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

13 August 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.

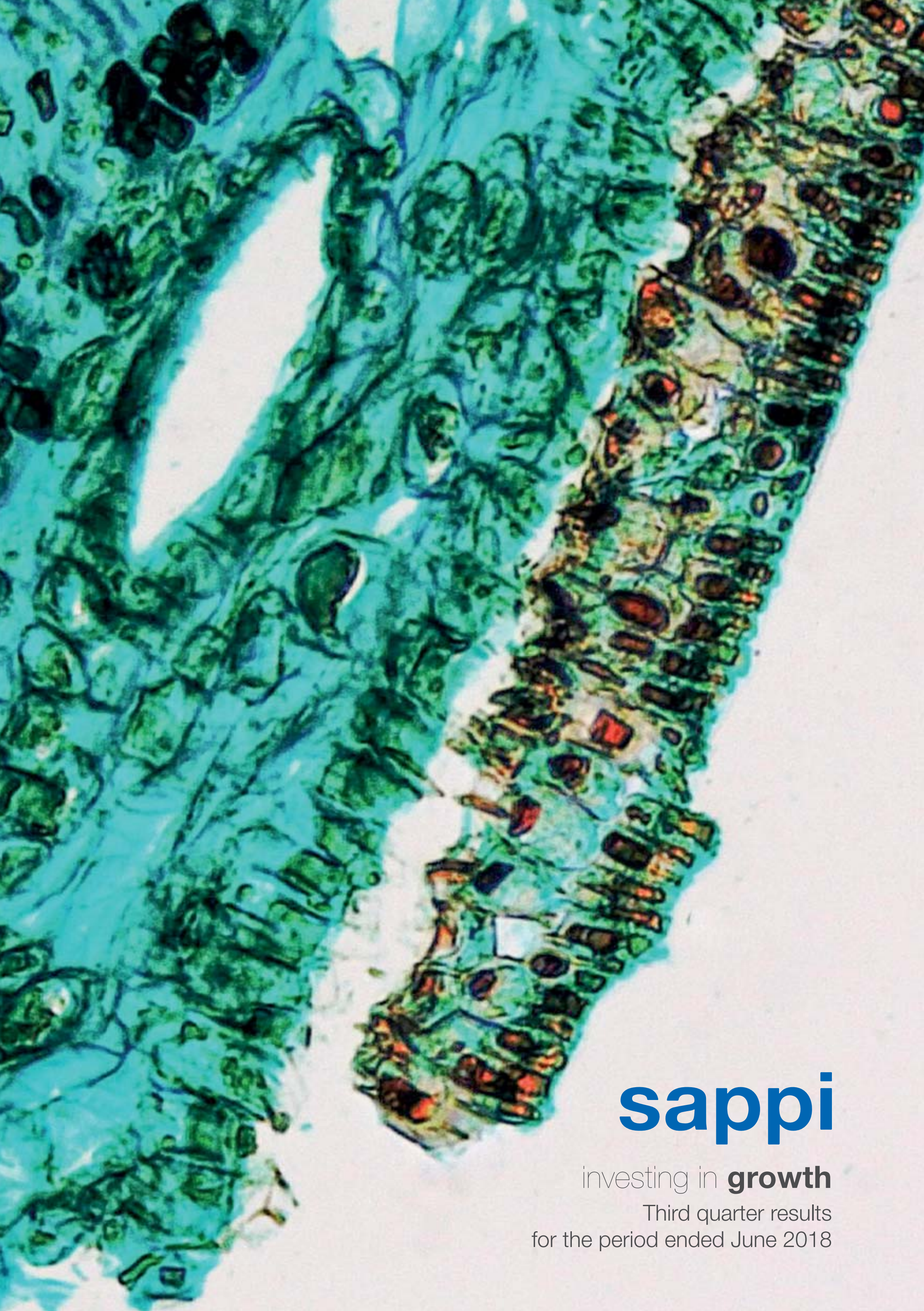
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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.



sappi

investing in **growth**

Third quarter results
for the period ended June 2018

3rd 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*
(%)

North America 25%
Europe 51%
Southern Africa 24%

SALES BY PRODUCT*
(%)

