Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2019
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
30 DECEMBER 2018

6 February 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 2018 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

First quarter results for the period ended December 2018

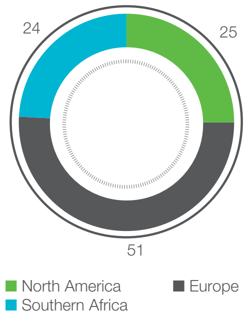
1st quarter results

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

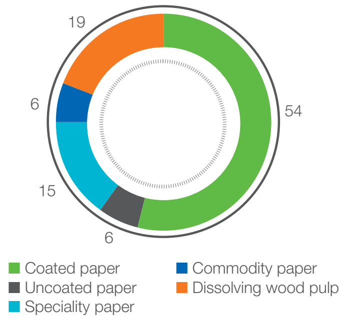
Our dissolving wood pulp products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic 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.

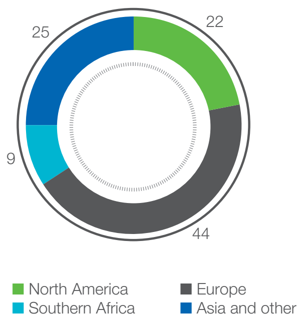
Sales by source* (%)



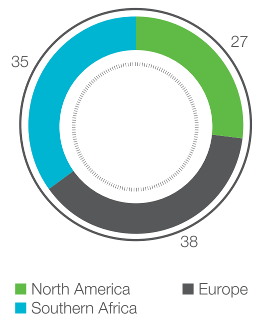
Sales by product* (%)



Sales by destination* (%)



Net operating assets** (%)



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

Highlights for the quarter

EBITDA excluding special items
US$197 million
(Q1 2018 US$172 million)

EPS excluding special items
16 US cents
(Q1 2018 14 US cents)

Profit for the period
US$81 million
(Q1 2018 US$63 million)

Net debt
US$1,557 million
(Q1 2018 US$1,349 million)

	Quarter ended		
	Dec 2018	Dec 2017	Sept 2018
Key figures: (US$ million)			
Sales	**1,418**	1,330	1,535
Operating profit excluding special items[(1)]	**128**	105	148
Special items – loss (gain)[(2)]	**5**	(11)	13
EBITDA excluding special items[(1)]	**197**	172	224
Profit for the period	**81**	63	107
Basic earnings per share (US cents)	**15**	12	20
EPS excluding special items (US cents)[(3)]	**16**	14	19
Net debt[(3)]	**1,557**	1,349	1,568
Key ratios: (%)			
Operating profit excluding special items to sales	**9.0**	7.9	9.6
Operating profit excluding special items to capital employed (ROCE)[(3)]	**14.7**	14.1	17.0
EBITDA excluding special items to sales	**13.9**	12.9	14.6
Net debt to EBITDA excluding special items	**2.0**	1.8	2.1
Interest cover[(3)]	**10.9**	9.9	11.0
Net asset value per share (US cents)[(3)]	**353**	338	361

(1) *Refer to note 2 of 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 of the group results for details on special items.*
(3) *Refer to supplemental information for the definition of the term.*

Commentary on the quarter

In a difficult operating climate, the resilience of the business and the benefits from the diversification of the product portfolio in recent years were emphasised during the quarter. Profitability was in line with the guidance provided at the end of the 2018 financial year and the group generated EBITDA excluding special items of US$197 million, a 15% improvement compared to the equivalent quarter last year. Profit for the comparative period increased by 29% to US$81 million due to the improved operating profit and a lower tax charge for the quarter.

Dissolving wood pulp (DWP) sales prices remained stable throughout most of the quarter, and declined slightly in December due to pressure from lower Chinese viscose staple fibre (VSF) prices and a weak Chinese paper pulp market. Overall, our customers' demand for DWP continued to be healthy.

Packaging and specialities markets were mixed with solid containerboard and paperboard sales volumes and higher prices offsetting weaker demand in European self-adhesive and consumer packaging segments. Input cost pressures on the non- or partially integrated mills persisted due to elevated paper pulp prices, which impacted margins for the segment. Specialities and packaging sales volumes for the group were 27% higher year-on-year.

