

**Sappi Group
(Sappi Limited)
FOURTH QUARTER: FISCAL YEAR 2018
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
30 SEPTEMBER 2018**

14 November 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.

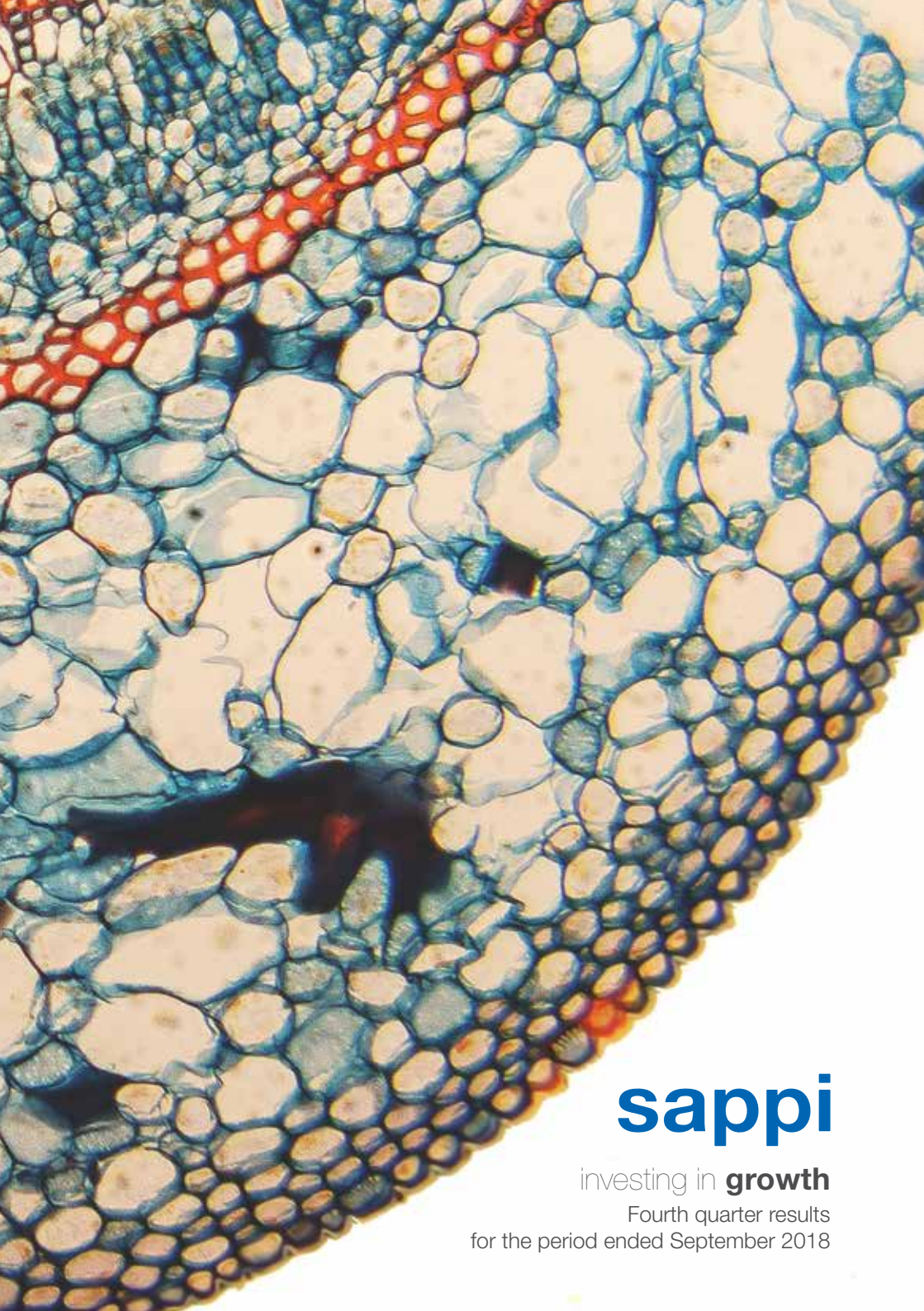
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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 cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing 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**

Fourth quarter results
for the period ended September 2018

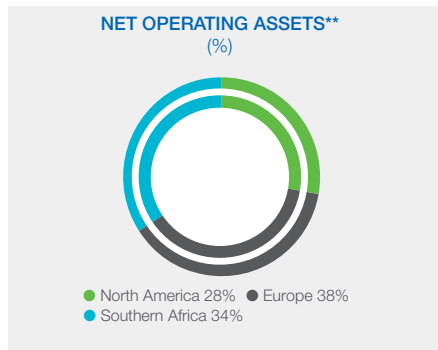
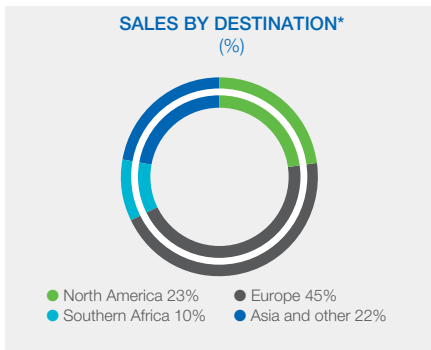
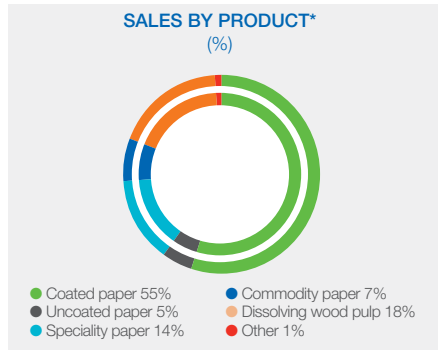
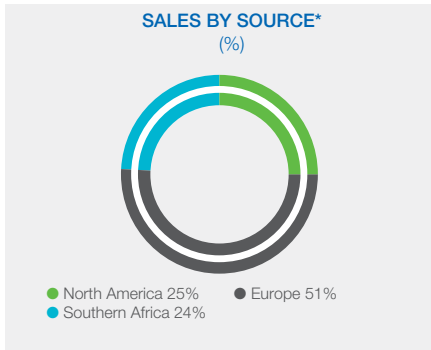
4th quarter results

