Sappi Group
(Sappi Limited)
SECOND QUARTER: FISCAL YEAR 2018
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
1 APRIL 2018

10 May 2018

This report is being furnished to The Bank of New York Mellon as trustee for the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; and the Senior Secured Notes of Sappi Papier Holding GmbH due 2023 issued pursuant to the indentures dated as of March 31, 2016; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

On 31 August 2016, Sappi has released all existing security previously granted to secure certain indebtedness, including these Senior Notes.

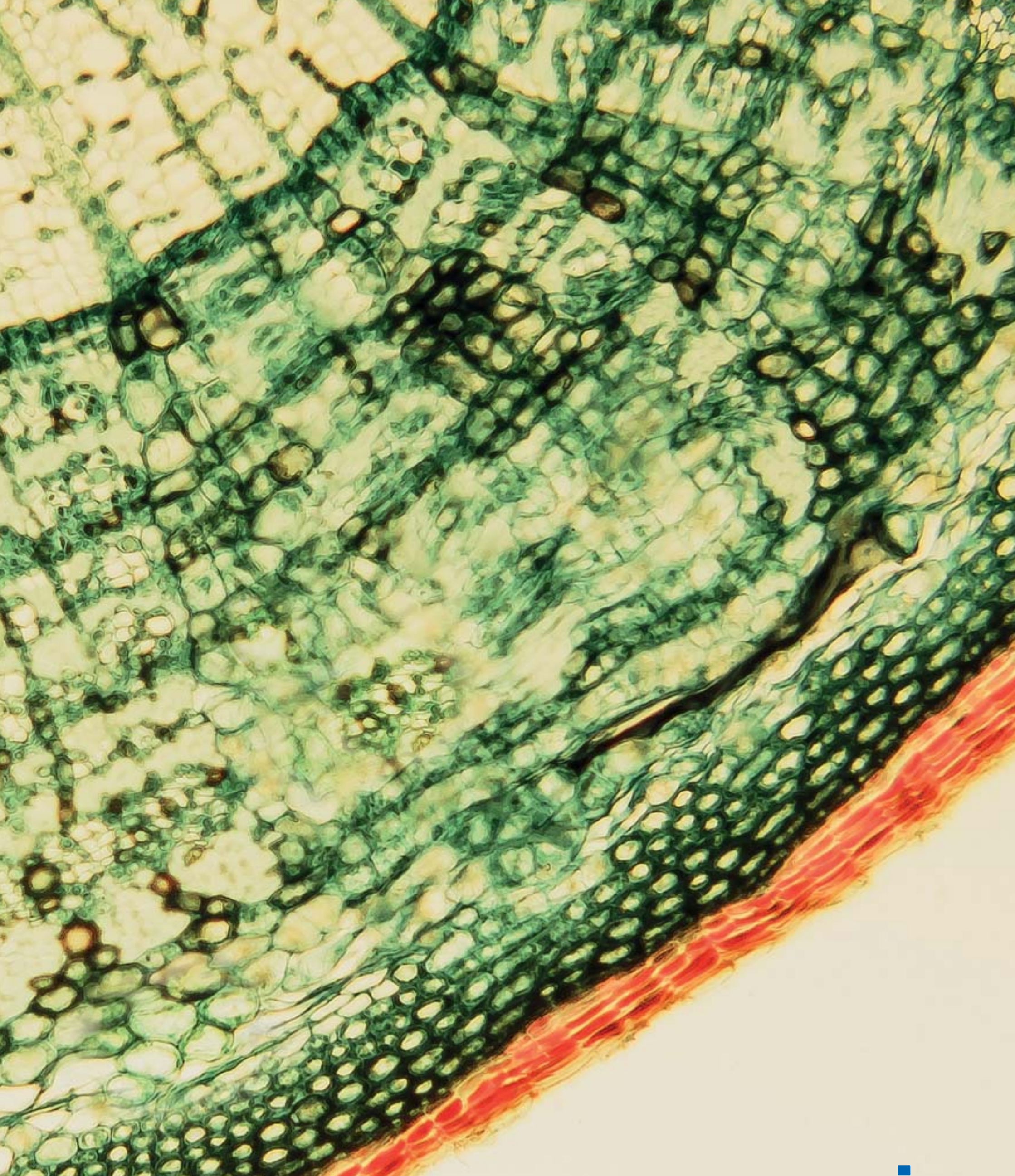
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this report may constitute ‘‘forward-looking statements.’’ 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 cyclicality, 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 restructuring or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to the 2017 Annual Integrated Report as disclosed in the “Bond Reporting Requirements” section of our webpage (www.sappi.com) under “Sappi Papier Holdings”. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this report or as of the date specified therein and are not intended to give any assurance as to future results. 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.



investing in **growth**

Second quarter results for the period ended March 2018

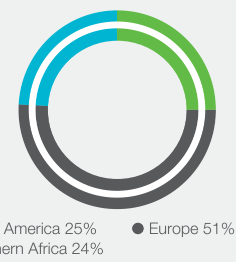
2nd quarter results

Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, specialities and packaging papers, printing and writing papers as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

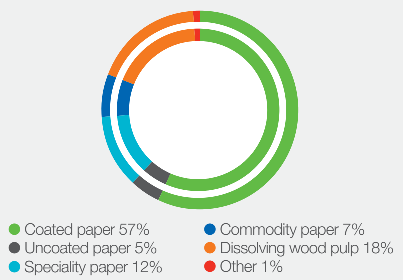
Our dissolving wood pulp (specialised cellulose) products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality specialities and packaging papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting release papers used by suppliers to the fashion, textiles, automobile and household industries; our market-leading range of printing and writing papers are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; biomaterials include nanocellulose, fibre composites and lignosulphonate; biochemicals include second generation sugars.

