Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2020
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
29 DECEMBER 2019

12 FEBRUARY 2020

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 2019 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 2019

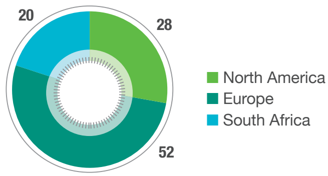
FIRST QUARTER RESULTS

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

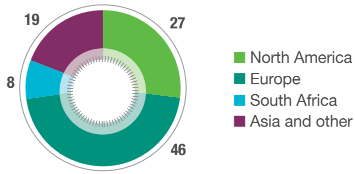
Our dissolving wood pulp products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic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

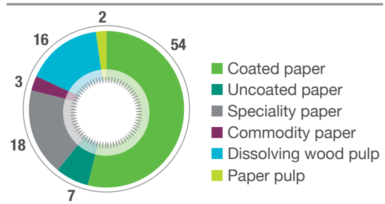
Sales by source* (%)



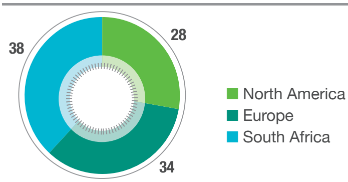
Sales by destination* (%)



Sales by product* (%)



Net operating assets** (%)



** For the period ended December 2019.*
*** As at December 2019.*

HIGHLIGHTS FOR THE QUARTER

EBITDA excluding special items
US$139 million
(Q1 2019 US$197 million)

EPS excluding special items
6 US cents
(Q1 2019 16 US cents)

Profit for the period
US$24 million
(Q1 2019 US$81 million)

Net debt
US$1,916 million
(Q1 2019 US$1,557 million)

	Quarter ended		
	Dec 2019	Dec 2018	Sept 2019
Key figures: (US$ million)			
Sales	**1,302**	1,418	1,454
Operating profit excluding special items[1]	**62**	128	109
Special items – loss (gain)[2]	**7**	5	12
EBITDA excluding special items[1]	**139**	197	185
Profit for the period	**24**	81	50
Basic earnings per share (US cents)	**4**	15	9
EPS excluding special items (US cents)[3]	**6**	16	10
Net debt[3]	**1,916**	1,557	1,501
Key ratios: (%)			
Operating profit excluding special items to sales	**4.8**	9.0	7.5
Operating profit excluding special items to capital employed (ROCE)[3]	**6.7**	14.7	12.1
EBITDA excluding special items to sales	**10.7**	13.9	12.7
Net debt to EBITDA excluding special items	**3.0**	2.0	2.2
Covenant leverage ratio[3]	**2.8**	2.0	2.2
Interest cover[3]	**8.4**	10.9	9.3
Net asset value per share (US cents)[3]	**379**	353	359

(1) *Refer to note 2 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to operating profit by segment, and profit for the period.*

(2) *Refer to note 2 to the group results for details on special items.*

(3) *Refer to supplemental information for the definition of the term.*

COMMENTARY ON THE QUARTER

A good performance from the European and North American packaging and specialities segment and satisfactory results from the graphic paper businesses were not enough to offset the significant impact from the unprecedented and markedly lower dissolving wood pulp (DWP) prices. Consequently, the group generated EBITDA excluding special items of US$139 million compared to the US$197 million in the equivalent quarter last year. Profit for the comparative period decreased by US$57 million to US$24 million primarily due to the lower DWP prices.

The ongoing strategy to diversify the product portfolio into higher margin segments and position the company for future growth reaped rewards as the packaging and specialities segment continued to grow profitability. The focus on efficiencies and costs combined with strong customer relationships and service levels ensured profitability for graphic paper was stable despite weak global demand.

DWP market prices fell US$272/ton in the last year as the combined impact of soft global textile markets, excess viscose staple fibre (VSF) capacity and a weaker US$/Renminbi exchange rate drove the DWP price downwards. On the supply side, low paper pulp prices provided no relief for swing producers. This significantly impacted both the segment and group profitability levels.

Profitability in the packaging and specialities segment improved despite a particularly sluggish containerboard market in South Africa. An improved product mix, following the recent conversions, and more optimal machine efficiencies in both Europe and North America led to increased margins. Lower input costs, particularly for paper pulp, supported the margin enhancement.