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 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.



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

Highlights for the quarter

EBITDA excluding special items **US\$224 million** (Q4 FY17: US\$221 million)

Profit for the period **US\$107 million** (Q4 FY17: US\$102 million)

EPS excluding special items **19 US cents** (Q4 FY17: 19 US cents)

Highlights for the year

EBITDA excluding special items **US\$762 million** (FY17: US\$785 million)

Profit for the period **US\$323 million** (FY17: US\$338 million)

EPS excluding special items **60 US cents** (FY17: 64 US cents)

Net debt **US\$1,568 million** (FY17: US\$1,322 million)

Dividend of **17 US cents** (FY17: 15 US cents)

	Quarter ended			Year ended	
	Sep 2018	Sep 2017	Jun 2018	Sep 2018	Sep 2017
Key figures: (US\$ million)					
Sales	1,535	1,411	1,445	5,806	5,296
Operating profit excluding special items ⁽¹⁾	148	152	85	480	526
Special items – loss (gain) ⁽²⁾	13	1	1	(9)	–
EBITDA excluding special items ⁽¹⁾	224	221	155	762	785
Profit for the period	107	102	51	323	338
Basic earnings per share (US cents)	20	19	9	60	63
EPS excluding special items (US cents) ⁽³⁾	19	19	10	60	64
Net debt ⁽³⁾	1,568	1,322	1,603	1,568	1,322
Key ratios: (%)					
Operating profit excluding special items to sales	9.6	10.8	5.9	8.3	9.9
Operating profit excluding special items to capital employed (ROCE) ⁽³⁾	17.0	20.2	9.7	14.6	18.0
EBITDA excluding special items to sales	14.6	15.7	10.7	13.1	14.8
Net debt to EBITDA excluding special items	2.1	1.7	2.1	2.1	1.7
Interest cover ⁽³⁾	11.0	9.1	11.0	11.0	9.1
Net asset value per share (US cents) ⁽³⁾	361	327	342	361	327

⁽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.

Year ended September 2018 compared to year ended September 2017

The overall result was in line with that of the prior year on a like-for-like basis, notwithstanding the downtime related to the completion of several large strategic growth projects during the year. Market demand for dissolving wood pulp (DWP) and speciality and packaging papers ensured our production capacity in these grades was fully utilised, further supporting our decision to invest in additional capacity in these business segments. In the graphic paper market, a series of successful selling price increases throughout the year enabled margins to be maintained notwithstanding significantly higher raw material costs, mainly from paper pulp and various process chemicals. A stronger Rand during most of the year placed the profitability of the South African business under pressure.

Increased capital expenditure in strategic growth projects, including the conversions of paper machines in Europe and North America as well as debottlenecking DWP plants in South Africa, was managed around our target of two times net debt to EBITDA. This facilitated a further shift in the product mix of the group away from the traditional graphic paper business towards higher margin and growth segments.

The group's EBITDA excluding special items was US\$762 million, declining US\$3 million on a like-for-like basis (FY2017 benefited by approximately US\$20 million due to an

additional accounting week). Operating profit excluding special items for the year was US\$480 million compared to US\$526 million in the prior year.

Net finance costs for the year were US\$68 million, a decrease from US\$80 million in the prior year, due to lower average debt levels during the year.

Net profit for the year decreased by 4% to US\$323 million due to an increased depreciation expense following the higher capital expenditure activity.

Fourth quarter commentary

The group generated EBITDA excluding special items of US\$224 million, an increase of 1% over the same quarter last year. The production challenges of the prior quarter were resolved and combined with higher graphic paper prices and stable demand across most product categories led to the improved performance.

DWP demand and market pricing remain healthy, albeit that net sales for the quarter were negatively impacted by translation losses related to currency hedges contracted earlier in the year at a time when the Rand was significantly stronger. The impact of lost DWP production volumes in the third quarter, following start-up issues after mill upgrade projects, was felt in this quarter as inventory levels impacted sales volumes. We launched the Sappi Verve brand as the umbrella brand for our DWP products, which emphasises Sappi's commitment to producing a natural fibre sourced from sustainably managed forests.

