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## Media release

# Media Release

Johannesburg, 16 November 2017

### **Sappi delivers robust full year and 4<sup>th</sup> quarter results based on strong growth from the dissolving wood pulp and speciality packaging businesses**

#### ***Financial summary for the quarter and full year***

- EBITDA excluding special items:
  - For the quarter US\$221 million (2016 US\$209 million)
  - For the year US\$785 million (2016 US\$739 million)
- EPS excluding special items:
  - For the quarter 19 US cents (2016 18 US cents)
  - For the year 64 US cents (2016 57 US cents)
- Profit for the period:
  - For the quarter US\$102 million (2016 US\$112 million)
  - For the year US\$338 million (2016 US\$319 million)
- Net debt US\$1,322 million, down US\$86 million year-on-year
- Dividend of 15 US cents declared (2016 11 US cents)

#### **Sappi Chief Executive Officer Steve Binnie, commenting on the group's performance, said:**

“Sappi has delivered another strong set of results with profits up 6% year-on-year. I am very pleased with the growth of the dissolving wood pulp (DWP) and speciality packaging businesses. Furthermore our initiatives to reduce variable costs and the benefits of lower interest charges were able to help mitigate higher paper pulp prices and a stronger Rand/Dollar exchange rate during the reporting period.

“Capital expenditure in 2018 is expected to increase to US\$450 million as we continue the conversions in both Europe and North America, complete the Saiccor and Ngodwana



debottlenecking and start the upgrade of the Saiccor wood-yard. The increase in expansionary capital spending during 2018 is focused on higher margin growth segments including dissolving wood pulp and speciality packaging. This will position us for stronger profitability from 2019 onwards.”

## **The periods under review:**

Demand for DWP was robust, growing at double-digits throughout the year. We shifted more production capacity to speciality packaging during the year. The European business experienced a good final quarter, with expanded sales volumes and price increases helping to counteract the impact of rising paper pulp prices. In North America improved packaging and release paper sales volumes, coupled with lower fixed and variable costs outweighed lower coated paper sales prices and volumes. The packaging paper business in South Africa continued to show lower variable costs and higher sales volumes and prices compared to previous quarters.

Our success in bringing our debt levels to below our targeted leverage ratio of less than two times net debt to EBITDA in the prior year has meant that we could turn our attention to increased investments in growth projects, with the main focus being on conversions of paper machines in Europe and the United States to speciality packaging grades and DWP debottlenecking projects in South Africa. We remain well on track to achieve our Vision2020 targets.

Net cash for the year (US\$108 million) and for the quarter (US\$41 million) was lower than both prior periods (US\$359 million and US\$168 million) due to the aforementioned capital expenditure in growth projects, increased cash taxes, the dividend payment and higher working capital.

The Board has approved an increased dividend per share of 15 US cents, a 36% increase over the prior year. The 2017 dividend is covered four times by basic earnings per share, excluding non-cash special items. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividend ratio of three to one.

## **Outlook**

Demand for DWP remains favourable and spot prices have increased significantly in recent weeks. After the 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. For the first quarter of 2018 average pricing is therefore likely to be slightly lower than in the past quarter. The recent upward momentum in CCF prices will only



be realised in our second quarter. Longer-term market dynamics remain favourable with additional demand expected to exceed supply over the next few years.

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

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

Demand for speciality packaging continues to grow, and we require the additional capacity from the conversions of the paper machines at Maastricht and Somerset Mills in order to continue to serve this growth. These conversions have commenced and are set to be completed in the second and third fiscal quarters of 2018 respectively.

The 2017 financial year included an extra trading week which contributed approximately US\$20 million to EBITDA in the first quarter of the last financial year. In addition, the 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 first quarter operating performance to be below that of the prior year.

ENDS

**The full results announcement is** available at [www.sappi.com](http://www.sappi.com)

There will be a conference call to which investors are invited. Full details are available at [www.sappi.com](http://www.sappi.com) using the links Investors; Latest financial results.

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### Forward-looking statements

*Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward looking statements. In addition, this document includes forward looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:*

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- the impact on our business of adverse changes in global economic conditions;*
- unanticipated production disruptions (including as a result of planned or unexpected power outages);*
- changes in environmental, tax and other laws and regulations;*
- adverse changes in the markets for our products;*
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;*
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;*
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;*
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies;*
- currency fluctuations.*

*We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.*

## About Sappi Limited

A global leader in paper, paper pulp and dissolving wood pulp solutions, Sappi Limited (listed and in the Top 40 on the JSE), is headquartered in Johannesburg, South Africa; has over 12,000 employees; manufacturing operations on three continents, in seven countries (seven mills in Europe, three mills in America and four mills in South Africa) and customers in over 150 countries worldwide

Sappi works closely with customers to provide relevant and sustainable paper, paper pulp, dissolving wood pulp and biomaterial products and related services and innovations. Our dissolving wood pulp products are used worldwide by converters to produce viscose fibre, pharmaceutical products as well as a wide range of household and consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in our Southern African region newsprint, uncoated graphic and business papers, premium quality packaging papers and paper grade pulp.

In FY2016 we produced approximately: 5.4 million tons of graphic and printing paper and packaging and speciality paper; 2.3 million tons of market paper pulp, and 1.3 million tons of dissolving wood pulp.

We continue to grow as a profitable and cash-generative diversified business with an exciting future in woodfibre, a renewable resource.

For further information visit [www.sappi.com](http://www.sappi.com)