The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Sappi sells almost as much as it buys.

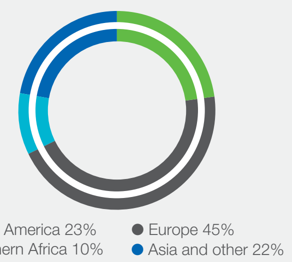
SALES BY SOURCE*
(%)



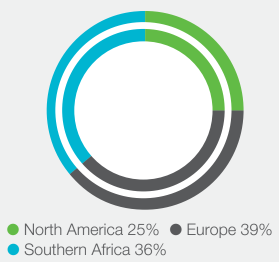
SALES BY PRODUCT*
(%)



SALES BY DESTINATION*
(%)



NET OPERATING ASSETS**
(%)



** For the period ended March 2018. ** As at March 2018.*

Highlights for the quarter

EBITDA excluding special items **US$211 million** (Q2 2017 US$208 million)

Profit for the period **US$102 million** (Q2 2017 US$88 million)

EPS excluding special items **17 US cents** (Q2 2017 17 US cents)

Acquisition of Cham speciality paper business completed

Net debt **US$1,632 million** (Q2 2017 US$1,329 million)

	Quarter ended			Half-year ended	
	Mar 2018	Mar 2017	Dec 2017	**Mar 2018**	Mar 2017
Key figures: (US$ million)					
Sales	**1,496**	1,316	1,330	**2,826**	2,625
Operating profit excluding special items(1)	**142**	145	105	**247**	281
Special items – (gains) losses(2)	**(12)**	3	(11)	**(23)**	(4)
EBITDA excluding special items(1)	**211**	208	172	**383**	409
Profit for the period	**102**	88	63	**165**	178
Basic earnings per share (US cents)	**19**	16	12	**31**	33
EPS excluding special items (US cents)(3)	**17**	17	14	**31**	33
Net debt(3)	**1,632**	1,329	1,349	**1,632**	1,329
Key ratios: (%)					
Operating profit excluding special items to sales	**9.5**	11.0	7.9	**8.7**	10.7
Operating profit excluding special items to capital employed (ROCE)(3)	**16.8**	20.5	14.1	**14.8**	19.8
EBITDA excluding special items to sales	**14.1**	15.8	12.9	**13.6**	15.6
Net debt to EBITDA excluding special items	**2.2**	1.7	1.8	**2.2**	1.7
Interest cover(3)	**11.0**	7.7	9.9	**11.0**	7.7
Net asset value per share (US cents)(3)	**365**	290	338	**365**	290

(1) *Refer to note 2 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit, and profit for the period.*
(2) *Refer to note 2 to the group results for details on special items.*
(3) *Refer to supplemental information for the definition of the term.*

Commentary on the quarter

Operating performance in the quarter was ahead of expectations and the group generated EBITDA excluding special items of US$211 million, an improvement over the same quarter in 2017. Profit for the period increased from US$88 million to US$102 million due to positive special items in the quarter mainly related to a profit on sale of the corporate office building in South Africa.

Demand for dissolving wood pulp (DWP) remained strong and pricing improved steadily during the quarter. However, average US Dollar prices for the quarter were still below those of the equivalent quarter a year ago. Viscose staple fibre (VSF) prices remained under pressure due to the commencement of significant additional VSF capacity in China, despite higher prices for competing textiles such as cotton and polyester. Demand and pricing for kraft pulp continued to be strong and helped underpin DWP pricing.

Demand for specialities and packaging papers continued to be healthy across all major product segments and EBITDA margins improved to 15% in this quarter. The acquisition of the specialities paper business of the Cham Paper Group was completed at the end of February 2018 and the integration of the mills into our European operations is progressing smoothly.

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 during the quarter to counteract these pressures. Sales volumes were aided by tightening paper markets across a number of paper grades and geographies due to machine and mill closures or conversions.

In North America, a series of paper price increases over the past nine months and higher sales volumes led to improved overall results. These positives were partially offset by the start of the planned major shut for the conversion of PM1 at Somerset Mill during the quarter, which reduced productivity and operating performance.

In the South African business, higher packaging sales volumes and sales price increases for various packaging and paper grades were unable to fully offset the impact of lower DWP pricing and the stronger Rand/Dollar exchange rate.

Earnings per share excluding special items were 17 US cents, equal to that generated in the equivalent quarter last year.

Cash flow and debt

Net cash utilised for the quarter was US$225 million which included the acquisition of the speciality paper business of the Cham Paper Group for US$132 million as well as the increased capital expenditure related mainly to the paper machine conversion projects and the DWP debottlenecking in South Africa.

Cash taxes for the quarter were US$50 million, an increase of US$18 million compared to the equivalent quarter last year. This increase relates to a South African Revenue Service tax assessment on transfer pricing in prior periods.