Sluggish demand for coated graphic and packaging papers along with ongoing high paper pulp input costs depressed margins in the European business. Higher selling prices and the inclusion of the Cham Paper business led to stable year-on-year profitability.

Higher DWP and coated paper prices, combined with a shorter scheduled shut at Somerset led to an improved operating performance for the North American business. PM1 at Somerset continued to ramp up paperboard production and commercial sales of these grades steadily increased.

The South African business delivered excellent results, with increased DWP and packaging sales volumes combined with higher Rand selling prices across the board more than offsetting energy and woodfibre cost pressures.

Earnings per share excluding special items was 16 US cents, an increase from the 14 US cents generated in the equivalent quarter last year. Special items reduced earnings by US$5 million.

Cash flow and debt

Net cash utilised for the quarter of US$7 million, compared to US$14 million utilised in the equivalent quarter last year. The reduction in cash utilisation was due to improved operational cash generation that was offset somewhat by a US$18 million increase in capital expenditure.

Net debt of US$1,557 million was US$208 million higher than at the end of the equivalent quarter last year as a result of the Cham Paper acquisition of US$132 million and increased capital expenditure in the past year.

Liquidity comprised cash on hand of US$350 million and US$670 million available from the undrawn committed revolving credit facilities in Southern Africa and Europe.

Operating review on the quarter

Europe

€ million	Dec 2018	Quarter ended Sept 2018	Jun 2018	Mar 2018	Dec 2017
Sales	**642**	671	636	616	571
Operating profit excluding special items	**30**	38	31	37	31
Operating profit excluding special items to sales (%)	***4.7***	*5.7*	*4.9*	*6.0*	*5.4*
EBITDA excluding special items	**59**	71	60	64	59
EBITDA excluding special items to sales (%)	***9.2***	*10.6*	*9.4*	*10.4*	*10.3*
RONOA pa (%)	***8.8***	*11.3*	*9.3*	*11.7*	*10.6*

The European business was under pressure from weak demand in the coated paper and certain packaging markets as well as continued high paper pulp input costs. The stable year-on-year operating result was achieved due to the contribution of Cham Paper, market share gains in coated woodfree paper and higher average net selling prices for all product categories.

The packaging and specialities paper business increased sales volumes by 50% year-on-year (up 4% on a like-for-like basis excluding Cham Paper), following the completion of the Maastricht conversion and the inclusion of the Cham Paper volumes after the acquisition of that business was concluded during the second fiscal quarter of 2018. Paperboard and containerboard markets were solid during the quarter, however, the self-adhesives market and consumer goods end use markets struggled. Average net selling prices were 17% (10% on a like-for-like basis) higher as a result of a shift in product mix post the conversion of Maastricht and the acquisition of Cham Paper, and price increases implemented last year to counter rising raw material costs.

Variable costs in Euro were 17% higher year-on-year, driven primarily by softwood and hardwood pulp costs that were 34% and 17% higher respectively. Fixed costs were 12% higher, mainly due to the inclusion of Cham Paper personnel and related fixed costs.

Operating review on the quarter continued

North America

US$ million	Dec 2018	Sept 2018	Jun 2018	Mar 2018	Dec 2017
		Quarter ended			
Sales	**351**	388	339	363	342
Operating profit (loss) excluding special items	**9**	31	1	18	(1)
Operating profit (loss) excluding special items to sales (%)	***2.6***	*8.0*	*0.3*	*5.0*	*(0.3)*
EBITDA excluding special items	**29**	51	20	37	18
EBITDA excluding special items to sales (%)	***8.3***	*13.1*	*5.9*	*10.2*	*5.3*
RONOA pa (%)	***3.2***	*10.9*	*0.4*	*6.8*	*(0.4)*

Higher selling prices for all products other than release paper and improved DWP volumes contributed to the improved year-on-year performance in the North American business. The improvement was tempered by lower coated paper sales volumes and elevated purchased paper pulp costs.

