

Results for Q2 FY19 — the period ended March 2019

EBITDA excl special items¹
US\$187 million
 Q2 FY18 US\$211 million

Profit for the period
US\$72 million
 Q2 FY18 US\$102 million

EPS excl special items¹
US¢13
 Q2 FY18 US¢17

Net debt
US\$1,680 million
 Q2 FY18 US\$1,632 million

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

	US\$ million	Quarter ended			Half-year ended	
		Mar 2019	Mar 2018	Dec 2018	Mar 2019	Mar 2018
Key figures						
Sales		1,503	1,496	1,418	2,921	2,826
Operating profit <small>excl special items¹</small>		117	142	128	245	247
Special items (gains) losses ¹		—	(12)	5	5	(23)
EBITDA <small>excluding special items¹</small>		187	211	197	384	383
Profit for the period		72	102	81	153	165
Basic EPS (US cents)		13	19	15	28	31
EPS <small>excluding special items (US cents)¹</small>		13	17	16	29	31
Net debt ¹		1,680	1,632	1,557	1,680	1,632
Key ratios (%)						
Operating profit <small>excl special items¹</small> to sales		7.8	9.5	9.0	8.4	8.7
ROCE ¹ <small>Operating profit excluding special items¹ to capital employed</small>		13.1	16.8	14.7	13.6	14.8
EBITDA <small>excl special items¹</small> to sales		12.4	14.1	13.9	13.2	13.6
Net debt to EBITDA <small>excl special items¹</small>		2.1	2.2	2.0	2.1	2.2
Interest cover ¹		10.5	11.0	10.9	10.5	11.0
Net asset value per share ¹ (US cents)		366	365	353	366	365

Graphic paper markets were much weaker than expected, compelling production downtime of 85,000 tons in Europe and North America.

Dissolving wood pulp (DWP) sales volumes increased following the debottlenecking of the Saiccor and Ngodwana mills. Chinese DWP market prices declined but **demand** from major customers **remained healthy**.

Raw material costs continued to be elevated.

Although the market was inconsistent, the **packaging and specialities sales volumes** for the group were **18% higher** year-on-year. Weakness continued in the self-adhesives and release paper segment.

Ongoing weak demand for graphics papers in European and export markets due to general economic uncertainty, lowered margins in the European business despite higher selling prices.

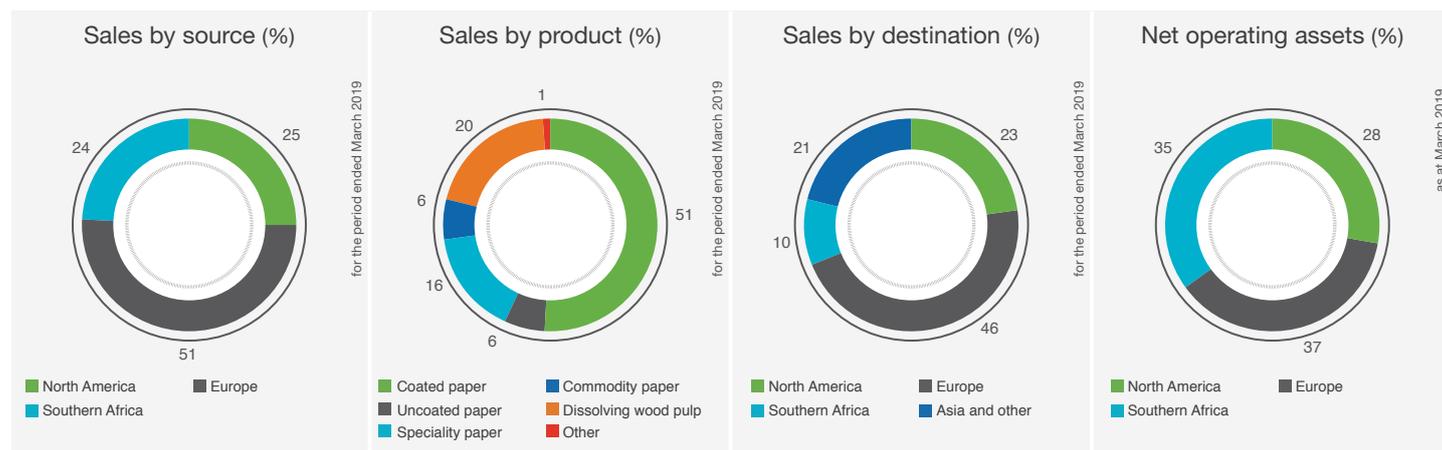
US coated paper market conditions weakened considerably. DWP sales volumes rose year-on-year; net sales prices were flat. **Packaging and specialities sales** were up 77% year-on-year.

