sappi

Q2 Fact Sheet 2018

Second quarter results for the period ended March 2018

EBITDA excl special items[1]	Profit for the period	EPS excl special items[1]	Net debt
US$211 million	US$102 million	US¢17	US$1,632 million
Q2 FY17 US$208 million	Q2 FY17 US$88 million	Q2 FY17 US¢17	Q2 FY17 US$1,329 million

	US$ million	Quarter ended			Half-year ended	
		Mar 2018	Mar 2017	Dec 2017	Mar 2018	Mar 2017
Key figures	Sales	**1,496**	1,316	1,330	**2,826**	2,625
	Operating profit excl special items[1]	**142**	145	105	**247**	281
	Special items (gains) losses[1]	**(12)**	3	(11)	**(23)**	(4)
	EBITDA excluding special items[1]	**211**	208	172	**383**	409
	Profit for the period	**102**	88	63	**165**	178
	Basic EPS (US cents)	**19**	16	12	**31**	33
	EPS excluding special items (US cents)[1]	**17**	17	14	**31**	33
	Net debt[1]	**1,632**	1,329	1,349	**1,632**	1,329
Key ratios (%)	Operating profit excl special items[1] to sales	**9.5**	11.0	7.9	**8.7**	10.7
	ROCE[1] Operating profit excluding special items[1] to capital employed	**16.8**	20.5	14.1	**14.8**	19.8
	EBITDA excl special items[1] to sales	**14.1**	15.8	12.9	**13.6**	15.6
	Net debt to EBITDA excl special items[1]	**2.2**	1.7	1.8	**2.2**	1.7
	Interest cover[1]	**11.0**	7.7	9.9	**11.0**	7.7
	Net asset value per share[1] (US cents)	**365**	290	338	**365**	290

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

Year-on-year, net debt increased $303 million (22.7%)

Increased debt attributed mainly to: • Acquisition of the Cham Paper Group (US$132 million) • Paper machine conversions in Europe • DWP debottlenecking in South Africa • Additional taxes (US$18m) related to transfer pricing in prior periods in South Africa.

Commentary

Dissolving wood pulp (DWP) **demand remained strong** and **pricing improved steadily** but remained lower than those of a year ago. Viscose staple fibre (VSF) prices remained under pressure due to significant additional capacity in China, despite higher prices for competing textiles such as cotton and polyester.

Kraft pulp demand and **pricing** continued to be **strong** and helped underpin DWP pricing.

Specialities and **packaging paper demand** continued to be **healthy** — EBITDA margins improved to 15% for the quarter.

Acquisition of **Cham** speciality paper business completed — integration progressing smoothly.

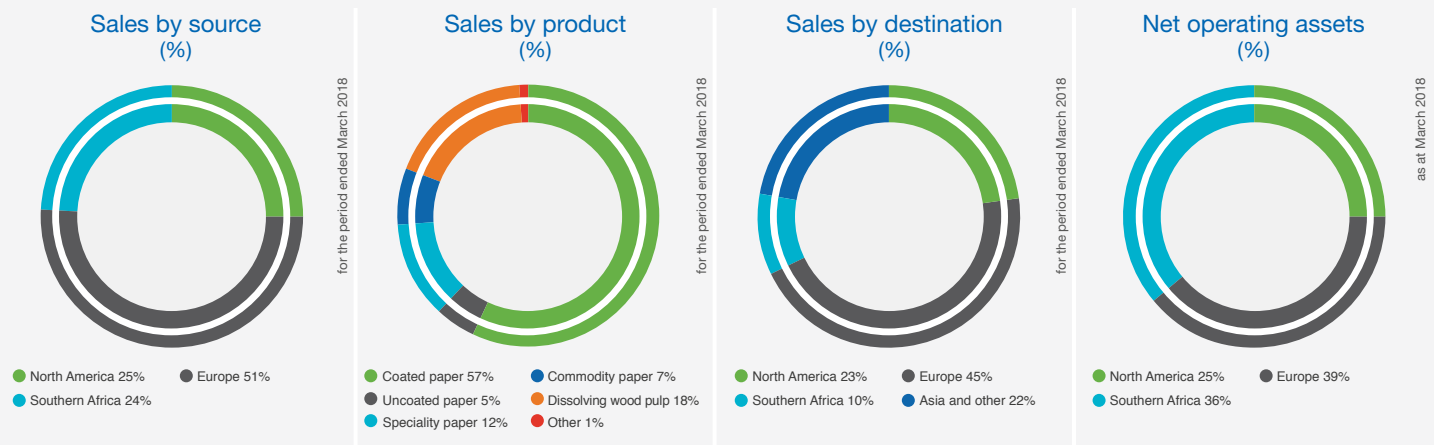
The **European business** experienced a **good quarter** — the region's paper markets are tightened due to machine and mill closures or conversions.