Coated paper demand in the US market began to weaken during the quarter, however, our CFS operating rates remained good and we continue to increase sales volumes of coated paper from our European mills. Further price increase realisation was achieved with average net selling prices for coated paper 13% higher than the prior year.

Increased purchased paper pulp volumes and higher market pulp prices reduced the benefit of the year-on-year growth in DWP sales volumes and prices.

Packaging and specialities volumes were 68% above those of last year, with increased sales volumes of existing packaging grades and new paperboard grades offsetting weaker release paper sales volumes. Commercial sales of paperboard products are growing, with sales volume and pricing set to improve over the course of the coming year as the ramp up proceeds.

Variable costs were negatively impacted by the higher purchased paper pulp prices and the continued optimisation of PM1 for the new paperboard grades. Fixed costs remained well managed.

Southern Africa

ZAR million	Dec 2018	Sept 2018	Jun 2018	Mar 2018	Dec 2017
		Quarter ended			
Sales	**4,981**	5,103	4,383	4,548	4,291
Operating profit excluding special items	**1,217**	1,081	553	950	940
Operating profit excluding special items to sales (%)	***24.4***	*21.2*	*12.6*	*20.9*	*21.9*
EBITDA excluding special items	**1,446**	1,344	742	1,168	1,144
EBITDA excluding special items to sales (%)	***29.0***	*26.3*	*16.9*	*25.7*	*26.7*
RONOA pa (%)	***24.0***	*22.4*	*11.9*	*20.9*	*21.3*

Improved year-on-year packaging, DWP sales volumes and increased selling prices for all major product categories led to a strong improvement in operating performance for the Southern African business.

DWP sales volumes were greater than the equivalent quarter last year, but lower than those of the prior quarter due to low starting inventories. Average US Dollar selling prices were 5% higher than a year ago and a weaker Rand/US Dollar exchange rate further boosted selling prices.

Packaging sales volumes grew 2% year-on-year, while local sales prices increased to match variable cost rises. Export sales prices benefited from the weaker exchange rate. Office paper and newsprint sales volumes were slightly lower than the prior year while prices grew 12% to help offset variable cost pressures.

Fixed costs rose in line with local inflation while variable costs, particularly for energy and woodfibre, were negatively impacted by the weaker Rand and higher Dollar prices for coal, wood and paper pulp.

Directorate

The board is pleased to announce the appointment of Mr Brian Beamish as independent non-executive director with effect from 01 March 2019.

Outlook

Following the completion of the debottlenecking of Saiccor and Ngodwana in 2018, we plan to grow dissolving wood pulp volumes through the remainder of 2019 to meet increased customer demand. DWP prices in China have come under pressure in the past two months as the lower Chinese VSF prices and current weak Chinese paper pulp markets influence DWP pricing. Demand from our customers remains good and we anticipate that continued high paper pulp prices in the rest of the world will support DWP prices going forward.

Market conditions for the various grades of packaging and speciality papers that we produce have diverged in the past month or so, with strong containerboard markets in South Africa and solid paperboard demand in Europe contrasting with some weakness in the release paper, and various European speciality grades. The ramp up of packaging paper production at Maastricht and Somerset post the completion of the conversion projects at these mills in 2018 will result in further sales growth in this segment.

Graphic paper markets in Europe and North America have weakened in recent months which has impacted the market balance, particularly for Europe. Further potential industry capacity conversions and closures may happen in the coming periods, however, short-term profitability will be negatively impacted if demand continues to be as weak as it has been recently.

Capital expenditure in 2019 is expected to be approximately US$590 million as we proceed with the Saiccor 110kt expansion project, complete the Saiccor woodyard upgrade, convert Lanaken PM8 from coated mechanical to woodfree paper production and upgrade the Gratkorn mill in our continued transition towards growing and higher margin segments.

