

SAPPI

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Investing in growth

First quarter results for the period ended December 2017

1st 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 products in adjacent fields including nanocellulose and lignosulphonate to our direct and indirect customer base across more than 150 countries.

Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products as well as a wide range of consumer and household 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.

The wood and pulp needed for our products is either produced within Sappi or bought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sales by source*

North America 26%

Southern Africa 24%

Europe 50%

Sales by destination*

North America 23%

Southern Africa 9%

Europe 46%

Asia and other 22%

Sales by product*

Coated paper 59%

Uncoated paper 5%

Speciality paper 11%

Commodity paper 6%

Dissolving wood pulp 18%

Other 1%

Net operating assets**

North America 26%

Southern Africa 38%

Europe 36%

* For the period ended December 2017

** As at December 2017

Highlights for the quarter

- EBITDA excluding special items US\$172 million (Q1 2017 like-for-like US\$181 million)

- Profit for the period US\$63 million (Q1 2017 US\$90 million)

- EPS excluding special items 14 US cents (Q1 2017 16 US cents)

- Net debt US\$1,349 million (Q1 2017 US\$1,338 million)

	Quarter ended		
	Dec 2017	Dec 2016	Sept 2017
Key figures: (US\$ million)			
Sales	1,330	1,309	1,411
Operating profit excluding special items(1)	105	136	152
Special items - (gains) losses(2)	(11)	(7)	1
EBITDA excluding special items(1)	172	201	221
Profit for the period	63	90	102
Basic earnings per share (US cents)	12	17	19
EPS excluding special items (US cents)(3)	14	16	19
Net debt(3)	1,349	1,338	1,322
Key ratios: (%)			
Operating profit excluding special items to sales	7.9	10.4	10.8
Operating profit excluding special items to capital employed (ROCE)(3)	14.1	19.5	20.2
EBITDA excluding special items to sales	12.9	15.4	15.7
Net debt to EBITDA excluding special items	1.8	1.7	1.7
Interest cover(3)	9.9	7.7	9.1
Net asset value per share (US cents)(3)	338	270	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.

Commentary on the quarter

Operating performance in the quarter was in line with expectations and the group generated EBITDA excluding special items of US\$172 million. On a like-for-like basis this is comparable to the US\$181 million generated last year before the addition of US\$20 million related to an additional accounting week. Profit for the comparative period decreased from US\$90 million to US\$63 million principally as a result of the extra week last year and a US\$19 million non-cash income statement charge following the lowering of the corporate income tax rate in the United States and its impact on the deferred tax asset.

Demand for dissolving wood pulp (DWP) remains strong, despite viscose staple fibre (VSF) prices softening in the last weeks of the quarter. DWP spot prices were stable throughout the quarter, supported by higher prices for competing textiles and strong demand for kraft pulp. EBITDA margins remain healthy at 31%.

Growth in demand for specialities and packaging papers continues to be healthy across all major product segments and EBITDA margins were maintained at 14%. Sales volumes are constrained by our current production capacity.

The European business experienced a good quarter despite the impact of a stronger Euro on export sales prices and continued paper pulp cost pressure. Further selling price increases were implemented in both local and export markets during the quarter to counteract these pressures. The market dynamic for graphic paper improved, particularly exports.

Outages for capital projects and annual maintenance, as well as lower coated paper production and dissolving wood pulp sales prices led to a decline in performance for the North American business. The positive impact from the closure of two competing coated woodfree mills during the quarter began to be realised once remaining inventory had been sold into the market.

Excellent packaging and office paper sales volumes in the South African business were unable to offset the impact of lower contracted dissolving wood pulp pricing as well as the negative impact of a major storm in Durban, South Africa, which affected Saiccor production and shipments from the port.

Earnings per share excluding special items was 14 US cents, a decline from the 16 US cents generated in the equivalent

quarter last year. Special items and the once-off tax rate adjustment resulted in a loss of US\$11 million.