Demand for specialities and packaging papers continued to grow in each region and across all major product categories. EBITDA margins were impacted by higher raw material prices and a delay in implementing price increases due to the longer-term contracts typical in this market. The qualification process of the paperboard grades at the Somerset and Maastricht mills is under way, with positive customer response to date. This qualification and ramp-up process also negatively impacted average pricing and costs for the quarter.

The European business performed well, with coated paper price increases offsetting cost increases. Overall graphic paper markets in Europe weakened during the quarter, however, market share gains helped mitigate the impact.

Higher coated paper and DWP prices in addition to the ramp-up of sales volumes from Somerset PM1 led to an improved result for the North American business.

An increase in Rand selling prices offset variable costs pressures, some of which related to imported raw materials, in the South African business. Sales volumes were broadly in line with those of last year, being slightly affected by the lost DWP production volumes in the third quarter and a late citrus season which impacted containerboard sales.

Net finance costs were US\$14 million compared to US\$15 million in the equivalent quarter last year.

Earnings per share excluding special items for the quarter was 19 US cents.

Cash flow and debt

Net cash generated for the quarter was US\$26 million, compared to US\$41 million in the equivalent quarter last year. The reduction in net cash generation was as a result of a smaller decrease in working capital, offset somewhat by lower capital expenditure. Capital expenditure of US\$146 million related mainly to the finalisation of debottlenecking of DWP production at the Ngodwana and Saiccor mills, the Saiccor mill woodyard upgrade as well as initial work related to the expansion at Saiccor. Agreement has yet to be reached with suppliers and contractors on the finalisation of the Somerset PM1 upgrade cost overrun, with the result that capital expenditure in the quarter was less than forecast.

Net cash utilised for the financial year was US\$254 million (FY2017 US\$108 million generated). The cash utilisation arose from the Cham Paper acquisition cost of US\$132 million, combined with increases in capital expenditure, dividends and working capital. These were partially offset by lower cash interest and tax charges.

Net debt at financial year-end increased to US\$1,568 million as a result of the cash utilisation. At the end of September 2018, liquidity comprised cash on hand of US\$363 million and US\$680 million from the unutilised committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

€ million	Sep 2018	Quarter ended			
		Jun 2018	Mar 2018	Dec 2017	Sep 2017
Sales	671	636	616	571	583
Operating profit excluding special items	38	31	37	31	35
<i>Operating profit excluding special items to sales (%)</i>	5.7	4.9	6.0	5.4	6.0
EBITDA excluding special items	71	60	64	59	63
<i>EBITDA excluding special items to sales (%)</i>	10.6	9.4	10.4	10.3	10.8
<i>RONOA pa (%)</i>	11.3	9.3	11.7	10.6	12.2

The European business delivered a good result in a seasonally stronger quarter, with higher graphic and speciality paper pricing, in addition to market share gains in coated paper, more than offsetting a weaker graphic paper market and higher costs.

Graphic paper sales volumes were 3% below those of last year, with growth in coated mechanical sales not sufficient to offset declines in coated woodfree demand. The coated mechanical market began the quarter positively due to switching from other grades, however, demand weakened towards the end of the quarter. Coated woodfree demand was weak throughout the period. Coated woodfree and coated mechanical prices are now 9% and 8% higher respectively than they were last year following further price increases implemented during the quarter.

In the speciality paper business, year-on-year sales volumes and prices grew 9% and 4%

respectively on a like-for-like basis. Price increases in this segment lagged cost inflation, largely due to contract duration. The Cham integration continues to exceed expectations, with EBITDA contribution ahead of expectations after seven months.

Variable costs increased 11% year-on-year, led by higher paper pulp and latex prices and exacerbated by the weakening in the Euro/US Dollar exchange rate. Fixed costs increased predominantly because of the increased headcount post the Cham acquisition.

North America

US\$ million	Sep 2018	Quarter ended			
		Jun 2018	Mar 2018	Dec 2017	Sep 2017
Sales	388	339	363	342	357
Operating profit (loss) excluding special items	31	1	18	(1)	27
<i>Operating profit (loss) excluding special items to sales (%)</i>	8.0	0.3	5.0	(0.3)	7.6
EBITDA excluding special items	51	20	37	18	47
<i>EBITDA excluding special items to sales (%)</i>	13.1	5.9	10.2	5.3	13.2
<i>RONOA pa (%)</i>	10.9	0.4	6.8	(0.4)	10.7

Following the completion of the Somerset PM1 conversion, profitability in the North American business improved. Graphic paper prices increased compared to the previous quarter, however, sales volumes were affected by historically low inventory levels at the start of the quarter.

The US coated paper market continued to be tightly supplied, and our average coated paper sales prices increased 13% year-on-year. Coated sales volumes were 9% lower than the equivalent quarter last year because of the lost production from Somerset PM1 in the third quarter as well as the intentional shift to packaging grades.

DWP sales volumes were higher than those achieved in both the prior quarter and the equivalent quarter last year. Average DWP sales prices improved compared to the prior year.

The packaging business, including the new paperboard grades from Somerset, nearly doubled sales volumes compared to the prior year. Sales prices reflect the impact of start-up and qualification of the new grades. We made good progress during the quarter with the ramp-up of first quality paperboard production.

Variable costs were reduced compared to the prior quarter as lower wood and chemical prices more than offset higher purchased paper pulp prices.