Coated paper 56%
Commodity paper 7%
Uncoated paper 5%
Dissolving wood pulp 18%
Speciality paper 13%
Other 1%

SALES BY DESTINATION*
(%)

North America 23%
Europe 45%
Southern Africa 10%
Asia and other 22%

NET OPERATING ASSETS**
(%)

North America 28%
Europe 38%
Southern Africa 34%

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

Highlights for the quarter

EBITDA excluding special items **US$155 million** (Q3 2017: US$155 million)

Profit for the period **US$51 million** (Q3 2017: US$58 million)

EPS excluding special items **10 US cents** (Q3 2017: 11 US cents)

Net debt **US$1,603 million** (Q3 2017: US$1,318 million)

	Quarter ended			Nine months ended	
	Jun 2018	Jun 2017	Mar 2018	**Jun 2018**	Jun 2017
Key figures: (US$ million)					
Sales	**1,445**	1,260	1,496	**4,271**	3,885
Operating profit excluding special items[1]	**85**	93	142	**332**	374
Special items – loss (gain)[2]	**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 earnings per share (US cents)	**9**	11	19	**40**	44
EPS excluding special items (US cents)[3]	**10**	11	17	**41**	44
Net debt[3]	**1,603**	1,318	1,632	**1,603**	1,318
Key ratios: (%)					
Operating profit excluding special items to sales	**5.9**	7.4	9.5	**7.8**	9.6
Operating profit excluding special items to capital employed (ROCE)[3]	**9.7**	12.8	16.8	**13.6**	17.4
EBITDA excluding special items to sales	**10.7**	12.3	14.1	**12.6**	14.5
Net debt to EBITDA excluding special items	**2.1**	1.7	2.2	**2.1**	1.7
Interest cover[3]	**11.0**	8.4	11.0	**11.0**	8.4
Net asset value per share (US cents)[3]	**342**	304	365	**342**	304

(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 in line with previous guidance, and the group generated EBITDA excluding special items of US$155 million. The strong performance of our European operations was offset by a number of non-recurring operational and production issues in our South African and North American businesses. Profit for the period declined from US$58 million to US$51 million due to an increased depreciation expense following the higher capital expenditure activity.

Dissolving wood pulp (DWP) demand and pricing remained healthy, albeit that net sales pricing was slightly below that of a year ago. During the quarter, all three of our DWP mills underwent scheduled maintenance shuts as well as some additional debottlenecking. However, the shuts at Saiccor and Ngodwana both ran longer than planned and, combined with additional production and commissioning issues on start-up, impacted production volumes by approximately 30,000 tons for the quarter.

Demand for specialities and packaging papers continued to grow across the various product segments, with our production capacity being the limiting factor to sales in some markets. EBITDA margins declined slightly from the comparative quarter last year, mainly as a result of the pricing for start-up volumes at Somerset and a lag in implementing selling price increases in Europe to offset higher raw material cost. This lag is due to the contract terms of much of the specialities business in Europe. The consolidated Cham Paper assets were included for the full quarter following their acquisition at the end of February 2018.

An improvement in demand for coated mechanical paper in the European paper business and higher average graphic paper prices led to improved profitability, offsetting increased variable costs, particularly paper pulp and a softer coated woodfree market.

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 and this negatively impacted sales volumes of both graphic and packaging grades in the quarter as well as costs.

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/Dollar exchange rate relative to a year ago.

Earnings per share excluding special items were 10 US cents, slightly lower than the 11 US cents generated in the equivalent quarter last year.

Cash flow and debt

Net cash utilised was US$41 million, compared to the US$30 million generated in the equivalent quarter last year. The cash utilisation was due to higher capital expenditure, offset by a decrease in working capital. Capital expenditure of US$188 million related mainly to the paper machine conversion at Somerset and debottlenecking of DWP production at the Ngodwana and Saiccor mills.

Cash taxes paid for the quarter were US$6 million, compared to net tax refunds of US$4 million in the comparative period last year.

Despite the net cash utilised in the quarter, the net debt decreased by US$29 million from the prior quarter to US$1,603 million as a result of the weaker Euro/Dollar and Rand/Dollar exchange rates which impacted the translation of Euro and Rand denominated debt.