Net debt of US$1,632 million was up US$303 million year-on-year as a result of the cash utilised in the quarter as mentioned above, together with the translation of Euro denominated debt.

Liquidity comprised cash on hand of US$459 million and US$731 million available from the undrawn committed revolving credit facilities in Southern Africa and Europe.

Operating review for the quarter

Europe

€ million	Mar 2018	Dec 2017	Sept 2017	Jun 2017	Mar 2017
	Quarter ended				
Sales	**616**	571	583	554	581
Operating profit excluding special items	**37**	31	35	23	29
Operating profit excluding special items to sales (%)	***6.0***	*5.4*	*6.0*	*4.2*	*5.0*
EBITDA excluding special items	**64**	59	63	51	56
EBITDA excluding special items to sales (%)	***10.4***	*10.3*	*10.8*	*9.2*	*9.6*
RONOA pa (%)	***11.7***	*10.6*	*12.2*	*8.2*	*10.3*

The European business delivered a strong performance, with the successful implementation of coated paper price increases and growing specialities and packaging sales volumes leading to an improved result compared to both the prior quarter and the equivalent quarter last year.

European and export graphic paper markets continue to be stable, allowing for the implementation of coated paper price increases that have offset much of the rise in paper pulp costs.

The specialities and packaging paper business experienced sales growth of 12% over the prior year, excluding the sales from the inclusion of the specialities business of the Cham Paper Group for one month.

Price increases on some speciality products were implemented during the quarter to offset the impact of the stronger Euro/US Dollar exchange rate; however, they continued to be below that of the prior year.

Variable costs rose 5% compared to last year, led by sharp increases in both purchased softwood and hardwood paper pulp pricing. Lower latex, wood and energy prices provided some relief.

North America

US$ million	Quarter ended Mar 2018	Dec 2017	Sept 2017	Jun 2017	Mar 2017
Sales	**363**	342	357	314	335
Operating profit (loss) excluding special items	**18**	(1)	27	(2)	14
Operating profit (loss) excluding special items to sales (%)	***5.0***	*(0.3)*	*7.6*	*(0.6)*	*4.2*
EBITDA excluding special items	**37**	18	47	17	34
EBITDA excluding special items to sales (%)	***10.2***	*5.3*	*13.2*	*5.4*	*10.1*
RONOA pa (%)	***6.8***	*(0.4)*	*10.7*	*(0.8)*	*5.8*

The North American business benefited from increased sales volumes in all product categories and higher graphic paper prices when compared to the equivalent quarter last year. The improved performance was achieved despite the US$5 million impact of lost production due to the commencement of the PM1 conversion at Somerset Mill during March.

The US coated paper market continued to experience tight supply conditions, and coated paper prices have risen 5% over the prior year as the July and November price increases were further realised during the quarter. Sales volumes have also been positively impacted, increasing by 2% compared to the equivalent quarter last year.

As demand for DWP continues to grow we have swung more of the Cloquet Mill production capacity to DWP at the expense of paper pulp production. The positive impact of additional DWP sales volumes has been negated somewhat by higher average purchased paper pulp costs.

Average DWP sales prices were higher than the prior quarter, but remained below those of last year.

The packaging paper business experienced good year-on-year volume growth of 46% but had lower pricing due to product mix. The release paper business had a slight decline in volume while pricing was largely in line with last year.

Variable costs were negatively impacted by higher purchased paper pulp, chemicals and energy prices, all of which have risen year-on-year and quarter-on-quarter.

Southern Africa

ZAR million			Quarter ended		
	Mar 2018	Dec 2017	Sept 2017	Jun 2017	Mar 2017
Sales	**4,548**	4,291	4,879	4,432	4,818
Operating profit excluding special items	**950**	940	1,106	918	1,317
Operating profit excluding special items to sales (%)	***20.9***	*21.9*	*22.7*	*20.7*	*27.3*
EBITDA excluding special items	**1,168**	1,144	1,344	1,102	1,489
EBITDA excluding special items to sales (%)	***25.7***	*26.7*	*27.5*	*24.9*	*30.9*
RONOA pa (%)	***20.9***	*21.3*	*26.0*	*21.5*	*30.5*

Improved sales volumes could not offset the impact of the stronger Rand/US Dollar exchange rate and the US Dollar DWP prices, which despite rising during the quarter, were below those of a year ago.

DWP sales volumes were slightly less than those of the equivalent quarter last year due to supply disruptions as a result of a local power utility outage, but higher than those of the prior quarter. Lower average US Dollar prices coupled with a stronger Rand/US Dollar exchange rate led to average sales prices that were 10% below those of a year ago.

Packaging sales volumes improved, with citrus industry growth more than offsetting the impact of the drought on agricultural packaging demand in the Western Cape. Printing and packaging paper prices rose year-on-year and this, along with tight cost control, resulted in improved profitability for the paper business.

Directorate

Dr Deenadayalen (Len) Konar, independent non-executive director, retired from the board at the end of January 2018. Dr Konar was appointed to the board in March 2002 and was appointed to the audit committee in 2002 and to the nomination and governance committee in 2008. He served as chair of the audit committee since 2007.

Outlook

Demand for DWP remains good, and Chinese market prices have remained relatively stable. VSF prices currently remain under pressure due to low industry operating rates following significant capacity additions in the last few years. Third quarter average realised DWP prices should be in line with those of the second quarter, while volumes will be lower due to scheduled annual maintenance shuts at Cloquet, Ngodwana and Saiccor.