In **North America**, a series of paper price increases over the past nine months and higher sales volumes led to **improved** overall **results**.

Lower DWP prices and the stronger USD/ZAR exchange rate impacted the **South African** business negatively.

Quarter's profit boosted by special items mainly related to profit on sale of the corporate office building in South Africa.

Net operating assets and sales distribution



Results for Q2 FY18 — the period ended March 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.

2018 objectives

Achieve cost advantages

- Improve operational and machine **efficiencies**
- Maximise **procurement benefits**
- Optimise **business processes**

Rationalise declining businesses

- Where possible convert paper machines to **higher margin** businesses
- Continuously **balance paper supply and demand** in all regions

Maintain a healthy balance sheet

- **Optimise** working capital
- **Strong** cash generation
- **Smart** financing

Accelerate growth in higher margin growth segments

- **Extract** value from our biorefinery stream
- **Enhance** specialised cellulose portfolio
- **Expand** paper packaging grades

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

Outlook

Demand for DWP remains good, and Chinese market prices have remained relatively stable. VSF prices currently remain under pressure due to low industry operating rates following significant capacity additions in the last few years. Third quarter average realised DWP prices should be in line with those of the second quarter, while volumes will be lower due to scheduled annual maintenance shuts at Cloquet, Ngodwana and Saiccor.

Graphic paper operating rates remain **healthy in Europe**, and further **price increases** have been **implemented** since quarter-end to mitigate the impact of the continuing rise in paper pulp prices. The ongoing integration of the mills acquired from the Cham Paper Group is expected to deliver the anticipated synergies.

In the United States we will continue with the downtime on PM1 at Somerset Mill in order to complete the conversion project at the mill. Further **coated paper price increases implemented since January will be realised in the third quarter** and this will help negate the aforementioned impact as well as anticipated higher pricing for purchased pulp and chemicals.

Speciality and packaging paper demand continues to grow as customers and consumers switch to paper-based packaging rather than plastics. The acquisition of the specialities business of the Cham Paper Group and the technology acquired with the purchase of Rockwell Solutions in 2017 positions us well for **growth in this market**.

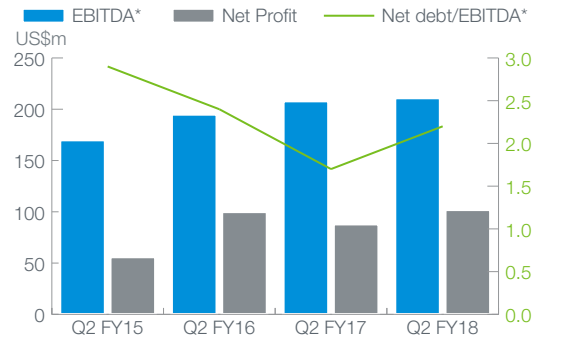
Capital expenditure in FY18 is expected to be approximately **US$500 million** as currency movements and the acceleration of various conversion and debottlenecking projects will inflate total expenditure for the year. The conversions at Maastricht and Somerset mills, the Saiccor, Ngodwana and Cloquet DWP debottlenecking projects and the expansion of Saiccor are projects **focused on higher margin growth segments including DWP and speciality packaging**.

