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Media Release

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Sappi second quarter beats expectations on the back of higher selling prices and sales volumes

Commenting on the results, Sappi Chief Executive Officer Steve Binnie said: “I am very satisfied with our performance for this quarter as reflected by increased sales, EBITDA and net profit. I’m particularly pleased that all regions were able to deliver higher sales volumes despite the short-term impact of the expansion and conversion projects. We faced higher raw material costs, in particular pulp, for our paper businesses but were able to increase selling prices to offset most of this impact. The acquisition of the Cham speciality paper business was completed during the quarter and the integration into Sappi is moving ahead smoothly.”

Turning to the next quarter, Binnie stated: “Our operating performance for the third quarter is expected to be in line with that of the prior year as the impact of the stronger Rand and the various capital projects underway will offset the improved paper markets.”

Financial summary 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)

The major factors which influenced the second quarter’s results include:

- Dissolving wood pulp (DWP) demand remained strong with pricing improving steadily during the quarter
- 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 improved to 15%



- European and export printing and writing papers markets were stable, allowing for the implementation of coated paper price increases that have offset much of the rise in paper pulp costs. In the US, sales volumes increased in all product categories and higher graphic paper prices were achieved
- Paper pulp costs continued to rise throughout the quarter, and
- A stronger Rand/US Dollar exchange rate lowered the profitability of the South African businesses.

Update on investments for growth

- Acquisition of the Cham speciality paper business has been concluded. Positive earnings impact achieved.
- Rockwell Solutions barrier coating technology is enabling new paper-based packaging solutions for key FMCG customers.
- Projects in North America and Europe at Somerset, Maastricht, Alfeld, Ehingen and Lanaken Mills will boost higher margin, high growth specialities and packaging volumes.
- Debottlenecking projects in Southern Africa and North America at Ngodwana, Saiccor and Cloquet Mills to maintain market share in DWP.
- Regulatory approval process underway for the 110,000tpa expansion of Saiccor Mill in response to satisfy strong demand and positive DWP markets.
- Investigations continue to identify further DWP capacity increase opportunities.

Commenting on investments to enhance the competitive advantage and increase speciality packaging and DWP capacity, Binnie said: “Our acquisitions, conversions and expansion projects are positioning us to take advantage of the move from plastics to natural fibre, biobased products and paper-based packaging alternatives. Sappi’s strategy of securing its leadership position in high quality printing and writing papers while expanding its footprint in higher growth and higher margins market segments has begun to deliver real value and this will only increase into the future.”

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 Mills.

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 Mills DWP debottlenecking projects and the expansion of Saiccor Mill are projects focused on higher margin growth segments including dissolving wood pulp 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 underway offset the improved graphic paper markets.

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, or*
- *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 Southern 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 and 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.