Given current weak graphic paper markets and paper pulp prices which remain elevated in Europe and North America, we expect EBITDA in the second quarter of financial year 2019, given current exchange rates, to be slightly below that of 2018. The full year result is expected to be above that of the prior year.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

06 February 2019

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, and may be used to identify forward-looking statements. 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 a global economic downturn;*
- *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 and 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 Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
Sales		**1,418**	1,330
Cost of sales		**1,196**	1,121
Gross profit		**222**	209
Selling, general and administrative expenses		**100**	94
Other operating expenses		**–**	1
Share of profit from equity investments		**(1)**	(2)
Operating profit	3	**123**	116
Net finance costs		**17**	15
Net interest expense		**19**	16
Net foreign exchange gain		**(2)**	(1)
Profit before taxation		**106**	101
Taxation[1]		**25**	38
Profit for the period		**81**	63
Basic earnings per share (US cents)	4	**15**	12
Weighted average number of shares in issue (millions)		**539.9**	535.8
Diluted earnings per share (US cents)	4	**15**	11
Weighted average number of shares on fully diluted basis (millions)		**549.7**	549.0

Condensed group statement of other comprehensive income

US$ million	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
Profit for the period	**81**	63
Other comprehensive income, net of tax		
Items that will not be reclassified subsequently to profit or loss	**–**	(19)
Actuarial gains (losses) on post-employment benefit funds	**–**	–
Tax rate change[1]	**–**	(19)
Items that may be reclassified subsequently to profit or loss	**(22)**	106
Exchange differences on translation of foreign operations	**(19)**	97
Movements in hedging reserves	**(4)**	12
Tax effect of above items	**1**	(3)
Total comprehensive income for the period	**59**	150

[1] *During the quarter ended December 2017, there were tax rate changes relating primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018, resulting in a US$19 million taxation charge recorded through the income statement and US$19 million through other comprehensive income.*

Condensed group balance sheet

US$ million	Note	Dec 2018 Reviewed	Sept 2018 Reviewed
ASSETS			
Non-current assets		**3,753**	3,766
Property, plant and equipment		**3,006**	3,010
Plantations	5	**459**	466
Deferred tax assets		**97**	106
Goodwill and intangible assets		**62**	63
Equity-accounted investees		**32**	33
Other non-current assets		**97**	88
Current assets		**1,903**	1,904
Inventories		**828**	741
Trade and other receivables		**707**	767
Derivative financial assets		**9**	21
Taxation receivable		**9**	12
Cash and cash equivalents		**350**	363
Total assets		**5,656**	5,670
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,915**	1,947
Non-current liabilities		**2,506**	2,550
Interest-bearing borrowings		**1,778**	1,818
Deferred tax liabilities		**336**	335
Other non-current liabilities		**392**	397
Current liabilities		**1,235**	1,173
Interest-bearing borrowings		**116**	97
Overdrafts		**13**	16
Trade and other payables		**954**	1,009
Provisions		**6**	6
Derivative financial liabilities		**5**	6
Taxation payable		**49**	39
Shareholders for dividend		**92**	–
Total equity and liabilities		**5,656**	5,670
Number of shares in issue at balance sheet date (millions)		**542.6**	539.3

Condensed group statement of cash flows

US$ million	Quarter ended Dec 2018 Reviewed	Dec 2017 Reviewed
Profit for the period	**81**	63
Adjustment for:		
Depreciation, fellings and amortisation	**86**	80
Taxation	**25**	38
Net finance costs	**17**	15
Defined post-employment benefits paid	**(10)**	(10)
Plantation fair value adjustments	**(20)**	(32)
Other non-cash items	**18**	8
Cash generated from operations	**197**	162
Movement in working capital	**(87)**	(83)
Net finance costs paid	**(5)**	(6)
Taxation (paid) refund	**(3)**	6
Cash generated from operating activities	**102**	79
Cash utilised in investing activities	**(109)**	(93)
Capital expenditure	**(106)**	(88)
Other non-current asset movements	**(3)**	(5)
Net cash (utilised) generated	**(7)**	(14)
Cash effects of financing activities	**2**	58
Proceeds from interest-bearing borrowings	**6**	58
Repayment of interest-bearing borrowings	**(4)**	–
Net movement in cash and cash equivalents	**(5)**	44
Cash and cash equivalents at beginning of period	**363**	550
Translation effects	**(8)**	24
Cash and cash equivalents at end of period	**350**	618

