

## Results for Q1 FY19 — the period ended December 2018

**EBITDA** excl special items<sup>1</sup>  
**US\$197 million**  
 Q1 FY18 US\$172 million

**Profit** for the period  
**US\$81 million**  
 Q1 FY18 US\$63 million

**EPS** excl special items<sup>1</sup>  
**US¢16**  
 Q1 FY18 US¢14

**Net debt**  
**US\$1,557 million**  
 Q1 FY18 US\$1,349 million

1 Refer to the published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

	US\$ million	Quarter ended		
		Dec 2018	Dec 2017	Sep 2018
<b>Key figures</b>				
Sales		1,418	1,330	1,535
Operating profit <small>excl special items<sup>1</sup></small>		128	105	148
Special items (gains) losses <sup>1</sup>		5	(11)	13
EBITDA <small>excluding special items<sup>1</sup></small>		197	172	224
Profit for the period		81	63	107
Basic EPS (US cents)		15	12	20
EPS <small>excluding special items (US cents)<sup>1</sup></small>		16	14	19
<b>Net debt<sup>1</sup></b>		<b>1,557</b>	1,349	1,568
<b>Key ratios (%)</b>				
Operating profit <small>excl special items<sup>1</sup></small> to sales		9.0	7.9	9.6
ROCE <sup>1</sup> <small>Operating profit excluding special items<sup>1</sup> to capital employed</small>		14.7	14.1	17.0
EBITDA <small>excl special items<sup>1</sup></small> to sales		13.9	12.9	14.6
Net debt to EBITDA <small>excl special items<sup>1</sup></small>		2.0	1.8	2.1
Interest cover <sup>1</sup>		10.9	9.9	11.0
Net asset value per share <sup>1</sup> (US cents)		353	338	361

In a difficult operating climate, the resilience of the business and the benefits from the diversification of the product portfolio in recent years were emphasised during the quarter — **group EBITDA increased by 15% and profit increased 29% from a year ago.**

**Dissolving wood pulp (DWP) sales prices** remained **stable** throughout most of the quarter and declined slightly in December due to pressure from lower Chinese viscose staple fibre (VSF) prices and a weak Chinese paper pulp market. Overall, our customers' **demand** for DWP continued to be **healthy**.

**Packaging and specialties sales volumes** for the group were **27% higher** year-on-year.

**Sluggish demand** for coated graphic and packaging papers along with ongoing high paper pulp input costs depressed margins in the European business. Higher selling prices and the inclusion of the Cham Paper business led to stable year-on-year profitability.

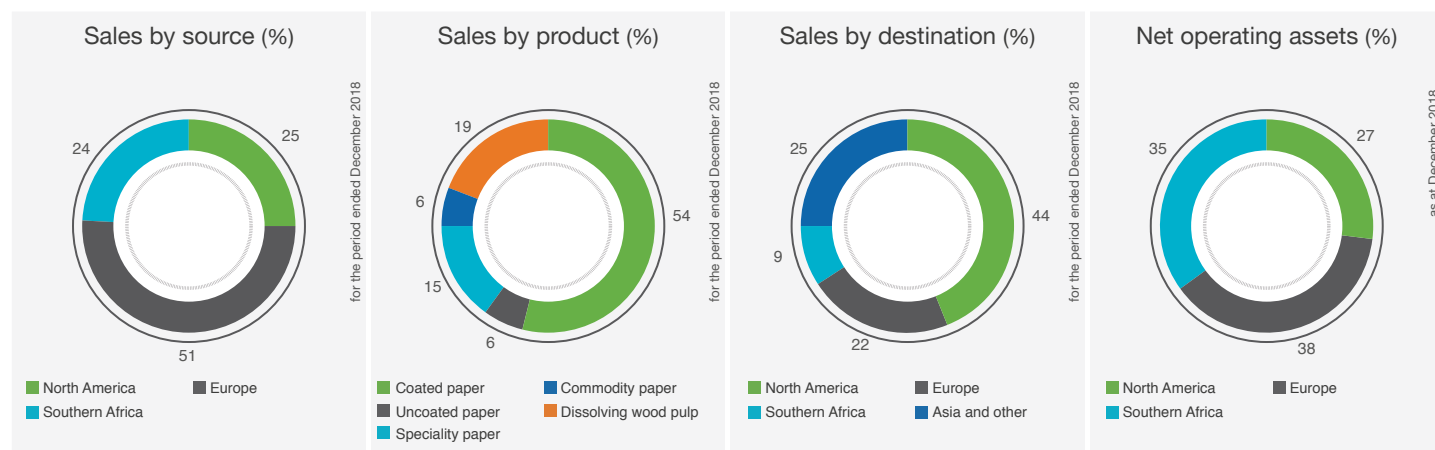
Higher DWP and coated paper prices, combined with a shorter scheduled shut at Somerset led to an **improved operating performance** for the **North American business**. PM1 at Somerset continued to ramp up paperboard production and commercial sales of these grades steadily increased.

