

Q3 FY17 financial results

03 August 2017



Steve Binnie

Chief Executive Officer
Sappi Limited

Forward-looking statements and Regulation G

○ Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- *The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such 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.

○ Regulation G disclosure

Certain non-GAAP financial information is contained in this presentation that management believe may be useful in comparing the company's operating results from period to period. Reconciliation's of certain of the non-GAAP measures to the corresponding GAAP measures can be found in the quarterly results booklet for the relevant period. These booklets are available on our website: <https://www.sappi.com/quarterly-reports>.

Summary



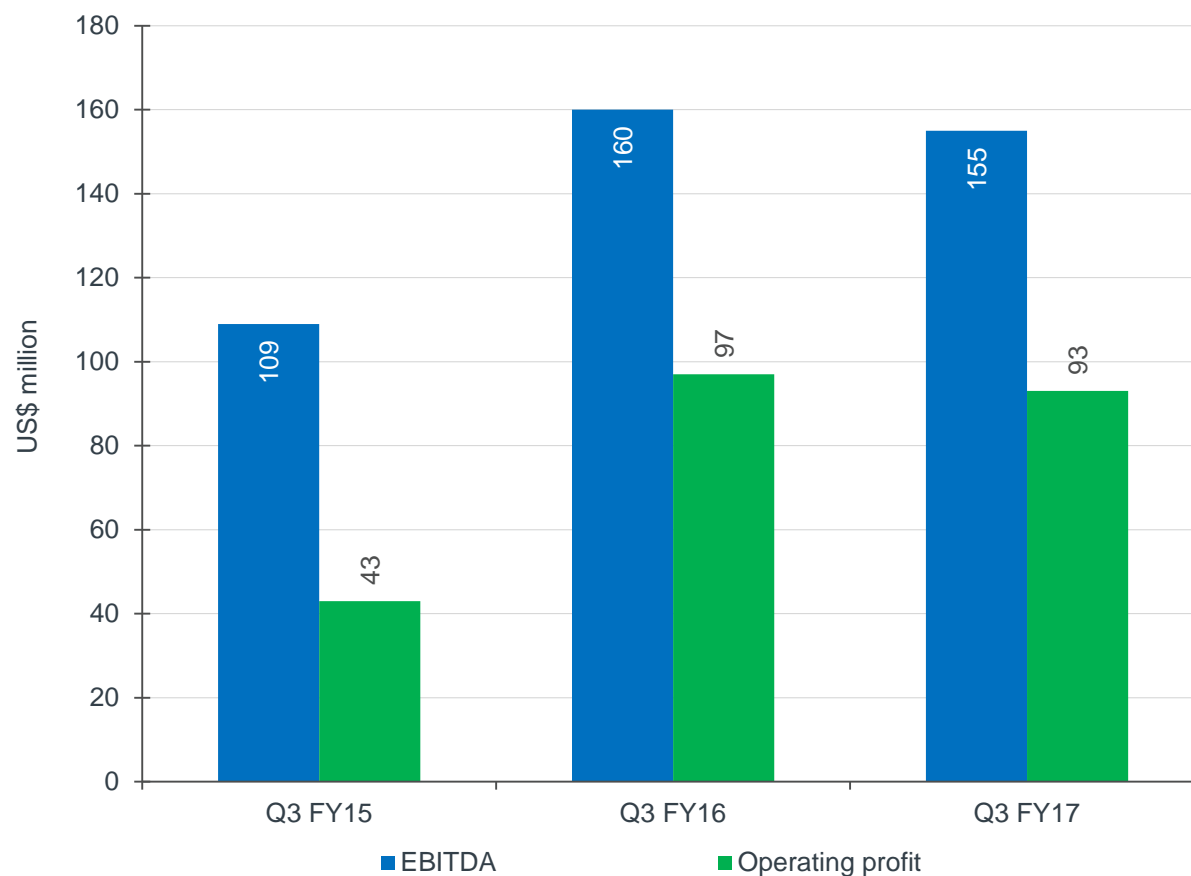
Highlights

Q3 FY17

- EBITDA ex-special items: US\$155m (Q3 FY16: US\$160m)
- Profit for the period: US\$58m (Q3 FY16: US\$32m)
- EPS ex-special items: 11 US cents (Q3 FY16: 11 US cents)
- Net debt US\$1,318m, down US\$265m year-on-year
- US\$400m bond repaid from available cash reserves

EBITDA and operating profit

Excluding special items*

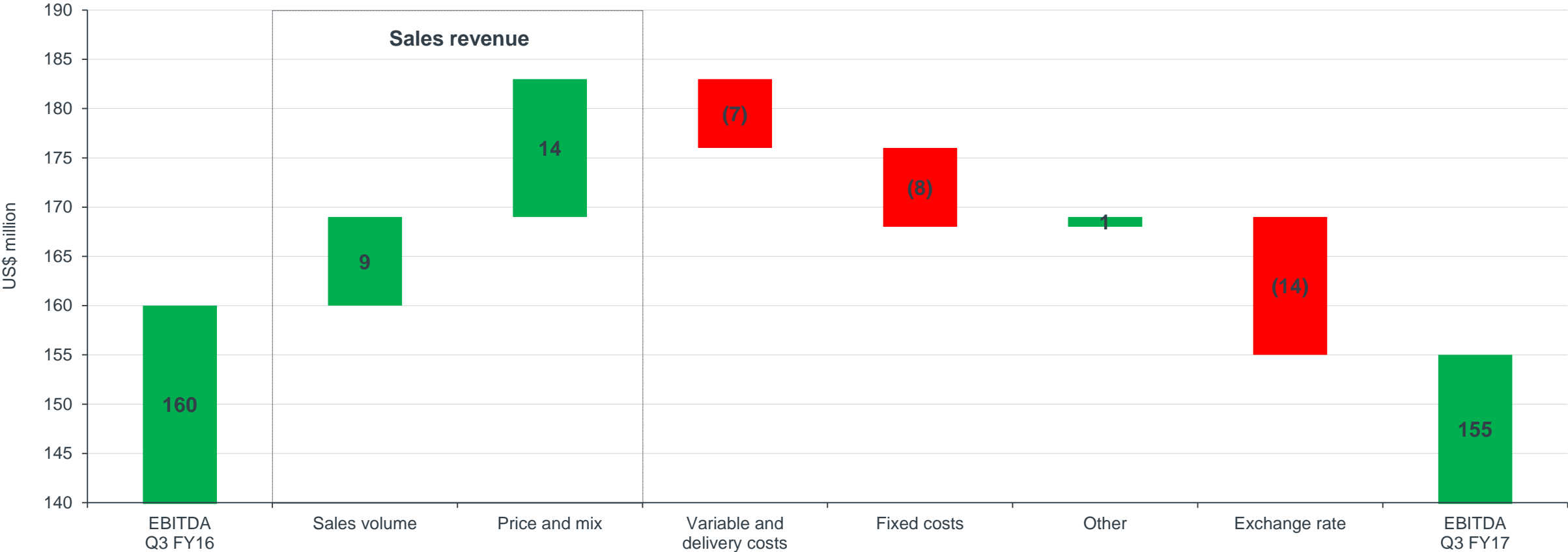


Key ratios	Q3 FY15	Q3 FY16	Q3 FY17
Net debt/LTM EBITDA	3.1	2.2	1.7
Interest cover	3.9	7.0	8.4
EBITDA %	8.6	13.1	12.3
ROCE %	5.7	14.0	12.8

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 21 in our Q3 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

