

Year-end and fourth quarter results for the period ended September 2018

FY18	EBITDA <small>excl special items¹</small> US\$ 762 million FY17 US\$785 million	Profit for the period US\$ 323 million FY17 US\$338 million	EPS <small>excl special items¹</small> US¢ 60 FY17 US¢64	Net debt US\$ 1,568 million FY17 US\$1,322 million	Dividend <small>declared</small> US¢ 17 FY17 US¢15
Q4FY18	EBITDA <small>excl special items¹</small> US\$ 224 million Q4FY17 US\$221 million		Profit for the period US\$ 107 million Q4FY17 US\$102 million		EPS <small>excl special items¹</small> US¢ 19 Q4FY17 US¢19

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			Year ended	
	Sept 2018	Sept 2017	Jun 2018	Sept 2018	Sept 2017
Key figures					
Sales	1,535	1,411	1,445	5,806	5,296
Operating profit <small>excl special items¹</small>	148	152	85	480	526
Special items (gains) losses ¹	13	1	1	(9)	—
EBITDA <small>excluding special items¹</small>	224	221	155	762	785
Profit for the period	107	102	51	323	338
Basic EPS (US cents)	20	19	9	60	63
EPS <small>excluding special items (US cents)¹</small>	19	19	10	60	64
Net debt ¹	1,568	1,322	1,603	1,568	1,322
Key ratios (%)					
Operating profit <small>excl special items¹</small> to sales	9.6	10.8	5.9	8.3	9.9
ROCE ¹ <small>Operating profit excluding special items¹ to capital employed</small>	17.0	20.2	9.7	14.6	18.0
EBITDA <small>excl special items¹</small> to sales	14.6	15.7	10.7	13.1	14.8
Net debt to EBITDA <small>excl special items¹</small>	2.1	1.7	2.1	2.1	1.7
Interest cover ¹	11.0	9.1	11.0	11.0	9.1
Net asset value per share ¹ (US cents)	361	327	342	361	327

Notwithstanding downtime related to completing several large strategic growth projects during the year, the overall result was in line with that of the prior year on a like-for-like basis.

Market demand fully utilised our production capacity for dissolving wood pulp (DWP) and speciality and packaging papers.

Graphic paper market margins were maintained.

Increased **growth-project capital expenditure**, managed around our target ratio of two times net debt to EBITDA, further **shifts the group's product mix** away from the traditional graphic paper business **towards higher-margin and growth segments.**

DWP demand and market pricing remain healthy but net sales for the quarter was impacted by currency translation losses.

We launched **Verve** as the umbrella brand for our DWP products with the brand promise of Sappi's commitment to producing a natural fibre sourced from sustainably managed forests.

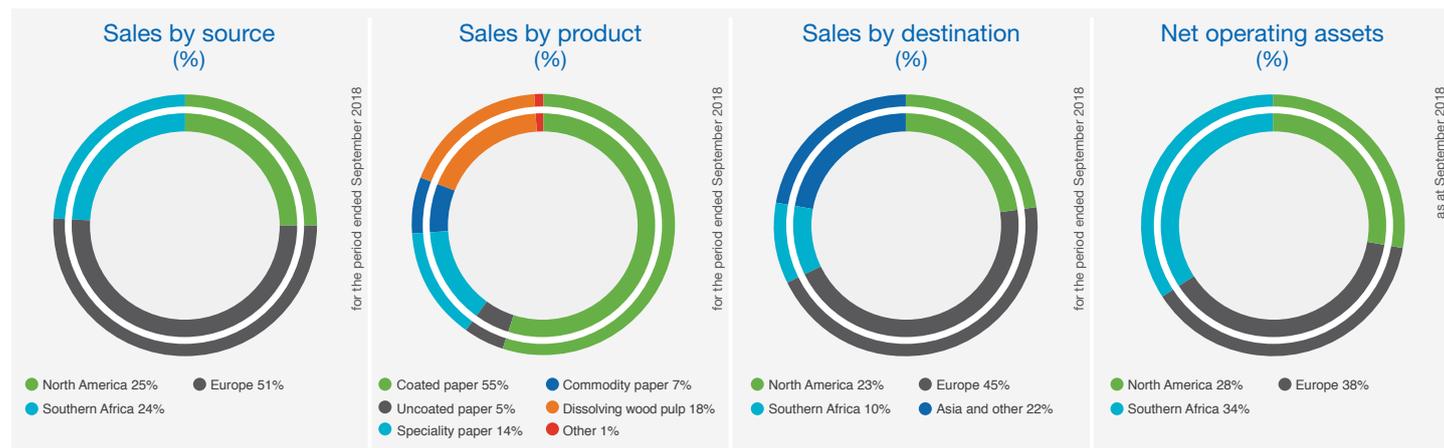
Demand for specialities and packaging papers continued to grow in each region and across all major product categories.