Liquidity comprised cash on hand of US$317 million and US$686 million available from the group's undrawn committed revolving credit facilities.

Operating review for the quarter

Europe

€ million	Jun 2018	Mar 2018	Dec 2017	Sept 2017	Jun 2017
	Quarter ended				
Sales	**636**	616	571	583	554
Operating profit excluding special items	**31**	37	31	35	23
Operating profit excluding special items to sales (%)	***4.9***	*6.0*	*5.4*	*6.0*	*4.2*
EBITDA excluding special items	**60**	64	59	63	51
EBITDA excluding special items to sales (%)	***9.4***	*10.4*	*10.3*	*10.8*	*9.2*
RONOA pa (%)	***9.3***	*11.7*	*10.6*	*12.2*	*8.2*

The overall performance of the European business 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, with strong coated mechanical paper sales offsetting the declines in coated woodfree paper volumes. Demand for mechanical paper was driven by supply tightness in the wider publishing paper segment, as well as 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 and the financial performance was ahead of the expectations at the time of acquisition. 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 in this segment lagged cost increases due to the duration of contracts typical in this market.

Variable costs increased by 6% year-on-year, driven by significant increases in pulp prices. Lower latex and energy costs mitigated the impact somewhat. Fixed costs were 8% higher due to a higher headcount post the Cham Paper acquisition and additional maintenance expenses in the quarter.

North America

US$ million	Jun 2018	Mar 2018	Dec 2017	Sept 2017	Jun 2017
			Quarter ended		
Sales	**339**	363	342	357	314
Operating profit (loss) excluding special items	**1**	18	(1)	27	(2)
Operating profit (loss) excluding special items to sales (%)	***0.3***	*5.0*	*(0.3)*	*7.6*	*(0.6)*
EBITDA excluding special items	**20**	37	18	47	17
EBITDA excluding special items to sales (%)	***5.9***	*10.2*	*5.3*	*13.2*	*5.4*
RONOA pa (%)	***0.4***	*6.8*	*(0.4)*	*10.7*	*(0.8)*

Profitability in the North American business improved marginally over the prior year, with gains in coated paper pricing largely offset by increased variable costs, primarily purchased pulp, as well as higher fixed costs due in part to the conversion work on Somerset PM1 which was completed during the quarter. In total, the conversion project negatively impacted the quarter's result by US$8 million.

The US graphic paper market continued to be tightly supplied, and 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 the lost production from Somerset PM1 and our strategic shift towards packaging. Inventory levels were low at quarter-end.

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

The project to convert Somerset PM1 from purely graphics paper grades to both graphics and paperboard grades was completed to design product specification; however, both capital cost and timing overran, which has resulted in delayed qualification and first quality sales from the machine. The legacy specialities and packaging business experienced a good quarter with increased sales volumes and pricing, particularly in the coated-one-side (C1S) category.

Variable costs were 10% higher year-on-year, driven mainly by purchased pulp and to a lesser extent the PM1 conversion and ramp-up. Fixed costs were also impacted by the conversion project at Somerset, particularly those related to personnel and maintenance.

Southern Africa

ZAR million	Jun 2018	Mar 2018	Dec 2017	Sept 2017	Jun 2017
		Quarter ended			
Sales	**4,383**	4,548	4,291	4,879	4,432
Operating profit excluding special items	**553**	950	940	1,106	918
Operating profit excluding special items to sales (%)	***12.6***	*20.9*	*21.9*	*22.7*	*20.7*
EBITDA excluding special items	**742**	1,168	1,144	1,344	1,102
EBITDA excluding special items to sales (%)	***16.9***	*25.7*	*26.7*	*27.5*	*24.9*
RONOA pa (%)	***11.9***	*20.9*	*21.3*	*26.0*	*21.5*

The Southern African results were impacted by a stronger Rand/Dollar exchange rate compared to a year ago and dissolving wood pulp sales volumes which were 3% below those of the equivalent quarter last year. Fixed costs were also higher due to scheduled annual maintenance which ran longer than planned at both Saiccor and Ngodwana.