The substantial market share gains in coated woodfree paper in both North America and Europe countered the ongoing deterioration in graphic paper demand, enabling us to take fewer production curtailments than in recent quarters. Declining input costs helped maintain healthy margins.

Earnings per share excluding special items was 6 US cents, a decrease from the 16 US cents generated in the equivalent quarter last year. Special items reduced earnings by US$7 million.

CASH FLOW AND DEBT

Net cash utilised for the quarter was US$278 million, compared to US$7 million utilised in the equivalent quarter last year. The cash utilisation was due to the usual seasonal working capital outflow in our first fiscal quarter, lower operational cash generation and higher finance costs and tax payments. The cash acquisition cost of US$144 million for the Matane Mill, which was completed in the quarter, further contributed to the utilisation.

Net debt of US$1,916 million was US$359 million higher than at the end of the equivalent quarter last year as a result of the cash utilisation in the quarter, the Matane acquisition which was financed via a new US$181 million eight-year term loan and the US$92 million non-cash impact resulting from the implementation of IFRS16, which now incorporates operating leases on the balance sheet. In terms of the relevant bank facilities, the leverage covenant reached 2.8 times at the end of the quarter.

Liquidity comprised cash on hand of US$270 million and US$658 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

OPERATING REVIEW ON THE QUARTER

Europe

€ million	Dec 2019	Sept 2019	Jun 2019	Mar 2019	Dec 2018
	Quarter ended				
Sales	**619**	633	637	675	642
Operating profit excluding special items	**33**	21	18	24	30
Operating profit excluding special items to sales (%)	***5.3***	*3.3*	*2.8*	*3.6*	*4.7*
EBITDA excluding special items	**62**	51	46	50	59
EBITDA excluding special items to sales (%)	***10.0***	*8.1*	*7.2*	*7.4*	*9.2*
RONOA pa (%)	***9.5***	*6.0*	*5.1*	*6.9*	*8.8*

The European business delivered strong results as it gained substantial market share in coated woodfree (CWF) and increased profitability in the packaging and specialities segment. Lower variable costs also contributed to the improvement and helped offset the impact from a 2% reduction in selling prices.

Graphic paper markets continued to decline at approximately 10% per annum. However, capacity closures and uncertainty surrounding some competitors enabled us to keep our CWF machines relatively full. Conversely, the weak coated mechanical demand necessitated 28,000 tons of commercial downtime.

Sales volumes in the packaging and specialities business were 7% higher with growth in all the major product categories. The ramp-up of production following the recent conversions of Maastricht and Lanaken continued. Decreased variable costs helped offset the slightly lower average net selling prices, contributing towards an improved margin and increased profitability.

Variable costs were lower than the comparable period last year, with all major cost categories declining, led by a significant drop in paper pulp prices.

OPERATING REVIEW ON THE QUARTER continued

North America

US$ million	Quarter ended Dec 2019	Sept 2019	Jun 2019	Mar 2019	Dec 2018
Sales	**370**	394	343	378	351
Operating profit (loss) excluding special items	**1**	17	(9)	10	9
Operating profit (loss) excluding special items to sales (%)	***0.3***	*4.3*	*(2.6)*	*2.6*	*2.6*
EBITDA excluding special items	**25**	39	11	31	29
EBITDA excluding special items to sales (%)	***6.8***	*9.9*	*3.2*	*8.2*	*8.3*
RONOA pa (%)	***0.3***	*5.9*	*(3.0)*	*3.4*	*3.2*

An improved year-on-year EBITDA contribution from the packaging and speciality segment and stable graphic paper profitability were not sufficient to offset the substantial margin pressure in the DWP business as a result of a 21% decline in USD prices. The acquisition of the Matane mill was completed during the quarter, with minimal impact on profitability as a result of low paper pulp selling prices and one-time integration costs.

Coated paper demand in the US market continued to be very weak, with the coated free sheet industry apparent demand down an estimated 16% compared to last year. Sappi's market share grew however, and comparative sales were only 4% lower. Commercial downtime of 20,000 tons was less than that of recent quarters.

The packaging and speciality segment volumes grew 43% year-on-year, driven mainly by the ramp-up of the paperboard grades on PM1 at Somerset. Product mix improved and, as the machine was optimised, variable costs decreased leading to enhanced margins for this segment.