EBITDA bridge*

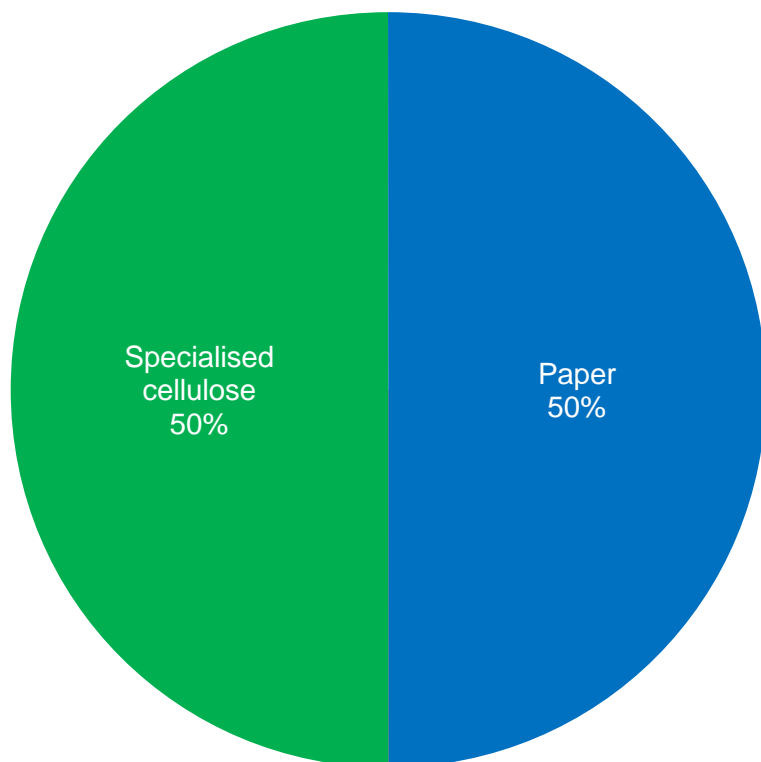
Q3 FY16 to Q3 FY17



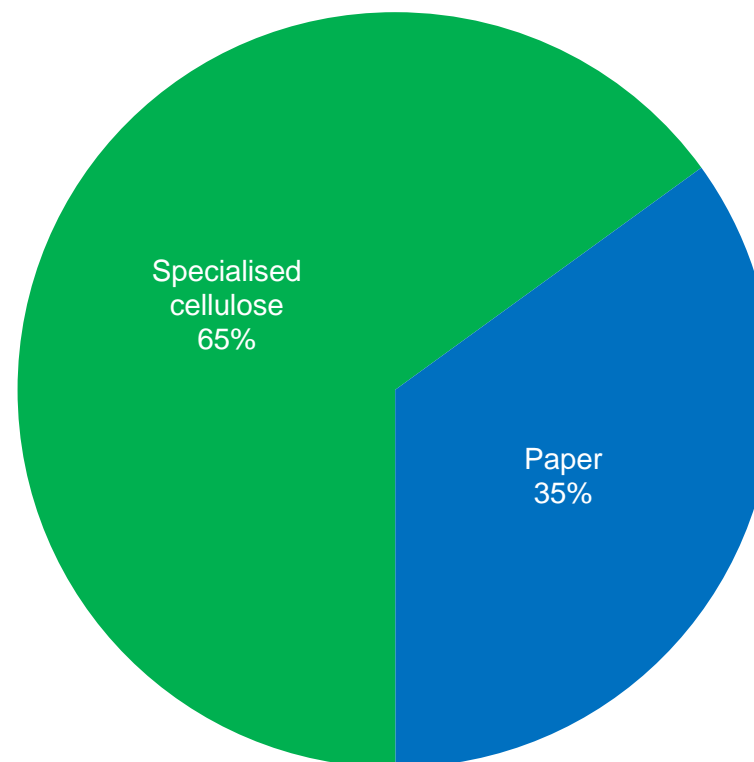
All variances calculated excluding Sappi Forests.
'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.
* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 21 in our Q3 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

Product contribution split - LTM

EBITDA excluding special items*



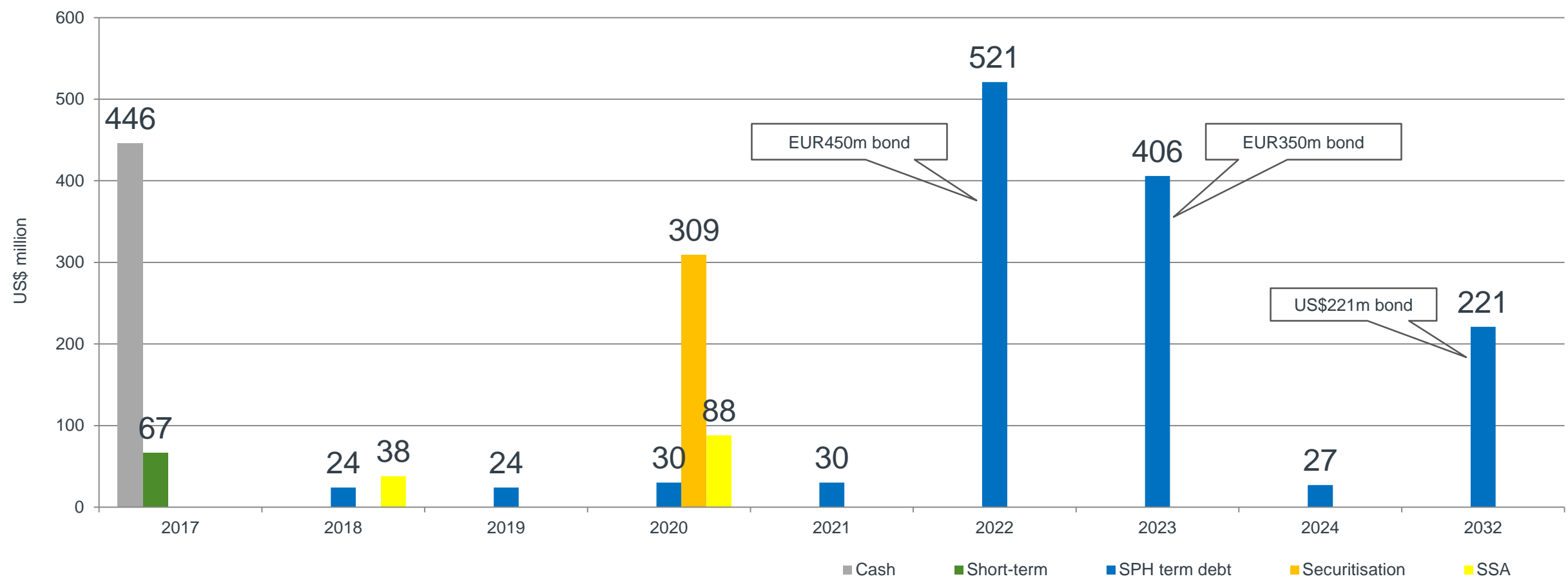
Operating profit ex special items



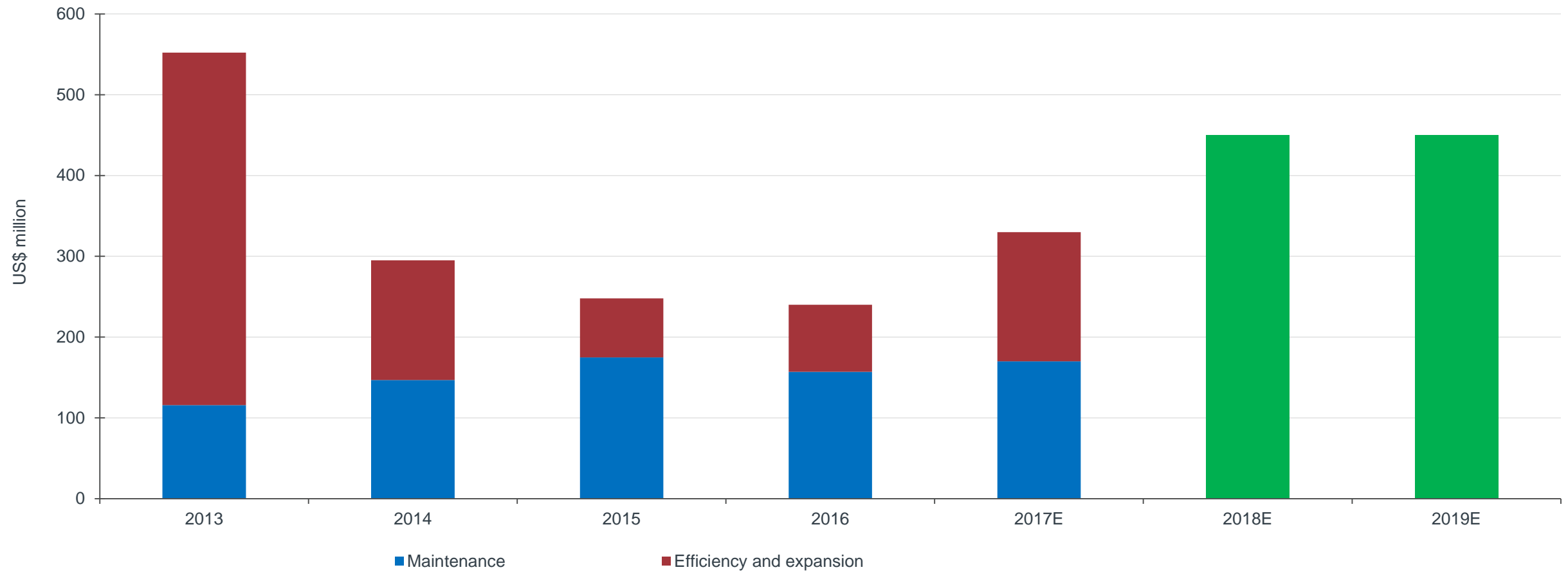
* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 21 in our Q3 FY17 financial results booklet (available on www.sappi.com) for a definition of special items. Data above excludes treasury operations and insurance captive.