The **South African business delivered excellent results**, with increased DWP and packaging sales volumes combined with higher Rand selling prices more than offsetting energy and woodfibre cost pressures.

### Net finance costs reduced

Net debt increased 15% compared to the equivalent quarter last year as a result of the Cham Paper acquisition (US\$132 million) and increased capital expenditure in the past year.

### Net operating assets and sales distribution



# Results for Q1 FY19 — the period ended December 2018

Our strategy

Through intentional evolution we will continue to grow **Sappi** into a profitable and cash-generative diversified woodfibre group — focused on dissolving wood pulp, paper and products in adjacent fields.

**Achieve**  
cost advantages

- Continuously improve **cost position**
- Continue to maximise **global benefits**
- Best-in-class **production efficiencies**

**Rationalise**  
declining businesses

- Maximise production at low-cost mills
- Continuously **balance paper supply and demand** in all regions
- Continue to **transition** printing and writing papers capacity to higher margin and **growing specialities and packaging papers**

**Maintain**  
a healthy balance sheet

- Maintain net debt/EBITDA ~2x**
- Continuously **improve working capital**
- Continue to monitor **bond market for opportunities**

**Accelerate growth** in higher margin growth segments

- Grow **DWP capacity** matching market demand
- Continue to expand and grow **specialities and packaging papers** in all regions targeting **25%** of group **EBITDA** by 2020
- Commence commercialisation of **biotech opportunities**

2019 objectives

Our values are underpinned by an unrelenting focus on and commitment to safety.

Outlook

Following the completion of the debottlenecking of Saiccor and Ngodwana in 2018, **we plan to grow dissolving wood pulp volumes through the remainder of 2019 to meet increased customer demand.** DWP prices in China have come under pressure in the past two months as lower Chinese VSF prices and current weak Chinese paper pulp markets influence DWP pricing. Demand from our customers remains good and we anticipate that continued high paper pulp prices in the rest of the world will support DWP prices going forward.

**Market conditions** for the various grades of **packaging** and **speciality papers** that we produce **have diverged** in the past month or so, with strong containerboard markets in South Africa and solid paperboard demand in Europe contrasting with some weakness in the release paper, and various European speciality grades. The ramp up of packaging paper production at Maastricht and Somerset post the completion of the conversion projects at these mills in 2018 will result in further sales growth in this segment.

**Graphic paper markets** in Europe and North America **have weakened in recent months** which has impacted the market balance, particularly for Europe. Further **potential industry capacity conversions and closures may happen** in the coming periods, however, short-term profitability will be negatively impacted if demand continues to be as weak as it has been recently.

**Capital expenditure** in 2019 is expected to be approximately **US\$590 million** as we proceed with the **Saiccor 110kt expansion project**, complete the **Saiccor woodyard upgrade**, **convert Lanaken PM8** from coated mechanical to woodfree paper production and **upgrade the Gratkom Mill** in our continued transition towards growing and higher margin segments.

Given current weak graphic paper markets and paper pulp prices which remain elevated in Europe and North America, **we expect EBITDA in the second quarter of financial year 2019**, given current exchange rates, **to be slightly below that of 2018.** The **full year result is expected to be above that of the prior year.**

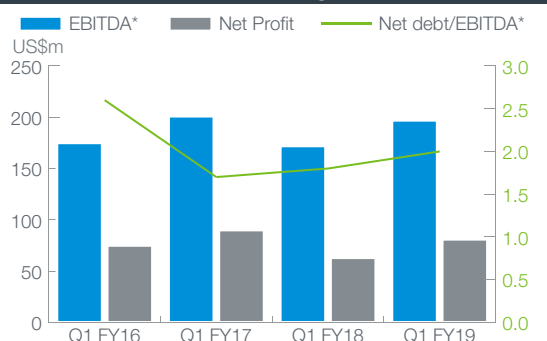


**Dissolving wood pulp** Demand from our customers remains good and we expect to grow DWP volumes through the remainder of 2019.



**The ramp up of packaging paper production** at Maastricht and Somerset post the completion of the conversion projects at these mills in 2018 **will result in further sales growth in this segment.**

### Quarter-on-quarter earnings, profit and debt



\* Excluding special items

# Results for Q1 FY19 — the period ended December 2018

## Europe



- 10 Production facilities
- 14 Sales offices

The business was **under pressure** from weak demand in coated paper and certain packaging markets and continued high paper pulp input costs.

The **stable year-on-year operating result** was achieved due to the contribution of Cham Paper, **market share gains in coated woodfree paper** and **higher average net selling prices for all product categories**.

The **packaging and specialties paper** business **increased sales volumes 50%** year-on-year (up 4% on a like-for-like basis excluding Cham Paper), following the completion of the Maastricht conversion and the inclusion of the Cham Paper volumes.