Higher DWP sales volumes following the debottlenecking at Cloquet Mill in 2019, were insufficient to offset the decline in sales prices mentioned above.

Variable costs for the region were lower, as a result of savings in raw material costs, particularly paper pulp, energy and chemicals, combined with enhanced machine efficiency.

South Africa

ZAR million	Quarter ended Dec 2019	Sept 2019	Jun 2019	Mar 2019	Dec 2018
Sales	**3,843**	5,467	4,720	5,234	4,981
Operating profit excluding special items	**324**	998	496	1,121	1,217
Operating profit excluding special items to sales (%)	***8.4***	*18.3*	*10.5*	*21.4*	*24.4*
EBITDA excluding special items	**618**	1,290	754	1,374	1,446
EBITDA excluding special items to sales (%)	***16.1***	*23.6*	*16.0*	*26.3*	*29.0*
RONOA pa (%)	***5.6***	*18.2*	*9.0*	*21.1*	*24.0*

Market conditions deteriorated in the past quarter in most product segments, but particularly for DWP and domestic containerboard. Market prices for DWP remained at historically low levels throughout the quarter and were US$272/ton below that of last year. This decline was mainly driven by weak global textile markets and excess VSF capacity. The containerboard segment struggled with low demand driven by high levels of converter inventory, a weak South African economy and an ongoing drought in some citrus producing regions.

Port congestion contributed to lower DWP sales volumes than in the equivalent quarter last year and this, along with the lower pricing mentioned above, led to a significant decline in profitability for the DWP segment. Progress on the capacity expansion of the Saiccor mill by 110,000 ton continues to plan, with completion expected late this year.

As described above, the packaging segment was negatively impacted by lower containerboard sales volumes and, as a result, 18,000 tons of downtime were taken in the quarter. Sales price increases were insufficient to offset a 4% year-on-year increase in variable costs.

The weak domestic economy also negatively impacted newsprint, tissue and office paper sales.

Fixed costs rose in line with inflation, while variable costs were negatively impacted by higher fibre and energy costs, offset by lower chemical costs.

DIRECTORATE

During the quarter we announced the retirement of Mr John McKenzie (Jock), lead independent non-executive director, and Ms Karen Osar, independent non-executive director effective from the end of December 2019. We would like to thank them both for the significant contributions they have made over many years.

OUTLOOK

DWP pricing remains under pressure, albeit that prices have risen slightly from their lows in the past quarter. While we believe that current pricing is below the cash cost of production for a significant proportion of global capacity, the ongoing low VSF prices make a material recovery in DWP prices unlikely in the short term. Demand for DWP continues to grow at rates consistent with our long-term forecasts and gives us confidence that our strategy to grow volumes in this segment is sound, despite current margin pressures.

The ramp-up of packaging and speciality grades at both Somerset PM1 and Maastricht continues, which will ensure improved mix, price realisation and machine efficiency. Consumers and brand owners are driving the shift from plastic to paper in many packaging categories and this is driving demand growth and leading to new innovative products being developed, including those incorporating our barrier technology. The South African containerboard market remains challenging, driven by high inventory levels and a weaker domestic economy.

Graphic paper markets remain difficult, with demand decline rates exceeding that of recent years by some margin. Capacity reductions in CWF are creating opportunities to keep our machines full and order lead times have increased. Pricing has declined marginally, however, lower raw material costs are supporting margins. The evaluation of our European asset portfolio is close to completion and an announcement will be made in the near future.

Capital expenditure in 2020 is expected to be approximately US$460 million as we complete the Saiccor mill 110,000t expansion project and various smaller European pulp mill debottlenecking projects. We continue to manage capital expenditure, working capital and costs tightly. Apart from the aforementioned Saiccor mill expansion, no material capital projects have been committed.

