

Chief Financial Officer's report continued

Section 2: Financial performance

The discussion in this section focuses on the group's financial performance in 2023 compared to 2022. A detailed discussion, in local currencies, of each of our three operating regions follows in Section 3.

Income statement

Our group's financial results can be summarised as follows:

	2023	2022	% change
Sales volume (metric tons '000)	6,282	7,937	(21)
US\$ million			
Sales revenue	5,809	7,296	(20)
Variable manufacturing and delivery costs	(3,538)	(4,380)	(19)
Fixed costs	(1,788)	(1,832)	(2)
Sundry items ¹	(51)	(46)	11
Operating profit excluding special items	432	1,038	(58)
Special items	(52)	(268)	n/a
Operating profit	380	770	(51)
Net finance costs	(49)	(97)	(49)
Taxation	(72)	(137)	(47)
Net profit	259	536	(52)
EPS excluding special items (US cents)	52	138	(62)

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 2023, sales volume decreased by 1,655,000 tons compared to 2022. The regional and product segment contributions to sales volume are shown below:

Sales volume metric tons '000	2023	2022	% change
North America	1,373	1,758	(22)
Europe	1,909	3,175	(40)
South Africa	3,000	3,004	–
Group	6,282	7,937	(21)
Pulp	1,517	1,421	7
Packaging and speciality papers	1,251	1,600	(22)
Graphic papers	2,124	3,447	(38)
Forestry	1,390	1,469	(5)

Pulp volumes were up 7% for the year. Elevated stock levels and concerns over negative consumer sentiments dampened demand for textile fibres in the early part of the year. However, viscose staple fibre (VSF) operating rates in China improved steadily as economic activity resumed from the third quarter onwards. Operating rates in the VSF industry remained at a high level through the remainder of the year and downstream VSF inventories dropped below historical levels, which supported demand for dissolving pulp (DP).

Packaging and speciality papers volumes decreased by 22% for the year driven by weak trading conditions related to high levels of downstream inventory and muted consumer demand.

Graphic papers volumes decreased by 38% for the year. Graphic papers markets began softening in late 2022 dragged downwards by weak consumer confidence related to the slowing global economy. Demand declined sharply and remained weak throughout the year as inventory destocking took longer than anticipated. Production curtailments were required to manage the weak demand dynamics.

Capacity utilisation reduced to an average of 69% for the group as weak packaging and speciality papers and graphic papers markets forced us to take 1.9 million tons of production downtime during the year.

	2023 %	2022 %
Sales volume to capacity		
North America	74	97
Europe	55	92
South Africa	89	84
Group	69	91

Sales revenue

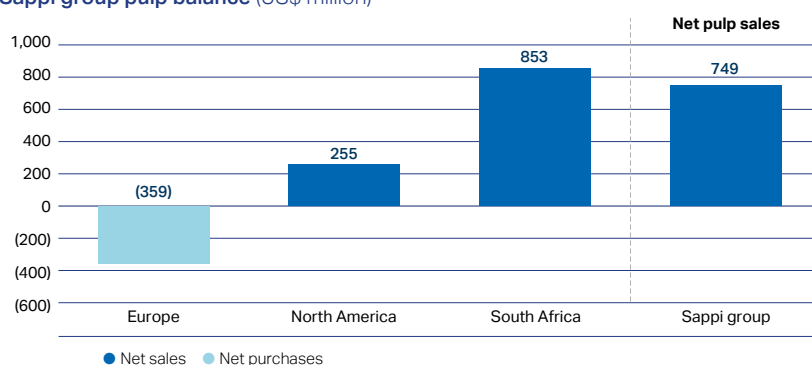
Consolidated volumes were down on last year as discussed above resulting in sales revenue reducing by US\$704 million. The stronger US Dollar resulted in a negative US\$120 million conversion impact.

Variable and delivery costs

Variable and delivery costs decreased by US\$726 million from 2022. The lower sales volumes accounted for 21% of the decrease. Wood costs and chemical costs per ton of product sold increased by 41% and 8% year-on-year respectively whilst other main cost categories decreased by between 2% and 6%.

The net pulp purchases and sales of the Sappi group are 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	2023	2022	% change
Wood	829	779	6
Energy	569	801	(29)
Chemicals	852	1,042	(18)
Pulp and other	835	1,127	(26)
Delivery	453	631	(28)
Group	3,538	4,380	(19)

Section 2 *continued*

Financial performance *continued*

Section 2 continued Financial performance continued

Fixed costs

Fixed costs decreased by US\$44 million from fiscal 2022. Reduction in bonuses resulted in personnel costs decreasing by 7%. The increase in 'Other' is mainly a charge to inventory movement during fiscal 2023 as a result of a stock reduction. The weaker ZAR and EUR resulted in a reduction in US Dollar costs (US\$63 million). Excluding the currency impact fixed costs increased by US\$19 million.

