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Media Release

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Sappi announces financial results for first quarter

Financial summary for the quarter

- EBITDA excluding special items US\$139 million (Q1 2019 US\$197 million)
- Profit for the period US\$24 million (Q1 2019 US\$81 million)
- EPS excluding special items 6 US cents (Q1 2019 16 US cents)
- Net debt US\$1,916 million (Q1 2019 US\$1,557 million)

Commenting on the result, Sappi Chief Executive Officer Steve Binnie said: “A good performance from the European and North American packaging and specialities segment and satisfactory results from the graphic paper businesses were not enough to offset the significant impact from the unprecedented and markedly lower dissolving wood pulp (DWP) prices. DWP market prices fell US\$272/ton in the last year as the combined impact of soft global textile markets, excess viscose staple fibre (VSF) capacity and a weaker US\$/Renminbi exchange rate drove the DWP price downwards. On the supply side, low paper pulp prices provided no relief for swing producers. This significantly impacted both the segment and group profitability levels.”

Binnie added that “The ongoing strategy to diversify the product portfolio into higher-margin segments and position the company for future growth reaped rewards as the packaging and specialities segment continued to grow profitability. The focus on efficiencies and costs combined with strong customer relationships and service levels ensured profitability for graphic paper was stable despite weak global demand. Sales volumes for packaging and specialities in Europe increased across all major product categories. In North America sales volumes for packaging and specialities grew 43% year-on-year, driven mainly by the ramp-up of the paperboard grades on PM1 at Somerset Mill. In South Africa, the containerboard segment struggled with low demand driven by high levels of converter inventory, a weak South African economy and an ongoing drought in some citrus-producing regions.



The substantial market share gains in coated woodfree paper in both North America and Europe countered the ongoing deterioration in graphic paper demand, enabling us to take fewer production curtailments than in recent quarters. Declining input costs helped maintain healthy margins.”

Outlook

DWP pricing remains under pressure, albeit that prices have risen slightly from their lows in the past quarter. While we believe that current pricing is below the cash cost of production for a significant proportion of global capacity, the ongoing low VSF prices make a material recovery in DWP prices unlikely in the short term. Demand for DWP continues to grow at rates consistent with our long-term forecasts and gives us confidence that our strategy to grow volumes in this segment is sound, despite current margin pressures.

The ramp up of packaging and speciality grades at both Somerset PM1 and Maastricht Mill continues, which will ensure improved mix, price realisation and machine efficiency. Consumers and brand owners are driving the shift from plastic to paper in many packaging categories and this is driving demand growth and leading to new innovative products being developed, including those incorporating our barrier technology. The South African containerboard market remains challenging, driven by high inventory levels and a weaker domestic economy.

Graphic paper markets remain difficult, with demand decline rates exceeding that of recent years by some margin. Capacity reductions in CWF are creating opportunities to keep our machines full and order lead times have increased. Pricing has declined marginally, however, lower raw material costs are supporting margins. The evaluation of our European asset portfolio is close to completion and an announcement will be made in the near future.

Capital expenditure in 2020 is expected to be approximately US\$460 million as we complete the Saiccor Mill 110,000t expansion project and various smaller European pulp mill debottlenecking projects. We continue to manage capital expenditure, working capital and costs tightly. Apart from the aforementioned Saiccor Mill expansion, no material capital projects have been committed.

Looking towards the rest of the year, Binnie indicated that “Given the current low DWP pricing levels, we expect EBITDA in the second quarter of financial year 2020 to follow the trend experienced in the first quarter.”

ENDS

The full results announcement is available at www.sappi.com

There will be a conference call to which investors are invited. Full details are available at www.sappi.com using the links Investors | Latest 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, 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, 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.