DWP production and sales volumes were impacted by the extended maintenance shuts, which included various smaller 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/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.

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. The 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 have continued and the machine is producing to a high quality. We expect to start commercial sales of first quality paperboard in the fourth quarter. Following the completion of the conversion projects at Somerset and Maastricht mills during the 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/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 as described previously.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

8 August 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

		Quarter ended		Nine months ended	
US$ million	Note	**Jun 2018**	Jun 2017	**Jun 2018**	Jun 2017
Sales		**1,445**	1,260	**4,271**	3,885
Cost of sales		**1,270**	1,089	**3,635**	3,265
Gross profit		**175**	171	**636**	620
Selling, general and administrative expenses		**93**	82	**293**	245
Other operating expenses (income)		**(2)**	1	**(8)**	6
Share of profit from equity investments		**–**	(2)	**(3)**	(6)
Operating profit	3	**84**	90	**354**	375
Net finance costs		**18**	16	**54**	65
Net interest expense		**19**	20	**58**	74
Interest capitalised		**(1)**	–	**(2)**	–
Net foreign exchange gain		**–**	(4)	**(2)**	(9)
Profit before taxation		**66**	74	**300**	310
Taxation		**15**	16	**84**	74
Profit for the period		**51**	58	**216**	236
Basic earnings per share (US cents)		**9**	11	**40**	44
Weighted average number of shares in issue (millions)		**538.9**	534.8	**537.8**	533.6
Diluted earnings per share (US cents)		**9**	11	**39**	43
Weighted average number of shares on fully diluted basis (millions)		**550.0**	550.1	**549.5**	547.3

Condensed group statement of other comprehensive income

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
Profit for the period	**51**	58	**216**	236
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 must be reclassified subsequently to profit or loss	**(180)**	15	**(31)**	63
Exchange differences on translation of foreign operations	**(168)**	3	**(27)**	52
Movements in hedging reserves	**(14)**	12	**(5)**	11
Tax effect of above items	**2**	–	**1**	–
Total comprehensive income (loss) for the period	**(129)**	73	**166**	299

Condensed group balance sheet

US$ million	Note	Jun 2018	Audited Sept 2017
ASSETS			
Non-current assets		**3,689**	3,378
Property, plant and equipment		**2,926**	2,681
Plantations	5	**481**	458
Deferred tax assets		**92**	123
Goodwill and intangible assets		**87**	39
Equity-accounted investees		**34**	26
Other non-current assets		**69**	51
Current assets		**1,778**	1,869
Inventories		**735**	636
Trade and other receivables		**703**	668
Derivative financial instruments		**8**	3
Taxation receivable		**15**	12
Cash and cash equivalents		**317**	550
Total assets		**5,467**	5,247
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,842**	1,747
Non-current liabilities		**2,544**	2,457
Interest-bearing borrowings		**1,816**	1,739
Deferred tax liabilities		**306**	295
Other non-current liabilities		**422**	423
Current liabilities		**1,081**	1,043
Interest-bearing borrowings		**98**	133
Overdrafts		**6**	–
Trade and other payables		**916**	858
Provisions		**4**	10
Derivative financial instruments		**11**	5
Taxation payable		**46**	37
Total equity and liabilities		**5,467**	5,247
Number of shares in issue at balance sheet date (millions)		**539.1**	535.0