Cash flow and debt

Net cash utilised for the quarter was US\$14 million, compared to US\$17 million cash generated in the equivalent quarter last year. A US\$51 million increase in capital expenditure, related to the paper machine conversion projects, which contributed to the decline in net cash generation.

An energy tax refund of US\$6 million was received in the quarter, contrasting with tax payments of US\$34 million in the prior year.

Net debt of US\$1,349 million was up marginally from US\$1,338 million at the end of the equivalent quarter last year as a result of the increased capital expenditure over the past year as well as the stronger Euro which impacted the translation of Euro debt into US Dollar for reporting purposes.

Liquidity comprises cash on hand of US\$618 million and US\$639 million available from the undrawn committed revolving credit facilities in Southern Africa and Europe.

Operating review for the quarter

Europe	Quarter ended				
	Dec 2017	Sept 2017	Jun 2017	Mar 2017	Dec 2016
€ million					
Sales	571	583	554	581	602
Operating profit excluding special items	31	35	23	29	40
Operating profit excluding special items to sales (%)	5.4	6.0	4.2	5.0	6.6
EBITDA excluding special items	59	63	51	56	69
EBITDA excluding special items to sales (%)	10.3	10.8	9.2	9.6	11.5
RONOA pa (%)	10.6	12.2	8.2	10.3	14.3

The European operating performance was solid, with strong export markets and the successful implementation of selling price increases for graphic paper offsetting the ongoing rise in pulp costs. Within Europe, the market for graphic paper stabilised. Overall sales volumes were 5% lower than the equivalent quarter last year, however this was almost solely due to the additional accounting week in the prior year.

The specialities paper business experienced like-for-like sales growth of 9% (normalised to a 13 week quarter), however, the stronger Euro impacted US Dollar-based exports negatively and lowered overall net sales prices.

Variable costs were 2% higher than in both comparative periods. Paper pulp and latex prices continued to rise throughout the quarter. Fixed costs were 2% higher than a year ago due to an increased headcount post the Rockwell acquisition and annual personnel cost increases.

North America	Quarter ended				
	Dec 2017	Sept 2017	Jun 2017	Mar 2017	Dec 2016
US\$ million					
Sales	342	357	314	335	354
Operating profit (loss) excluding special items	(1)	27	(2)	14	8
Operating profit (loss) excluding special items to sales (%)	(0.3)	7.6	(0.6)	4.2	2.3
EBITDA excluding special items	18	47	17	34	28
EBITDA excluding special items to sales (%)	5.3	13.2	5.4	10.1	7.9
RONOA pa (%)	(0.4)	10.7	(0.8)	5.8	3.3

The performance of the North American business was impacted negatively by lower sales volumes as a result of production challenges at the paper mills, project work at the Somerset Mill for the new woodyard as well as the first phase of the PM1 conversion to paperboard together with a new headbox for PM12 at Cloquet Mill.

The US coated paper market changed notably during the quarter as approximately 15% of competing coated free sheet

capacity exited the market with the closure of two mills. Low paper inventories and contractual price protection for major customers limited the positive impact from price increases and higher operating rates during the quarter. The outlook for the coming quarters has improved as operating rates rise and further price increases have been announced.

The positive impact of increased dissolving wood pulp sales volumes was negated by lower average selling prices and higher purchased paper pulp costs as the Cloquet Mill raised dissolving wood pulp production, resulting in additional paper pulp purchases for the paper machines.

Both the packaging and release paper businesses experienced good year-on-year volume growth, although both products experienced lower average pricing, primarily due to product and customer mix.

Variable costs were negatively impacted by the various capital projects during the quarter, as well as higher purchased paper pulp and chemical prices. The ongoing initiatives to improve efficiency and lower purchasing costs helped offset these somewhat.

