sappi

Q3 Fact Sheet 2018

Third quarter results for the period ended June 2018

EBITDA excl special items[1]	Profit for the period	EPS excl special items[1]	Net debt
US$155 million	US$51 million	US¢10	US$1,603 million
Q3 FY17 US$155 million	Q3 FY17 US$58 million	Q3 FY17 US¢11	Q3 FY17 US$1,318 million

	US$ million	Quarter ended			Nine months ended	
		Jun 2018	Jun 2017	Mar 2018	**Jun 2018**	Jun 2017
Key figures	Sales	**1,445**	1,260	1,496	**4,271**	3,885
	Operating profit excl special items[1]	**85**	93	142	**332**	374
	Special items (gains) losses[1]	**1**	3	(12)	**(22)**	(1)
	EBITDA excluding special items[1]	**155**	155	211	**538**	564
	Profit for the period	**51**	58	102	**216**	236
	Basic EPS (US cents)	**9**	11	19	**40**	44
	EPS excluding special items (US cents)[1]	**10**	11	17	**41**	44
	Net debt[1]	**1,603**	1,318	1,632	**1,603**	1,318
Key ratios (%)	Operating profit excl special items[1] to sales	**5.9**	7.4	9.5	**7.8**	9.6
	ROCE[1] Operating profit excluding special items[1] to capital employed	**9.7**	12.8	16.8	**13.6**	17.4
	EBITDA excl special items[1] to sales	**10.7**	12.3	14.1	**12.6**	14.5
	Net debt to EBITDA excl special items[1]	**2.1**	1.7	2.2	**2.1**	1.7
	Interest cover[1]	**11.0**	8.4	11.0	**11.0**	8.4
	Net asset value per share[1] (US cents)	**342**	304	365	**342**	304

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

Capital projects impact net debt — year-on-year increase of US$285 million (21.6%)

Capital expenditure of US$188 million related mainly to the Somerset Mill PM1conversion and debottlenecking of DWP production at the Ngodwana and Saiccor mills. We expect to **reduce net debt further** in the **coming quarter** through positive cash generation.

Commentary

Our European operations' **strong performance** was offset by non-recurring operational and production issues in our South African and North American businesses.

Dissolving wood pulp (DWP) **demand and pricing remained healthy**. Net sales pricing was slightly below that of a year ago.

Specialities and packaging papers demand continued to grow across the various product segments — our production capacity being the limiting factor to sales in some markets.

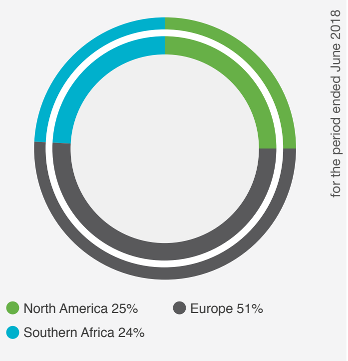
Demand improved for **coated mechanical paper** in the **European paper business** and higher average graphic paper prices led to **improved profitability**.

The North American graphic paper business continued to **benefit** from the **tight market conditions**, with **increased sales pricing**. The conversion of Somerset PM1 to packaging grades overran to schedule, negatively impacting sales volumes of both graphic and packaging grades.

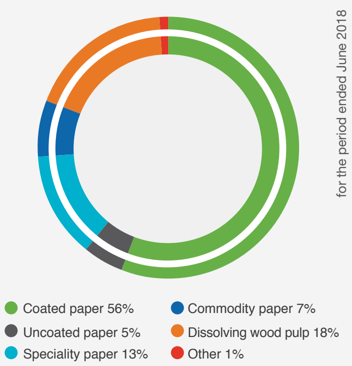
Higher packaging and **paper sales volumes** and **prices** in **South Africa** were unable to fully offset the impact of lower DWP sales volumes and prices as well as the stronger Rand/US Dollar exchange rate relative to a year ago.