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

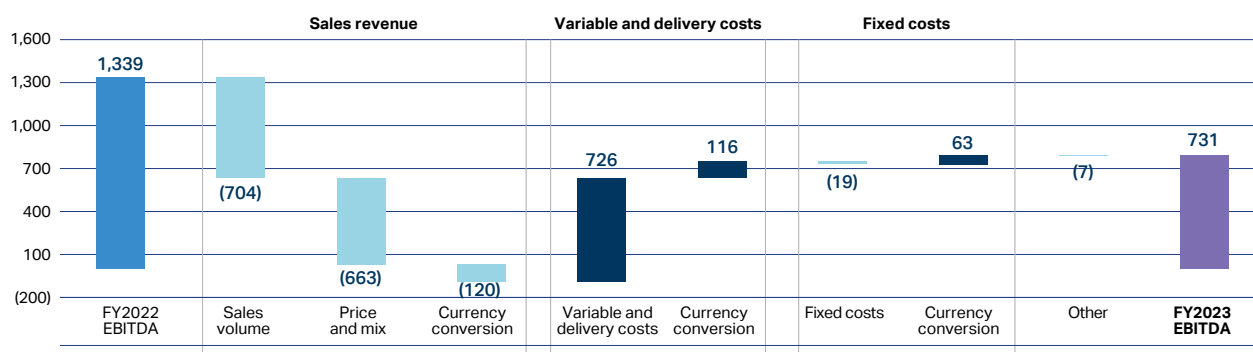
Fixed costs US\$ million	2023	2022	% change
Personnel	1,024	1,104	(7)
Maintenance	248	247	0
Depreciation	292	292	0
Other	224	189	19
Group	1,788	1,832	(2)

EBITDA and operating profit excluding special items

EBITDA excluding special items decreased to US\$731 million, 45% lower than the previous year. Operating profit excluding special items decreased from US\$1.038 billion last year to US\$432 million in 2023.

The EBITDA 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: 2023 compared to 2022¹ (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 2023 and 2022 and the margins of each.

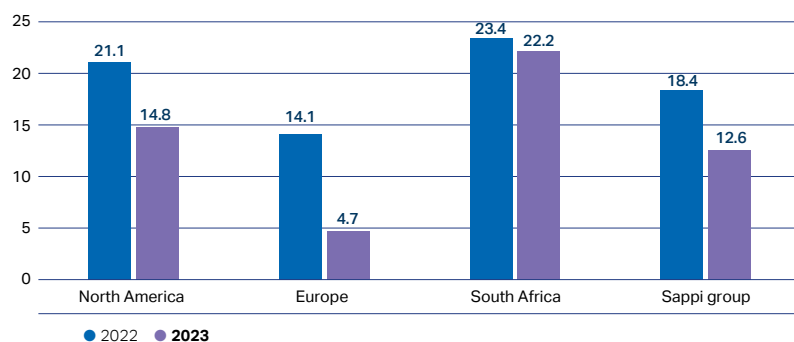
Section 2 *continued*

Financial performance *continued*

EBITDA excluding special items by region

US\$ million	2023	2022
North America	267	464
Europe	124	536
South Africa	332	334
Corporate and other	8	5
Group	731	1,339

EBITDA excluding special items margin by region (%)



EBITDA excluding special items by product category

US\$ million	2023	2022
Pulp	238	325
Packaging and speciality papers	214	359
Graphic papers	271	650
Other	8	5
Group	731	1,339

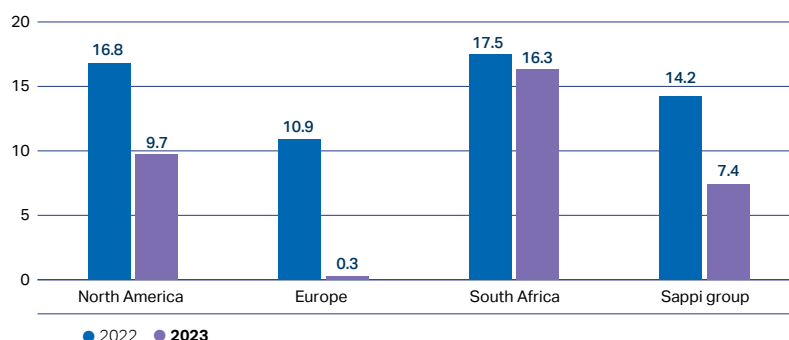
Operating profit excluding special items by region