Southern Africa	Quarter ended				
	Dec 2017	Sept 2017	Jun 2017	Mar 2017	Dec 2016
ZAR million					
Sales	4,291	4,879	4,432	4,818	4,230
Operating profit excluding special items	940	1,106	918	1,317	1,169
Operating profit excluding special items to sales (%)	21.9	22.7	20.7	27.3	27.6
EBITDA excluding special items	1,144	1,344	1,102	1,489	1,364
EBITDA excluding special items to sales (%)	26.7	27.5	24.9	30.9	32.2
RONOA pa (%)	21.3	26.0	21.5	30.5	27.8

Improved year-on-year sales volumes across all major product categories were not enough to offset lower US Dollar dissolving wood pulp prices, the stronger Rand/US Dollar exchange rate and the impact of the storm damage in the Durban area on logistics and Saiccor Mill production.

Dissolving wood pulp sales volumes were greater than the equivalent quarter last year, but lower than those of the prior quarter due to the logistical challenges in the Durban port as mentioned above. Lower average US Dollar prices coupled with a stronger Rand/US Dollar exchange rate led to average sales prices that were 7% below those of a year ago.

Improved packaging sales volumes, driven by strong citrus demand, and higher pricing resulted in a strong performance from the paper business. Office paper and newsprint achieved sales volume growth and higher pricing.

Variable costs remain well controlled compared to the prior year, with increased energy costs being offset by lower fibre usage.

Outlook

Demand for DWP remains good, and our realised US Dollar sales prices will improve in the second quarter as we benefit from the higher average Chinese market prices. While VSF prices currently remain under pressure, recent rises in competing textile prices such as cotton and polyester should provide support to the VSF market, which in turn should support DWP pricing in upcoming quarters. In light of increased demand and positive outlook for DWP we are advancing plans for the possible expansion of Saiccor Mill by 110,000 tons per annum.

Graphic paper operating rates remain healthy in Europe as export demand growth helps to offset more moderate demand declines in Western Europe. Coated paper price increases over the past few quarters have allowed margins to remain relatively stable despite continued input cost pressure from purchased paper pulp.

In the United States we will be taking extended downtime on PM1 at Somerset Mill in order to complete the conversion project at the mill. This is expected to have a US\$9 million negative impact on EBITDA during our second and third quarters. Coated paper price increases implemented over the past six months will start to be fully realised in the second quarter and the higher DWP prices referred to earlier will allow us to offset the aforementioned impact.

Speciality and packaging paper demand continues to grow as the push to encourage the use of paper-based packaging over

plastic gathers momentum. Our acquisition of Rockwell Solutions in 2017 and the announced acquisition of Cham Paper, which is expected to be completed at the end of February 2018, positions us well for growth in this market. The conversions of the paper machines at Maastricht and Somerset Mills will be completed in the second and third quarter respectively and will further add to our coated packaging capabilities.

Capital expenditure in 2018 is expected to be approximately US\$500 million as we complete the conversions at Maastricht and Somerset Mills, the Saiccor, Ngodwana and Cloquet Mills DWP debottlenecking projects and start the upgrade of the Saiccor Mill woodyard. These projects are focused on higher margin growth segments including dissolving wood pulp and speciality packaging. This will position us for stronger profitability from 2019 onwards.

The group's second quarter operating performance is expected to be slightly below that of the prior year as the impact of the stronger Rand and lower comparative US Dollar DWP prices negatively impact the South African operations.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

6 February 2018

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, 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 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 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

Quarter ended

US\$ million	Note	Dec 2017	Dec 2016
Sales		1,330	1,309
Cost of sales		1,121	1,082
Gross profit		209	227
Selling, general and administrative expenses		94	82
Other operating expenses		1	4
Share of profit from equity investments		(2)	(2)
Operating profit	3	116	143
Net finance costs		15	25
· Net interest expense		16	27
· Net foreign exchange gain		(1)	(2)
Profit before taxation		101	118
Taxation		38	28
Profit for the period		63	90
Basic earnings per share (US cents)	4	12	17
Weighted average number of shares in issue (millions)		535.8	531.6
Diluted earnings per share (US cents)	4	11	17
Weighted average number of shares on fully diluted basis (millions)		549.0	544.0