Condensed group statement of changes in equity

US$ million	Quarter ended Dec 2018 Reviewed	Dec 2017 Reviewed
Balance – beginning of period	**1,947**	1,747
Total comprehensive income for the period	**59**	150
Shareholders for dividend	**(92)**	(81)
Transfers of vested share options	**–**	2
Share-based payment reserve	**1**	3
Balance – end of period	**1,915**	1,821
Comprising		
Ordinary share capital and premium	**841**	981
Non-distributable reserves	**131**	136
Foreign currency translation reserves	**(181)**	(157)
Hedging reserves	**(33)**	(24)
Retained earnings	**1,157**	885
Total equity	**1,915**	1,821

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter ended 30 December 2018 are prepared in accordance with the International Financial Reporting Standards, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by 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 as issued by the IASB and are consistent with those applied in the previous annual financial statements except those new standards adopted and set out below under “Adoption of accounting standards in the current year”.

The preparation of these condensed consolidated interim financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA) and were authorised for issue on 6 February 2019.

The condensed consolidated interim financial statements for the quarter ended 30 December 2018 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group’s auditor, KPMG Inc. Its 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.

Adoption of accounting standards in the current year

The group has adopted the following standards and amendments to standards during the current year, all of which had no material impact on the group’s reported results or financial position:

IFRS 15 *Revenue from Contracts with Customers*

Revenue is derived principally from the sale of goods to customers and is measured at the fair value of the amount received or receivable after the deduction of trade and settlement discounts, rebates and customer returns. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer’s warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded onto the relevant carrier unless the contract of sale specifies different terms.

The adoption of IFRS 15 resulted in the group recognising revenue from shipping activities as a separate performance obligation when control of the goods pass to customers at the point when the goods have been loaded onto the relevant carrier. Given that the group is acting as an agent in these activities, revenue is recognised when the shipping is arranged which is considered to be at the point of loading of the goods resulting in no significant timing differences compared to revenue recognition under IAS 18. The related shipping costs have been set-off against this revenue based on agent accounting principles whereas these were previously included in cost of sales. Refer to note 2 for the quantitative impact of this adjustment. The group elected to adopt IFRS 15 on a cumulative effect method.

IFRS 9 *Financial Instruments*

IFRS 9 sets out a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income. The new classification did not have a significant impact compared to the previous accounting for financial assets under IAS 39. IFRS 9 replaced the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The group applied the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. The application of the ECL model did not result in a material impact compared to the previous accounting under IAS 39. With respect to hedging, a new non-distributable equity reserve was created called ‘cost of hedging reserve’. This reserve is used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9. This resulted in an increase to retained earnings and a decrease to this ‘cost of hedging reserve’ of US$4 million on adoption of IFRS 9.

Notes to the condensed group results continued

2. Segment information

Metric tons (000's)	Quarter ended Dec 2018	Quarter ended Dec 2017
Sales volume		
North America	**321**	343
Europe	**809**	822
Southern Africa – Pulp and paper	**396**	383
Forestry	**317**	248
Total	**1,843**	1,796
Which consists of:		
Dissolving wood pulp	**297**	287
Specialities and packaging papers	**252**	198
Printing and writing papers	**977**	1,063
Forestry	**317**	248

US$ million	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
Sales		
North America	**351**	342
Europe	**732**	673
Southern Africa – Pulp and paper	**329**	299
Forestry	**19**	16
Delivery costs revenue adjustment(2)	**(13)**	–
Total	**1,418**	1,330
Which consists of:		
Dissolving wood pulp	**263**	241
Specialities and packaging papers	**282**	196
Printing and writing papers	**867**	877
Forestry	**19**	16
Delivery costs revenue adjustment(2)	**(13)**	–

(2) *Relates to delivery costs netted off against revenue. Refer to note 1, IFRS 15 adoption.*