The South African business delivered an **excellent performance**, with increased DWP sales volumes and higher average net selling prices for all major product categories offsetting higher energy and fibre cost pressures.

Increased net debt supported self-funded capital expenditures

Net debt, increased 2.9% year-on-year as a result of the payment of a US\$92 million 2018 dividend payment, an increase in working capital and self-funded capital expenditure relating mainly to the Saiccor expansion and the Lanaken conversion projects.

Net operating assets and sales distribution



Commentary

Results for Q2 FY19 — the period ended March 2019

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.

Achieve
cost advantages

- Continuously improve **cost position**
- Continue to maximise **global benefits**
- Best-in-class **production efficiencies**

Rationalise
declining businesses

- Maximise production at low-cost mills
- Continuously **balance paper supply and demand** in all regions
- Continue to **transition** printing and writing papers capacity to higher margin and **growing specialities and packaging papers**

Maintain
a healthy balance sheet

- Maintain net debt/EBITDA ~2x**
- Continuously **improve working capital**
- Continue to monitor **bond market for opportunities**

Accelerate growth in higher margin growth segments

- Grow **DWP capacity** matching market demand
- Continue to expand and grow **specialities and packaging papers** in all regions targeting **25%** of group **EBITDA** by 2020
- Commence commercialisation of **biotech** opportunities

2019 objectives

Our values are underpinned by an unrelenting focus on and commitment to safety.

Outlook

DWP demand from our major customers **remains healthy** and the **expanded production capacity** following the debottlenecking of Saiccor and Ngodwana in 2018 **remains fully sold**. Our DWP contract sales prices lag Chinese market prices by a quarter and therefore the **decline in market prices over the past few months** along with planned maintenance downtime at all three of our DWP mills **will impact margins and profitability in the third quarter**.



Our expanded DWP production capacity following the debottlenecking of Saiccor and Ngodwana in 2018 remains fully sold.

Packaging and speciality markets, with the exception of release and self-adhesive papers, are **growing**. Raw material prices remain a concern for non-integrated mills, however, pulp and chemical costs have started to decline recently. The ramp-up and product mix optimisation continues at Somerset and Maastricht as qualification and customer acceptance work is completed. Demand for South African packaging products is expected to be strong.



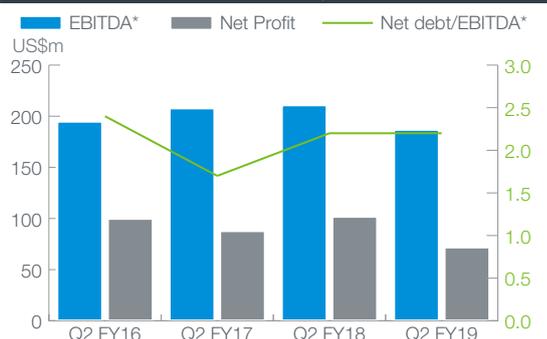
Key suppliers have been contracted and work is underway on the 110kt **Saiccor** expansion expected to be completed by mid 2020. The expansion, complemented by the completion of the mill's woodyard upgrade currently underway will help us meet strong projected DWP demand growth.

Graphic paper markets remain weak, and despite expected closures or conversions by competitors, it may take the remainder of the calendar year before sufficient capacity is removed to allow operating rates and margins to recover. Some relief may be expected from lower input costs going forward as paper pulp and some chemical prices have reduced in recent months. The conversion of Lanaken PM8 to coated woodfree from coated mechanical will be completed during the third quarter, with some negative impact on production and fixed costs due to machine downtime in the interim.

Capital expenditure for the remainder of 2019 is expected to be approximately US\$370 million as **we continue the transition towards growing and higher margin segments**. Major projects include: • 110kt expansion at Saiccor • conversion of Lanaken PM8 from coated mechanical to coated woodfree paper production and • the recently completed pulp mill debottlenecking at Cloquet.

Given the current weak market conditions for graphic paper, DWP pricing pressure from oversupplied VSF markets and our more conservative outlook on the global economy, the **second half and full year profitability** are now **expected to be below that of last year**.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

Results for Q2 FY19 — the period ended March 2019

Europe



- 10 Production facilities
- 14 Sales offices

North America



- 3 Production facilities
- 6 Sales offices

Southern Africa



- 5 Production facilities
- 6 Sales offices
- 516,000ha Plantations

The business was affected by the **ongoing weakness in graphic paper markets**. The reduction in demand moved below the long-term trend because of a general economic slowdown in the region combined with the impact from a series of selling price increases implemented in 2018. Higher net selling prices were insufficient to offset weaker sales volumes and higher variable costs.