Graphic paper operating rates remain healthy in Europe, and further price increases have been implemented since quarter end to mitigate the impact of the continuing rise in paper pulp prices. The ongoing integration of the mills acquired from the Cham Paper Group is expected to deliver the anticipated synergies.

In the United States we will continue with the downtime on PM1 at Somerset Mill in order to complete the conversion project at the mill. Further coated paper price increases implemented since January will be realised in the third quarter and this will help negate the aforementioned impact as well as anticipated higher pricing for purchased pulp and chemicals.

Speciality and packaging paper demand continues to grow as customers and consumers switch to paper-based packaging rather than plastics. The acquisition of the specialities business of the Cham Paper Group and the technology acquired with the purchase of Rockwell Solutions in 2017 positions us well for growth in this market.

Capital expenditure in 2018 is expected to be approximately US$500 million as currency movements and the acceleration of various conversion and debottlenecking projects will inflate the total expenditure for the year. The conversions at Maastricht and Somerset mills, the Saiccor, Ngodwana and Cloquet DWP debottlenecking projects and the expansion of Saiccor are projects focused on higher margin growth segments including DWP and speciality packaging.

The group's third quarter operating performance is expected to be in line with that of the prior year as the impact of the stronger Rand and the various capital projects under way offset the improved graphic paper markets.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

9 May 2018

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 cyclicality, 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.

Condensed group income statement

US$ million	Note	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Sales		**1,496**	1,316	**2,826**	2,625
Cost of sales		**1,244**	1,094	**2,365**	2,176
Gross profit		**252**	222	**461**	449
Selling, general and administrative expenses		**106**	81	**200**	163
Other operating (income) expenses		**(7)**	1	**(6)**	5
Share of profit from equity investments		**(1)**	(2)	**(3)**	(4)
Operating profit	3	**154**	142	**270**	285
Net finance costs		**21**	24	**36**	49
Net interest expense		**23**	27	**39**	54
Interest capitalised		**(1)**	–	**(1)**	–
Net foreign exchange gain		**(1)**	(3)	**(2)**	(5)
Profit before taxation		**133**	118	**234**	236
Taxation		**31**	30	**69**	58
Profit for the period		**102**	88	**165**	178
Basic earnings per share (US cents)	4	**19**	16	**31**	33
Weighted average number of shares in issue (millions)		**538.7**	534.5	**537.2**	533.0
Diluted earnings per share (US cents)	4	**19**	16	**30**	33
Weighted average number of shares on fully diluted basis (millions)		**549.4**	548.0	**549.2**	545.9

Condensed group statement of comprehensive income

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Profit for the period	**102**	88	**165**	178
Other comprehensive income (loss), net of tax				
Items that will not be reclassified subsequently to profit or loss	**–**	–	**(19)**	–
Actuarial gains (losses) on post-employment benefit funds	**–**	–	**–**	–
Tax effect resulting from change in tax rates	**–**	–	**(19)**	–
Items that may or are reclassified subsequently to profit or loss	**43**	15	**149**	48
Exchange differences on translation of foreign operations	**44**	16	**141**	49
Movements in hedging reserves	**(3)**	(2)	**9**	(1)
Tax effect of above items	**2**	1	**(1)**	–
Total comprehensive income (loss) for the period	**145**	103	**295**	226

Condensed group balance sheet

US$ million	Note	Reviewed Mar 2018	Audited Sept 2017
ASSETS			
Non-current assets		**3,837**	3,378
Property, plant and equipment		**2,993**	2,681
Plantations	5	**549**	458
Deferred tax assets		**93**	123
Goodwill and intangible assets		**94**	39
Equity-accounted investees		**38**	26
Other non-current assets		**70**	51
Current assets		**1,971**	1,869
Inventories		**752**	636
Trade and other receivables		**734**	668
Derivative financial instruments		**18**	3
Taxation receivable		**8**	12
Cash and cash equivalents		**459**	550
Total assets		**5,808**	5,247
EQUITY AND LIABILITIES			
Equity			
Ordinary shareholders' interest		**1,968**	1,747
Non-current liabilities		**2,724**	2,457
Interest-bearing borrowings		**1,940**	1,739
Deferred tax liabilities		**342**	295
Other non-current liabilities		**442**	423
Current liabilities		**1,116**	1,043
Interest-bearing borrowings		**145**	133
Overdrafts		**6**	–
Trade and other payables		**908**	858
Provisions		**5**	10
Derivative financial instruments		**7**	5
Taxation payable		**45**	37
Total equity and liabilities		**5,808**	5,247
Number of shares in issue at balance sheet date (millions)		**538.9**	535.0