Paperboard and containerboard markets were solid during the quarter, however, the self-adhesives market and consumer goods end-use markets struggled. **Average net selling prices were 17% (10% on a like-for-like basis) higher** as a result of a shift in product mix post the conversion of Maastricht and the acquisition of Cham Paper, and price increases implemented last year to counter rising raw material costs.

Variable costs in Euro were 17% higher year-on-year, driven primarily by softwood and hardwood **pulp costs** that were 34% and 17% **higher** respectively.

Fixed costs were 12% higher, mainly due to the inclusion of Cham Paper personnel and related fixed costs.



**Berry Wiersum**  
Chief Executive Officer  
Sappi Europe

## North America



- 3 Production facilities
- 6 Sales offices

Higher selling prices for all products other than release paper and improved DWP volumes contributed to the **improved year-on-year performance**, tempered by lower coated paper sales volumes and elevated purchased paper pulp costs.

**Coated paper demand** in the US market **began to weaken** during the quarter. However, our CFS operating rates remained good and we continue to **increase sales volumes of coated paper from our European mills**. Further price increase realisation was achieved with **average net selling prices for coated paper 13% higher** than the prior year.

Increased purchased paper pulp volumes and higher market pulp prices reduced the benefit of the **year-on-year growth in DWP sales volumes and prices**.

**Packaging and specialties volumes** were **68%** above those of last year. **Increased sales volumes** of existing packaging grades and new paperboard grades offset weaker release paper sales volumes.

Commercial sales of **paperboard products** are **growing**, with sales volume and pricing set to improve over the course of the coming year as the ramp up proceeds.

Variable costs were negatively impacted by the higher purchased paper pulp prices and the continued optimisation of PM1 for the new paperboard grades. Fixed costs remained well managed.



**Mark Gardner**  
President and Chief  
Executive Officer  
Sappi North America

## Southern Africa



- 5 Production facilities
- 6 Sales offices
- 516,000ha** Plantations

**Improved year-on-year packaging, DWP sales volumes and increased selling prices** for all major product categories led to a **strong operating performance improvement**.

**DWP sales volumes** were **greater** than the equivalent quarter last year, but lower than those of the prior quarter due to low starting inventories. Average US Dollar **selling prices were 5% higher** than a year ago. A weaker Rand/US Dollar exchange rate further boosted selling prices.

**Packaging sales volumes grew 2%** year-on-year, while local sales prices increased to match variable cost rises.

**Export sales prices benefited** from the **weaker exchange rate**.

**Office paper and newsprint** sales volumes were slightly lower than the prior year while **prices grew 12%** to help offset variable cost pressures.

Fixed costs rose in line with local inflation.

Variable costs, particularly energy and woodfibre, were negatively impacted by the weaker Rand and higher Dollar prices for coal, wood and paper pulp.



**Alex Thiel**  
Chief Executive Officer  
Sappi Southern Africa

# sappi

## Our expanded brand portfolio



Dissolving wood pulp

### sappi | Verve

An innovative natural fibre produced from sustainably managed forests. Dissolving wood pulp is used to create naturally soft, breathable fabrics that is smooth to the touch and in a myriad of household, industrial and pharmaceutical applications — helping to create a thriving world.

### sappi | Atelier

A truly new dimension in the folding box board market that delivers the ultimate in brightness, purity and gloss with a silky touch and feel, paired with bulk and stiffness.

### sappi | Proto

A sturdy paperboard for everyday jobs, providing quality with superior convertibility and a consistent surface.

### sappi | Spectro

A single-ply paperboard with advanced optics that converts to eye-catching premium packaging, providing a high-end experience at a lower basis weight – the perfect combination to make a lasting impression.

### sappi | UltraFlute

A semi-chemical fluting paper used in the manufacturing of corrugated boxes.

### sappi | Algro Design

Your complete paperboard solution for premium packaging and graphic applications. Recognised for superior brightness and a remarkable silky touch.

### sappi | Ultracast

Ultracast casting and release papers provide the ultimate in product aesthetics, offering flawless texture replication for discerning brand owners.



Packaging and speciality papers



Casting and release papers



Coated paper

### sappi | Magno

A globally available range of coated and uncoated fine papers including seven product choices, four surface finishes and a wide range of weights.

### sappi | McCoy

A superior printing paper with unrivalled luminosity and a one-of-a-kind silk finish used to create luxurious brand promotion experiences.

### sappi | Validia

A natural and sustainable additive with advanced performance and cost-effective functionality in various systems.

### sappi | Symbio

A natural composite material combining high quality cellulose from wood and a polypropylene plastic material.

### sappi | Lignex

An effective dust suppressant and surface stabiliser for unsealed roads.

### sappi | Hansa

A sodium lignosulphonate solution for concrete admixtures that enhances flow characteristics and workability.

### sappi | Typek

A leading retail consumer brand of multi-purpose office paper.



Nanocellulose



Uncoated paper