Maturity profile

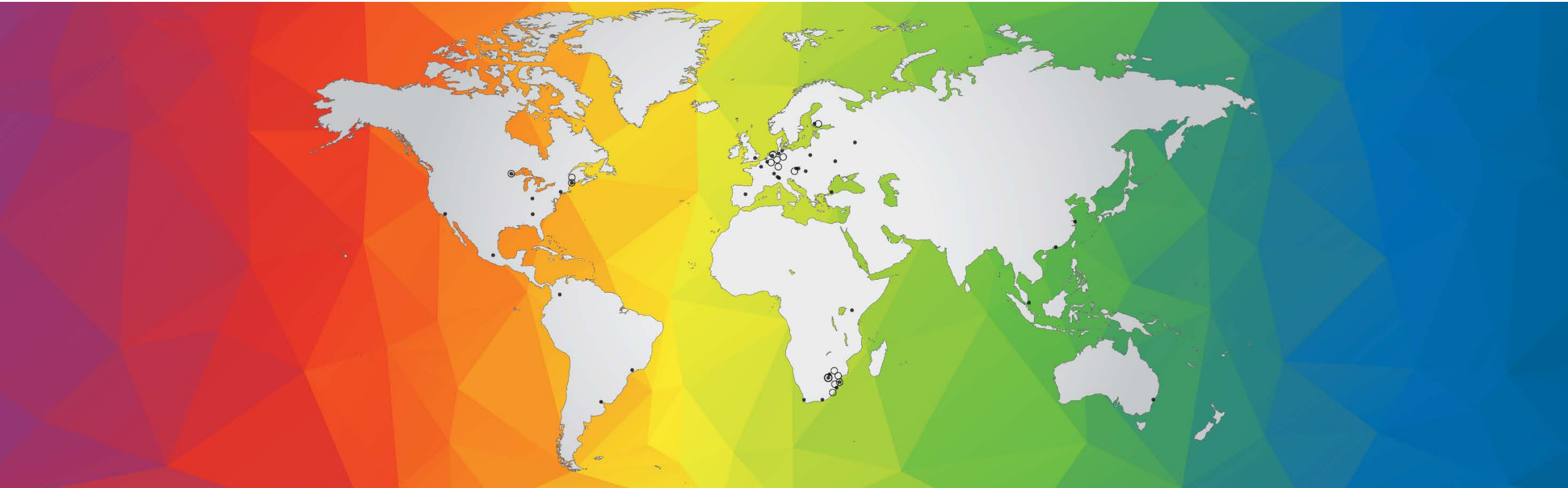
Fiscal years



Capex development



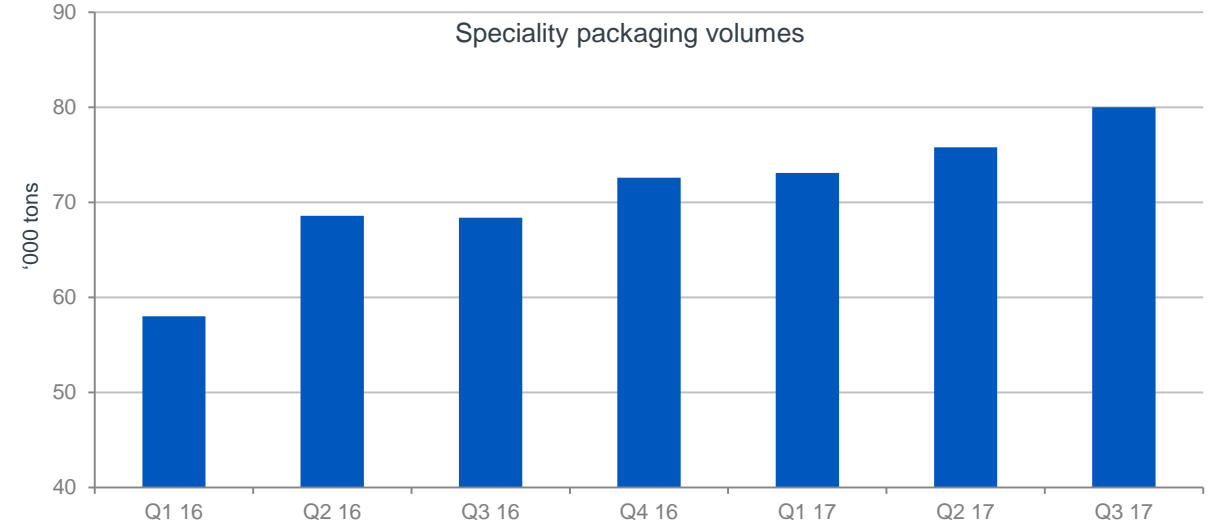
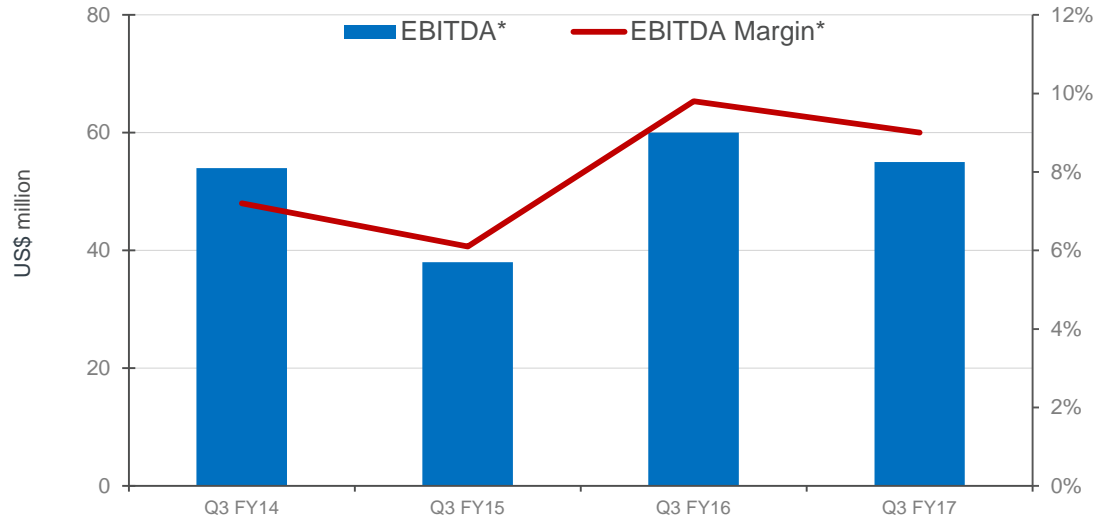
Divisional overview



Global paper market trends

- Supply and demand
 - Robust export markets for European producers.
 - Speciality packaging paper demand continues to grow 1-5%.
- Selling prices and input costs
 - Coated paper price increases in Europe, North America announced 01 July.
 - Variable costs pressure, especially paper pulp and latex.
- Strategy
 - Conversion of coated capacity to packaging in line with coated demand declines.
 - Cost and efficiency programs to reduce costs.

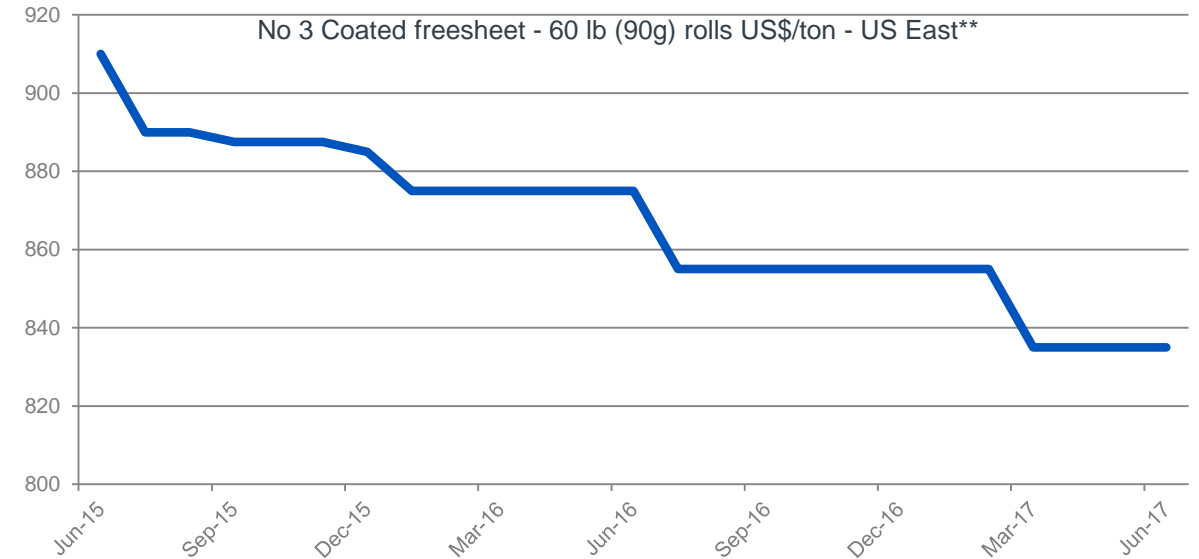
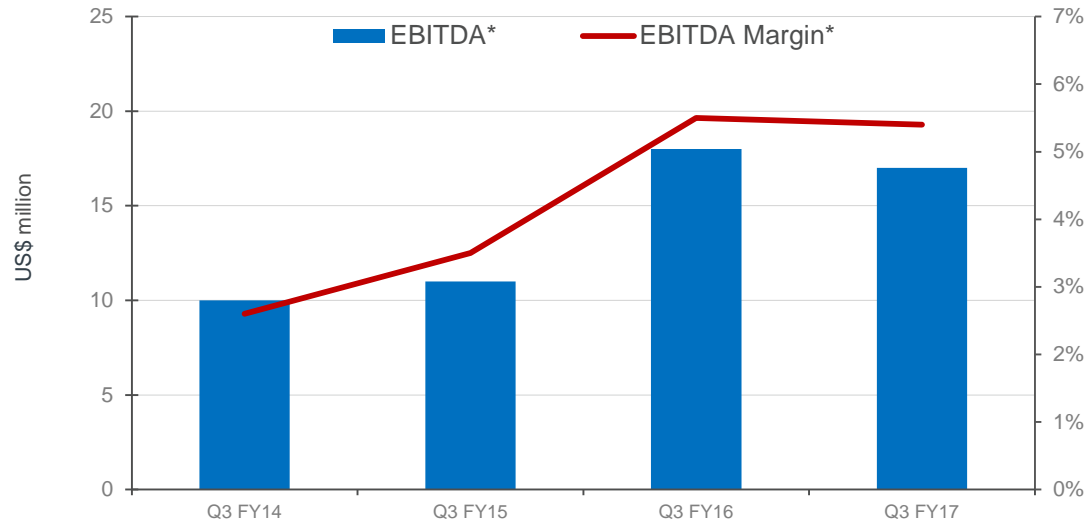
Sappi Europe



- Margins declined due to higher year-on-year raw material prices; all major categories, except wood, were higher.
- Graphic paper volumes were up 4% led by exports; within Europe, CWF demand rose through the quarter – paper price increases coming through.
- Speciality paper volumes rose 17% year-on-year – outpacing average market growth.