Condensed group statement of cash flows

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Profit for the period	**102**	88	**165**	178
Adjustment for:				
Depreciation, fellings and amortisation	**88**	80	**168**	163
Taxation	**31**	30	**69**	58
Net finance costs	**21**	24	**36**	49
Defined post-employment benefits paid	**(12)**	(12)	**(22)**	(21)
Plantation fair value adjustments	**(25)**	(16)	**(57)**	(42)
Net restructuring provisions	**(2)**	–	**(2)**	–
Profit on disposal and written off assets	**(9)**	–	**(9)**	–
Other non-cash items	**–**	9	**8**	20
Cash generated from operations	**194**	203	**356**	405
Movement in working capital	**(35)**	(26)	**(118)**	(123)
Net finance costs paid	**(15)**	(24)	**(21)**	(41)
Taxation paid	**(50)**	(32)	**(44)**	(66)
Dividend paid	**(81)**	(59)	**(81)**	(59)
Cash generated from operating activities	**13**	62	**92**	116
Cash utilised in investing activities	**(238)**	(42)	**(331)**	(79)
Capital expenditure	**(119)**	(45)	**(207)**	(82)
Proceeds on disposal of assets	**10**	1	**10**	3
Acquisition of subsidiary	**(132)**	–	**(132)**	–
Other movements	**3**	2	**(2)**	–
Net cash (utilised) generated	**(225)**	20	**(239)**	37
Cash effects of financing activities	**60**	(10)	**118**	(16)
Proceeds from interest-bearing borrowings	**64**	(9)	**122**	5
Repayment of interest-bearing borrowings	**(4)**	(1)	**(4)**	(21)
Net movement in cash and cash equivalents	**(165)**	10	**(121)**	21
Cash and cash equivalents at beginning of period	**618**	681	**550**	703
Translation effects	**6**	12	**30**	(21)
Cash and cash equivalents at end of period	**459**	703	**459**	703

Condensed group statement of changes in equity

US$ million	Reviewed Half-year ended Mar 2018	Mar 2017
Balance – beginning of period	**1,747**	1,378
Total comprehensive income for the period	**295**	226
Shareholders for dividend	**(81)**	(59)
Transfers from the share purchase trust	**3**	4
Transfers of vested share options	**(1)**	(2)
Share-based payment reserve	**5**	4
Balance – end of period	**1,968**	1,551

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and half-year ended March 2018 are prepared in accordance with International Financial Reporting Standards, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

The preparation of these condensed consolidated interim financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA).

The condensed consolidated interim financial statements for the half-year ended March 2018 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group's auditors, KPMG Inc. Their unmodified review report is available for inspection at the company's registered office. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

2. Segment information

The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa and have remained unchanged from the prior year. The group has however changed the financial information by major product category, as reviewed by the chief operating decision maker during the quarter ended December 2017. Accordingly, the group has restated the financial information presented by major product category for the quarter and half-year ended March 2018.

	Quarter ended		Half-year ended	
Metric tons (000's)	**Mar 2018**	Mar 2017	**Mar 2018**	Mar 2017
Sales volume				
North America	**347**	329	**690**	682
Europe	**847**	839	**1,669**	1,706
Southern Africa – Pulp and paper	**413**	408	**796**	772
Forestry	**254**	262	**502**	506
Total	**1,861**	1,838	**3,657**	3,666
Which consists of:				
Specialised cellulose	**302**	303	**589**	584
Specialities and packaging papers	**231**	209	**429**	390
Printing and writing papers	**1,074**	1,064	**2,137**	2,186
Forestry	**254**	262	**502**	506

Notes to the condensed group results continued

2. **Segment information** continued

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Sales				
North America	**363**	335	**705**	689
Europe	**756**	619	**1,429**	1,270
Southern Africa – Pulp and paper	**359**	347	**658**	636
Forestry	**18**	15	**34**	30
Total	**1,496**	1,316	**2,826**	2,625
Which consists of:				
Specialised cellulose	**279**	283	**520**	530
Specialities and packaging papers	**254**	208	**450**	387
Printing and writing papers	**945**	810	**1,822**	1,678
Forestry	**18**	15	**34**	30
Operating profit (loss) excluding special items				
North America	**18**	14	**17**	22
Europe	**45**	31	**82**	74
Southern Africa	**79**	99	**148**	183
Unallocated and eliminations[(1)]	**–**	1	**–**	2
Total	**142**	145	**247**	281
Which consists of:				
Specialised cellulose	**69**	99	**131**	181
Specialities and packaging papers	**25**	23	**41**	38
Printing and writing papers	**48**	22	**75**	60
Unallocated and eliminations[(1)]	**–**	1	**–**	2
Special items – (gains) losses				
North America	**–**	–	**2**	–
Europe	**(1)**	1	**1**	1
Southern Africa	**(13)**	–	**(29)**	(7)
Unallocated and eliminations[(1)]	**2**	2	**3**	2
Total	**(12)**	3	**(23)**	(4)
Segment operating profit (loss)				
North America	**18**	14	**15**	22
Europe	**46**	30	**81**	73
Southern Africa	**92**	99	**177**	190
Unallocated and eliminations[(1)]	**(2)**	(1)	**(3)**	–
Total	**154**	142	**270**	285

[(1)] *Includes the group's treasury operations and our insurance captive.*

2. **Segment information** continued

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
EBITDA excluding special items				
North America	**37**	34	**55**	62
Europe	**78**	59	**147**	134
Southern Africa	**97**	112	**181**	210
Unallocated and eliminations[1]	**(1)**	3	**–**	3
Total	**211**	208	**383**	409
Which consists of:				
Specialised cellulose	**83**	111	**158**	206
Specialities and packaging papers	**38**	32	**65**	57
Printing and writing papers	**91**	62	**160**	143
Unallocated and eliminations[1]	**(1)**	3	**–**	3

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period

Special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure.