Given the current low DWP pricing levels and uncertainty regarding the coronavirus and the impact this may have on trade flows and economic activity in China, we expect EBITDA in the second quarter of financial year 2020 to follow the trend experienced in the first quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

05 February 2020

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 2019	Dec 2018
Sales		**1,302**	1,418
Cost of sales		**1,145**	1,196
Gross profit		**157**	222
Selling, general and administrative expenses		**92**	100
Other operating expenses		**12**	–
Share of profit from equity investments		**(2)**	(1)
Operating profit	3	**55**	123
Net finance costs		**20**	17
Finance costs		**22**	22
Finance income		**(2)**	(3)
Net foreign exchange gain		**–**	(2)
Profit before taxation		**35**	106
Taxation		**11**	25
Profit for the period		**24**	81
Basic earnings per share (US cents)	4	**4**	15
Weighted average number of shares in issue (millions)		**543.6**	539.9
Diluted earnings per share (US cents)	4	**4**	15
Weighted average number of shares on fully diluted basis (millions)		**544.7**	549.7

CONDENSED GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

US$ million	Quarter ended Dec 2019	Dec 2018
Profit for the period	**24**	81
Other comprehensive income, net of tax		
Items that may be reclassified subsequently to profit or loss	**97**	(22)
Exchange differences on translation of foreign operations	**92**	(19)
Movements in hedging reserves	**7**	(4)
Tax effect on above items	**(2)**	1
Total comprehensive income for the period	**121**	59

CONDENSED GROUP BALANCE SHEET

US$ million	Note	Dec 2019	Reviewed Sept 2019
ASSETS			
Non-current assets		**4,203**	3,789
Property, plant and equipment		**3,306**	3,061
Right of use assets		**91**	–
Plantations	5	**490**	451
Deferred tax assets		**109**	106
Goodwill and intangible assets		**82**	54
Equity-accounted investees		**34**	31
Other non-current assets		**91**	86
Current assets		**1,771**	1,834
Inventories		**782**	709
Trade and other receivables		**698**	718
Derivative financial assets		**11**	3
Taxation receivable		**10**	11
Cash and cash equivalents		**270**	393
Total assets		**5,974**	5,623
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**2,071**	1,948
Non-current liabilities		**2,763**	2,461
Interest-bearing borrowings		**1,903**	1,713
Lease liabilities		**72**	–
Deferred tax liabilities		**353**	328
Defined benefit and other liabilities		**432**	418
Derivative financial liabilities		**3**	2
Current liabilities		**1,140**	1,214
Interest-bearing borrowings		**190**	181
Lease liabilities		**21**	–
Trade and other payables		**883**	969
Provisions		**6**	6
Derivative financial liabilities		**7**	7
Taxation payable		**33**	51
Total equity and liabilities		**5,974**	5,623
Number of shares in issue at balance sheet date (millions)		**546.1**	542.8

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Quarter ended	
US$ million	**Dec 2019**	Dec 2018
Profit for the period	**24**	81
Adjustment for:		
Depreciation, fellings and amortisation	**94**	86
Taxation	**11**	25
Net finance costs	**20**	17
Defined post-employment benefits paid	**(8)**	(10)
Plantation fair value adjustments	**(25)**	(20)
Net restructuring provisions	**1**	–
Other non-cash items	**19**	18
Cash generated from operations	**136**	197
Movement in working capital	**(76)**	(87)
Finance costs paid	**(35)**	(8)
Finance income received	**2**	3
Taxation (paid) refund	**(32)**	(3)
Cash generated from operating activities	**(5)**	102
Cash utilised in investing activities	**(273)**	(109)
Capital expenditure	**(112)**	(106)
Acquisition of subsidiary	**(158)**	–
Other non-current asset movements	**(3)**	(3)
Net cash (utilised) generated	**(278)**	(7)
Cash effects of financing activities	**147**	2
Proceeds from interest-bearing borrowings	**181**	6
Repayment of interest-bearing borrowings	**(29)**	(4)
Lease repayments	**(5)**	–
Net movement in cash and cash equivalents	**(131)**	(5)
Cash and cash equivalents at beginning of period	**393**	363
Translation effects	**8**	(8)
Cash and cash equivalents at end of period	**270**	350

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Quarter ended	
US$ million	**Dec 2019**	Dec 2018
Balance – beginning of period	**1,948**	1,947
Profit for the period	**24**	81
Other comprehensive income for the period	**97**	(22)
Shareholders for dividend	**–**	(92)
Transfers of vested share options	**(1)**	–
Share-based payment reserve	**3**	1
Balance – end of period	**2,071**	1,915
Comprising		
Ordinary share capital and premium	**866**	841
Non-distributable reserves	**110**	131
Foreign currency translation reserves	**(164)**	(181)
Hedging reserves	**(36)**	(33)
Retained earnings	**1,295**	1,157
Total equity	**2,071**	1,915

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 annual financial statements except for the changes arising from the adoption of the new accounting pronouncement detailed below, which became effective in the current period.