2. **Segment information** continued

US$ million	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
Operating profit (loss) excluding special items		
North America	**9**	(1)
Europe	**34**	37
Southern Africa	**85**	69
Unallocated and eliminations[1]	**–**	–
Total	**128**	105
Which consists of:		
Dissolving wood pulp	**77**	62
Specialities and packaging papers	**13**	16
Printing and writing papers	**38**	27
Unallocated and eliminations[1]	**–**	–
Special items – (gains) losses		
North America	**–**	2
Europe	**4**	2
Southern Africa	**(3)**	(16)
Unallocated and eliminations[1]	**4**	1
Total	**5**	(11)
Segment operating profit (loss)		
North America	**9**	(3)
Europe	**30**	35
Southern Africa	**88**	85
Unallocated and eliminations[1]	**(4)**	(1)
Total	**123**	116
EBITDA excluding special items		
North America	**29**	18
Europe	**67**	69
Southern Africa	**101**	84
Unallocated and eliminations[1]	**–**	1
Total	**197**	172
Which consists of:		
Dissolving wood pulp	**91**	75
Specialities and packaging papers	**30**	27
Printing and writing papers	**76**	69
Unallocated and eliminations[1]	**–**	1

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

Notes to the condensed group results continued

2. Segment information continued

US$ million	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
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.		
EBITDA excluding special items	**197**	172
Depreciation and amortisation	**(69)**	(67)
Operating profit excluding special items	**128**	105
Special items – gains (losses)	**(5)**	11
Plantation price fair value adjustment	**3**	16
Fire, flood, storm and other events	**(8)**	(5)
Segment operating profit	**123**	116
Net finance costs	**(17)**	(15)
Profit before taxation	**106**	101
Taxation	**(25)**	(38)
Profit for the period	**81**	63
Segment assets		
North America	**1,144**	1,031
Europe	**1,582**	1,414
Southern Africa	**1,441**	1,464
Unallocated and eliminations[1]	**(64)**	(75)
Total	**4,103**	3,834
Reconciliation of segment assets to total assets		
Segment assets	**4,103**	3,834
Deferred tax assets	**97**	93
Cash and cash equivalents	**350**	618
Trade and other payables	**954**	828
Provisions	**6**	9
Derivative financial instruments	**5**	7
Taxation payable	**49**	85
Shareholders for dividend	**92**	75
Total assets	**5,656**	5,549

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

3. Operating profit

US$ million	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
Included in operating profit are the following items:		
Depreciation and amortisation	**69**	67
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**17**	13
Growth	**(17)**	(16)
	–	(3)
Plantation price fair value adjustment	**(3)**	(16)
	(3)	(19)

4. Earnings per share

	Dec 2018 Reviewed	Dec 2017 Reviewed
Basic earnings per share (US cents)	**15**	12
Headline earnings per share (US cents)	**15**	12
EPS excluding special items (US cents)	**16**	14
Weighted average number of shares in issue (millions)	**539.9**	535.8
Diluted earnings per share (US cents)	**15**	11
Diluted headline earnings per share (US cents)	**15**	11
Weighted average number of shares on fully diluted basis (millions)	**549.7**	549.0
Calculation of headline earnings		
Profit for the period	**81**	63
Headline earnings	**81**	63
Calculation of earnings excluding special items		
Profit for the period	**81**	63
Special items after tax	**5**	(8)
Special items	**5**	(11)
Tax effect	**–**	3
Tax special items	**–**	19
Earnings excluding special items	**86**	74

Notes to the condensed group results continued

5. Plantations

Plantations are stated at fair value less 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 and volume and growth estimations.

Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices. Mature timber that is to be felled in more than 12 months from the reporting date is valued using a 12-quarter rolling historical average price. Immature timber is valued using a discounted cash flow method taking into account the growth cycle of a plantation.

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	**Dec 2018 Reviewed**	Sept 2018 Reviewed
Fair value of plantations at beginning of year	**466**	458
Gains arising from growth	**17**	69
In-field inventory	**(2)**	1
Gain arising from fair value price changes	**3**	27
Harvesting – agriculture produce (fellings)	**(17)**	(66)
Translation difference	**(8)**	(23)
Fair value of plantations at end of period	**459**	466

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**	**Dec 2018 Reviewed**	Sept 2018 Reviewed
Investment funds[2]	Level 1	**7**	7
Derivative financial assets	Level 2	**9**	21
Derivative financial liabilities	Level 2	**5**	6
Contingent consideration liability[3]	Level 3	**6**	7

[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 weighted average outcome has been considered.