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
EBITDA excluding special items	**211**	208	**383**	409
Depreciation and amortisation	**(69)**	(63)	**(136)**	(128)
Operating profit excluding special items	**142**	145	**247**	281
Special items – gains (losses)	**12**	(3)	**23**	4
Plantation price fair value adjustment	**6**	1	**22**	12
Acquisition costs	**(2)**	–	**(2)**	–
Net restructuring provisions	**2**	–	**2**	–
Profit on disposal and written off assets	**9**	–	**9**	–
Black Economic Empowerment charge	**(1)**	(1)	**(1)**	(1)
Fire, flood, storm and other events	**(2)**	(3)	**(7)**	(7)
Segment operating profit	**154**	142	**270**	285
Net finance costs	**(21)**	(24)	**(36)**	(49)
Profit before taxation	**133**	118	**234**	236
Taxation	**(31)**	(30)	**(69)**	(58)
Profit for the period	**102**	88	**165**	178

[1] *Includes the group's treasury operations and our insurance captive.*

Notes to the condensed group results continued

2. Segment information continued

US$ million	Reviewed Half-year ended Mar 2018	Mar 2017
Segment assets		
North America	**1,090**	989
Europe	**1,652**	1,194
Southern Africa	**1,545**	1,277
Unallocated and eliminations[1]	**4**	55
Total	**4,291**	3,515
Reconciliation of segment assets to total assets		
Segment assets	**4,291**	3,515
Deferred taxation	**93**	147
Cash and cash equivalents	**459**	703
Trade and other payables	**908**	711
Provisions	**5**	11
Derivative financial instruments	**7**	6
Taxation payable	**45**	25
Total assets	**5,808**	5,118

[1] *Includes the group's treasury operations and our insurance captive.*

3. Operating profit

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Included in operating profit are the following items:				
Depreciation and amortisation	**69**	63	**136**	128
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**19**	17	**32**	35
Growth	**(19)**	(15)	**(35)**	(30)
	–	2	**(3)**	5
Plantation price fair value adjustment	**(6)**	(1)	**(22)**	(12)
	(6)	1	**(25)**	(7)
Net restructuring provisions	**(2)**	–	**(2)**	–
Profit on disposal of property, plant and equipment	**(9)**	–	**(9)**	–

4. Earnings per share

US$ million	Quarter ended Mar 2018	Quarter ended Mar 2017	Reviewed Half-year ended Mar 2018	Reviewed Half-year ended Mar 2017
Basic earnings per share (US cents)	**19**	16	**31**	33
Headline earnings per share (US cents)	**18**	16	**30**	33
EPS excluding special items (US cents)	**17**	17	**31**	33
Weighted average number of shares in issue (millions)	**538.7**	534.5	**537.2**	533.0
Diluted earnings per share (US cents)	**19**	16	**30**	33
Diluted headline earnings per share (US cents)	**17**	16	**29**	33
Weighted average number of shares on fully diluted basis (millions)	**549.4**	548.0	**549.2**	545.9
Calculation of headline earnings				
Profit for the period	**102**	88	**165**	178
Profit on disposal of property, plant and equipment	**(9)**	–	**(9)**	–
Tax effect of above items	**3**	–	**3**	–
Headline earnings	**96**	88	**159**	178
Calculation of earnings excluding special items				
Profit for the period	**102**	88	**165**	178
Special items after tax	**(8)**	3	**(16)**	(2)
Special items	**(12)**	3	**(23)**	(4)
Tax effect	**4**	–	**7**	2
Tax special items	**–**	–	**19**	–
Earnings excluding special items	**94**	91	**168**	176

Notes to the condensed group results continued

5. Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates (pre-tax weighted average cost of capital), volume and growth estimations.

Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value. Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Immature timber and mature timber that is to be felled in more than 12 months from the reporting date are valued using a 12-quarter rolling historical average price which, taking the length of the growth cycle of a plantation into account, is considered reasonable.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*.

US$ million	Reviewed Mar 2018	Audited Sept 2017
Fair value of plantations at beginning of year	**458**	441
Gains arising from growth	**35**	58
Fire, flood, storm and other events	**–**	(5)
In-field inventory	**(1)**	1
Gain arising from fair value price changes	**22**	21
Harvesting – agriculture produce (fellings)	**(32)**	(63)
Translation difference	**67**	5
Fair value of plantations at end of period	**549**	458

6. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments, available-for-sale financial assets and a contingent consideration liability. These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

		Fair value(1)	
US$ million	Fair value hierarchy	Reviewed Mar 2018	Audited Sept 2017
Investment funds(2)	Level 1	**8**	7
Derivative financial assets	Level 2	**18**	3
Derivative financial liabilities	Level 2	**7**	5
Contingent consideration liability(3)	Level 3	**13**	13

(1) *The fair value of the financial instruments are equal to their carrying value.*
(2) *Included in other non-current assets.*
(3) *Included in other non-current liabilities and trade and other payables.*

6. Financial instruments continued

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the movement of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

The contingent consideration is based on a multiple of targeted future earnings, of which a 92% weighted average outcome has been projected.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable and current interest-bearing borrowings approximate their fair values.