Net operating assets and sales distribution

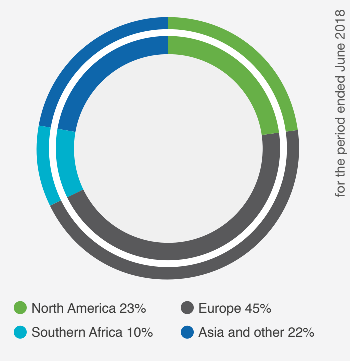
Sales by source (%)



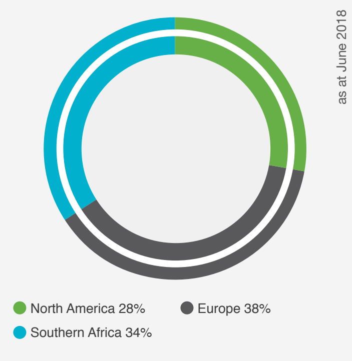
Sales by product (%)



Sales by destination (%)



Net operating assets (%)



Results for Q3 FY18 — the period ended June 2018

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.

2018 objectives

Achieve cost advantages
- Improve operational and machine **efficiencies**
- Maximise **procurement benefits**
- Optimise **business processes**

Rationalise declining businesses
- Where possible convert paper machines to **higher margin** businesses
- Continuously **balance paper supply and demand** in all regions

Maintain a healthy balance sheet
- **Optimise** working capital
- **Strong** cash generation
- **Smart** financing

Accelerate growth in higher margin growth segments
- **Extract** value from our biorefinery stream
- **Enhance** specialised cellulose portfolio
- **Expand** paper packaging grades

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

Outlook

The **DWP market remains tightly supplied**, with limited new capacity in the medium term. **Market prices** are **expected to remain stable** at current levels given historically high paper pulp prices that are supporting DWP pricing and viscose staple fibre prices that remain under pressure from new capacity entering the market. Fourth quarter average realised DWP prices should be in line with those of the third quarter.

Graphic paper operating rates in both Europe and North America **remain healthy**, and **further price increases** have been **implemented** since quarter-end to mitigate higher input costs. Low graphic paper inventory levels in the North American business will impact sales volumes in the fourth quarter

Demand growth for most of the **speciality and packaging grades** we produce continues to be **above long-term averages**, and, where applicable, **price increases** have been **implemented** to offset rising input costs.

Trial runs of the packaging grades on **Somerset PM1** continue and the machine is **producing to a high quality**. Commercial sales of the first quality paperboard are expected during Q4. Following the completion of the conversion projects at Somerset Mill and Maastricht Mill later this year, we anticipate **significantly improved packaging sales volumes in the coming financial year**.

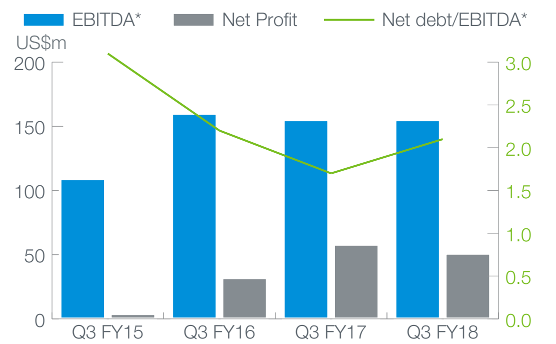
Capital expenditure in the **last quarter** is expected to be approximately **US$180 million**. This includes expenditure in **preparation for the expansion at Saiccor**, the **completion** of the **DWP debottlenecking** at **Ngodwana** and **Saiccor**, and expenditure related to the Somerset PM1 conversion overrun. We currently estimate the additional cost at Somerset Mill to be in the order of US$35–50 million above the initial capital expenditure projection.