The preparation of these condensed consolidated financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA) and were authorised for issue on the 5 February 2020.

The results are unaudited.

Adoption of accounting standards in the current year

The group adopted IFRS 16 *Leases* on 30 September 2019 applying the modified retrospective transition approach and has not restated comparatives. IFRS 16 introduced a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The group's leasing activities mainly relate to the leasing of premises, vehicles and equipment.

1. **BASIS OF PREPARATION** continued

Adoption of accounting standards in the current year continued

In applying IFRS 16 for the first time, the group used the following practical expedients as permitted by the standard:

– relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 29 September 2019
– accounting for operating leases with a remaining lease term of less than 12 months as at the adoption date as short-term leases
– excluding initial direct costs for the measurement of the right-of-use asset at the adoption date
– using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The change in accounting policy affected the following items in the balance sheet on 30 September 2019:

– property, plant and equipment – decrease of US$1 million*
– right-of-use assets – increase of US$91 million
– other long-term liabilities – decrease of US$2 million*
– lease liabilities – increase of US$92 million.

* *Finance leases, previously recognised under IAS 17* Leases, *were reclassified to right-of-use assets and lease liabilities.*

NOTES TO THE CONDENSED GROUP RESULTS *continued*

2. SEGMENT INFORMATION

Metric tons (000's)	Quarter ended Dec 2019	Quarter ended Dec 2018
Sales volume		
North America	**377**	321
Europe	**795**	809
South Africa – Pulp and paper	**338**	396
Forestry	**331**	317
Total	**1,841**	1,843
Which consists of:		
Dissolving wood pulp	**324**	297
Packaging and specialities	**235**	252
Graphics	**951**	977
Forestry	**331**	317

US$ million	Quarter ended Dec 2019	Quarter ended Dec 2018
Sales		
North America	**370**	351
Europe	**685**	732
South Africa – Pulp and paper	**241**	329
Forestry	**20**	19
Delivery costs revenue adjustment[2]	**(14)**	(13)
Total	**1,302**	1,418
Which consists of:		
Dissolving wood pulp	**218**	263
Packaging and specialities	**268**	282
Graphics	**810**	867
Forestry	**20**	19
Delivery costs revenue adjustment[2]	**(14)**	(13)

[2] *Relates to delivery costs netted off against revenue.*

2. SEGMENT INFORMATION continued

US$ million	Quarter ended Dec 2019	Quarter ended Dec 2018
Operating profit (loss) excluding special items		
North America	**1**	9
Europe	**37**	34
South Africa	**22**	85
Unallocated and eliminations[1]	**2**	–
Total	**62**	128
Which consists of:		
Dissolving wood pulp	**9**	77
Packaging and specialities	**16**	13
Graphics	**35**	38
Unallocated and eliminations[1]	**2**	–
Special items – (gains) losses		
North America	**5**	–
Europe	**2**	4
South Africa	**–**	(3)
Unallocated and eliminations[1]	**–**	4
Total	**7**	5
Operating profit (loss) by segment		
North America	**(4)**	9
Europe	**35**	30
South Africa	**22**	88
Unallocated and eliminations[1]	**2**	(4)
Total	**55**	123
EBITDA excluding special items		
North America	**25**	29
Europe	**69**	67
South Africa	**42**	101
Unallocated and eliminations[1]	**3**	–
Total	**139**	197
Which consists of:		
Dissolving wood pulp	**25**	91
Packaging and specialities	**36**	30
Graphics	**75**	76
Unallocated and eliminations[1]	**3**	–

(1) *Includes the group's treasury operations and insurance captive.*
(2) *Relates to delivery costs netted off against revenue.*

NOTES TO THE CONDENSED GROUP RESULTS continued

2. SEGMENT INFORMATION continued

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.