7. Capital commitments

US$ million	Reviewed Mar 2018	Audited Sept 2017
Contracted	**246**	253
Approved but not contracted	**244**	219
	490	472

8. Contingent liabilities

Other contingent liabilities	**22**	19
	22	19

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

Notes to the condensed group results continued

9. Material balance sheet movements

Since the 2017 financial year-end, the ZAR and Euro have strengthened by approximately 12.7% and 4.3% respectively to the US Dollar, the group's presentation currency, resulting in a similar increase of the group's assets and liabilities held in the aforementioned functional currencies on translation to the presentation currency.

Deferred tax assets

There were reductions in the corporate tax rate in various countries resulting in a decrease of US$36 million in our deferred tax asset balance of which US$17 million was recorded through the income statement and US$19 million through other comprehensive income.

10. Acquisition

On 28 February 2018, Sappi acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 million). The transaction includes all brands and know-how, the Carmignano and Condino mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition was financed from internal resources. The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth, further acquisitions and will add €183 million of annual sales and approximately €20 million of annual EBITDA before taking into account synergies.

Provisional fair values of assets acquired and liabilities assumed as at 28 February 2018 are as follows:

	EURO	US$
Property, plant and equipment	50	61
Trademarks	7	9
Inventories	25	31
Trade receivables	28	34
Prepayments and other debit balances	2	3
Cash and cash equivalents	6	7
Trade payables	(23)	(28)
Pension liabilities	(3)	(4)
Provisions	(1)	(2)
Other payables and accruals	(9)	(10)
Net deferred tax (liabilities) assets	(1)	(1)
Borrowings	(5)	(7)
Short-term loans	(5)	(6)
Net asset value acquired	71	87
Intangibles and goodwill	43	52
Purchase consideration	114	139
Less: Cash and cash equivalents acquired	(6)	(7)
Net cash outflow on acquisition	108	132

11. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2017 financial year-end other than purchases from The Boldt Company for engineering services which amounted to US$46 million for the half-year ended March 2018 (Sept 2017: US$8 million).

12. Accounting standards, interpretations and amendments to existing standards that are not yet effective

There has been no significant change to managements estimates in respect of new accounting standards, amendments and interpretations to existing standards that have been published which are not yet effective and which have not yet been adopted by the group. Management is in the process of completing its assessments in this regard.

13. Events after balance sheet date

On 16 April, Sappi Southern Africa Limited repaid its unsecured ZAR500 million (US$41 million) public bond due April 2018 from available cash resources.

Supplemental information

(this information has not been audited or reviewed)

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Broad-based Black Economic Empowerment (BBBEE) charge – represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in fiscal 2010 in terms of BBBEE legislation in South Africa

Capital employed – shareholders' equity plus net debt

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items – earnings per share excluding special items and certain once-off finance and tax items

Fellings – the amount charged against the income statement representing the standing value of the plantations harvested

Headline earnings – as defined in circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

Interest cover – last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

Net assets – total assets less total liabilities

Net asset value per share – net assets divided by the number of shares in issue at balance sheet date

Net debt – current and non-current interest-bearing borrowings, bank overdrafts less cash and cash equivalents

Net debt to EBITDA excluding special items – net debt divided by the last 12 months EBITDA excluding special items

Net operating assets – total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets

Operating profit – a profit from business operations before deduction of net finance costs and taxes

Non-GAAP measures – the group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies.

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

ROCE – annualised return on average capital employed. Operating profit excluding special items divided by average capital employed

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

Special items – special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry.

Supplemental information continued

(this information has not been audited or reviewed)

Summary Rand convenience translation

	Quarter ended		Half-year ended	
	Mar 2018	Mar 2017	**Mar 2018**	Mar 2017
Key figures: (ZAR million)				
Sales	**17,889**	17,405	**36,095**	35,664
Operating profit excluding special items[1]	**1,698**	1,918	**3,155**	3,818
Special items – (gains) losses[1]	**(143)**	40	**(294)**	(54)
EBITDA excluding special items[1]	**2,523**	2,751	**4,892**	5,557
Profit for the period	**1,220**	1,164	**2,107**	2,418
Basic earnings per share (SA cents)	**226**	218	**392**	454
Net debt[1]	**19,320**	17,843	**19,320**	17,843
Key ratios: (%)				
Operating profit excluding special items to sales	**9.5**	11.0	**8.7**	10.7
Operating profit excluding special items to capital employed (ROCE)[1]	**16.6**	20.0	**15.0**	19.9
EBITDA excluding special items to sales	**14.1**	15.8	**13.6**	15.6

[1] *Refer to supplemental information for the definition of the term.*

The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end; and
– income, expenditure and cash flow items at average exchange rates.