US\$ million	2023	2022
North America	175	369
Europe	8	416
South Africa	244	250
Corporate and other	5	3
Group	432	1,038

Section 2 continued

Financial performance continued

Operating profit excluding special items margin by region (%)



Operating profit excluding special items by
product category

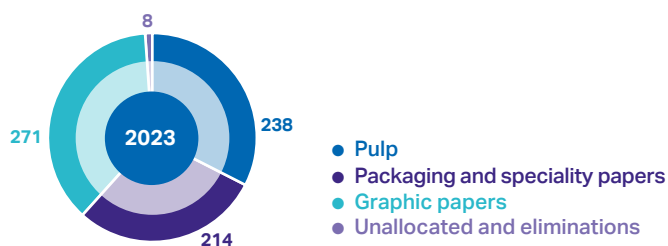
US\$ million

	2023	2022
Pulp	162	250
Packaging and speciality papers	119	264
Graphic papers	145	521
Other	6	3
Group	432	1,038

In the chart below, 63% of the group's EBITDA originates from growing markets in the pulp and packaging and speciality papers segments. The graphic papers segment, which contributes 37% of the EBITDA remains an important strategic component as we focus on the commercial print market.

EBITDA excluding special items by product

2023: US\$731 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 Strategy and Performance section.

Special items

Special items consist of those items which management believes are material by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2023 and 2022 is reflected in the table below.

Special items – gain/(loss) US\$ million	2023	2022
Plantation price fair value adjustment	123	(38)
Net restructuring provisions	(77)	–
Profit/(loss) on disposal, written-off assets and incremental costs	3	(63)
Asset impairments	(233)	–
Reversal of loss/(loss) on held-for-sale assets	181	(183)
Profit/(loss) on disposal of held-for-sale assets	(1)	–
Equity-accounted investees impairment reversal	–	3
Insurance recoveries	7	30
Fire, flood, storm and other events	(55)	(17)
Total	(52)	(268)

The net impact of special items in 2023 was US\$52 million. The major components are described below:

- A positive non-cash US\$123 million plantation price fair value adjustment was recognised following increases to the market price of timber and a change in the valuation technique which resulted in a favourable US\$78 million adjustment
- Restructuring provisions of US\$77 million were raised for the closure of our Stockstadt Mill
- Asset impairments were recorded at the Lanaken Mill and Stockstadt Mill within the European segment of US\$146 million and US\$51 million respectively, at our Westbrook Mill in our North American segment of US\$33 million and at our Lomati Mill in our South African segment of US\$3 million
- During the current year the group changed its intention to sell the Kirkniemi, Stockstadt and Maastricht Mills and removed the mills from held-for-sale, resulting in a reversal of its loss of US\$181 million from the prior year
- Insurance recoveries of US\$7 million were recorded related to the flood damage in South Africa in the prior year
- A number of additional special item charges were recorded which include among others, the Stockstadt Mill closure costs of US\$16 million, business interruption losses at Matane, Saiccor and Ngodwana Mills of US\$10 million, US\$8 million and US\$3 million respectively, fire-damaged timber of US\$1 million, incremental insurance costs of US\$6 million and a pension curtailment loss of US\$1 million.

Net finance costs

US\$ million	2023	2022
Finance costs	107	108
Finance income	(48)	(10)
Net foreign exchange gains	(10)	(1)
Total	49	97

Finance costs of US\$49 million were lower than the prior year due to the gain recorded on the tender settlement of the 2026 bonds during Q1 and a positive foreign exchange gain of US\$10 million.

Section 2 *continued*

Financial performance *continued*

Section 2 continued

Financial performance continued

Taxation

A regional breakdown of the tax charge is provided below.

US\$ million	Profit/(loss) before tax	Tax (charge)/ relief	Effective tax rate %
Europe	(156)	38	25
North America	137	(34)	25
Southern Africa	350	(76)	22
Total	331	(72)	22

In Europe, the difference between the effective and statutory tax rates are mainly due to unrecognised losses carried forward in several countries.

In North America, the effective and statutory tax rates are aligned.

The South African effective tax rate is below the statutory tax rate, mainly due to special tax allowances.

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2023, with comparatives for 2022, were as follows:

US\$ million	2023	2022
Operating profit	380	770
Net finance costs	49	97
Profit before taxation	331	673
Taxation	72	137
Profit for the period	259	536
Weighted average number of shares issued (millions)	563.6	563.3
Basic earnings per share (US cents)	46	95

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