Southern Africa

ZAR million	Sep 2018	Quarter ended			
		Jun 2018	Mar 2018	Dec 2017	Sep 2017
Sales	5,103	4,383	4,548	4,291	4,879
Operating profit excluding special items	1,081	553	950	940	1,106
<i>Operating profit excluding special items to sales (%)</i>	21.2	12.6	20.9	21.9	22.7
EBITDA excluding special items	1,344	742	1,168	1,144	1,344
<i>EBITDA excluding special items to sales (%)</i>	26.3	16.9	25.7	26.7	27.5
<i>RONOA pa (%)</i>	22.4	11.9	20.9	21.3	26.0

The performance of the Southern African business was very similar to that of the equivalent quarter last year, with higher Rand selling prices offsetting input cost pressure from timber, paper pulp, chemicals and energy. The weaker Rand/US Dollar exchange rate impacted both export sales prices and imported input costs, however, currency hedges on DWP sales entered into earlier in the year resulted in lower effective Rand pricing for some of our DWP sales during the quarter.

DWP sales volumes were flat year-on-year as the late start-up of both Ngodwana and Saiccor mills following plant upgrades in the third quarter resulted in low initial DWP inventory levels.

The paper business experienced robust demand notwithstanding a late citrus season which delayed some containerboard sales into

the next quarter. Sales price increases have offset cost price pressure resulting from the weaker Rand and increased energy prices.

Environmental approval for the expansion of the Saiccor Mill was granted by the relevant authorities at the end of the quarter, and construction has now commenced.

Directorate

Mr Bob DeKoch retired as independent non-executive director in August 2018 due to health reasons. Mr DeKoch was appointed to the board in March 2013 and also served as a member of the Social, Ethics, Transformation and Sustainability Committee.

The board is pleased to announce the appointment of Ms Zola Malinga as independent non-executive director with effect from 1 October 2018. Ms Malinga will also serve as a member of the Sappi Audit and Risk Committee with effect from 1 October 2018.

Dividends

On 14 November 2018, the directors approved a dividend (number 88) of 17 US cents per share which will be paid to shareholders on 14 January 2019. This dividend was declared after year-end and was not included as a liability at the end of the financial year.

The 2018 dividend is covered three times by basic earnings per share, excluding non-cash special items. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividend ratio of three to one.

Outlook

The debottlenecking of Saiccor, Ngodwana and Cloquet as well as fewer production disruptions in 2019 should lead to increased DWP sales volumes to meet growing demand. DWP spot prices are forecast to remain range-bound at current levels in the coming year as VSF prices are expected to be under pressure from excess VSF capacity, while paper pulp prices which are forecast to remain at high levels should provide support.

Demand for speciality and packaging papers continues to grow, driven by increasing consumer preference for paper-based

packaging and legislative changes promoting recycling and the use of recyclable materials. The completion of the conversion projects at Somerset and Maastricht in the past year will allow us to increase production of paperboard grades to serve this growing market.

Industrywide conversion and closure of graphic paper machines in the US and Europe are expected to keep the markets balanced in the coming year should demand contract at similar levels to those of the past few years. Recent European data, however, indicates that a potential downturn may be realised in 2019. Cost control measures will be implemented in order to support margins as we manage the price elasticity in our paper markets.

Capital expenditure in 2019 is expected to increase to 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.

Having completed significant projects in 2018 to convert paper machines to higher margin and growing packaging grades, in addition to the debottlenecking of both Saiccor and Ngodwana mills, we expect EBITDA in the first quarter of financial year 2019, given current exchange rates, to be comfortably higher than that of 2018.

On behalf of the board

S R Binnie

Director

G T Pearce

Director

14 November 2018

Dividend announcement

The directors have resolved to declare a gross dividend (number 88) of 17 US cents per share, payable in ZAR at an exchange rate (US\$1=ZAR) of 14.43176, being ZAR245.33992 cents per share, for the year ended 30 September 2018 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi "A" ordinary unlisted shares in issue on the record date shall be entitled to receive

8.5 US cents per share being 50% of the ordinary dividend so declared.

The South African dividend tax (DT) rate is 20% and the net dividend payable to shareholders who are not exempt from DT is ZAR196.27194 cents per share. Sappi currently has 557 202 573 ordinary shares in issue. The income tax reference number is 9175203711.

In compliance with the JSE Listings Requirements the salient dates in respect of the dividend are detailed below:

Declaration and finalisation date:	15 November 2018
Last day to trade to qualify for the dividend:	8 January 2019
Shares commence trading ex-dividend:	9 January 2019
Record date:	11 January 2019
Payment date:	14 January 2019

Dividends payable to shareholders on the South African register will be paid in South African Rand and all dividends attributable to holders of the ADR shares on the NYSE will be dealt with in accordance with their custody agreements in place with their local custodian.

Certificated shareholders who previously held their shares on the UK register, which has subsequently been discontinued, shall be paid in Pounds Sterling at the ruling exchange rate at the time.

No currency elections are permitted.

All shareholders need to ensure that their current bank mandates with their service providers are up to date. Furthermore,

shareholders who have not yet done so, should submit their service providers with their tax numbers and other relevant information for dividend tax purposes. Where shareholders qualify for withholding tax exemptions they need to ensure that such exemption applications have been lodged with their service providers.