* EBITDA and EBITDA margin shown exclude special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 21 in our Q3 FY17 financial results booklet (available on www.sappi.com) for a definition of special items.

Sappi North America



- Similar performance to last year.
- DWP prices and volumes were higher while variable and delivery costs were lower.
- Coated paper prices were down 6% from last year – price increases announced for 01 July.
- Packaging paper volumes were up over 20% led by C1S products.

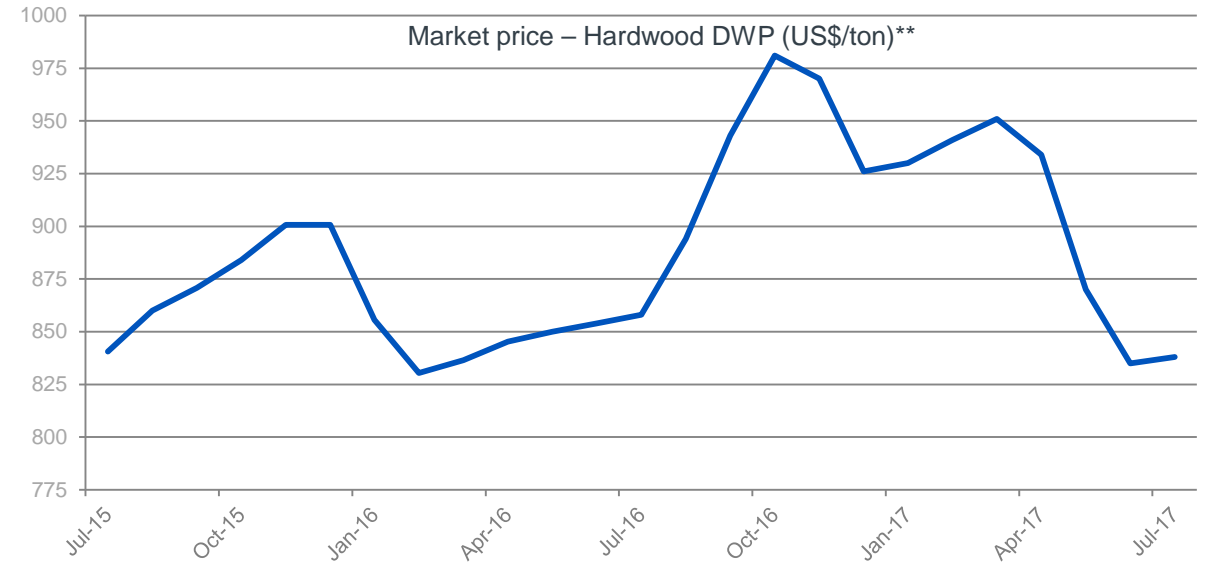
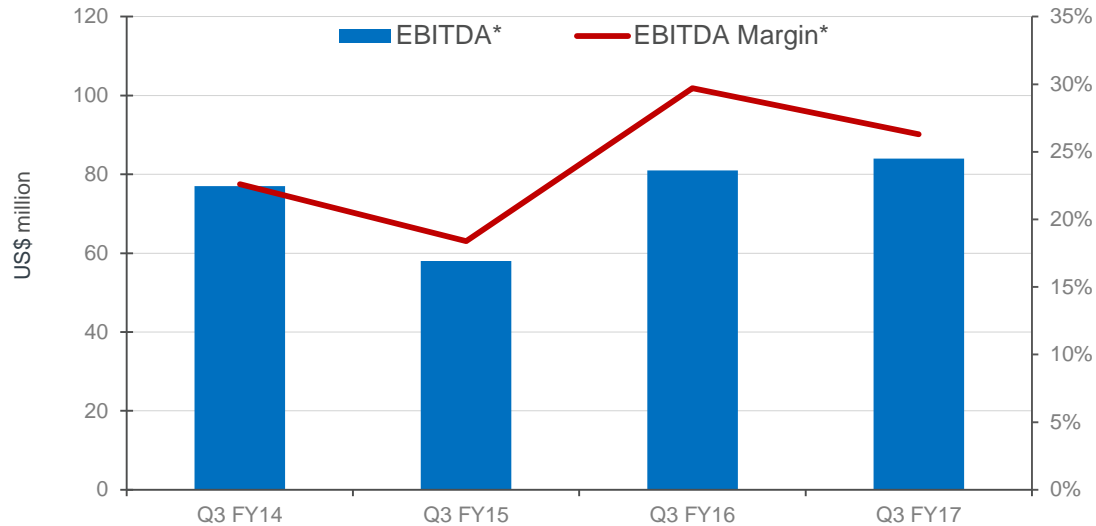
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** Source: RISI

Global DWP market trends

- Supply and demand
 - Continued strong demand from new viscose capacity.
 - New DWP capacity has been delayed – limited capacity addition 2017/2018.
- Selling prices and input costs
 - Textile fibre price declines lead to lower DWP prices April to June.
 - Viscose and polyester prices have risen recently.
 - Paper pulp prices increased – more attractive for swing capacity.
- Strategy
 - Maintain low-cost position.
 - Continue working with customers to support common growth.
 - Debottlenecking SA mills – to add up to 100kt in next two years.
 - Long-term growth opportunities, both internal and external.

Sappi Southern Africa

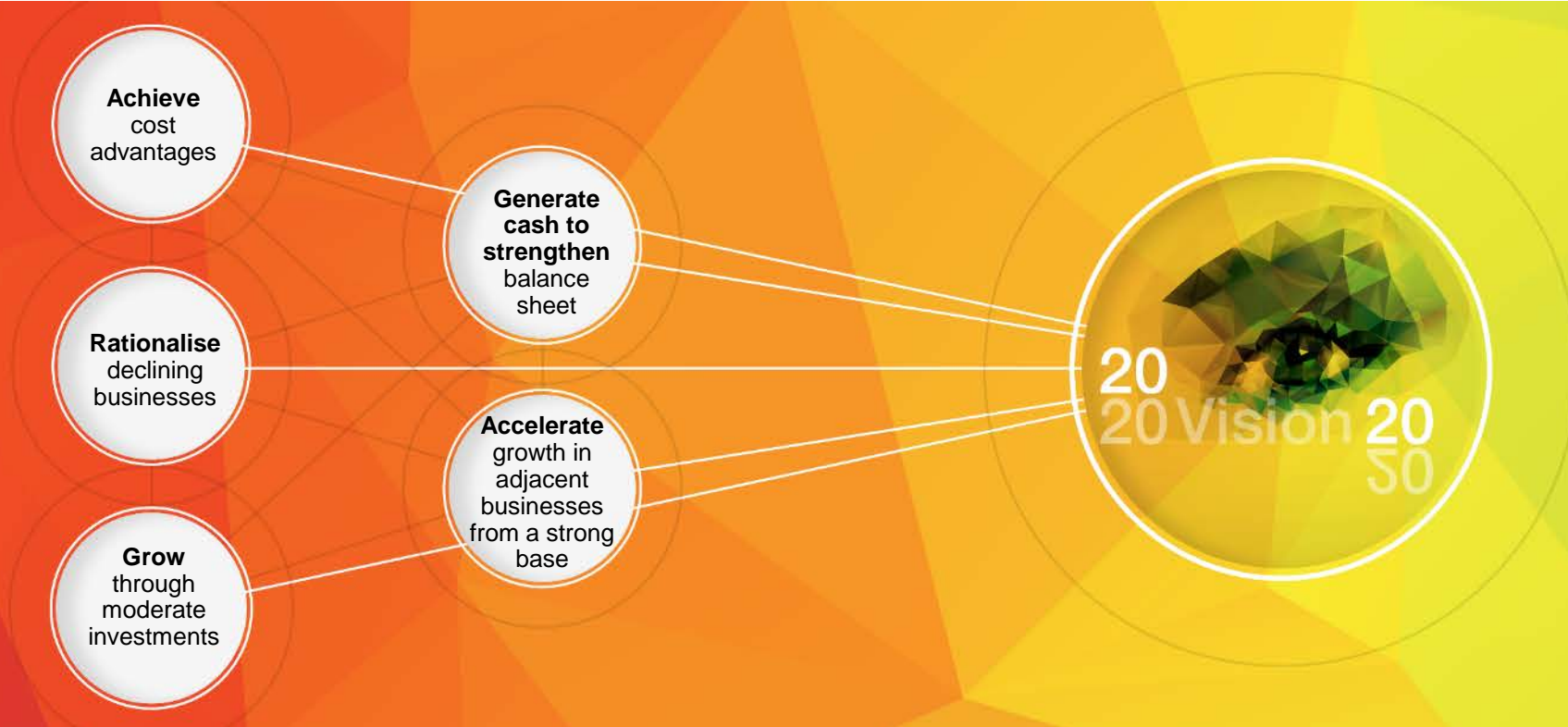


- Results reflect effect of stronger Rand/Dollar exchange rate and higher maintenance costs due to annual shut at Ngodwana Mill.
- Realised US\$ prices for DWP were higher, and DWP volumes were better despite logistics problems at the Durban port.
- Paper business had solid growth from containerboard and fluting demand.