Condensed group statement of cash flows

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
Profit for the period	**51**	58	**216**	236
Adjustment for:				
Depreciation, fellings and amortisation	**87**	76	**255**	239
Taxation	**15**	16	**84**	74
Net finance costs	**18**	16	**54**	65
Defined post-employment benefits paid	**(11)**	(12)	**(33)**	(33)
Plantation fair value adjustments	**(25)**	(17)	**(82)**	(59)
Asset impairment reversal	**(3)**	–	**(3)**	–
Net restructuring provisions	**–**	1	**(2)**	1
Profit (loss) on disposal of property, plant and equipment	**1**	–	**(8)**	–
Other non-cash items	**8**	1	**16**	21
Cash generated from operations	**141**	139	**497**	544
Movement in working capital	**33**	(7)	**(85)**	(130)
Net finance costs paid	**(21)**	(20)	**(42)**	(61)
Taxation paid	**(6)**	4	**(50)**	(62)
Dividend paid	**–**	–	**(81)**	(59)
Cash generated from operating activities	**147**	116	**239**	232
Cash utilised in investing activities	**(188)**	(86)	**(519)**	(165)
Capital expenditure	**(188)**	(78)	**(395)**	(160)
Proceeds on disposal of assets	**1**	–	**11**	3
Acquisition of subsidiary	**–**	–	**(132)**	–
Other movements	**(1)**	(8)	**(3)**	(8)
Net cash (utilised) generated	**(41)**	30	**(280)**	67
Cash effects of financing activities	**(71)**	(314)	**47**	(330)
Proceeds from interest-bearing borrowings	**(6)**	131	**116**	136
Repayment of interest-bearing borrowings	**(65)**	(445)	**(69)**	(466)
Net movement in cash and cash equivalents	**(112)**	(284)	**(233)**	(263)
Cash and cash equivalents at beginning of period	**459**	703	**550**	703
Translation effects	**(30)**	27	**–**	6
Cash and cash equivalents at end of period	**317**	446	**317**	446

Condensed group statement of changes in equity

US$ million	Nine months ended Jun 2018	Nine months ended Jun 2017
Balance – beginning of period	**1,747**	1,378
Total comprehensive income for the period	**166**	299
Shareholders for dividend	**(81)**	(59)
Transfers from the share purchase trust	**3**	4
Transfers of vested share options	**(1)**	(2)
Share-based payment reserve	**8**	7
Balance – end of period	**1,842**	1,627

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and nine months ended June 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 results are unaudited.

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 nine months ended June 2017.

	Quarter ended		Nine months ended	
Metric tons (000's)	**Jun 2018**	Jun 2017	**Jun 2018**	Jun 2017
Sales volume				
North America	**318**	316	**1,008**	998
Europe	**833**	795	**2,502**	2,501
Southern Africa – Pulp and paper	**383**	387	**1,179**	1,159
Forestry	**380**	306	**882**	812
Total	**1,914**	1,804	**5,571**	5,470
Which consists of:				
Specialised cellulose	**277**	275	**866**	859
Specialities and packaging papers	**289**	224	**718**	614
Printing and writing papers	**968**	999	**3,105**	3,185
Forestry	**380**	306	**882**	812

Notes to the condensed group results continued

2. Segment information continued

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
Sales				
North America	**339**	314	**1,044**	1,003
Europe	**759**	610	**2,188**	1,880
Southern Africa – Pulp and paper	**325**	319	**983**	955
Forestry	**22**	17	**56**	47
Total	**1,445**	1,260	**4,271**	3,885
Which consists of:				
Specialised cellulose	**245**	252	**765**	782
Specialities and packaging papers	**327**	215	**777**	602
Printing and writing papers	**851**	776	**2,673**	2,454
Forestry	**22**	17	**56**	47
Operating profit (loss) excluding special items				
North America	**1**	(2)	**18**	20
Europe	**37**	25	**119**	99
Southern Africa	**44**	70	**192**	253
Unallocated and eliminations[1]	**3**	–	**3**	2
Total	**85**	93	**332**	374
Which consists of:				
Specialised cellulose	**46**	73	**177**	254
Specialities and packaging papers	**18**	14	**59**	52
Printing and writing papers	**18**	6	**93**	66
Unallocated and eliminations[1]	**3**	–	**3**	2
Special items – (gains) losses				
North America	**1**	–	**3**	–
Europe	**(2)**	2	**(1)**	3
Southern Africa	**(6)**	(2)	**(35)**	(9)
Unallocated and eliminations[1]	**8**	3	**11**	5
Total	**1**	3	**(22)**	(1)
Segment operating profit (loss)				
North America	**–**	(2)	**15**	20
Europe	**39**	23	**120**	96
Southern Africa	**50**	72	**227**	262
Unallocated and eliminations[1]	**(5)**	(3)	**(8)**	(3)
Total	**84**	90	**354**	375

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

2. Segment information continued

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
EBITDA excluding special items				
North America	**20**	17	**75**	79
Europe	**71**	55	**218**	189
Southern Africa	**59**	84	**240**	294
Unallocated and eliminations[1]	**5**	(1)	**5**	2
Total	**155**	155	**538**	564
Which consists of:				
Specialised cellulose	**60**	85	**218**	291
Specialities and packaging papers	**33**	24	**98**	81
Printing and writing papers	**57**	47	**217**	190
Unallocated and eliminations[1]	**5**	(1)	**5**	2

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 believe are material by nature or amount to the operating results and require separate disclosure.

