales were constrained by available capacity and low levels of inventory in South Africa and North America where demand exceeded supply.

Graphic papers volumes were up 8% for the year. The remarkable turnaround from the lows of 2020 was driven by a number of factors which led to an unprecedented global shortage of graphic papers. These included a surge in demand as economic activity normalised post-Covid-19 and a very tight market balance due to a combination of chronic global logistical challenges and reduced supply. Market capacity was impacted by permanent closures and a prolonged labour strike in Finland.

Capacity utilisation improved to an average of 91% for the group as improved DP, packaging and speciality papers and graphic papers markets assisted us in taking less production downtime during the year.

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	2022 %	2021 %
Sales volume to capacity		
North America	97	94
Europe	92	82
South Africa	84	80
Group	91	84

Sales revenue

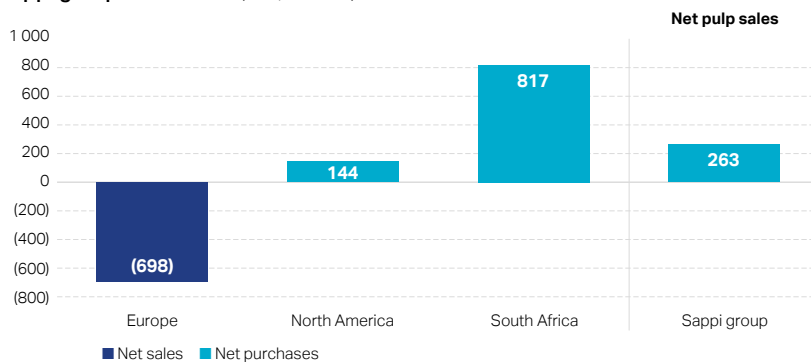
Sales revenue increased by 39% from US\$5.3 billion in 2021 to US\$7.3 billion in 2022. Selling price and mix improvements resulted in sales revenue improving by US\$2.2 billion. Consolidated volumes were up on last year as discussed above, resulting in sales revenue improving by US\$192 million. The stronger US Dollar resulted in a negative US\$357 million conversion impact.

Variable and delivery costs

Variable and delivery costs increased by US\$1.1 billion from 2021. The higher sales volumes accounted for 8% of the increase. Energy costs per ton of product sold increased by 83% year-on-year while other main cost categories, exclusive of DP, increased by between 30% and 36%.

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

Sappi group DP balance (US\$ million)



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

Variable manufacturing and delivery costs US\$ million	2022	2021	% change
Wood	779	573	36
Energy	801	437	83
Chemicals	1,042	784	33
DP and other	1,127	958	18
Delivery	631	486	30
Group	4,380	3,238	35

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Fixed costs

Fixed costs increased by US\$55 million from fiscal 2021. Inflationary pressures resulted in personnel costs and maintenance increasing by 3%. The increase in ‘Other’ is mainly a credit to inventory movement during fiscal 2021 as a result of a stock build. The weaker ZAR and € resulted in a reduction in US Dollar costs (US\$101 million). Excluding the currency impact fixed costs increased by US\$156 million.