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, bank overdrafts and current interest-bearing borrowings approximate their fair values.

7. Capital commitments

	Dec 2018 Reviewed	Sept 2018 Reviewed
Contracted	**259**	293
Approved but not contracted	**403**	381
	662	674

8. Material balance sheet movements

Inventories, trade and other receivables and trade and other payables
The increase in inventories with a decrease in both trade and other receivables and trade and other payables is largely attributable to seasonal working capital movements.

9. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2018 financial year-end except for the Boldt Company which is no longer considered a related party.

10. 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 their assessment of IFRS 16 *Leases*.

11. Events after the balance sheet date

There have been no reportable events that have occurred between the balance sheet date and the date of authorisation for issue of these financial statements.

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 (this information has not been audited or reviewed)

Summary Rand convenience translation

	Quarter ended	
	Dec 2018	Dec 2017
Key figures: (ZAR million)		
Sales	**20,295**	18,117
Operating profit excluding special items[1]	**1,832**	1,430
Special items – (gains) losses[1]	**72**	(150)
EBITDA excluding special items[1]	**2,820**	2,343
Profit for the period	**1,159**	858
Basic earnings per share (SA cents)	**215**	160
Net debt[1]	**22,477**	16,690
Key ratios: (%)		
Operating profit excluding special items to sales	**9.0**	7.9
Operating profit excluding special items to capital employed (ROCE)[1]	**14.7**	14.2
EBITDA excluding special items to sales	**13.9**	12.9

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

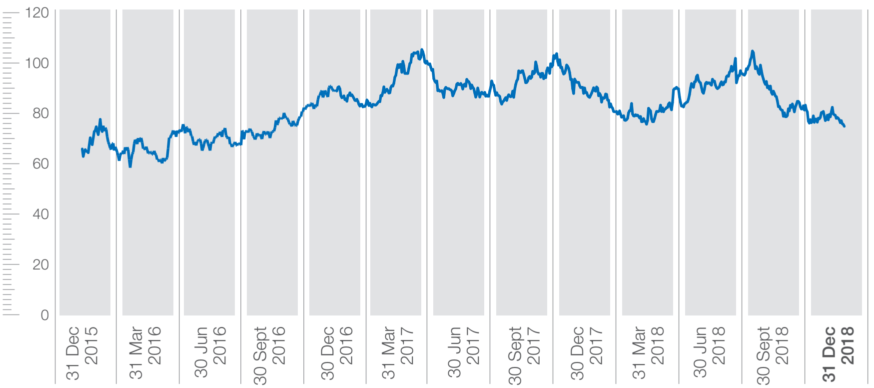
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period end; and
– income, expenditure and cash flow items at average exchange rates.

Supplemental information (this information has not been audited or reviewed)

Exchange rates

	Dec 2018	Sept 2018	Jun 2018	Mar 2018	Dec 2017
Exchange rates:					
Period end rate: US$1 = ZAR	**14.4361**	14.1473	13.7275	11.8385	12.3724
Average rate for the quarter: US$1 = ZAR	**14.3127**	14.0615	12.6312	11.9577	13.6220
Average rate for the year to date: US$1 = ZAR	**14.3127**	13.0518	12.7255	12.7723	13.6220
Period end rate: €1 = US$	**1.1438**	1.1609	1.1685	1.2323	1.1998
Average rate for the quarter: €1 = US$	**1.1409**	1.1626	1.1920	1.2286	1.1778
Average rate for the year to date: €1 = US$	**1.1409**	1.1902	1.1995	1.2032	1.1778

Sappi share price – December 2015 to December 2018
(ZAR)



sappi

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South Africa

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank 2196, South Africa
PO Box 61051, Marshalltown 2107, South Africa
www.computershare.com

United States ADR Depositary

The Bank of New York Mellon
Investor Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258
Tel +1 610 382 7836

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