Condensed group statement of comprehensive income

US\$ million	Quarter ended	
	Dec 2017	Dec 2016
Profit for the period	63	90
Other comprehensive income (loss), net of tax		
Items that will not be reclassified subsequently to profit or loss	(19)	-
· Tax effect resulting from change in tax rates	(19)	-
Items that may or are reclassified subsequently to profit or loss	106	33
· Exchange differences on translation of foreign operations	97	33
· Movements in hedging reserves	12	1
· Tax effect of above items	(3)	(1)
Total comprehensive income for the period	150	123

Condensed group balance sheet

US\$ million	Note	Audited	
		Dec 2017	Sept 2017
ASSETS			
Non-current assets		3,545	3,378
Property, plant and equipment		2,803	2,681
Plantations	5	521	458
Deferred tax assets		93	123
Other non-current assets		128	116
Current assets		2,004	1,869
Inventories		697	636
Trade and other receivables		655	668
Derivative financial instruments		26	3
Taxation receivable		8	12
Cash and cash equivalents		618	550
Total assets		5,549	5,247
EQUITY AND LIABILITIES			
Equity			
Ordinary shareholders' interest		1,821	1,747
Non-current liabilities		2,588	2,457
Interest-bearing borrowings		1,831	1,739

Deferred tax liabilities	328	295
Other non-current liabilities	429	423
Current liabilities	1,140	1,043
Interest-bearing borrowings	136	133
Trade and other payables	828	858
Provisions	9	10
Derivative financial instruments	7	5
Taxation payable	85	37
Shareholders for dividend	75	-
Total equity and liabilities	5,549	5,247
Number of shares in issue at balance sheet date (millions)	538.6	535.0

Condensed group statement of cash flows

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
Profit for the period	63	90
Adjustment for:		
· Depreciation, felling and amortisation	80	83
· Taxation	38	28
· Net finance costs	15	25
· Defined post-employment benefits paid	(10)	(9)
· Plantation fair value adjustments	(32)	(26)
· Other non-cash items	8	11
Cash generated from operations	162	202
Movement in working capital	(83)	(97)
Net finance costs paid	(6)	(17)
Taxation refund (paid)	6	(34)
Cash generated from operating activities	79	54
Cash utilised in investing activities	(93)	(37)
Capital expenditure	(88)	(37)
Proceeds on disposal of assets	-	2
Other movements	(5)	(2)
Net cash (utilised) generated	(14)	17
Cash effects of financing activities	58	(6)
Proceeds from interest-bearing borrowings	58	14
Repayment of interest-bearing borrowings	-	(20)
Net movement in cash and cash equivalents	44	11
Cash and cash equivalents at beginning of period	550	703
Translation effects	24	(33)
Cash and cash equivalents at end of period	618	681

Condensed group statement of changes in equity

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
Balance - beginning of period	1,747	1,378
Total comprehensive income for the period	150	123
Shareholders for dividend	(81)	(59)
Transfers from the share purchase trust	3	2
Transfers of vested share options	(1)	(3)
Share-based payment reserve	3	1
Balance - end of period	1,821	1,442

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 interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition 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 results are unaudited.

2. Segment information

The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa and have remained unchanged from the prior year. The group has however changed the financial information by major product category, as reviewed by the chief operating decision maker during the quarter ended December 2017. Accordingly, the group has restated the financial information presented by major product category for the quarter ended December 2016.