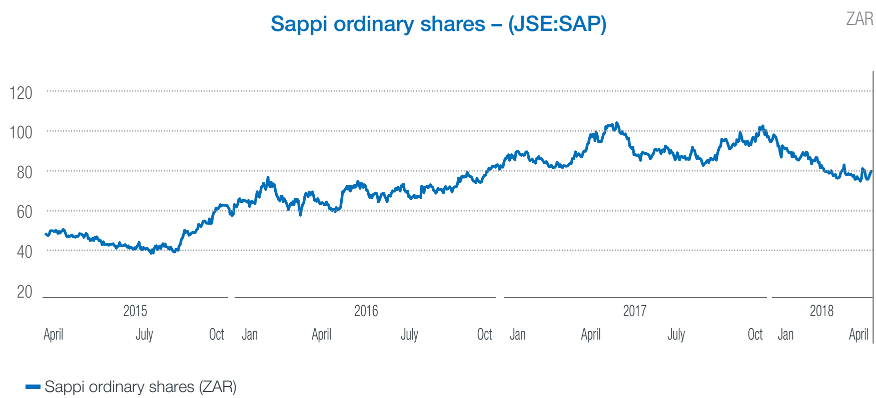
Supplemental information continued

(this information has not been audited or reviewed)

Exchange rates

	Mar 2018	Dec 2017	Sept 2017	Jun 2017	Mar 2017
Exchange rates:					
Period end rate: US$1 = ZAR	**11.8385**	12.3724	13.5561	13.0551	13.4259
Average rate for the quarter: US$1 = ZAR	**11.9577**	13.6220	13.1761	13.1857	13.2260
Average rate for the year to date: US$1 = ZAR	**12.7723**	13.6220	13.3813	13.4536	13.5861
Period end rate: €1 = US$	**1.2323**	1.1998	1.1814	1.1426	1.0652
Average rate for the quarter: €1 = US$	**1.2286**	1.1778	1.1756	1.1011	1.0656
Average rate for the year to date: €1 = US$	**1.2032**	1.1778	1.1055	1.0827	1.0738

Sappi ordinary shares – (JSE:SAP)



Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI

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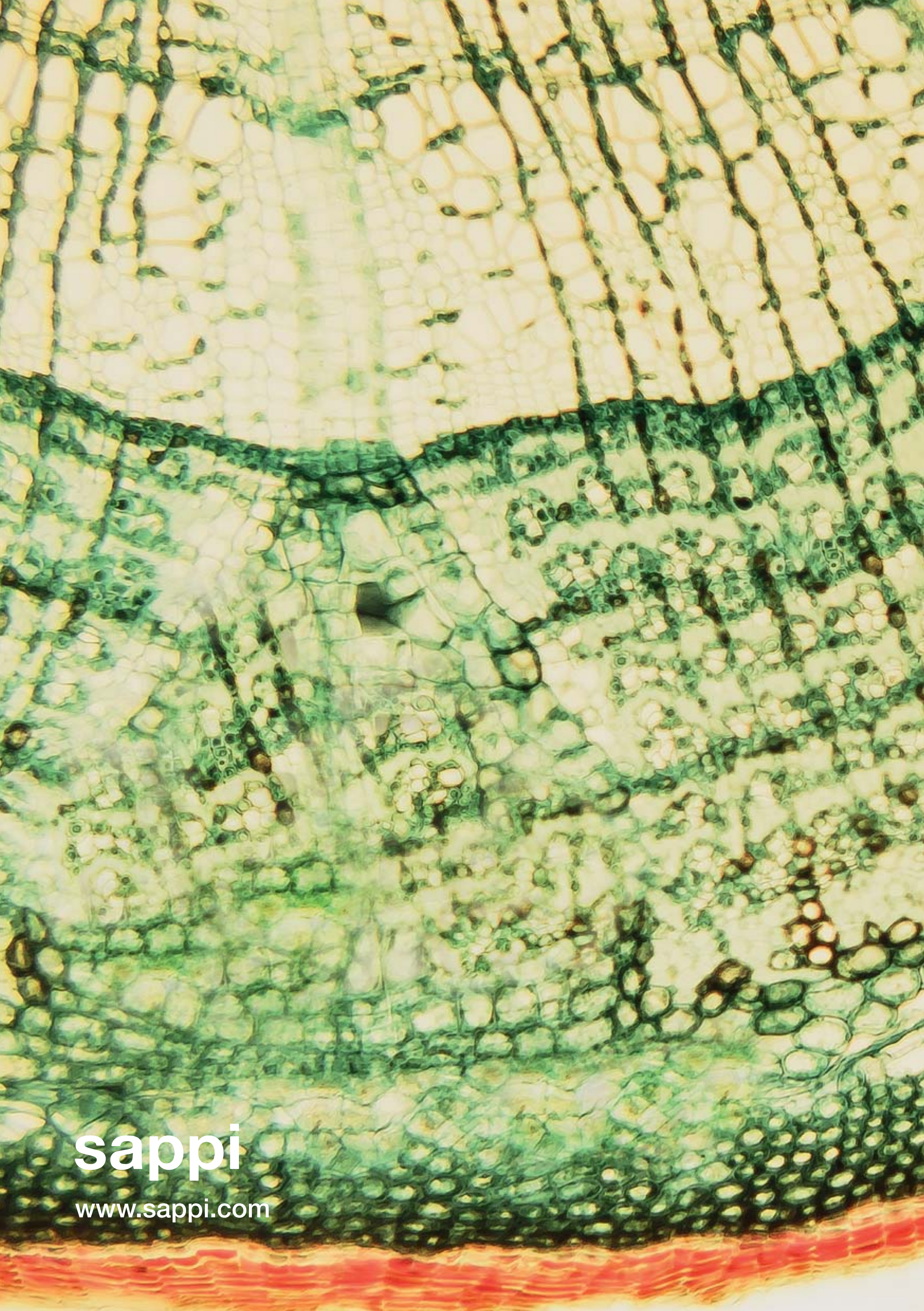
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