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** Source: CCF

Strategic focus



Our group strategy

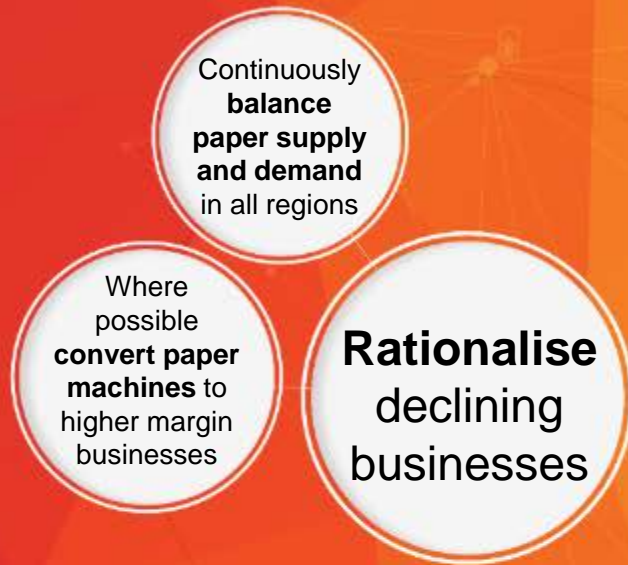
Achieve cost advantages



- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.
- US\$50m investment in Saiccor Mill woodyard.
- Group procurement initiatives >US\$100m annually by 2020 – US\$63m by end-2017.
- Ongoing continuous improvement across all mills.
- US\$25m investment in Somerset Mill woodyard.

Our group strategy

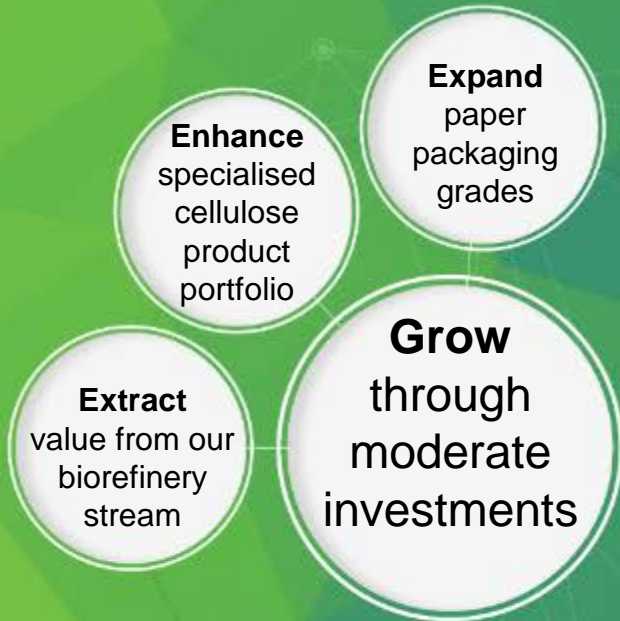
Rationalise declining businesses



- Recognising the decreasing demand for graphic paper, we manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
 - Progressive transition of Lanaken Mill out of LWC.
 - Reduced CWF exposure at Maastricht Mill, Eningen Mill and Somerset Mill PM1.

Our group strategy

Grow through moderate investments



- We will make investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers.
 - Debottlenecking of Saiccor and Ngodwana DWP.
 - Investments in Somerset, Maastricht, Alfeld and Eningen Mills.
 - Rockwell acquisition.
 - Additional packaging at Ngodwana and Tugela Mills.
 - Electricity opportunities in Southern Africa.
 - Securing additional HW timber supply.

Our group strategy

Generate cash to strengthen the balance sheet



- US\$400m 2017 bonds called in April.
 - US\$21m in net finance cost savings/annum.
- Refinancing and debt reduction leads to lower finance cost - US\$60-70m/annum going forward - and EPS growth.

Our group strategy

Accelerate growth in adjacent businesses from a strong base



Accelerate
growth in
adjacent
businesses from
a strong base

- We will continue our focus on having a cleaner, stronger balance sheet so that we can then accelerate our growth in adjacent businesses.
- Speciality packaging paper.
- Biomaterials, biochemicals – lignins, sugars.
- Expanded DWP portfolio – nanocellulose, other speciality grades.

Outlook



Outlook

- Expect lower realised prices for DWP next quarter, yet longer term market dynamics appear favourable.
- In Europe, market demand has stabilised and export markets are encouraging. US markets remain difficult - focus on price increases.
- Demand for our speciality packaging products continues to grow and our machine conversions are on track for 2018.
- Capex for Q4 expected to be US\$170m which includes Ngodwana Mill debottlenecking, the Somerset Mill woodyard, as well as Maastricht and Somerset Mills paper machine conversions.
- Based on current market conditions, we expect fourth quarter results to be slightly below that of 2016. Full year likely above last year.