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

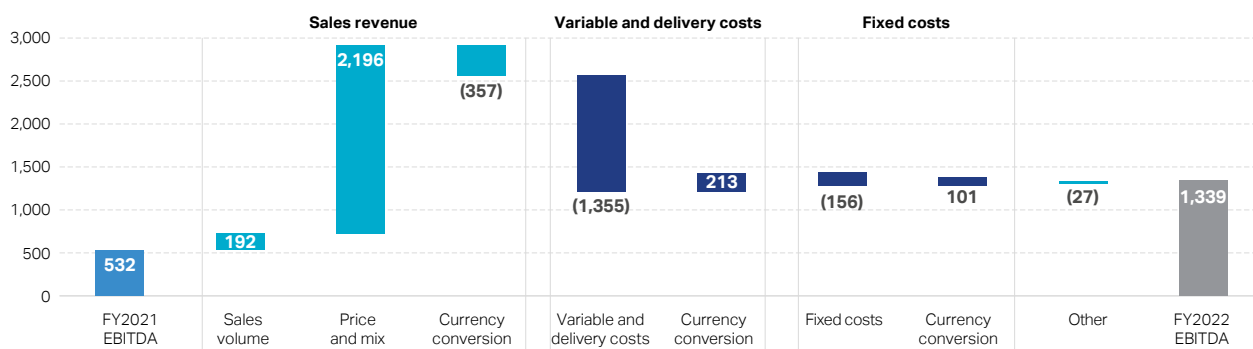
Fixed costs US\$ million	2022	2021	% change
Personnel	1,104	1,077	3
Maintenance	247	240	3
Depreciation	292	319	(8)
Other	189	141	34
Group	1,832	1,777	3

EBITDA and operating profit excluding special items

EBITDA excluding special items increased to US\$1.34 billion, 152% higher than the previous year. Operating profit excluding special items increased from US\$203 million last year to US\$1.038 billion in 2022.

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

Reconciliation of EBITDA excluding special items: 2022 compared to 2021¹ (US\$ million)



¹ All variances were calculated excluding Sappi Forestry.

² “Currency conversion” reflects translation and transactional effect on consolidation.

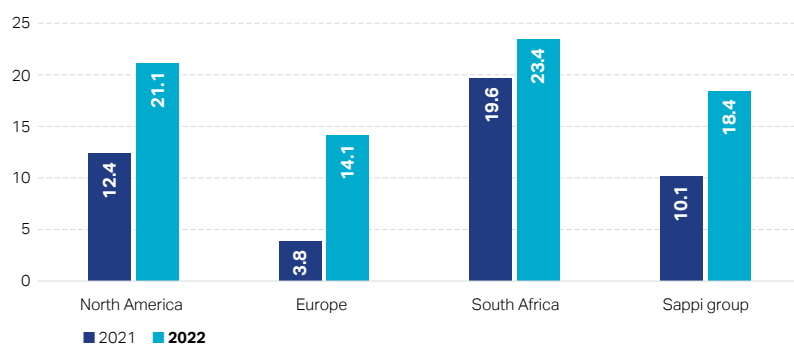
The tables below detail the EBITDA and operating profit excluding special items of the business for both 2022 and 2021 and the margins of each.

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EBITDA excluding special items by region US\$ million	2022	2021
North America	464	209
Europe	536	94
South Africa	334	228
Corporate and other	5	1
Group	1,339	532

EBITDA excluding special items margin by region (%)

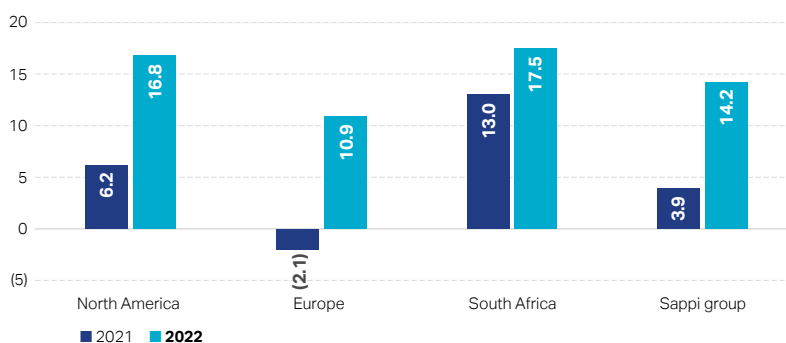


EBITDA excluding special items by product category US\$ million	2022	2021
DP	325	197
Packaging and speciality papers	359	214
Graphic papers	650	120
Other	5	1
Group	1,339	532

Operating profit excluding special items by region US\$ million	2022	2021
North America	369	105
Europe	416	(52)
South Africa	250	151
Corporate and other	3	(1)
Group	1,038	203