Commentary

Net finance costs reduced

Compared to FY17, lower average debt levels throughout the year reduced net finance costs by 15% (US\$12 million) to US\$68 million.

Net operating assets and sales distribution



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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.

<p>Achieve cost advantages</p>	<p>Rationalise declining businesses</p>	<p>Maintain a healthy balance sheet</p>	<p>Accelerate growth in higher margin growth segments</p>
<p>Improve operational and machine efficiencies</p> <hr/> <p>Maximise procurement benefits</p> <hr/> <p>Optimise business processes</p>	<p>Where possible convert paper machines to higher margin businesses</p> <hr/> <p>Continuously balance paper supply and demand in all regions</p>	<p>Optimise working capital</p> <hr/> <p>Strong cash generation</p> <hr/> <p>Smart financing</p>	<p>Extract value from our biorefinery stream</p> <hr/> <p>Enhance specialised cellulose portfolio</p> <hr/> <p>Expand paper packaging grades</p>

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

2018 objectives

Outlook

Debottlenecked operations and fewer production disruptions in 2019 should yield **increased DWP sales volumes** to **meet growing demand**.

DWP spot prices are forecast to remain range-bound at current levels in the coming year as viscose staple fibre (VSF) prices are expected to be under pressure from excess VSF capacity

Demand for speciality and packaging papers continues to grow, driven by increasing consumer preference for paper-based packaging and legislative changes promoting recycling and the use of recyclable materials. The completion of the conversion projects at Somerset and Maastricht Mills in the past year will allow us to increase production of paperboard grades to serve this growing market.

Industry-wide **conversion** and **closure of graphic paper machines** in the USA and Europe are **expected to keep markets balanced** in the coming year should demand contract at similar rates to those of the past few years.

However, recent European data indicates that **a potential downturn may realise in 2019**. Cost control will be crucial in order to support margins as we manage price elasticity in our paper markets.

Capital expenditure in 2019 is expected to **increase to US\$590 million** as we proceed with:

- The **Saiccor 110kt expansion** project
- Completing the **Saiccor woodyard upgrade**
- Converting **Lanaken PM8** from coated mechanical to woodfree paper production and
- Upgrading **Gratkorn mill**.

Having completed significant projects in 2018 to convert paper machines to higher-margin packaging grades, in addition to the debottlenecking of both Saiccor and Ngodwana mills, **we expect Q1FY19 EBITDA**, given current exchange rates, **to be comfortably higher than Q1FY18**.



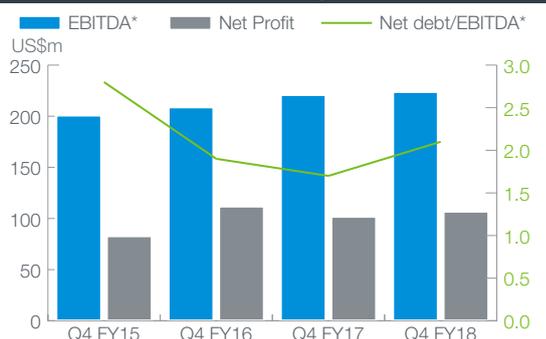
Dye Sublimation papers, Functional papers, Flexpack and Label papers

The Cham integration continues to exceed expectations, with EBITDA contribution ahead of expectations after seven months.