Certificated and own name shareholders can call Computershare in South Africa on 0861 100 950 for assistance in this regard.

Share certificates will not be dematerialised or rematerialised from 9 January 2019 to 11 January 2019, both days inclusive.

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).

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- *the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- *the impact on our business of adverse changes in global economic conditions;*
- *unanticipated production disruptions (including as a result of planned or unexpected power outages);*
- *changes in environmental, tax and other laws and regulations;*
- *adverse changes in the markets for our products;*
- *the emergence of new technologies and changes in consumer trends including increased preferences for digital media;*
- *consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;*
- *adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;*
- *the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies; 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	Notes	Quarter ended		Year ended	
		Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Sales		1,535	1,411	5,806	5,296
Cost of sales		1,293	1,164	4,928	4,429
Gross profit		242	247	878	867
Selling, general and administrative expenses		103	89	396	334
Other operating expenses (income)		4	8	(4)	14
Share of profit from equity investments		–	(1)	(3)	(7)
Operating profit	3	135	151	489	526
Net finance costs		14	15	68	80
Net interest expense		18	18	76	92
Interest capitalised		–	–	(2)	–
Net foreign exchange gain		(4)	(3)	(6)	(12)
Profit before taxation		121	136	421	446
Taxation		14	34	98	108
Profit for the period		107	102	323	338
Basic earnings per share (US cents)	4	20	19	60	63
Weighted average number of shares in issue (millions)		539.1	534.9	538.1	533.9
Diluted earnings per share (US cents)	4	19	19	59	62
Weighted average number of shares on fully diluted basis (millions)		552.1	548.9	550.0	547.4

Condensed group statement of other comprehensive income

US\$ million	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Profit for the period	107	102	323	338
Other comprehensive income (loss), net of tax				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Actuarial gains (losses) on post-employment benefit funds	19	68	–	68
Tax effect resulting from above items and changes in tax rates	28	101	28	101
<i>Items that must be reclassified subsequently to profit or loss</i>	(9)	(33)	(28)	(33)
Exchange differences on translation of foreign operations	(26)	(53)	(57)	10
Movements in hedging reserves	(34)	(53)	(61)	(1)
Movements in available for sale financial assets	13	(1)	8	10
Tax effect of above items	(1)	–	(1)	–
	(4)	1	(3)	1
Total comprehensive income for the period	100	117	266	416

Condensed group balance sheet

US\$ million	Note	Reviewed Sep 2018	Audited Sept 2017
ASSETS			
Non-current assets		3,766	3,378
Property, plant and equipment		3,010	2,681
Plantations	5	466	458
Deferred tax assets		106	123
Goodwill and intangible assets		63	39
Equity-accounted investees		33	26
Other non-current assets		88	51
Current assets		1,904	1,869
Inventories		741	636
Trade and other receivables		767	668
Derivative financial instruments		21	3
Taxation receivable		12	12
Cash and cash equivalents		363	550
Total assets		5,670	5,247
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		1,947	1,747
Non-current liabilities		2,550	2,457
Interest-bearing borrowings		1,818	1,739
Deferred tax liabilities		335	295
Other non-current liabilities		397	423
Current liabilities		1,173	1,043
Interest-bearing borrowings		97	133
Overdrafts		16	–
Trade and other payables		1,009	858
Provisions		6	10
Derivative financial instruments		6	5
Taxation payable		39	37
Total equity and liabilities		5,670	5,247
Number of shares in issue at balance sheet date (millions)		539.3	535.0

Condensed group statement of cash flows

US\$ million	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Profit for the period	107	102	323	338
<i>Adjustment for:</i>				
Depreciation, fellings and amortisation	93	83	348	322
Taxation	14	34	98	108
Net finance costs	14	15	68	80
Defined post-employment benefits paid	(12)	(10)	(45)	(43)
Plantation fair value adjustments	(14)	(20)	(96)	(79)
Asset impairment reversal	–	–	(3)	–
Net restructuring provisions	3	–	1	1
(Profit) loss on disposal of property, plant and equipment	4	2	(4)	2
Other non-cash items	3	(2)	19	19
Cash generated from operations	212	204	709	748
Movement in working capital	6	103	(79)	(27)
Net finance costs paid	(24)	(20)	(66)	(81)
Taxation paid	(23)	(38)	(73)	(100)
Dividend paid	–	–	(81)	(59)
Cash generated from operating activities	171	249	410	481
Cash utilised in investing activities	(145)	(208)	(664)	(373)
Capital expenditure	(146)	(197)	(541)	(357)
Proceeds on disposal of assets	–	1	11	4
Acquisition of subsidiary	–	(11)	(132)	(11)
Other movements	1	(1)	(2)	(9)
Net cash (utilised) generated	26	41	(254)	108
Cash effects of financing activities	21	51	68	(279)
Proceeds from interest-bearing borrowings	21	50	137	186
Repayment of interest-bearing borrowings	–	1	(69)	(465)
Net movement in cash and cash equivalents	47	92	(186)	(171)
Cash and cash equivalents at beginning of period	317	446	550	703
Translation effects	(1)	12	(1)	18
Cash and cash equivalents at end of period	363	550	363	550

Condensed group statement of changes in equity

US\$ million	Year ended	
	Reviewed Sep 2018	Audited Sep 2017
Balance – beginning of period	1,747	1,378
Total comprehensive income for the period	266	416
Shareholders for dividend	(81)	(59)
Transfers from the share purchase trust	5	5
Transfers of vested share options	(1)	(2)
Share-based payment reserve	11	9
Balance – end of period	1,947	1,747

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognitions requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

The preparation of these condensed consolidated financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA).