Thank you

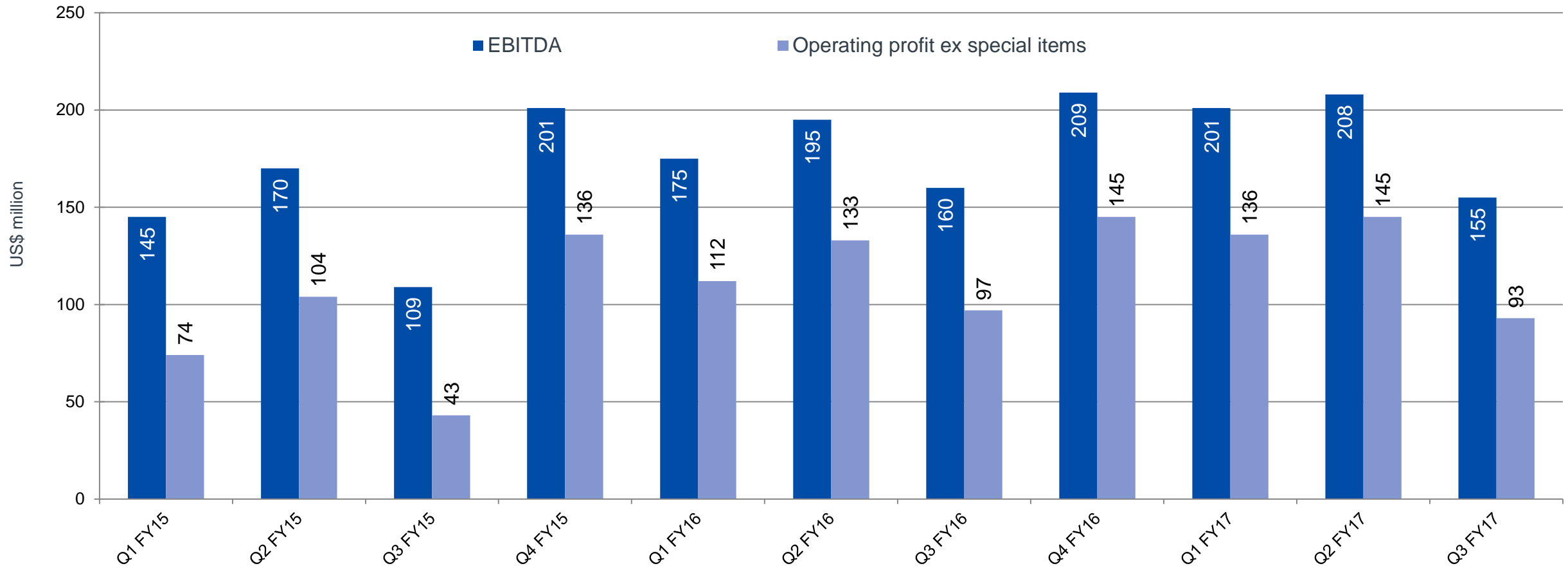


Supplementary information



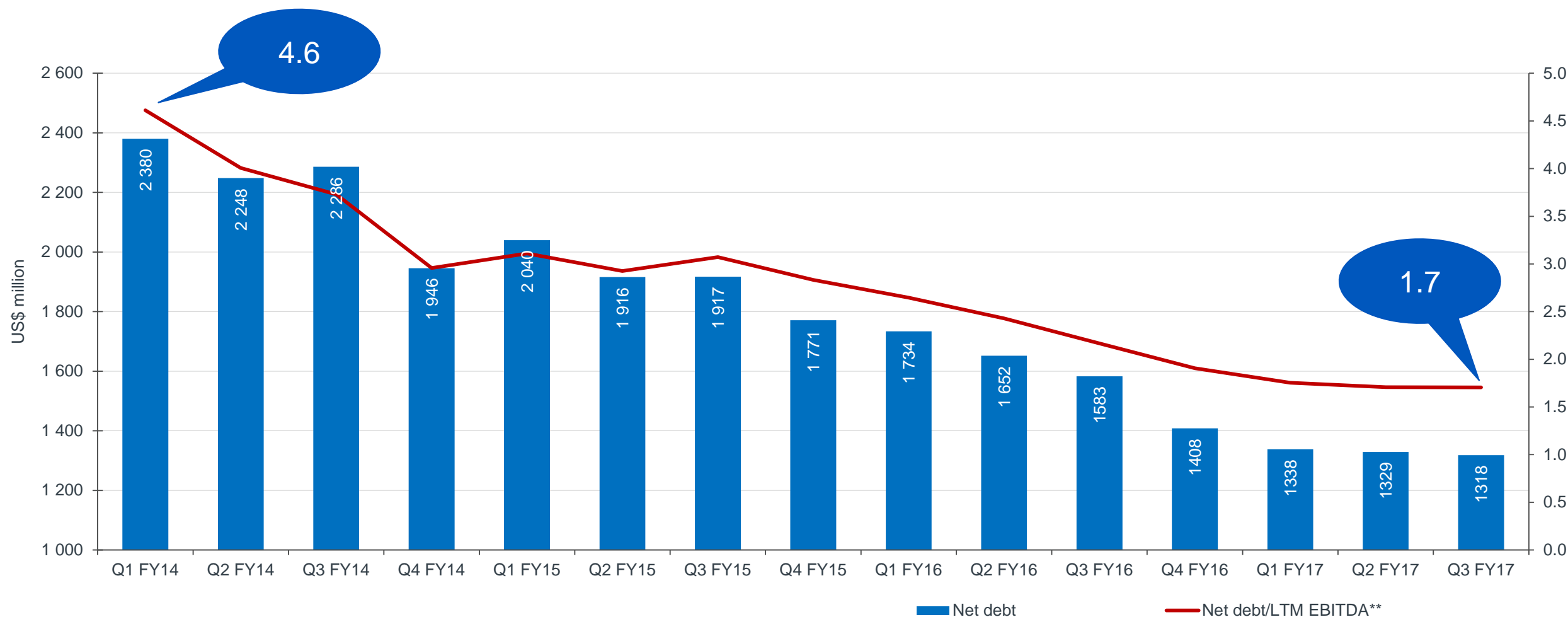
EBITDA and operating profit

Excluding special items*



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Net debt/EBITDA development

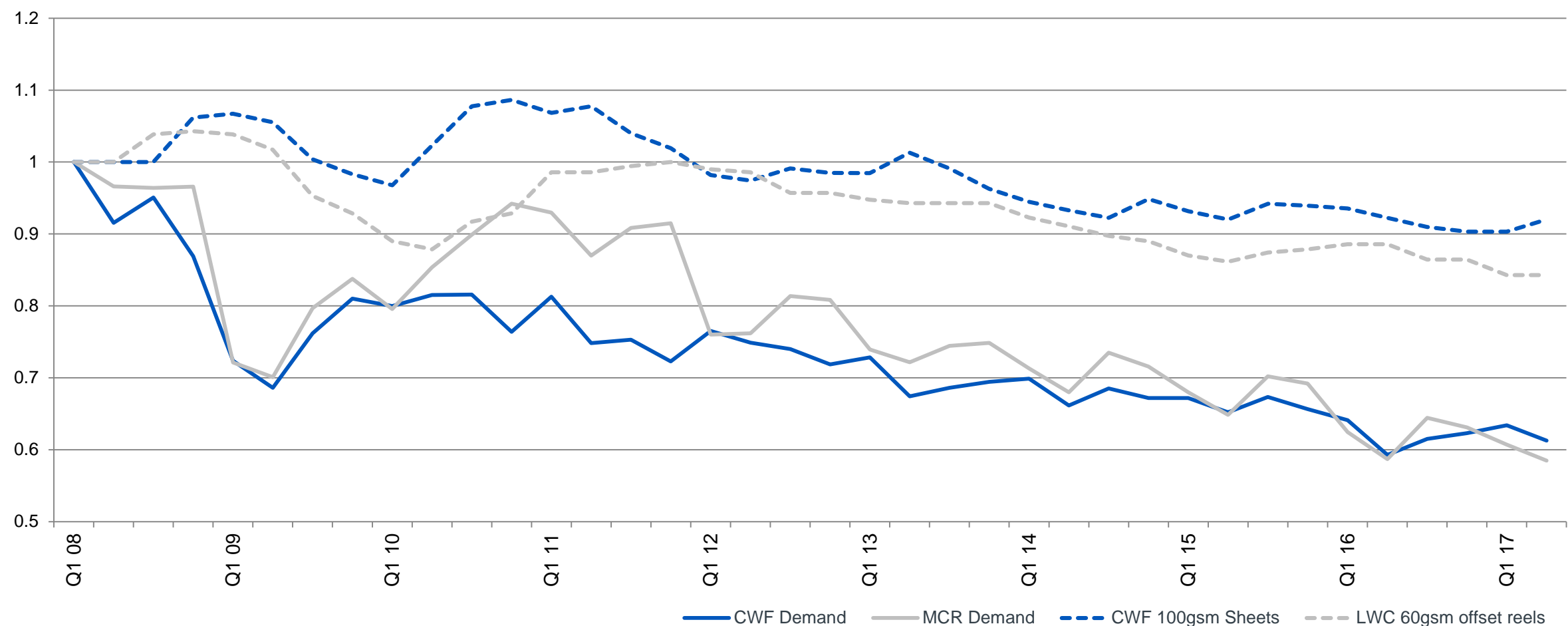


* EBITDA is excluding special items.

** The covenant Net debt/LTM EBITDA calculation has adjustments and therefore differs from that shown above.

Coated paper deliveries and prices

Western Europe



Western Europe shipments including export.
Source: Cepifine, Cepiprint and RISI indexed to calendar 1Q 2008.

Sappi Europe

	Q3 FY17	Q3 FY16	FYTD 17	FYTD 16
Tons sold ('000)	795	760	2,501	2,430
Sales (EURm)	554	540	1,736	1,745
Price/Ton (EUR)	697	711	694	718
Cost/Ton* (EUR)	668	678	658	682
Operating profit excluding special items** (EURm)	23	25	91	87

* Sales less operating profit excluding special items divided by tons sold.

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Sappi packaging and speciality papers

Global production sites



Alfeld Mill (Germany)

Flexible packaging, label, SBB board, topline and release liner



Ehingen Mill (Germany)

Topliner – Fusion®



Somerset Mill (USA)

Label paper – LusterCote® and Flexpack paper – LusterPrint®



Tugela Mill (South Africa)

Liner – UltraTest® and Fluting – UltraFlute®

Maastricht Mill (The Netherlands)



Folding boxboard – atelier™

Cloquet Mill (USA)



Label paper – LusterCote®

Westbrook Mill (USA)



Casting and release paper – Ultracast® & different classic brands

Ngodwana Mill (South Africa)