Saiccor Mill Environmental approval for the 110kt expansion of the Saiccor mill was granted by the relevant authorities at the end of Q4. The expansion, complemented by the completion of the mill's woodyard upgrade currently underway will help us meet strong projected demand growth.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

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Europe



- 10 Production facilities
- 14 Sales offices

The European business delivered a **good result** in a **seasonally stronger quarter**.

Higher graphic and speciality paper pricing and **market share gains in coated paper**, more than **offset a weaker graphic paper market** and higher costs.

Graphic paper sales volumes were 3% lower than FY17. Growth in coated mechanical sales was insufficient to offset declines in coated woodfree demand.

The coated mechanical market began the quarter positively due to switching from other grades, however, demand weakened towards the end of the quarter. Coated woodfree demand was weak throughout the period. **Coated woodfree and coated mechanical prices are now 9% and 8% higher respectively** than they were last year following further price increases implemented during the quarter.

Speciality paper business year-on-year **sales volumes and prices grew 9% and 4% respectively** on a like-for-like basis. Price increases in this segment lagged cost inflation, largely due to contract duration.

The **Cham integration continues to exceed expectations**, with EBITDA contribution ahead of expectations.

Variable costs increased 11% year-on-year.



Berry Wiersum
Chief Executive Officer
Sappi Europe

North America



- 3 Production facilities
- 6 Sales offices

Following the completion of the Somerset PM1 conversion, **profitability** in the North American business **improved**.

Graphic paper prices increased compared to the previous quarter, but sales volumes were affected by historically low inventory levels at the start of the quarter.

The US **coated paper market** continued to be **tightly supplied**, and our average coated paper **sales prices increased 13% year-on-year**. Coated **sales volumes** were **9% lower** than the equivalent quarter last year because of lost production from Somerset PM1 during Q3 and the intentional shift to packaging grades.

DWP sales volumes were higher than those achieved in both the prior quarter and the equivalent quarter last year. Average DWP **sales prices improved** compared to the prior year.

The **packaging business**, including the new paperboard grades from Somerset, **nearly doubled sales volumes** compared to the prior year. Sales prices reflect the impact of start-up and qualification of the new grades. We made good progress during the quarter with the ramp-up of first quality paperboard production.

Variable costs were reduced compared to the prior quarter as lower wood and chemical prices more than offset higher purchased paper pulp prices.



Mark Gardner
President and Chief
Executive Officer
Sappi North America

Southern Africa



- 5 Production facilities
- 6 Sales offices
- 479,000ha Forests

The **performance** of the Southern African business was **very similar** to that of the equivalent quarter last year, with higher Rand selling prices offsetting input cost pressure from timber, paper pulp, chemicals and energy.

The weaker Rand/Dollar exchange rate impacted both export sales prices and imported input costs. However, currency hedges on DWP sales entered into earlier in the year resulted in lower effective Rand pricing for some of our DWP sales during the quarter.

DWP sales volumes were **flat** year-on-year as the late start-up of both Ngodwana and Saiccor mills, following plant upgrades in the third quarter, resulted in **low** initial DWP inventory levels.

The **paper business** experienced **robust demand** notwithstanding a late citrus season which delayed some containerboard sales into the next quarter. **Sales price increases** have **offset cost price pressure** resulting from the weaker Rand and increased energy prices.

Environmental approval for the **expansion of the Saiccor mill** was **granted** by the relevant authorities at the end of the quarter. Construction has since commenced.



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



Casting and release papers

sappi | Ultracast

The ultimate fidelity, texture replication, and the world's most innovative and fashion forward texture library.



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 | Validá

A multi-functional fibrillated cellulose that is an effective functional additive in range of applications opening up opportunities for advanced, planet-friendly solutions.

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 stabilizer 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