The condensed consolidated financial statements for the year ended September 2018 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in these 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.

Notes to the condensed group results continued

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 year ended September 2017.

Metric tons (000's)	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Sep 2018	Sep 2017
Sales volume				
North America	363	361	1,371	1,359
Europe	864	842	3,366	3,343
Southern Africa – Pulp and paper	441	447	1,620	1,606
Forestry	352	290	1,234	1,102
Total	2,020	1,940	7,591	7,410
Which consists of:				
Dissolving wood pulp	332	325	1,198	1,184
Specialities and packaging papers	291	240	1,009	854
Printing and writing papers	1,045	1,085	4,150	4,270
Forestry	352	290	1,234	1,102

2. Segment information continued

US\$ million	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Sales				
North America	388	357	1,432	1,360
Europe	782	684	2,970	2,564
Southern Africa – Pulp and paper	345	352	1,328	1,307
Forestry	20	18	76	65
Total	1,535	1,411	5,806	5,296
Which consists of:				
Dissolving wood pulp	278	277	1,043	1,059
Specialities and packaging papers	310	231	1,087	833
Printing and writing papers	927	885	3,600	3,339
Forestry	20	18	76	65
Operating profit (loss) excluding special items				
North America	31	27	49	47
Europe	44	41	163	140
Southern Africa	78	84	270	337
Unallocated and eliminations ⁽¹⁾	(5)	–	(2)	2
Total	148	152	480	526
Which consists of:				
Dissolving wood pulp	74	80	251	334
Specialities and packaging papers	19	24	78	76
Printing and writing papers	60	48	153	114
Unallocated and eliminations ⁽¹⁾	(5)	–	(2)	2
Special items – (gains) losses				
North America	(1)	–	2	–
Europe	(2)	1	(3)	4
Southern Africa	10	(1)	(25)	(10)
Unallocated and eliminations ⁽¹⁾	6	1	17	6
Total	13	1	(9)	–
Segment operating profit (loss)				
North America	32	27	47	47
Europe	46	40	166	136
Southern Africa	68	85	295	347
Unallocated and eliminations ⁽¹⁾	(11)	(1)	(19)	(4)
Total	135	151	489	526

⁽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		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
EBITDA excluding special items				
North America	51	47	126	126
Europe	81	73	299	262
Southern Africa	97	102	337	396
Unallocated and eliminations ⁽¹⁾	(5)	(1)	–	1
Total	224	221	762	785
Which consists of:				
Dissolving wood pulp	88	95	306	386
Specialties and packaging papers	40	36	138	117
Printing and writing papers	101	91	318	281
Unallocated and eliminations ⁽¹⁾	(5)	(1)	–	1

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	224	221	762	785
Depreciation and amortisation	(76)	(69)	(282)	(259)
Operating profit excluding special items	148	152	480	526
Special items – gains (losses)	(13)	(1)	9	–
Plantation price fair value adjustment	(3)	7	27	21
Acquisition costs	–	–	(2)	–
Net restructuring provisions	(3)	–	(1)	(1)
Profit (loss) on disposal and written off assets	(4)	(2)	4	(2)
Asset (impairment) reversal	–	(6)	3	(6)
Black Economic Empowerment charge	–	–	(1)	(1)
Fire, flood, storm and other events	(3)	–	(21)	(11)
Segment operating profit	135	151	489	526
Net finance costs	(14)	(15)	(68)	(80)
Profit before taxation	121	136	421	446
Taxation	(14)	(34)	(98)	(108)
Profit for the period	107	102	323	338

⁽¹⁾ Includes the group's treasury operations and our insurance captive.

2. Segment information continued

US\$ million	Year ended	
	Reviewed Sep 2018	Audited Sep 2017
Segment assets		
North America	1,137	1,026
Europe	1,574	1,373
Southern Africa	1,392	1,263
Unallocated and eliminations ⁽¹⁾	38	2
Total	4,141	3,664
Reconciliation of segment assets to total assets		
Segment assets	4,141	3,664
Deferred taxation	106	123
Cash and cash equivalents	363	550
Trade and other payables	1,009	858
Provisions	6	10
Derivative financial instruments	6	5
Taxation payable	39	37
Total assets	5,670	5,247

⁽¹⁾ Includes the group's treasury operations and our insurance captive.