(000's)	Quarter ended	
	Dec 2017	Dec 2016
	Metric tons	Metric tons
Sales volume		
North America	343	353
Europe	822	867
Southern Africa - Pulp and paper	383	364
- Forestry	248	244
Total	1,796	1,828
Which consists of:		
Specialised cellulose	287	281
Specialities and packaging papers	198	181
Printing and writing papers	1,063	1,122
Forestry	248	244

US\$ million	Quarter ended	
	Dec 2017	Dec 2016
Sales		
North America	342	354
Europe	673	651
Southern Africa - Pulp and paper	299	289
- Forestry	16	15
Total	1,330	1,309
Which consists of:		
Specialised cellulose	241	247
Specialities and packaging papers	196	179
Printing and writing papers	877	868
Forestry	16	15
Operating profit (loss) excluding special items		
North America	(1)	8
Europe	37	43
Southern Africa	69	84
Unallocated and eliminations(1)	-	1
Total	105	136
Which consists of:		
Specialised cellulose	62	82
Specialities and packaging papers	16	15

Printing and writing papers	27	38
Unallocated and eliminations(1)	-	1
Special items -- (gains) losses		
North America	2	-
Europe	2	-
Southern Africa	(16)	(7)
Unallocated and eliminations(1)	1	-
Total	(11)	(7)
Segment operating profit (loss)		
North America	(3)	8
Europe	35	43
Southern Africa	85	91
Unallocated and eliminations(1)	(1)	1
Total	116	143
(1) Includes the group's treasury operations and our insurance captive.		

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
EBITDA excluding special items		
North America	18	28
Europe	69	75
Southern Africa	84	98
Unallocated and eliminations(1)	1	-
Total	172	201
Which consists of:		
Specialised cellulose	75	95
Specialities and packaging papers	27	25
Printing and writing papers	69	81
Unallocated and eliminations(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 believes are material by nature or amount to the operating results and require separate disclosure.		
EBITDA excluding special items	172	201
Depreciation and amortisation	(67)	(65)
Operating profit excluding special items	105	136
Special items -- gains (losses)	11	7
Plantation price fair value adjustment	16	11
Fire, flood, storm and other events	(5)	(4)
Segment operating profit	116	143
Net finance costs	(15)	(25)
Profit before taxation	101	118
Taxation	(38)	(28)
Profit for the period	63	90
(1) Includes the group's treasury operations and our insurance captive.		

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
Segment assets		
North America	1,031	956
Europe	1,414	1,184
Southern Africa	1,464	1,265

Unallocated and eliminations(1)	(75)	2
Total	3,834	3,407
Reconciliation of segment assets		
to total assets		
Segment assets	3,834	3,407
Deferred taxation	93	150
Cash and cash equivalents	618	681
Trade and other payables	828	704
Provisions	9	13
Derivative financial instruments	7	2
Taxation payable	85	39
Shareholders for dividend	75	49
Total assets	5,549	5,045
(1) Includes the group's treasury operations and our insurance captive.		

3. Operating profit

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
Included in operating profit are the following items:		
Depreciation and amortisation	67	65
Fair value adjustment on plantations		
(included in cost of sales)		
Changes in volume		
Fellings	13	18
Growth	(16)	(15)
	(3)	3
Plantation price fair value adjustment	(16)	(11)
	(19)	(8)

4. Earnings per share

	Quarter ended	
US\$ million	Dec 2017	Dec 2016
Basic earnings per share (US cents)	12	17
Headline earnings per share (US cents)	12	17
EPS excluding special items (US cents)	14	16
Weighted average number of shares in issue (millions)	535.8	531.6
Diluted earnings per share (US cents)	11	17
Diluted headline earnings per share (US cents)	11	17
Weighted average number of shares on fully		
diluted basis (millions)	549.0	544.0
Calculation of headline earnings		
Profit for the period	63	90
Headline earnings	63	90
Calculation of earnings excluding special items		
Profit for the period	63	90
Special items after tax	(8)	(5)
Special items	(11)	(7)
Tax effect	3	2
Tax special items	19	-
Earnings excluding special items	74	85

5. Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates (pre-tax weighted average cost of capital), volume and growth estimations.

Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value. Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Immature timber and mature timber that is to be felled in more than 12 months from the reporting date are valued using a 12-quarter rolling historical average price which, taking the length of the growth cycle of a plantation into account, is considered reasonable.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 Fair Value Measurement.

