sappi

Inspired by life

Q4 Fact Sheet 2017

Results for Q4 and full year 2017 — the period ended September 2017

FY17	**EBITDA** excl special items[1] US$785 million FY16 US$739 million	**Profit** for the period US$338 million FY16 US$319 million	**EPS** excl special items[1] US¢64 FY16 US¢57	**Net debt** US$1,322 million down US$86 million year-on-year	**Dividend** declared US¢15 FY16 US¢11
Q4FY17	**EBITDA** excl special items[1] US$221 million Q4FY16 US$209 million	**Profit** for the period US$102 million Q4FY16 US$112 million	**EPS** excl special items[1] US¢19 Q4FY16 US¢18		

	US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Quarter ended Jun 2017	Year ended Sept 2017	Year ended Sept 2016
Key figures	Sales	**1,411**	1,340	1,260	**5,296**	5,141
	Operating profit excl special items[1]	**152**	145	93	**526**	487
	Special items (gains) losses[1]	**1**	(25)	3	**–**	(57)
	EBITDA excluding special items[1]	**221**	209	155	**785**	739
	Profit for the period	**102**	112	58	**338**	319
	Basic EPS (US cents)	**19**	21	11	**63**	60
	EPS excluding special items (US cents)[1]	**19**	18	11	**64**	57
	Net debt[1]	**1,322**	1,408	1,318	**1,322**	1,408
Key ratios (%)	Operating profit excl special items[1] to sales	**10.8**	10.8	7.4	**9.9**	9.5
	ROCE[1] Operating profit excluding special items[1] to capital employed	**20.2**	20.9	12.8	**18.0**	17.5
	EBITDA excl special items[1] to sales	**15.7**	15.6	12.3	**14.8**	14.4
	Net debt to EBITDA excl special items[1]	**1.7**	1.9	1.7	**1.7**	1.9
	Interest cover[1]	**9.1**	7.3	8.4	**9.1**	7.3
	Net asset value per share[1] (US cents)	**327**	260	304	**327**	260

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

Net finance costs further reduced

Net finance costs were US$15 million, a reduction from the US$23 million in the equivalent quarter last year, due to the repayment of the 2017 bonds earlier in the year.

Commentary

The group delivered a further increase in EBITDA as **growth** of the **dissolving wood pulp** (DWP) and **speciality packaging businesses gained momentum**.

Higher paper pulp prices, a key input cost, and the negative impact of a stronger Rand/Dollar exchange rate created significant challenges.

Following the achievement of our targeted leverage of less than two times net debt to EBITDA in the prior year, we **increased investments into growth projects**. Principally, these related to conversions of paper machines in Europe and the United States into speciality packaging grades and DWP debottlenecking projects in South Africa.

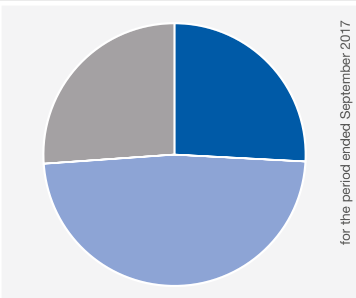
DWP demand robust during Q4 — **growing at double-digits** throughout the year.

Speciality packaging continued to advance. We shifted more production capacity into this category.

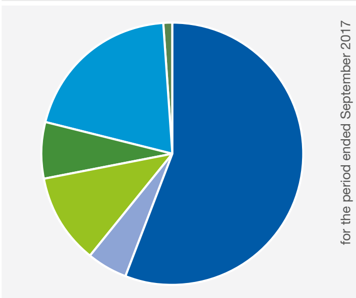
Rapidly rising prices for purchased paper pulp affected our variable costs negatively, however, a series of selling price increases for graphic paper in Europe and North America helped offset this impact.

Net operating assets and sales distribution

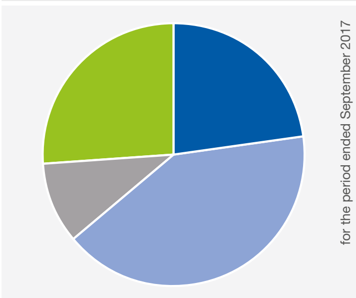
Sales by source



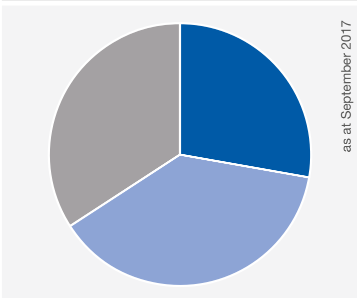
Sales by product



Sales by destination



Net operating assets



Fourth quarter and full year 2017 results — September 2017

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.

2017 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 high margin products
- **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 favourable. Spot prices have increased significantly in recent weeks. After quarter-end a severe storm caused significant damage to the harbour and logistics infrastructure in Durban, South Africa. The estimated impact on first quarter profitability is approximately US$4 million due to damaged inventory and lost production at Saiccor.

A significant proportion of our DWP sales prices are based on the prior quarter average CCF hardwood DWP price. First quarter average pricing is therefore likely to be slightly lower than the past quarter. The recent upward momentum in CCF prices will only be realised during the second quarter. **Longer-term market dynamics remain favourable with additional demand expected to exceed supply over the next few years.**

In Europe, local graphic paper demand has stabilised somewhat and **sales to export markets continue to grow**. Paper pulp costs have continued to rise after year-end. Without further price adjustments **margins will be under pressure**.