The group's **third quarter operating performance** is **expected to be in line with that of the prior year** as the impact of the stronger Rand and the various capital projects under way offset the improved graphic paper markets.

Condino Mill Completing the Cham Speciality Paper acquisition is another significant milestone towards realizing our Vision2020 goal. Integrating the company's strong brands, employees and assets is progressing smoothly, strengthening our specialities and packaging papers business both in Europe and globally and improving our profitability.

We are investing approximately US$165 million to convert PM1 at our Somerset Mill which will be able to produce both coated graphics paper and paper packaging products — the conversion is expected to be completed during the third quarter of 2018.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

Q2 2018

Results for Q2 FY18 — the period ended March 2018

Europe

10 Production facilities
18 Sales offices

The European business delivered a **strong performance**, with the successful implementation of coated paper price increases and growing specialities and packaging sales volumes leading to an improved result compared to both the prior quarter and the equivalent quarter last year.

European and export **graphic paper markets continue to be stable**, allowing for the implementation of coated paper price increases that have offset much of the rise in paper pulp costs.

The **specialities** and **packaging paper business** experienced **sales growth of 12%** over the prior year, excluding the sales from the inclusion of the specialities business of the Cham Paper Group for one month.

Price increases on some speciality products were **implemented** during the quarter to offset the impact of the stronger Euro/US Dollar exchange rate; however, they continued to be below that of the prior year.

Variable costs rose 5% compared to last year, led by sharp increases in both purchased softwood and hardwood paper pulp pricing. Lower latex, wood and energy prices provided some relief.

Berry Wiersum
Chief Executive Officer
Sappi Europe

North America

3 Production facilities
6 Sales offices

The business benefited from **increased sales volumes in all product categories** and **higher graphic paper prices** compared to Q2 FY17. The improved performance was achieved despite the US$5 million impact of lost production due to the commencement of the PM1 conversion at Somerset Mill during March.

The US **coated paper market** continued to experience **tight supply conditions**. Coated paper **prices have risen 5%** over the prior year. **Sales volumes increased by 2%** compared to the Q2 FY17.

As **demand for DWP continues to grow** we have swung more of the Cloquet Mill production capacity to DWP at the expense of paper pulp production. The positive impact of additional DWP sales volumes has been negated somewhat by higher average purchased paper pulp costs.

Average DWP sales prices were higher than the prior quarter, but remained below those of last year.

The **packaging paper business** experienced good **year-on-year volume growth** of **46%** but had lower pricing due to product mix.

The **release paper** business' **volumes declined slightly**. Pricing was largely in line with last year.

Variable costs were **negatively impacted** by higher purchased paper pulp, chemicals and energy prices, all of which have risen year-on-year and quarter-on-quarter.

Mark Gardner
President and Chief Executive Officer
Sappi North America

Southern Africa

5 Production facilities
6 Sales offices
479,000ha Forests

Improved sales volumes could not offset the impact of the stronger Rand/US Dollar exchange rate and the US Dollar DWP prices, which despite rising during the quarter, were below those of a year ago.

DWP sales volumes were **slightly less** than those of the equivalent quarter last year due to supply disruptions as a result of a local power utility outage, but higher than those of the prior quarter.

Lower average US Dollar prices for **DWP**, coupled with a stronger Rand/US Dollar exchange rate led to **average sales prices** that were **10% below** those of a year ago.

Packaging sales volumes improved, with citrus industry growth more than offsetting the impact of the drought on agricultural packaging demand in the Western Cape.

Printing and **packaging paper prices rose** year-on-year.

The improved paper prices mentioned above, along with tight cost control, resulted in **improved profitability** for the **paper business**.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

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