sappi

Q1 Fact Sheet 2018

Results for Q1 FY18 — the period ended December 2017

EBITDA excl special items[1]	Profit for the period	EPS excl special items[1]	Net debt
US$172 million	US$63 million	US¢14	US$1,349 million
Q1 FY17 US$181 million	Q1 FY17 US$90 million	Q1 FY17 US¢16	Q1 FY17 US$1,338 million

	US$ million	Quarter ended Dec 2017	Dec 2016	Sep 2017
Key figures	Sales	**1,330**	1,309	1,411
	Operating profit excl special items[1]	**105**	136	152
	Special items (gains) losses[1]	**(11)**	(7)	1
	EBITDA excluding special items[1]	**172**	201	221
	Profit for the period	**63**	90	102
	Basic EPS (US cents)	**12**	17	19
	EPS excluding special items (US cents)[1]	**14**	16	19
	Net debt[1]	**1,349**	1,338	1,322
Key ratios (%)	Operating profit excl special items[1] to sales	**7.9**	10.4	10.8
	ROCE[1] Operating profit excluding special items[1] to capital employed	**14.1**	19.5	20.2
	EBITDA excl special items[1] to sales	**12.9**	15.4	15.7
	Net debt to EBITDA excl special items[1]	**1.8**	1.7	1.7
	Interest cover[1]	**9.9**	7.7	9.1
	Net asset value per share[1] (US cents)	**338**	270	327

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

Net debt rises marginally

Net debt increased by US$11 million because of exchange rate impacts and capital expenditure related to our paper machine conversion projects.

Commentary

Operating performance in the quarter was in line with expectations.

Profit for the comparative period decreased principally as a result of an extra week last year and a **US$19 million income statement charge** following the **lowering** of the **corporate income tax rate** in the **United States** and its impact on the deferred tax asset.

Demand for dissolving wood pulp (DWP) **remains strong** despite viscose staple fibre (VSF) prices softening in the last few weeks of the quarter. Spot prices were stable throughout the quarter, supported by higher prices for competing textiles and **strong demand for kraft pulp**.

Demand growth for **specialities** and **packaging papers** continues to be **healthy across all major product segments**. Sales volumes are constrained by our current production capacity.

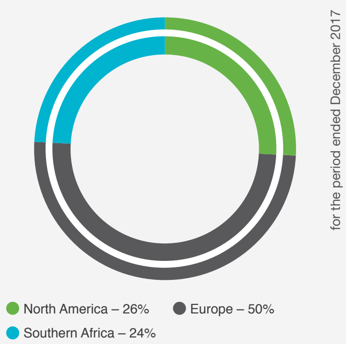
The **European business** experienced a **good quarter** despite the impact of a stronger Euro on export sales prices and continued paper pulp cost pressure. **Further selling price increases** were **implemented** in both local and export markets during the quarter to counteract these pressures. The **market dynamic for graphic paper improved**, particularly exports.

Outages for capital projects and annual maintenance, as well as lower coated paper production and dissolving wood pulp sales prices led to a decline in performance for the North American business. The positive impact from the **closure** of **two competing coated woodfree mills** during the quarter began to be realised once remaining inventory had been sold into the market.

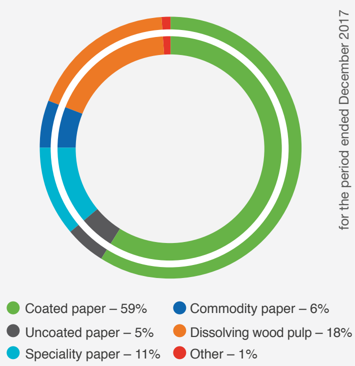
Excellent packaging and office paper sales volumes in the South African business were unable to offset the impact of lower contracted dissolving wood pulp pricing as well as the impact of a major storm in Durban, which affected Saiccor Mill production and shipments from the port.

Net operating assets and sales distribution

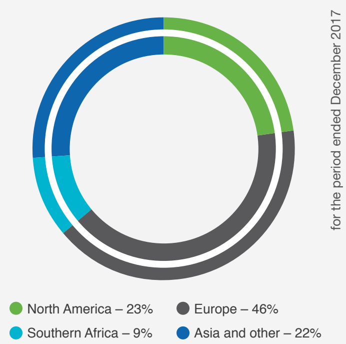
Sales by source (%)



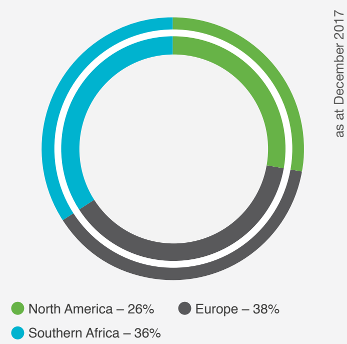
Sales by product (%)



Sales by destination (%)



Net operating assets (%)



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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.

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. Our realised US$ sales prices will improve during Q2 as we benefit from higher average Chinese market prices. Recent rises in competing textile prices should provide support to the VSF market, currently under pressure. In turn, this should support DWP pricing in upcoming quarters.