Notes to the condensed group results continued

3. Operating profit

US\$ million	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Included in operating profit are the following items:				
Depreciation and amortisation	76	69	282	259
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	17	14	66	63
Growth	(17)	(13)	(69)	(58)
	-	1	(3)	5
Plantation price fair value adjustment	3	(7)	(27)	(21)
	3	(6)	(30)	(16)
Net restructuring provisions	3	-	1	1
(Profit) loss on disposal and write off of assets	4	2	(4)	2
Asset impairment reversals	-	(2)	(3)	(2)
Asset impairments	-	6	-	6

4. Earnings per share

US\$ million	Quarter ended		Year ended	
	Sep 2018	Sep 2017	Reviewed Sep 2018	Audited Sep 2017
Basic earnings per share (US cents)	20	19	60	63
Headline earnings per share (US cents)	20	20	59	64
EPS excluding special items (US cents)	19	19	60	64
Weighted average number of shares in issue (millions)	539.1	534.9	538.1	533.9
Diluted earnings per share (US cents)	19	19	59	62
Diluted headline earnings per share (US cents)	20	19	58	63
Weighted average number of shares on fully diluted basis (millions)	552.1	548.9	550.0	547.4
Calculation of headline earnings				
Profit for the period	107	102	323	338
(Profit) loss on disposal and written off assets	4	2	(4)	2
Asset impairment reversals	–	(2)	(3)	(2)
Asset impairments	–	6	–	6
Tax effect of above items	(1)	(1)	1	(1)
Headline earnings	110	107	317	343
Calculation of earnings excluding special items				
Profit for the period	107	102	323	338
Special items after tax	13	2	(2)	2
Special items	13	1	(9)	–
Tax effect	–	1	7	2
Tax special items	(16)	–	3	–
Earnings excluding special items	104	104	324	340

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, pre-tax discount rates, 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	Reviewed Sep 2018	Audited Sep 2017
Fair value of plantations at beginning of year	458	441
Gains arising from growth	69	58
Fire, flood, storm and other events	–	(5)
In-field inventory	1	1
Gain arising from fair value price changes	27	21
Harvesting – agriculture produce (fellings)	(66)	(63)
Translation difference	(23)	5
Fair value of plantations at end of period	466	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.

US\$ million	Fair value hierarchy	Fair value ⁽¹⁾	
		Reviewed Sep 2018	Audited Sep 2017
Investment funds ⁽²⁾	Level 1	7	7
Derivative financial assets	Level 2	21	3
Derivative financial liabilities	Level 2	6	5
Contingent consideration liability ⁽³⁾	Level 3	7	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 weighted average outcome has been considered. During the year the fair value of the liability was remeasured and a gain of US\$6 million was recognised.

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

US\$ million	Reviewed Sep 2018	Audited Sept 2017
Contracted	293	253
Approved but not contracted	381	219
	674	472

Notes to the condensed group results continued

8. Material balance sheet movements

Property, plant and equipment, cash, inventories, trade and other receivables and trade and other payables

The increase in property, plant and equipment and decrease in cash is due to the major capital expansion projects undertaken by the group as well as the acquisition of a subsidiary. The increase in inventories, trade and other receivables and trade and other payables is largely attributable to seasonal working capital movements as well as the acquisition of a subsidiary.

9. 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.

The fair values of assets acquired and liabilities assumed as at 28 February 2018 were as follows:

	EURO	US\$
Property, plant and equipment	81	98
Intangible assets	32	39
Inventories	25	31
Trade receivables	28	36
Prepayments and other assets	2	3
Cash and cash equivalents	6	7
Trade payables	(23)	(29)
Pension liabilities	(4)	(5)
Provisions	(1)	(2)
Other payables and accruals	(9)	(11)
Deferred tax liabilities	(15)	(18)
Non-current interest-bearing borrowings	(5)	(7)
Current interest-bearing borrowings	(5)	(6)
Net asset value acquired	112	136
Goodwill	2	3
Purchase consideration	114	139
Less: Cash and cash equivalents acquired	(6)	(7)
Net cash outflow on acquisition	108	132

CPG earned revenues of €118 million and profit after tax of €4 million since acquisition.

10. 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 (Boldt) for construction-related services which amounted to US\$88 million for the year ended September 2018 (September 2017: US\$8 million) largely related to the rebuild at our Somerset mill. The balance outstanding as at September 2018 is US\$26 million (September 2017: US\$Nil). There are ongoing disputes over amounts billed, and arbitration has been requested by Boldt.

11. 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. No material impact is expected in respect of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. Management is in the process of completing its assessment of IFRS 16 *Leases*.

12. Events after balance sheet date

The directors have resolved to declare a gross dividend (number 88) out of income earned for the financial year ended September 2018 of 17 US cents per ordinary share in issue on the record date being 11 January 2019. The dividend is payable in ZAR at an exchange rate of ZAR14,43176, being ZAR245.33992 cents per share. Holders of Sappi "A" ordinary unlisted shares, issued in terms of the BBBEE scheme, are entitled to receive 8.5 US cents (ZAR122.66996 cents per share) per share being 50% of the ordinary dividend declared.