Liner – KraftPride®

Markets and growth rates

Global market size – Speciality packaging



Flexible packaging and label papers

- C1S papers
- 1.2 million tons
- Growth: 2-3%pa



Release liner

- CCK graphic arts
- 300,000 tons
- Growth: 6%pa



Rigid packaging

- SBS printing and converting
- 4.7 million tons
- Growth: 2%pa



Containerboard

- Coated white Topliner
- 1 million tons
- Growth: 1-2%pa



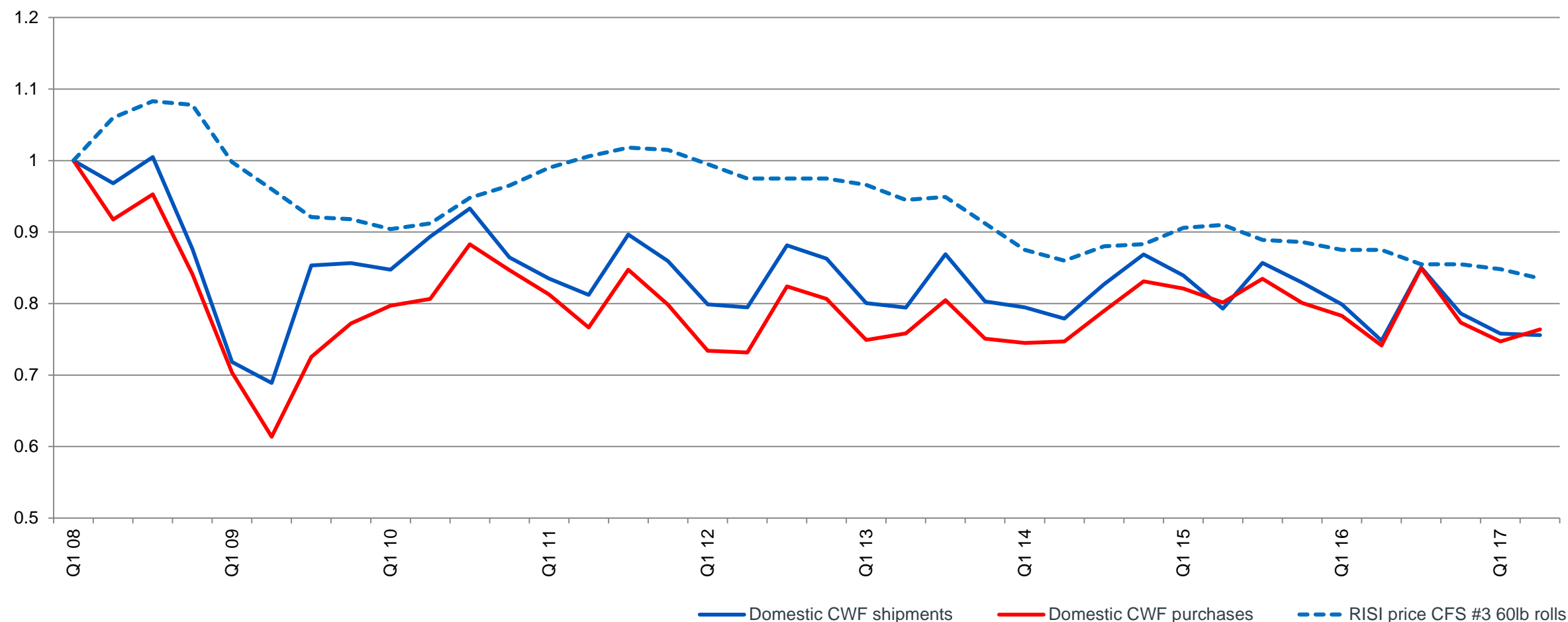
Functional papers

- Barrier and grease resistant papers
- Virtually unlimited

Source for growth rates: AWA, Pira and RISI.

Coated paper prices and shipments

United States of America



US industry purchases defined as industry shipments, plus imports, less exports.
Source: AF&PA and RISI indexed to calendar Q1 FY08.

Sappi North America

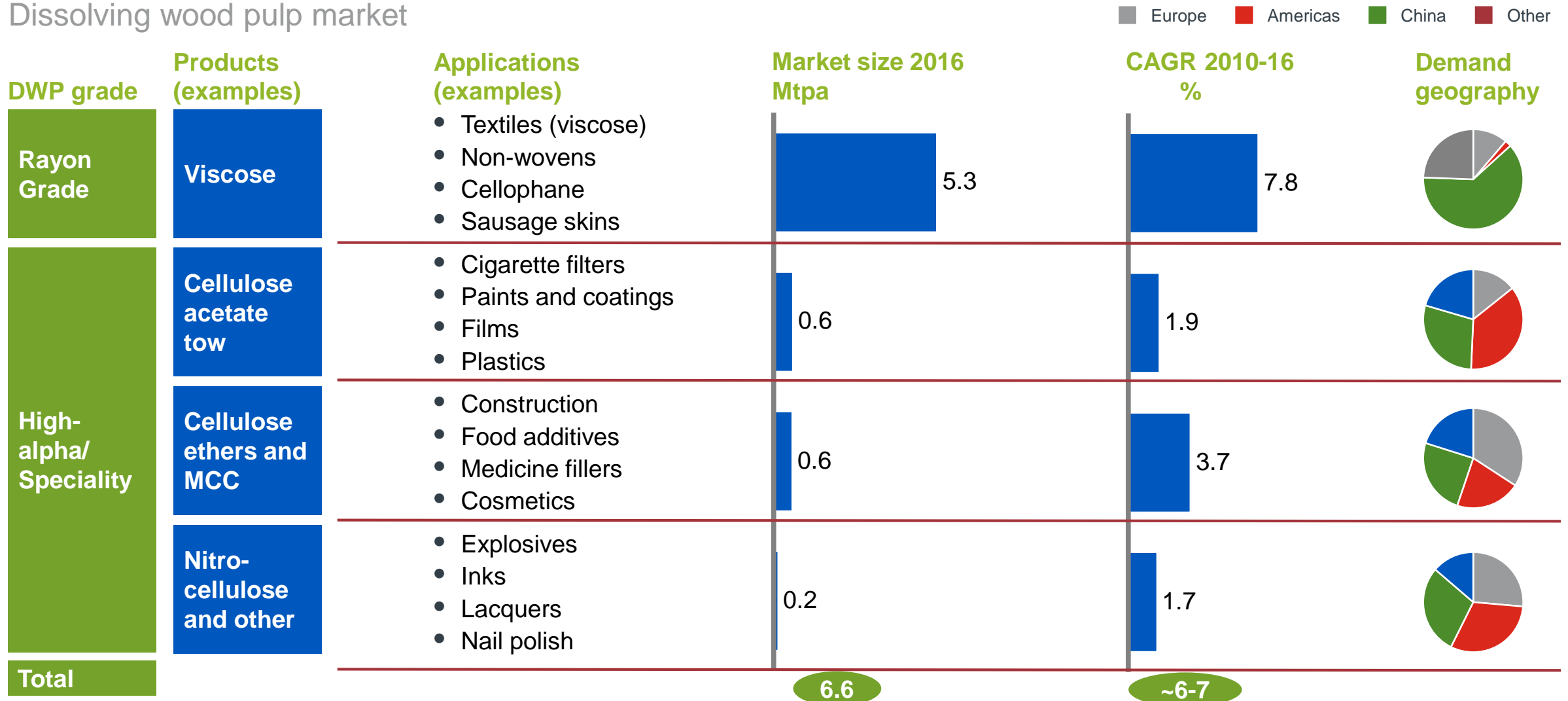
	Q3 FY17	Q3 FY16	FYTD 17	FYTD 16
Tons sold ('000)	316	305	998	966
Sales (US\$m)	314	325	1,003	1,007
Price/Ton (US\$)	994	1,066	1,005	1,042
Cost/Ton* (US\$)	1,000	1,072	985	1,018
Operating profit excluding special items** (US\$m)	(2)	(2)	20	24

* Sales less operating profit excluding special items divided by tons sold.

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Viscose-grade DWP is used almost exclusively in textile applications

Dissolving wood pulp market



Source: Hawkins Wright; Fibre Year 2017; RISI 'Dissolving Pulp Monitor' (Jan 2017) and 'Outlook for the Global Dissolving Pulp Market'.

Cellulosic fibre properties are superior to cotton and polyester for many textile applications

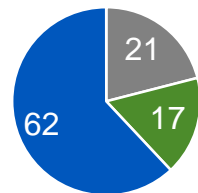
✓✓ Key strength ✓ Qualifies ✗ Issue

■ Nonwovens/Technical textiles ■ Home textiles ■ Apparel

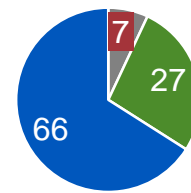
Fibre properties and applications

Applications

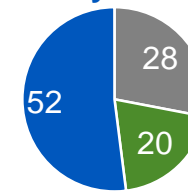
Cellulosic fibres



Cotton



Polyester



Function and feel

Durability

✗

✓

✓✓

Absorbency

✓

✓

✗

Breathability

✓

✓

✗

Softness

✓

✓

✓

Drape

✓

✗

✗

Appearance

Dyeability

✓✓

✓

✓✓

Brightness/Lustre

✓✓

✓

✓

Sustainability

Renewable and biodegradeable

✓✓

✓✓

✗

Resource efficiency

✓✓

✗

✗

Overall value proposition

- Natural and attractive, 'greener' alternative to cotton

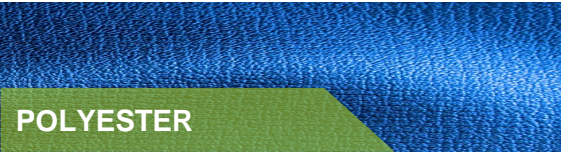
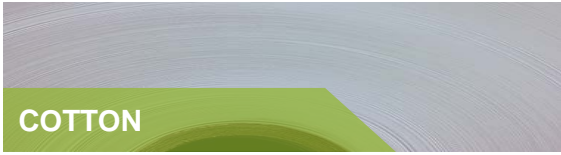

- Natural, functional and well established

- Cheap, durable and versatile

- On a pure property basis, cellulosic fibres are superior to cotton and differentiated on sustainability.
- Polyester is differentiated on strength/durability versus cotton and cellulosic fibres.