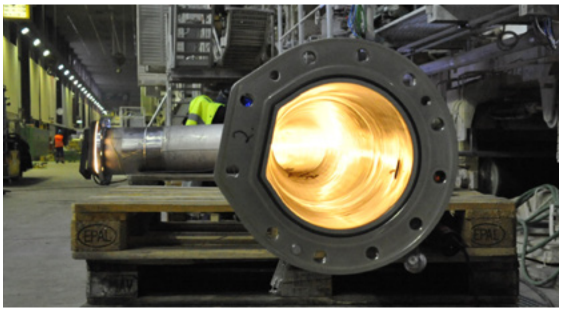
Graphic paper operating rates remain healthy in **Europe** as export demand growth helps offset moderate demand declines in the Western European market. Coated paper price increases over the past few quarters have allowed margins to remain relatively stable despite continued input cost pressure from purchased paper pulp.

In the United States we will be taking extended downtime on **PM1** at **Somerset Mill** in order to **complete the conversion** project at the mill. This is expected to have a US$9 million negative impact on EBITDA during our second and third quarters. Coated paper price increases implemented over the past six months will start to be fully realised in the second quarter and the higher DWP prices referred to earlier will allow us to offset the aforementioned impact.

Speciality and packaging paper demand continues to grow as the push to encourage the use of paper-based packaging over plastic gathers momentum. Our acquisition of Rockwell Solutions in 2017 and the announced acquisition of Cham Paper, which is expected to be completed at the end of February 2018, positions us well for growth in this market. The conversions of the paper machines at Maastricht and Somerset will be completed in the second and third quarter respectively and will further add to our coated packaging capabilities.

Capital expenditure in 2018 is expected to be approximately **US$500 million** as we complete the conversions at Maastricht and Somerset Mills, the debottlenecking projects at Saiccor and Ngodwana Mills and start the upgrade of the Saiccor woodyard. These projects are **focused on higher-margin growth segments** including **dissolving wood pulp** and **speciality packaging**. This will position us for stronger profitability from 2019 onwards.

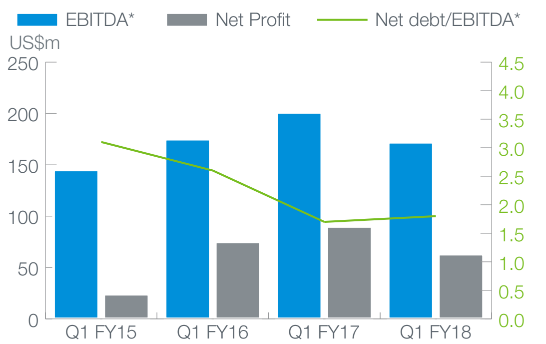
Group second-quarter operating performance is expected to be slightly below that of the prior year as the impact of the stronger Rand and lower comparative US Dollar DWP prices negatively impact the South African operations.



Maastricht Mill is being converted to focus predominantly on speciality grades — the conversion is expected to be completed during the second quarter of 2018.

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

Results for Q1 FY18 — the period ended December 2017

Europe

6 Paper mills **1** Speciality paper mill
18 Sales offices

Operating performance was good, with **solid export markets** and the successful implementation of selling **price increases** for **graphic paper** offsetting the ongoing rise in pulp costs.

Within Europe, the **market for graphic paper stabilised**.

Overall **sales volumes** were **5% lower** than the equivalent quarter last year, however this was almost solely **due to** the **additional accounting week** in the prior year.

The **specialities** paper business experienced like-for-like **sales growth** of **9%** (normalised to a 13 week quarter).

However, the stronger Euro impacted US Dollar-based exports negatively and lowered overall net sales prices.

Variable costs were 2% higher than in both comparative periods. Paper pulp and latex prices continued to rise throughout the quarter.

Fixed costs were 2% higher than a year ago due to an increased headcount post the Rockwell acquisition and annual personnel cost increases.

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

Performance was **impacted negatively** by **lower sales volumes** as a result of production challenges at the paper mills and project work at the Somerset Mill for the new woodyard as well as the first phase of the PM1 conversion to paperboard together with a new headbox for PM12 at Cloquet Mill.

Approximately 15% of competing coated free sheet capacity exited the market with the **closure of two mills**. Low paper inventories and contractual price protection for major customers limited the positive impact from price increases and higher operating rates during the quarter.

The outlook for the coming quarters has improved as operating rates rise and further price increases have been announced.

The positive impact of **increased dissolving wood pulp sales volumes** was negated by lower average selling prices and higher purchased paper pulp costs as the Cloquet Mill moved away from being fully pulp integrated for its paper machines.

Both the **packaging** and **release paper** businesses experienced good year-on-year **volume growth**, although both products experienced lower average pricing, primarily due to product and customer mix.

Capital projects and higher purchased paper pulp and chemical prices negatively impacted variable costs. Ongoing initiatives to improve efficiency and lower purchasing costs helped offset these somewhat.

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

Improved year-on-year **sales volumes** across **all major product categories** were not enough to offset lower US Dollar dissolving wood pulp prices, the stronger Rand/US Dollar exchange rate and the impact of storm damage in the Durban area on logistics and Saiccor Mill production.

Dissolving wood pulp sales volumes were greater than the equivalent quarter last year, but lower than those of the prior quarter due to the logistical challenges in the Durban port as mentioned above.

Lower average US Dollar prices coupled with a stronger Rand/US Dollar exchange rate led to **average sales prices** that were **7% below those of a year ago**.

Improved packaging sales volumes, driven by strong citrus demand, and **higher pricing** resulted in a strong performance from the paper business.

Office paper and newsprint achieved sales **volume growth** and **higher pricing**.

Variable costs remain **well controlled** compared to the prior year, with increased energy costs being offset by lower fibre usage.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

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