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 believe 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		Year ended	
	Sep 2018	Sep 2017	Sep 2018	Sep 2017
Key figures: (ZAR million)				
Sales	21,584	18,591	75,779	70,867
Operating profit excluding special items ⁽¹⁾	2,081	2,003	6,265	7,039
Special items – (gains) losses ⁽¹⁾	183	13	(117)	–
EBITDA excluding special items ⁽¹⁾	3,150	2,912	9,945	10,504
Profit for the period	1,505	1,344	4,216	4,523
Basic earnings per share (SA cents)	279	251	783	847
Net debt ⁽¹⁾	22,183	17,921	22,183	17,921
Key ratios: (%)				
Operating profit excluding special items to sales	9.6	10.8	8.3	9.9
Operating profit excluding special items to capital employed (ROCE) ⁽¹⁾	17.2	20.0	13.7	17.6
EBITDA excluding special items to sales	14.6	15.7	13.1	14.8

⁽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

	Sep 2018	Jun 2018	Mar 2018	Dec 2017	Sep 2017
Exchange rates:					
Period end rate: US\$1 = ZAR	14.1473	13.7275	11.8385	12.3724	13.5561
Average rate for the quarter: US\$1 = ZAR	14.0615	12.6312	11.9577	13.6220	13.1761
Average rate for the year to date: US\$1 = ZAR	13.0518	12.7255	12.7723	13.6220	13.3813
Period end rate: €1 = US\$	1.1609	1.1685	1.2323	1.1998	1.1814
Average rate for the quarter: €1 = US\$	1.1626	1.1920	1.2286	1.1778	1.1756
Average rate for the year to date: €1 = US\$	1.1902	1.1995	1.2032	1.1778	1.1055

Sappi ordinary shares (JSE:SAP)

ZAR



— Sappi ordinary shares (ZAR)

Registration number: 1936/008963/06

JSE code: SAP

ISIN code: ZAE000006284

Issuer code: SAVVI

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States

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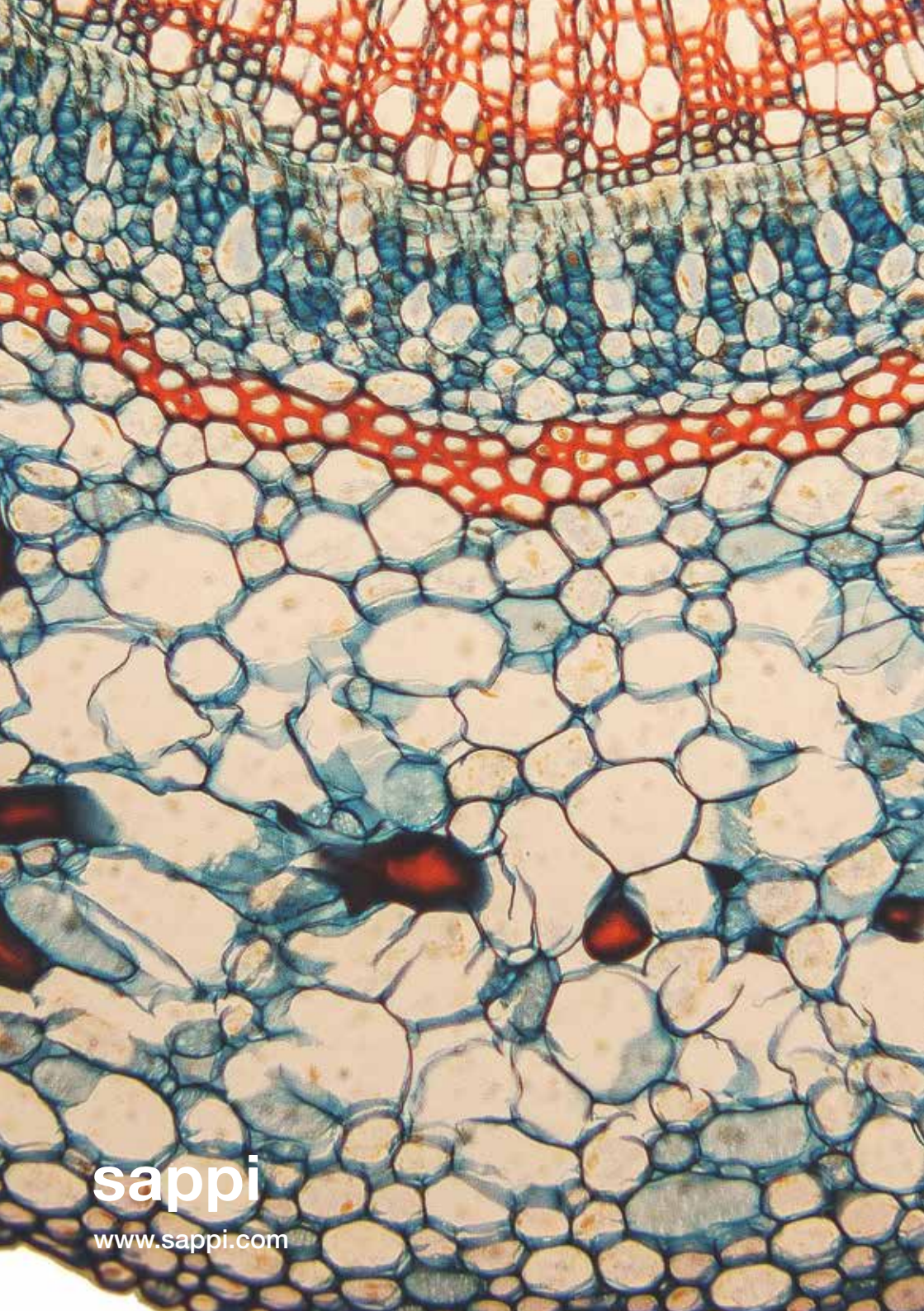
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