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## Media Release

Johannesburg, 07 February 2018

### **Sappi first quarter results in line with expectation; growth projects on track to deliver significant increase in earnings as from end of 2018 financial year**

#### **Financial summary for the quarter**

- EBITDA excluding special items US\$172 million (Q1 2017 like-for-like US\$181 million)
- Profit for the period US\$63 million (Q1 2017 US\$90 million)
- EPS excluding special items 14 US cents (Q1 2017 16 US cents)
- Net debt US\$1,349 million (Q1 2017 US\$1,338 million)

An additional accounting week occurred last year which increased the comparative period reported EBITDA by US\$20 million. A non-cash income statement charge of US\$19 million was taken relating to our deferred tax asset in the United States following that country's lowering of their corporate income tax rate. However, going forward this will be positive and contribute to increased earnings.

Commenting on the result, Sappi Chief Executive Officer Steve Binnie said: "Our performance for this quarter was in line with our expectations. We continue to work hard to mitigate increased input costs and the impact of a stronger Rand/Dollar exchange rate. We will begin to see the benefits of selling price increases during the rest of the financial year."

The major factors which influenced the first quarter's results include:

- Dissolving wood pulp (DWP) demand remained strong with a healthy EBITDA margin of 31%;
- Demand for specialities and packaging papers continued to grow across all regions and all major product segments, only constrained by our current production capacity. EBITDA margins were maintained at 14%;
- Printing and writing papers markets were stable in Europe and we implemented higher selling prices to offset the impact from increased raw material costs. In the US, sales volumes were lower due to production challenges and the commencement of project work for the conversion to higher margin growth products at Somerset;



- Paper pulp costs continued to rise throughout the quarter; and
- A stronger Rand/Dollar exchange rate.

### **Update on investments for growth**

- Acquisition of Cham to be concluded by 28 February 2018. Will deliver positive earnings during the current financial year
- Integration of Rockwell Solutions (barrier coating technology) complete
- Projects at Somerset, Maastricht, Alfeld, Lanaken, Ngodwana, Saiccor and Cloquet Mills on track to deliver positive earnings boost as from FY2019
- The possible 110,000 tpa expansion of Saiccor mill is being brought forward due to increased demand and positive outlook for DWP prices

Commenting on investments to enhance the competitive advantage and increase speciality packaging and DWP capacity, Binnie said: "I am very excited about the prospects for dissolving pulp over the next few years. It is also clear that speciality and packaging paper demand continues to grow as the push to encourage the use of paper based packaging over plastic gathers momentum."

The acquisition of the Cham speciality paper business is due to be completed at the end of February 2018. This will significantly strengthen Sappi's speciality and packaging papers footprint, skills, volumes, product offering, innovation and market presence. 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.

The debottlenecking projects at Saiccor, Ngodwana and Cloquet mills will bring an additional 90,000 tpa to the market through the end of this financial year. In light of increased demand and the positive outlook for DWP, Binnie confirmed that: "Over and above our debottlenecking projects, we are advancing plans for the possible expansion of Saiccor by a further 110,000 tpa."

### **Outlook**

Demand for DWP remains good, and our realised US Dollar sales prices will improve in the second quarter as we benefit from the higher average Chinese market prices. While VSF prices currently remain under pressure, recent rises in competing textile prices such as cotton and polyester should provide support to the VSF market, which in turn should support DWP pricing in upcoming quarters.

Graphic paper operating rates remain healthy in Europe as export demand growth helps to offset more moderate demand declines in Western Europe. 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 6 months will start to be fully realised in the second.

Capital expenditure in 2018 is expected to be approximately US\$500 million as we complete the conversions at Maastricht and Somerset mills, the Saiccor, Ngodwana and Cloquet debottlenecking



projects 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.

The group's 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\$ DWP prices negatively impact the South African operations.

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 Investor Info; Investor Calendar; 1Q18 Financial Results

### 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, and may be used to identify forward-looking statements. 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 cyclical nature, 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 a global economic downturn;*
- *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 restructuring and other strategic initiatives and achieving expected savings and synergies; and*
- *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 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. 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.

In FY2017 we produced approximately: 5.4 million tons of printing and writing, speciality and packaging paper; 2.2 million tons of paper pulp, and 1.4 million tons of dissolving wood pulp.

We are investing in developing our biomaterials (nanocellulose, fibre composites and lignosulphonate) and biorefinery (second generation sugars and bio-energy) businesses.

We continue to grow into 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)