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Operating profit excluding special items margin by region (%)



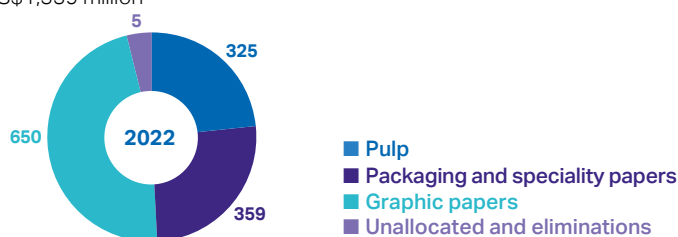
Operating profit excluding special items by product category

US\$ million	2022	2021
DP	250	127
Packaging and speciality papers	264	109
Graphic papers	521	(32)
Other	3	(1)
Group	1,038	203

In the chart below, 51% of the group's EBITDA originates from growing markets in the DP and packaging and speciality papers segments. The graphic papers segment, which contributes 49% of the EBITDA remains an important strategic component as we focus on the commercial print market.

EBITDA excluding special items by product 2022:

US\$1,339 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 **Our strategy and performance** section on page 10.

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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 2022 and 2021 is reflected in the table below:

Special items – gain/(loss) US\$ million	2022	2021
Plantation price fair value adjustment	(38)	(13)
Net restructuring provisions	–	(2)
Profit/(loss) on disposal, written off assets and incremental costs	(63)	1
Net asset (impairment) reversals	–	(19)
(Loss)/gain on measurement of held for sale assets	(183)	4
Equity-accounted investees impairment reversal (impairment)	3	(4)
Insurance recoveries	30	(1)
Fire, flood, storm and other events	(17)	(23)
Total	(268)	(57)

The net impact of special items in 2022 was US\$268 million. The major components are described below:

- A negative non-cash US\$38 million plantation price fair value adjustment was recognised following decreases to the market price of timber
- Our European region wrote off assets of US\$20 million while our South African region wrote off inventory and incurred incremental costs related to the April floods in KwaZulu-Natal as well as equipment failures and power utility outages resulting in a total combined cost of US\$81 million. Insurance recoveries to the value of US\$30 million have been recognised related to flood damage
- A write-down to fair value less costs to sell of US\$183 million was recorded following the divestment of our held-for-sale European assets. A related US\$4 million of selling costs was also incurred prior the write-down
- Pension settlement gains of US\$26 million and US\$3 million were recorded in our North American and Swiss pension funds respectively.

Net finance costs

US\$ million	2022	2021
Finance costs	108	112
Finance income	(10)	(8)
Net foreign exchange gains	(1)	(1)
Net fair loss on financial instruments	–	31
Total	97	134

Finance costs of US\$97 million were lower than the prior year primarily due to a fair value loss on financial instruments in the prior year and Euro-denominated interest charges converted at a weaker Euro/US Dollar exchange rate.

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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	134	(30)	23
North America	378	(79)	21
South Africa	161	(28)	17
Total	673	(137)	20

In Europe, the difference between the effective and statutory tax rates is due to non-valued losses carried forward in Belgium, the Netherlands, Finland and Austria and offset by the impairment for assets held for sale being non-deductible.

In North America, the difference between the effective and statutory tax rates is predominantly due to non-valued losses utilised.

The South African effective tax rate was reduced by special tax allowances in addition to tax relief due to a reduction in the statutory tax rate (from 28% to 27%).

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2022, with comparatives for 2021, were as follows:

US\$ million	2022	2021
Operating profit	770	146
Net finance costs	97	134
Profit/(loss) before taxation	673	12
Taxation	137	(1)
Profit/(loss) for the period	536	13
Weighted average number of shares in issue (millions)	563.3	549.7
Basic earnings per share (US cents)	95	2

The directors have elected to declare a dividend of US15 cents per share at nine times earnings cover adjusted for non-cash items.