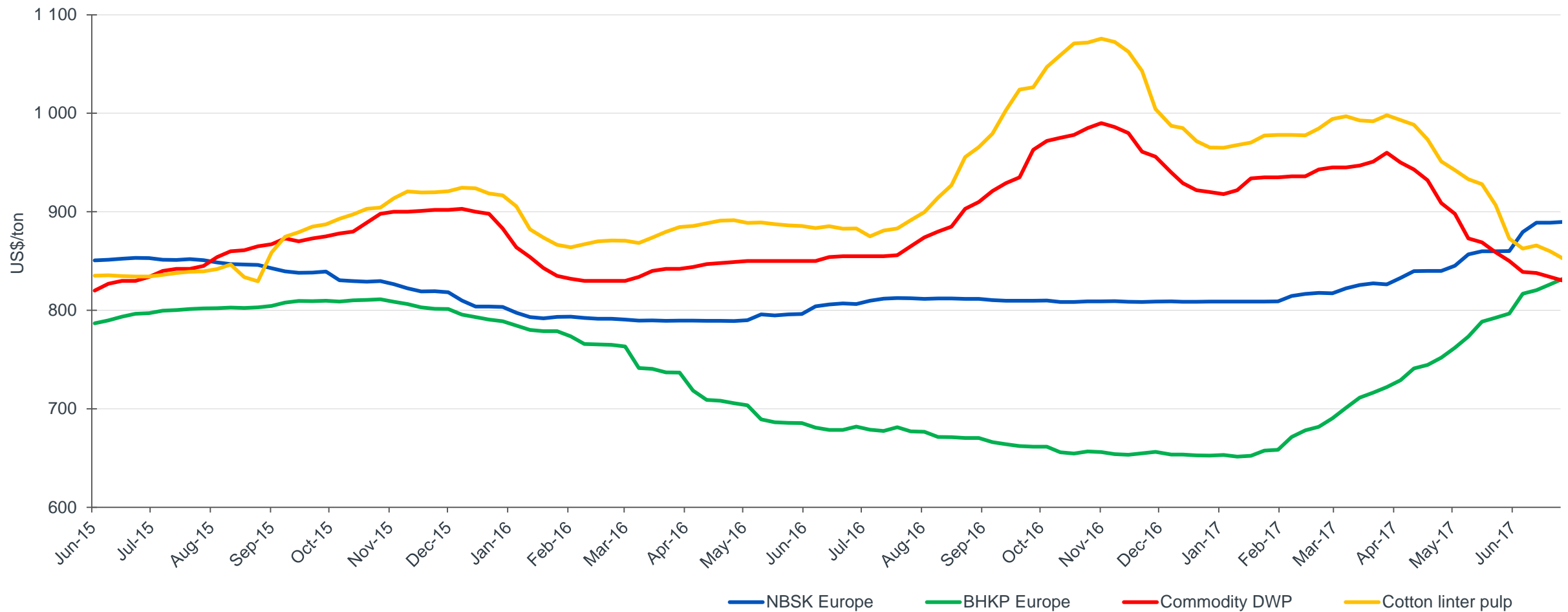
Source: IHS Global, RISI, Hawkins Wright.

There is still significant headroom to increase the level of cellulosic fibre blending in most sub-categories

	 POLYESTER			 COTTON			 CELLULOSIC		
	Today	Future	Gap	Today	Future	Gap	Today	Future	Gap
Apparel									
Denim	5%	5%	0	95%	95%	0%	0%	0%	0%
Shirts	35%	40%	+14%	50%	40%	-20%	15%	20%	+33%
T-shirts	30%	50%	+67%	70%	50%	-29%	3%	5%	0%
Dresses	10%	10%	0%	35%	25%	-29%	55%	65%	+18%
Suits	35%	40%	+14%	25%	20%	-20%	~1%	~2%	+100%
Sportswear	85%	85%	0%	0%	0%	0%	15%	15%	0%
Casual wear	45%	50%	+11%	45%	35%	-22%	10%	15%	+50%
Home textile									
Towels	5%	5%	0%	80%	75%	-6%	15%	20%	+33%
Bedding	45%	55%	+22%	45%	40%	-11%	1%	2%	+100%

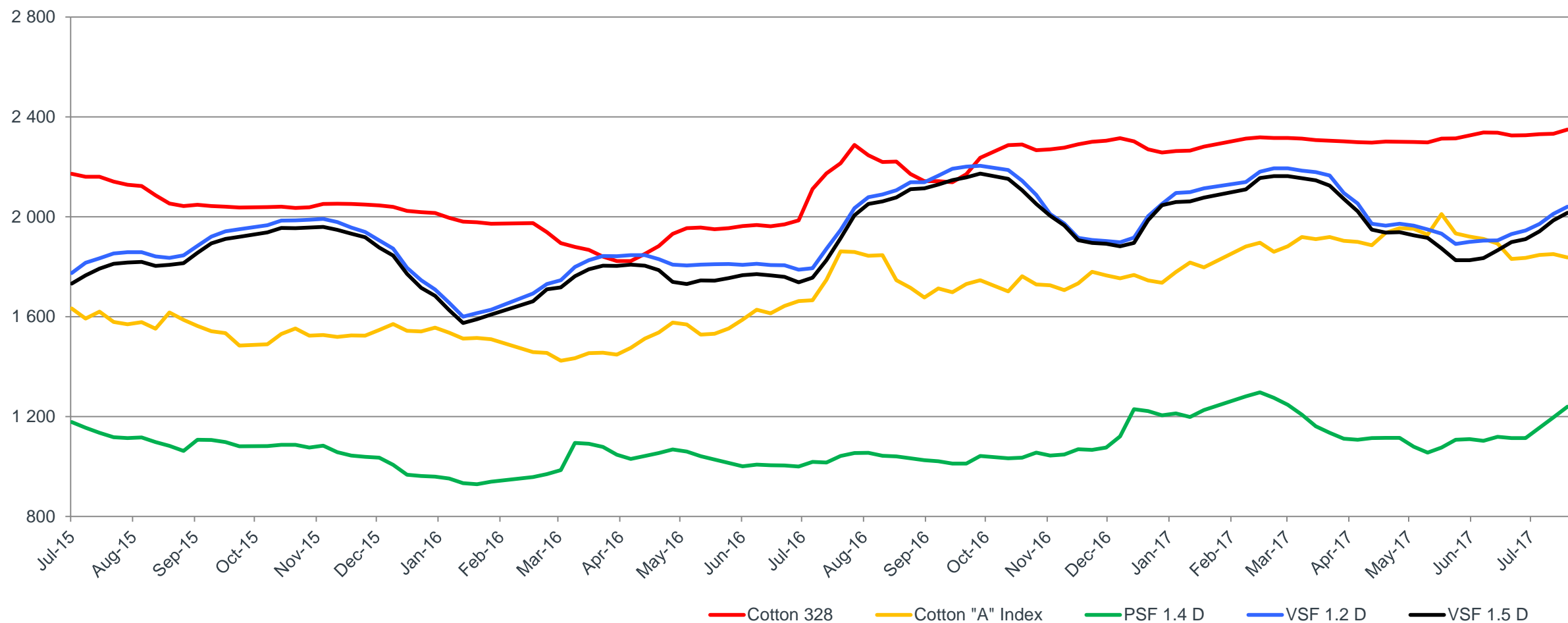
Source: Expert interviews.

Pulp prices*



* Source: FOEX, CCF group.

Textile fibre prices



* Source: CCF group.

Sappi Southern Africa

Excluding Sappi Forests

	Q3 FY17	Q3 FY16	FYTD 17	FYTD 16
Tons sold ('000)	387	407	1,159	1,197
Sales (ZARm)	4,207	4,097	12,848	12,267
Price/Ton (ZAR)	10,871	10,066	11,086	10,248
Cost/Ton* (ZAR)	8,499	7,486	8,149	7,530
Operating profit excluding special items** (ZARm)	918	1,050	3,404	3,254

* Sales less operating profit excluding special items divided by tons sold.

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Cash flow

US\$m	Q3 FY17	Q3 FY16	FYTD 17	FYTD 16
Cash generated from operations	139	144	544	502
Movement in working capital	(7)	56	(130)	(66)
Net finance costs paid	(20)	(29)	(61)	(87)
Taxation paid	4	(32)	(62)	(54)
Dividend paid	-	-	(59)	-
Cash generated from operating activities	116	139	232	295
Cash utilised in investing activities	(86)	(57)	(165)	(104)
Capital expenditure	(78)	(59)	(160)	(144)
Net proceeds on disposal of assets	-	1	3	39
Other movements	(8)	1	(8)	1
Net cash generated (utilised)	30	82	67	191

EBITDA and operating profit

Excluding special items reconciliation to reported operating profit

US\$m	Q3 FY17	Q3 FY16	FYTD 17	FYTD16
EBITDA excluding special items*	155	160	564	530
Depreciation and amortisation	(62)	(63)	(190)	(188)
Operating profit excluding special items*	93	97	374	342
Special items* - gains (losses)	(3)	(1)	1	32
Plantation price fair value adjustment	2	12	14	40
Net restructuring provisions	(1)	-	(1)	(4)
Profit on disposal of asset held for sale and other assets	-	-	-	16
BEE charge	-	-	(1)	(1)
Fire, flood, storm and other events	(4)	(13)	(11)	(19)
Segment operating profit	90	96	375	374

* Refer to page 21 in our Q3 FY17 results booklet (available on www.sappi.com) for a definition of special items.

Thank you