	Quarter ended	
US$ million	**Dec 2019**	Dec 2018
EBITDA excluding special items	**139**	197
Depreciation and amortisation	**(77)**	(69)
Operating profit excluding special items	**62**	128
Special items – gains (losses)	**(7)**	(5)
Plantation price fair value adjustment	**6**	3
Acquisition costs	**(5)**	–
Net restructuring provisions	**(1)**	–
Fire, flood, storm and other events	**(7)**	(8)
Operating profit	**55**	123
Net finance costs	**(20)**	(17)
Profit before taxation	**35**	106
Taxation	**(11)**	(25)
Profit for the period	**24**	81
Net operating assets		
North America	**1,311**	1,144
Europe	**1,557**	1,582
South Africa	**1,762**	1,441
Unallocated and eliminations[1]	**36**	(64)
Total	**4,666**	4,103
Reconciliation of net operating assets to total assets		
Net operating assets	**4,666**	4,103
Deferred tax assets	**109**	97
Cash and cash equivalents	**270**	350
Trade and other payables	**883**	954
Provisions	**6**	6
Derivative financial instruments	**7**	5
Taxation payable	**33**	49
Shareholders for dividend	**–**	92
Total assets	**5,974**	5,656

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

3. OPERATING PROFIT

US$ million	Quarter ended Dec 2019	Dec 2018
Included in operating profit are the following items:		
Depreciation and amortisation	**77**	69
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**17**	17
Growth	**(19)**	(17)
	(2)	–
Plantation price fair value adjustment	**(6)**	(3)
	(8)	(3)
Net restructuring provisions	**1**	–

4. EARNINGS PER SHARE

US$ million	Dec 2019	Dec 2018
Basic earnings per share (US cents)	**4**	15
Headline earnings per share (US cents)	**4**	15
EPS excluding special items (US cents)	**6**	16
Weighted average number of shares in issue (millions)	**543.6**	539.9
Diluted earnings per share (US cents)	**4**	15
Diluted headline earnings per share (US cents)	**4**	15
Weighted average number of shares on fully diluted basis (millions)	**544.7**	549.7
Calculation of headline earnings		
Profit for the period	**24**	81
Headline earnings	**24**	81
Calculation of earnings excluding special items		
Profit for the period	**24**	81
Special items after tax	**6**	5
Special items	**7**	5
Tax effect	**(1)**	–
Earnings excluding special items	**30**	86

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 2019**	Reviewed Sept 2019
Fair value of plantations at beginning of year	**451**	466
Additions	**2**	2
Gains arising from growth	**19**	73
Fire, flood, storm and other events	**(6)**	(4)
In-field inventory	**(1)**	(3)
Gain arising from fair value price changes	**6**	19
Harvesting – agriculture produce (fellings)	**(17)**	(71)
Translation difference	**36**	(31)
Fair value of plantations at end of period	**490**	451

6. FINANCIAL INSTRUMENTS

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and investments funds. 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	Classification	Fair value hierarchy	**Dec 2019**	Reviewed Sept 2019
Investment funds[2]	FV through OCI	Level 1	**7**	7
Derivative financial assets	FV through PL	Level 2	**11**	3
Derivative financial liabilities	FV through PL	Level 2	**10**	9

[1] *The fair value of the financial instruments are equal to their carrying value.*
[2] *Included in other non-current assets.*

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.

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, trade and other receivables, certain investments, trade and other payables, bank overdrafts and current interest-bearing borrowings approximate their fair values.

NOTES TO THE CONDENSED GROUP RESULTS continued

7. CAPITAL COMMITMENTS

	Dec 2019	Reviewed Sept 2019
Contracted	**188**	194
Approved but not contracted	**112**	167
	300	361

8. MATERIAL BALANCE SHEET MOVEMENTS

Since the 2019 financial year-end, the ZAR has strengthened by approximately 7% against the US Dollar, the group's presentation currency. This has resulted in a similar increase of the group's South African assets and liabilities, which are held in the aforementioned functional currency, on translation to the presentation currency.

Property, plant and equipment, goodwill and intangible assets and long-term interest-bearing borrowings

The acquisition of Matane mill has resulted in increase in property, plant and equipment and goodwill and intangible assets and an increase in long-term interest-bearing borrowings. Refer to note 9.

Right-of-use assets and lease liabilities

The adoption of IFRS 16 *Leases* resulted in the group recognising right-of-use assets and lease liabilities. Refer to note 1.

