

## SECTION 3

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and South African operations.

<b>North America</b>			
Metric tons '000	2022	2021	% change
Sales volume	1,758	1,685	4
Pulp	483	453	7
Packaging and speciality papers	523	485	8
Graphic papers	752	747	1

	US\$ million 2022	US\$ million 2021	% change	US\$ per ton 2022	US\$ per ton 2021	% change
Sales	2,200	1,688	30	1,251	1,002	25
Variable manufacturing and delivery costs	(1,386)	(1,122)	24	(788)	(666)	18
Contribution	814	566	44	463	336	38
Fixed costs	(560)	(535)	5	(319)	(318)	0
Sundry items and consolidation entries	115	74	55	66	44	50
<b>Operating profit excluding special items</b>	<b>369</b>	105	251	<b>210</b>	62	239
<b>EBITDA excluding special items</b>	<b>464</b>	209	122	<b>264</b>	124	113

Strategic investments in the Matane Pulp Mill and the conversion of PM1 at Somerset Mill to packaging and speciality paper grades contributed substantially to another record earnings year for the North American region. The success was pervasive across all product segments as tight US graphic paper markets supported selling price increases. Strong demand exceeded available capacity and the region was able to capitalise on favourable mix opportunities resulting in a 38% contribution per ton improvement. Fixed costs increased by 5% due to inflationary impacts on personnel costs and short-term incentives in recognition of the record annual performance for the region. EBITDA margin for the region improved from 12% in the previous year to 21%.

<b>Europe</b>			
Metric tons '000	2022	2021	% change
Sales volume	3,175	2,817	13
Packaging and speciality papers	636	525	21
Graphic papers	2,539	2,292	11

	€ million 2022	€ million 2021	% change	€ per ton 2022	€ per ton 2021	% change
Sales	3,504	2,090	68	1,104	724	49
Variable manufacturing and delivery costs	(2,177)	(1,350)	61	(686)	(479)	43
Contribution	1,327	740	79	418	263	59
Fixed costs	(781)	(702)	11	(246)	(249)	(1)
Sundry items and consolidation entries	(164)	(82)	100	(52)	(30)	73
<b>Operating profit excluding special items</b>	<b>382</b>	(44)	nm	<b>120</b>	(16)	nm
<b>EBITDA excluding special items</b>	<b>493</b>	78	532	<b>155</b>	28	454

Graphic paper capacity reductions coupled with an extended Finnish strike and strong demand recovery contributed to an 11% volume improvement in the graphic paper segment. The favourable conditions supported selling price increases to offset the spike in variable cost increases. The packaging and speciality papers segment volumes were ahead of last year by 21% buoyed by strong market traction for the label paper offerings from Gratkorn Mill. Variable cost increases per ton of 43% were mainly driven by energy and delivery cost increases due to geopolitical disruptions in the region. Fixed costs were 11% up on last year, primarily due to inflationary impacts on personnel costs and short-term incentives in recognition of the record performance for the region. EBITDA margins increased from 4% to an unprecedented 14% in the current year. On 29 September 2022, Sappi signed an agreement with Aurelius Investment Lux One S.à.r.l. to divest the Maastricht Mill in the Netherlands, the Stockstadt Mill in Germany and the Kirkniemi Mill in Finland. The sale will be subject to various standard suspensive conditions and is anticipated to close in the second financial quarter of 2023. The enterprise value of the transaction amounts to approximately €272 million.

## Chief Financial Officer's report continued

**SECTION 3** continued

<b>South Africa*</b>			
Metric tons '000		2022	2021 % change
Sales volume*		1,535	1,398 10
Pulp		938	784 20
Packaging and speciality papers		444	459 (3)
Graphic papers		153	155 (1)

	ZAR million	ZAR million	% change	ZAR per ton	ZAR per ton	% change
	2022	2021		2022	2021	
Sales*	21,133	16,083	31	13,767	11,504	20
Variable manufacturing and delivery costs	(13,463)	(9,995)	35	(8,771)	(7,149)	23
Contribution	7,670	6,088	26	4,996	4,355	15
Fixed costs	(6,708)	(5,985)	12	(4,370)	(4,281)	2
Sundry items and consolidation entries	2,964	2,139	40	1,945	1,530	27
<b>Operating profit excluding special items</b>	<b>3,946</b>	<b>2,242</b>	<b>76</b>	<b>2,571</b>	<b>1,604</b>	<b>60</b>
<b>EBITDA excluding special items</b>	<b>5,271</b>	<b>3,386</b>	<b>56</b>	<b>3,434</b>	<b>2,422</b>	<b>42</b>

\* Excludes forestry.

Pulp volumes increased by 20% compared to the prior year due to strong demand and improved logistics through the addition of breakbulk vessels and alternative routes of supply. Volumes were, however, restricted by unplanned power outages, raw material supply disruptions, severe floods and a general transport strike during the year. Packaging paper volumes were down 3% on last year despite strong demand from the agricultural sector and constrained paper imports into South Africa, which created tight supply conditions. Low inventory levels and a product extension and quality upgrade at the Ngodwana Mill restricted supply. The robust demand in both segments supported selling price increases of 20% to offset 23% variable cost increases of particularly wood, chemicals and delivery costs. Fixed costs increased by 12% due to higher personnel, maintenance and depreciation costs. As a consequence of the above, EBITDA margins increased from 20% in the previous year to 23%.

**Major sensitivities**

Some of the more important factors which impact the group's EBITDA excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below:

Sensitivities	Change	Europe € million	North America US\$ million	South Africa ZAR million	Translation impact* US\$ million	Group US\$ million
Net selling prices	1%	28	23	284	–	68
DP prices	US\$10	–	3	176	–	14
Variable costs	1%	18	11	145	–	39
Energy costs	1%	5	2	22	–	8
Sales volume	1%	8	8	111	–	22
Fixed costs	1%	6	5	62	–	15
Paper pulp price	US\$10	7	3	7	–	11
Oil price	US\$1	2	2	1	–	5
ZAR/US\$ (weakening)	10 cents	–	–	93	(2)	3
€/US\$ (weakening)	10 cents	(3)	(4)	–	(17)	(24)

\* Based on currency impact on translation of EBITDA.

The table demonstrates that EBITDA excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not consider potential management interventions to mitigate negative impacts or enhance benefits.