Industry **shipments of coated woodfree and coated mechanical paper declined** 11% and 9% respectively during the quarter, with both domestic and export markets under pressure. Consequently, we took 46,000 tons of paper machine production downtime to manage inventory levels and match production to demand. **Average net selling prices for graphics grades were 9% higher year-on-year.**

The **packaging and specialties paper business increased volumes by 25%** compared to the prior year primarily due to a full quarter of volumes from the Cham Paper acquisition which was concluded at the end of February 2018 and the ramp-up of Maastricht during the quarter. The economic situation also impacted certain products in this segment, resulting in lower sales. **Demand for flexible packaging volumes recovered** during the quarter, however, the **self-adhesives market remains weak** due to tepid demand in the automotive sector. **Average net selling prices were 9% higher** than the previous year.

Improved DWP and packaging sales volumes and higher graphic paper sales prices were insufficient to offset **weak graphic paper demand** and input cost pressures, resulting in an operating profit that declined year-on-year.

Coated paper demand in the US market weakened further during the quarter, exacerbated for domestic producers by an increase in imports. Factors which contributed to the weak demand included a series of selling price increases implemented in 2018 which resulted in an inventory build by customers throughout the year and affected downstream demand. We took 39,000 tons of production downtime in the quarter to manage inventory levels and match production to demand.

DWP sales volumes increased year-on-year due to **good customer demand**, while net sales prices were constant.

The ramp-up of Somerset PM1 paperboard grades progressed, with commercial paperboard **sales volumes 68% higher** than the prior quarter. Much of this volume is lower margin food service board rather than the SBS board which will ultimately fill most of this machine capacity as qualification and customer acceptance processes are completed. These markets require complex and lengthy qualification processes, which impacted machine optimisation and efficiency and therefore profitability.

Improved average net selling prices and DWP sales volumes contributed to a stronger operating performance for the Southern African business.

DWP sales volumes increased compared to both comparative quarters, while a **weaker Rand/US Dollar exchange rate benefited Rand selling prices.**

Packaging sales volumes were below those of last year following a seasonal shift in containerboard sales volumes to the prior quarter. **Sales prices improved for all major packaging categories**, and matched variable cost pressures.

Newsprint and office paper sales volumes were flat year-on-year, however, sales price increases in this segment lagged variable cost rises, leading to reduced margins.

Fixed costs rose 5% year-on-year, while variable costs were 15% higher driven by energy, wood and pulp costs.



Berry Wiersum
Chief Executive Officer
Sappi Europe



Mark Gardner
President and Chief
Executive Officer
Sappi North America



Alex Thiel
Chief Executive Officer
Sappi Southern Africa

sappi

Our expanded brand portfolio



Dissolving wood pulp

sappi | Verve

An innovative natural fibre produced from sustainably managed forests. Dissolving wood pulp is used to create naturally soft, breathable fabrics that is smooth to the touch and in a myriad of household, industrial and pharmaceutical applications — helping to create a thriving world.

sappi | Atelier

A truly new dimension in the folding box board market that delivers the ultimate in brightness, purity and gloss with a silky touch and feel, paired with bulk and stiffness.

sappi | Proto

A sturdy paperboard for everyday jobs, providing quality with superior convertibility and a consistent surface.

sappi | Spectro

A single-ply paperboard with advanced optics that converts to eye-catching premium packaging, providing a high-end experience at a lower basis weight – the perfect combination to make a lasting impression.

sappi | UltraFlute

A semi-chemical fluting paper used in the manufacturing of corrugated boxes.

sappi | Algro Design

Your complete paperboard solution for premium packaging and graphic applications. Recognised for superior brightness and a remarkable silky touch.



Casting and release papers

sappi | Ultracast

Ultracast casting and release papers provide the ultimate in product aesthetics, offering flawless texture replication for discerning brand owners.



Coated paper

sappi | Magno

A globally available range of coated and uncoated fine papers including seven product choices, four surface finishes and a wide range of weights.

sappi | McCoy

A superior printing paper with unrivalled luminosity and a one-of-a-kind silk finish used to create luxurious brand promotion experiences.

sappi | Validia

A natural and sustainable additive with advanced performance and cost-effective functionality in various systems.

sappi | Symbio

A natural composite material combining high quality cellulose from wood and a polypropylene plastic material.

sappi | Lignex

An effective dust suppressant and surface stabiliser for unsealed roads.

sappi | Hansa

A sodium lignosulphonate solution for concrete admixtures that enhances flow characteristics and workability.

sappi | Typek

A leading retail consumer brand of multi-purpose office paper.



Nanocellulose



Uncoated paper