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
EBITDA excluding special items	**155**	155	**538**	564
Depreciation and amortisation	**(70)**	(62)	**(206)**	(190)
Operating profit excluding special items	**85**	93	**332**	374
Special items – gains (losses)	**(1)**	(3)	**22**	1
Plantation price fair value adjustment	**8**	2	**30**	14
Acquisition costs	**–**	–	**(2)**	–
Net restructuring provisions	**–**	(1)	**2**	(1)
Profit on disposal and written off assets	**(1)**	–	**8**	–
Asset impairment reversal	**3**	–	**3**	–
Black Economic Empowerment charge	**–**	–	**(1)**	(1)
Fire, flood, storm and other events	**(11)**	(4)	**(18)**	(11)
Segment operating profit	**84**	90	**354**	375
Net finance costs	**(18)**	(16)	**(54)**	(65)
Profit before taxation	**66**	74	**300**	310
Taxation	**(15)**	(16)	**(84)**	(74)
Profit for the period	**51**	58	**216**	236

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

Notes to the condensed group results continued

2. Segment information continued

US$ million	Nine months ended Jun 2018	Jun 2017
Segment assets		
North America	**1,141**	997
Europe	**1,556**	1,293
Southern Africa	**1,380**	1 300
Unallocated and eliminations[1]	**4**	8
Total	**4,081**	3,598
Reconciliation of segment assets to total assets		
Segment assets	**4,081**	3,598
Deferred taxation	**92**	153
Cash and cash equivalents	**317**	446
Trade and other payables	**916**	757
Provisions	**4**	10
Derivative financial instruments	**11**	1
Taxation payable	**46**	53
Total assets	**5,467**	5,018

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

3. Operating profit

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
Included in operating profit are the following items:				
Depreciation and amortisation	**70**	62	**206**	190
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**17**	14	**49**	49
Growth	**(17)**	(15)	**(52)**	(45)
	–	(1)	**(3)**	4
Plantation price fair value adjustment	**(8)**	(2)	**(30)**	(14)
	(8)	(3)	**(33)**	(10)
Net restructuring provisions	**–**	1	**2**	1
Profit on disposal of property, plant and equipment	**(1)**	–	**8**	–
Asset impairment reversals	**3**	–	**3**	–

4. Earnings per share

US$ million	Quarter ended Jun 2018	Quarter ended Jun 2017	Nine months ended Jun 2018	Nine months ended Jun 2017
Basic earnings per share (US cents)	**9**	11	**40**	44
Headline earnings per share (US cents)	**9**	11	**38**	44
EPS excluding special items (US cents)	**10**	11	**41**	44
Weighted average number of shares in issue (millions)	**538.9**	534.8	**537.8**	533.6
Diluted earnings per share (US cents)	**9**	11	**39**	43
Diluted headline earnings per share (US cents)	**9**	11	**38**	43
Weighted average number of shares on fully diluted basis (millions)	**550.0**	550.1	**549.5**	547.3
Calculation of headline earnings				
Profit for the period	**51**	58	**216**	236
Profit on disposal of property, plant and equipment	**1**	–	**(8)**	–
Asset impairment reversals	**(3)**	–	**(3)**	–
Tax effect of above items	**(1)**	–	**2**	–
Headline earnings	**48**	58	**207**	236
Calculation of earnings excluding special items				
Profit for the period	**51**	58	**216**	236
Special items after tax	**1**	2	**(15)**	–
Special items	**1**	3	**(22)**	(1)
Tax effect	**–**	(1)	**7**	1
Tax special items	**–**	–	**19**	–
Earnings excluding special items	**52**	60	**220**	236