We expect to **reduce net debt further** in the coming quarter through **positive cash generation**, and based on current market conditions, including the current Rand/US Dollar exchange rate, we expect the group's fourth quarter operating performance to be similar to that of last year, despite the lost production volumes in the third quarter and the resultant low inventory levels.

Condino Mill Integration of Cham Speciality Paper progressed smoothly during the quarter with financial performance ahead of expectation. This is another significant milestone towards realizing our Vision2020 goal to strengthen our specialities and packaging papers business both in Europe and globally and improving our profitability.

As part of our strategic shift towards packaging, the Somerset Mill PM1 conversion has been completed — the machine can now produce both coated graphics paper and paper packaging products to a high quality.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

Q3 2018

Results for Q3 FY18 — the period ended June 2018

Europe

10 Production facilities
18 Sales offices

Overall performance in a seasonally slow quarter was **strong**, especially given the variable cost pressures arising from higher paper pulp prices.

Graphic paper sales volumes were down marginally year-on-year. **Strong coated mechanical paper sales** offset declines in coated woodfree paper volumes.

Demand for **mechanical paper** was **driven by supply tightness** in the wider publishing paper segment, and higher coated woodfree reel prices.

A series of **coated woodfree paper price** increases led to average net selling prices that were **up 7%** year-on-year, with mechanical coated paper prices up 3% over the same period.

The **Cham Paper integration progressed smoothly** with financial performance ahead of expectation.

Excluding the impact of additional volumes from Cham, **sales volumes grew 9%** in the **speciality paper** business compared to the equivalent quarter last year. Sales price increases lagged cost increases due to the duration of contracts typical in this market.

Variable costs increased by **6%** and fixed costs were 8% higher year-on-year.

Berry Wiersum
Chief Executive Officer
Sappi Europe

North America

3 Production facilities
6 Sales offices

Profitability improved marginally year-on-year.

Gains in **coated paper pricing** was largely offset by increased variable costs.

The **Somerset PM1 conversion** was **completed** during the quarter. Capital costs, planned commissioning and the first quality sales target dates overran, negatively impacting results by US$8 million.

The legacy **specialities and packaging** business had a good quarter with **increased sales volumes and pricing**, particularly in the coated-one-side category.

The US **graphic paper market** continued to be **tightly supplied**.

Our **average coated paper sales prices increased 12%** year-on-year. Sales volumes were 6% lower than the equivalent quarter last year as a result of lost production from Somerset PM1 and our strategic shift towards packaging. Inventory levels were low at quarter-end.

Cloquet Mill **increased DWP production**, at the expense of paper pulp, to **meet customer demand**. The positive impact of a **12% increase in DWP sales volume** was negated somewhat by higher average purchased pulp costs. Average DWP sales prices were lower than the prior year.

Variable costs were **10% highe**r year-on-year. Fixed costs were negatively impacted by the Somerset PM1 conversion.

Mark Gardner
President and Chief Executive Officer
Sappi North America

Southern Africa

5 Production facilities **6** Sales offices
479,000ha Forests

The Southern African business' **results were impacted by a stronger Rand/US Dollar exchange rate** compared to a year ago.

Our results were also impacted by dissolving **wood pulp sales volumes** which were **3% below** those of the equivalent quarter last year.

Fixed costs were **higher** due to scheduled annual maintenance which ran longer than planned at both Saiccor and Ngodwana.

DWP production and sales volumes were impacted by extended maintenance shuts at both Saiccor and Ngodwana, which included various small debottlenecking and equipment upgrade projects.

Closing inventory levels of DWP were very low and will impact fourth quarter sales.

Average US Dollar **sales prices were 3% lower** than the equivalent quarter last year, which along with a stronger Rand/US Dollar exchange rate led to a **7% reduction in Rand pricing**.

The **paper business** had a **solid quarter**, with a slight improvement in sales volumes and higher selling prices offsetting increased variable costs.

Variable costs, particularly wood, pulp and chemicals, **increased** year-on-year as did fixed costs.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

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