9. ACQUISITION

On 3 November 2019, Sappi acquired the 270,000 ton Matane high-yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc for US$158 million. The acquisition will increase Sappi's pulp integration for its packaging businesses and lower Sappi's costs of pulp, reduce its volatility of earnings throughout the pulp cycle and provide certainty of supply. The last 12 months annual sales were US$159 million. External high-yield pulp sales will be included in the dissolving wood pulp segment and internal sales will be incorporated into the packaging and specialities segment.

Provisional fair values of assets acquired and liabilities assumed as at the acquisition date are as follows:

	US$ million
Property, plant and equipment, intangibles and goodwill	**145**
Inventories	**19**
Trade receivables	**14**
Prepayments and other assets	**1**
Cash and cash equivalents	**–**
Trade payables	**(9)**
Pension liabilities	**(8)**
Provisions	**–**
Other payables and accruals	**(4)**
Net cash outflow on acquisition	**158**

10. RELATED PARTIES

There has been no material change, by nature or amount, in transactions with related parties since the 2019 financial year-end.

11. EVENTS AFTER BALANCE SHEET DATE

There have been no reportable events that 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

Covenant leverage ratio – net debt divided by last 12 months EBITDA excluding special items as defined by our bank covenants

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 March 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 and leased liabilities, 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, lease liabilities and overdraft)

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
- 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 (this information has not been audited or reviewed)

SUMMARY RAND CONVENIENCE TRANSLATION

	Quarter ended	
	Dec 2019	Dec 2018
Key figures: (ZAR million)		
Sales	**19,171**	20,295
Operating profit excluding special items(1)	**913**	1,832
Special items – (gains) losses(1)	**103**	72
EBITDA excluding special items(1)	**2,047**	2,820
Profit for the period	**353**	1,159
Basic earnings per share (SA cents)	**65**	215
Net debt(1)	**26,886**	22,477
Key ratios: (%)		
Operating profit excluding special items to sales	**4.8**	9.0
Operating profit excluding special items to capital employed (ROCE)(1)	**6.7**	14.7
EBITDA excluding special items to sales	**10.7**	13.9

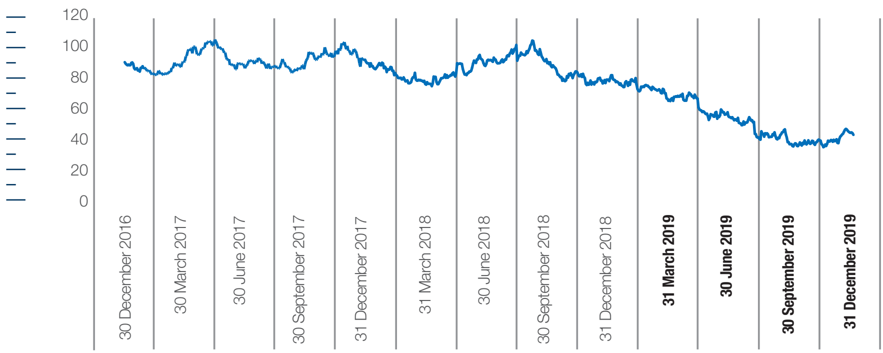
(1) *Refer to supplemental information for the definition of the term.*

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
– income, expenditure and cash flow items at average exchange rates.

SUPPLEMENTAL INFORMATION (this information has not been audited or reviewed)

EXCHANGE RATES	Dec 2019	Sept 2019	Jun 2019	Mar 2019	Dec 2018
Exchange rates:					
Period end rate: US$1 = ZAR	**14.0326**	15.1563	14.0808	14.4975	14.4361
Average rate for the quarter: US$1 = ZAR	**14.7241**	14.6831	14.3772	14.0203	14.3127
Average rate for the year to date: US$1 = ZAR	**14.7241**	14.3464	14.2363	14.1668	14.3127
Period end rate: €1 = US$	**1.1177**	1.0939	1.1370	1.1218	1.1438
Average rate for the quarter: €1 = US$	**1.1066**	1.1123	1.1236	1.1360	1.1409
Average rate for the year to date: €1 = US$	**1.1066**	1.1282	1.1335	1.1385	1.1409

Sappi share price – December 2016 to December 2019 (ZAR)



sappi

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