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	Jun 2018	Audited Sept 2017
Fair value of plantations at beginning of year	**458**	441
Gains arising from growth	**52**	58
Fire, flood, storm and other events	**–**	(5)
In-field inventory	**(3)**	1
Gain arising from fair value price changes	**30**	21
Harvesting – agriculture produce (fellings)	**(49)**	(63)
Translation difference	**(7)**	5
Fair value of plantations at end of period	**481**	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	Jun 2018	Audited Sept 2017
Investment funds[2]	Level 1	**7**	7
Derivative financial assets	Level 2	**8**	3
Derivative financial liabilities	Level 2	**11**	5
Contingent consideration liability[3]	Level 3	**13**	13

(1) *The fair value of the financial instruments is 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	Jun 2018	Audited Sept 2017
Contracted	**345**	253
Approved but not contracted	**411**	219
	756	472

8. Contingent liabilities

US$ million	Jun 2018	Audited Sept 2017
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

Inventories, trade and other receivables and trade and other payables

The increase in inventories, trade and other receivables and trade and other payables is largely attributable to seasonal working capital movements.

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$88 million for the nine months ended June 2018 (September 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 management's 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.

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 4/2018, issued by the South African Institute of Chartered Accountants in April 2018, 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		Nine months ended	
	Jun 2018	Jun 2017	**Jun 2018**	Jun 2017
Key figures: (ZAR million)				
Sales	**18,252**	16,614	**54,351**	52,267
Operating profit excluding special items[1]	**1,074**	1,226	**4,225**	5,032
Special items – (gains) losses[1]	**13**	40	**(280)**	(13)
EBITDA excluding special items[1]	**1,958**	2,044	**6,846**	7,588
Profit for the period	**644**	765	**2,749**	3,175
Basic earnings per share (SA cents)	**120**	143	**511**	595
Net debt[1]	**22,005**	17,207	**22,005**	17,207
Key ratios: (%)				
Operating profit excluding special items to sales	**5.9**	7.4	**7.8**	9.6
Operating profit excluding special items to capital employed (ROCE)[1]	**9.6**	12.7	**12.7**	17.5
EBITDA excluding special items to sales	**10.7**	12.3	**12.6**	14.5

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

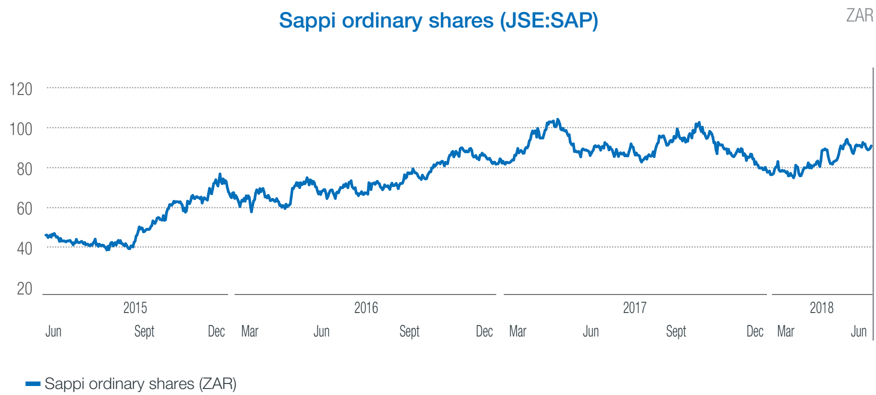
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end; and
– income, expenditure and cash flow items at average exchange rates.

Supplemental information continued

(this information has not been audited or reviewed)

Exchange rates

	Jun 2018	Mar 2018	Dec 2017	Sept 2017	Jun 2017
Exchange rates:					
Period end rate: US$1 = ZAR	**13.7275**	11.8385	12.3724	13.5561	13.0551
Average rate for the quarter: US$1 = ZAR	**12.6312**	11.9577	13.6220	13.1761	13.1857
Average rate for the year to date: US$1 = ZAR	**12.7255**	12.7723	13.6220	13.3813	13.4536
Period end rate: €1 = US$	**1.1685**	1.2323	1.1998	1.1814	1.1426
Average rate for the quarter: €1 = US$	**1.1920**	1.2286	1.1778	1.1756	1.1011
Average rate for the year to date: €1 = US$	**1.1995**	1.2032	1.1778	1.1055	1.0827