In the United States, **closures of competing mills have tightened supply** in a market that otherwise remains difficult. Further price increases have been announced and implemented after a long period of declining prices. We are more **optimistic about the prospects** in the forthcoming year.

Speciality packaging demand continues to grow, and we require the additional capacity from the conversions of the paper machines at Maastricht and Somerset mills to serve this growth. These conversions are set to be completed in the second and third fiscal quarters of 2018 respectively.

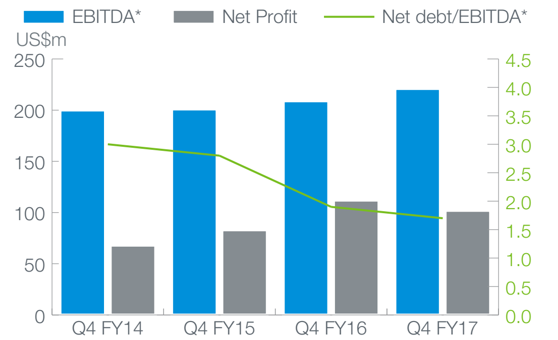
Capital expenditure in 2018 is expected to increase to US$450 million, **focused on higher margin growth segments** including dissolving wood pulp and speciality packaging, positioning us for stronger profitability from 2019 onwards.

FY2017 included an extra trading week which contributed approximately US$20 million to EBITDA in Q1. Higher external pulp costs and the aforementioned storm damage will have a negative impact on current profitability. As a result, we expect the group's **Q1 operating performance to be below that of the prior year**.

Maastricht Mill is being converted to focus predominantly on speciality grades — this conversion has commenced and is set to be completed during the second fiscal quarter of 2018.

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

Quarter-on-quarter earnings, profit and debt



* Excluding special items

Fourth quarter and full year 2017 results — September 2017

Europe

6 Paper mills
1 Speciality paper mill
18 Sales offices

During this seasonally stronger quarter, **graphic paper volumes** were 7% above those of the prior quarter and **3% above** those of the equivalent quarter last year.

Export sales volumes were particularly strong and, coupled with a slowdown in the rate of demand decline in domestic markets, we achieved good operating rates.

Average graphic paper sales prices in Euro were flat compared to both comparative periods as domestic price increases were offset by the translation impact of a stronger Euro on Dollar-denominated export pricing.

Sales volumes in the speciality paper business grew 8% year-on-year, ahead of the market. The production capacity of our machines are currently fully utilised.

As with the graphic papers, the stronger Euro negatively impacted Euro pricing for Dollar-based exports.

Variable costs rose year-on-year, led by higher hardwood pulp and latex prices.

Hardwood paper pulp is a major input cost for our European operation and Euro **costs have risen 22% in the past year** due to significantly higher Dollar pricing.

Berry Wiersum
Chief Executive Officer
Sappi Europe

North America

1 Paper mill
1 Speciality paper mill
1 Paper and specialised cellulose mill
6 Sales offices

The **business recovered** in a seasonally stronger period without scheduled maintenance shuts. Despite the impact of lower coated market pricing, improved profitability in the DWP and packaging businesses, and lower costs, led to increased profitability compared to Q4FY16.

Despite a **coated paper** price increase in July, pricing was still **2% lower** than Q4FY16. Volume was 2% below the equivalent quarter. The decline is largely due to shifting production capacity to packaging. Sales volumes declined less than that of the overall market, leading to a market share gain.

Higher DWP sales volumes and lower variable costs compared to the prior quarter were partially offset by lower average realised selling prices, leading to **increased profitability** for the business.

Packaging paper volumes for the quarter **increased 54% year-on-year**, led by our coated-one-side (C1S) product, albeit from a small base. However, **selling prices** were **under pressure throughout the year**.

The **casting and release paper** business remained subject to **weak demand** from the garment sector in China.

Variable costs reduced as efficiency initiatives and lower wood and energy prices more than offset purchased pulp and chemical price increases compared to the equivalent quarter last year.

Mark Gardner
President and Chief Executive Officer
Sappi North America

Southern Africa

2 Paper mills
1 Paper and specialised cellulose mill
1 Specialised cellulose mill
1 Sawmill
6 Sales offices **492,000ha** Forests

Margins in the Southern African business were **affected negatively by a stronger** Rand/Dollar **exchange rate** when compared to the equivalent quarter last year. This outweighed greater overall sales volumes, and lower average variable costs.

Average DWP Dollar selling prices were below those of the prior quarter. However, **spot prices for DWP**, while lower at the start of the quarter, **rebounded strongly over the last few weeks**.

The **paper business** experienced **good growth in profitability**, with year-on-year sales price increases and lower variable and delivery costs. Overall sales volumes were flat year-on-year, with gains in containerboard offset by lower tissue and lumber sales.

Ongoing procurement and efficiency initiatives along with the stronger Rand/Dollar exchange rate led to **lower fibre and energy costs** in particular.

Fixed costs were less than the prior quarter due to an absence of scheduled maintenance shuts in the fourth quarter.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

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