US\$ million	Quarter ended	
	Dec 2017	Sept 2017
Fair value of plantations at beginning of year	458	441
Gains arising from growth	16	58
Fire, flood, storm and other events	-	(5)
In-field inventory	(2)	1
Gain arising from fair value price changes	16	21
Harvesting - agriculture produce (fellings)	(13)	(63)
Translation difference	46	5
Fair value of plantations at end of period	521	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)	
		Dec 2017	Sept 2017
Investment funds(2)	Level 1	7	7
Derivative financial assets	Level 2	26	3
Derivative financial liabilities	Level 2	7	5
Contingent consideration liability(3)	Level 3	14	13

(1) The fair value of the financial instruments are equal to their carrying value.

(2) Included in other non-current assets.

(3) Included in other non-current liabilities and trade and other payables.

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the movement of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

The contingent consideration is based on a multiple of targeted future earnings, of which a 92% weighted average outcome has been projected.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable and current interest-bearing borrowings approximate their fair values.

7. Capital commitments

US\$ million	Quarter ended	
	Dec 2017	Sept 2017

Contracted	256	253
Approved but not contracted	189	219
	445	472
8. Contingent liabilities		
Other contingent liabilities	20	19
	20	19

9. Material balance sheet movements

Since the 2017 financial year-end, the ZAR and Euro have strengthened by approximately 8.7% and 1.6% respectively to the US Dollar, the group's presentation currency, resulting in a similar increase of the group's assets and liabilities held in the aforementioned functional currencies on translation to the presentation currency.

Deferred tax assets

There was reduction in the corporate tax rate in our North America operations resulting in a decrease of US\$38.5 million in our deferred tax asset balance of which US\$19 million was recorded through the income statement and US\$19 million through other comprehensive income.

10. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2017 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

EBITDA excluding special items -- earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items -- earnings per share excluding special items and certain once-off finance and tax items

Fellings -- the amount charged against the income statement representing the standing value of the plantations harvested

Headline earnings -- as defined in circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

Interest cover -- last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs

NBSK -- Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

Net assets -- total assets less total liabilities

Net asset value per share -- net assets divided by the number of shares in issue at balance sheet date

Net debt -- current and non-current interest-bearing borrowings, bank overdrafts less cash and cash equivalents

Net debt to EBITDA excluding special items -- net debt divided by the last 12 months EBITDA excluding special items

Net operating assets -- total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets

Operating profit -- A profit from business operations before deduction of net finance costs and taxes

Non-GAAP measures -- the group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

ROCE -- annualised return on average capital employed. Operating profit excluding special items divided by average capital employed

RONOA -- return on average net operating assets. Operating profit excluding special items divided by average net operating assets

Special items -- special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry.

Summary Rand convenience translation

..... Quarter ended

..... Key figures: (ZAR million)

..... Sales

..... Operating profit excluding special items(1)

..... Special items -- (gains) losses(1)

..... EBITDA excluding special items(1)

..... Profit for the period

..... Basic earnings per share (SA cents)

..... Net debt(1)

..... Key ratios: (%)

..... Operating profit excluding special items to sales

..... Operating profit excluding special items to capital employed (ROCE)(1)

..... EBITDA excluding special items to sales

..... (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.

Exchange rates

	Dec 2017	Sept 2017	Jun 2017	Mar 2017	Dec 2016
Exchange rates:					
Period end rate: US\$1 = ZAR	12.3724	13.5561	13.0551	13.4259	13.7386
Average rate for the quarter:					
US\$1 = ZAR	13.6220	13.1761	13.1857	13.2260	13.9155
Average rate for the year to date:					
US\$1 = ZAR	13.6220	13.3813	13.4536	13.5861	13.9155
Period end rate: €1 = US\$	1.1998	1.1814	1.1426	1.0652	1.0516
Average rate for the quarter:					
€1 = US\$	1.1778	1.1756	1.1011	1.0656	1.0814
Average rate for the year to date:					
€1 = US\$	1.1778	1.1055	1.0827	1.0738	1.0814

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