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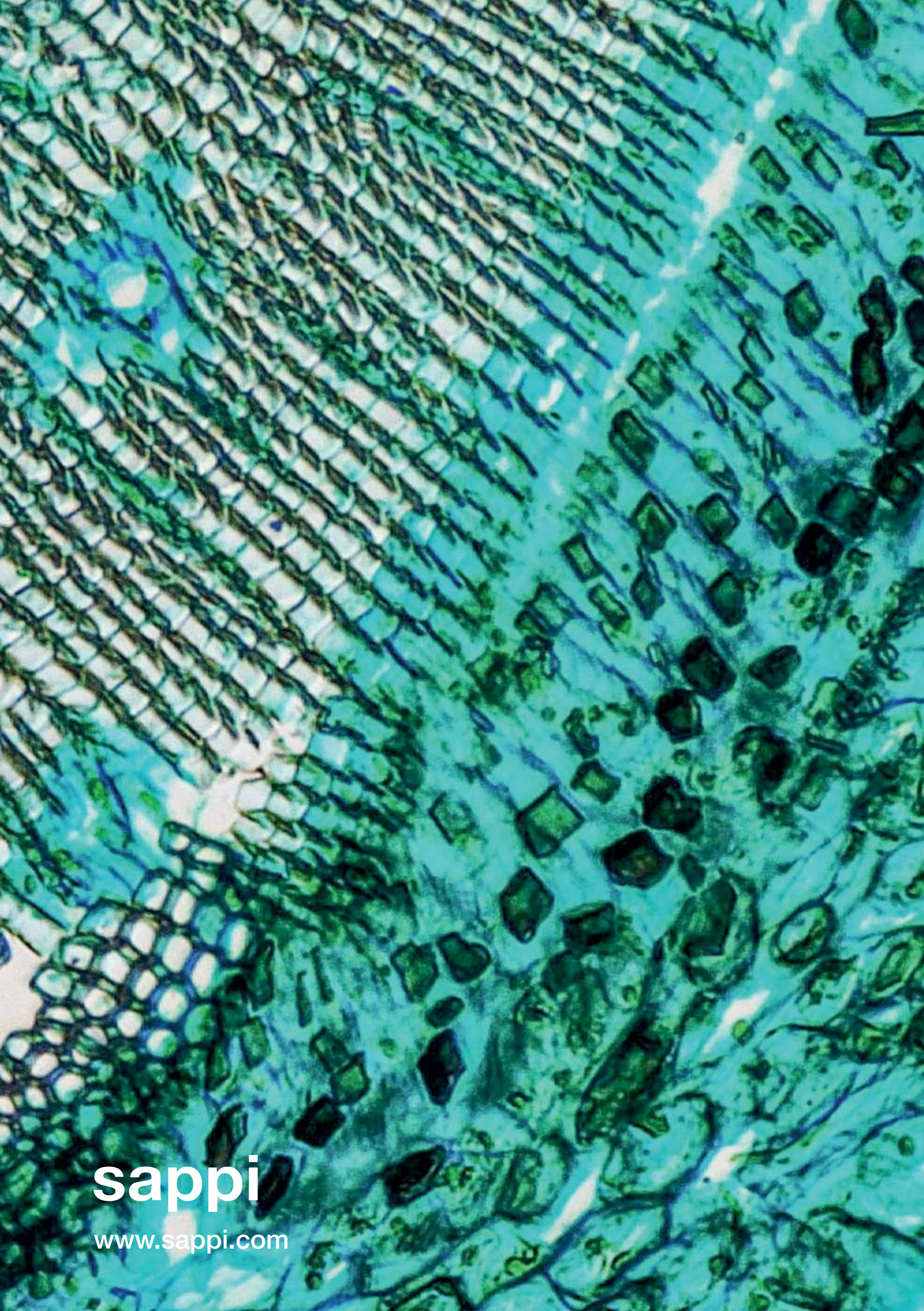

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