Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2017
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
01 JANUARY 2017

08 February 2017

This report is being furnished to The Bank of New York Mellon as trustee for (i) the Senior Secured Notes of Sappi Papier Holding GmbH due 2017 issued pursuant to the indentures dated as of July 05, 2012; (ii) 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 2016 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

Inspired by life

First quarter results

for the period ended December 2016

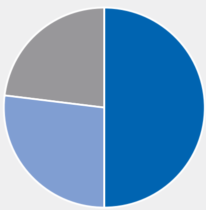
1st quarter results

Sappi is a global diversified woodfibre company focused on providing graphic/printing papers, packaging and speciality papers, dissolving wood pulp as well as products in adjacent fields including nanocellulose and lignosulphonate to our direct and indirect customer base across more than 150 countries.

Our market-leading range of graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; 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 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.

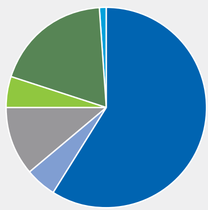
The wood and pulp needed for our products is either produced within Sappi or bought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sales by source*



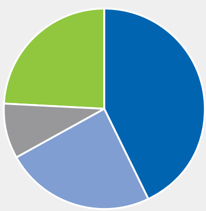
Europe – 50%
North America – 27%
Southern Africa – 23%

Sales by product*



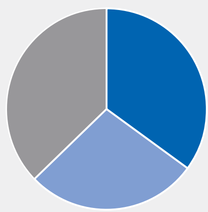
Coated paper – 59%
Uncoated paper – 5%
Speciality paper – 11%
Commodity paper – 5%
Dissolving wood pulp – 19%
Other – 1%

Sales by destination*



Europe – 43%
North America – 24%
Southern Africa – 9%
Asia and other – 24%

Net operating assets**



Europe – 35%
North America – 28%
Southern Africa – 37%

** For the period ended December 2016   ** As at December 2016*

Highlights for the quarter

- EBITDA excluding special items US$201 million (Q1 2016 US$175 million)
- Profit for the period US$90 million (Q1 2016 US$75 million)
- EPS excluding special items 16 US cents (Q1 2016 13 US cents)
- Net debt US$1,338 million, down US$396 million year-on-year

	Quarter ended		
	Dec 2016	Dec 2015	Sept 2016
Key figures: (US$ million)			
Sales	**1,309**	1,284	1,340
Operating profit excluding special items[1]	**136**	112	145
Special items – (gains) losses[2]	**(7)**	(11)	(25)
EBITDA excluding special items[1]	**201**	175	209
Profit for the period	**90**	75	112
Basic earnings per share (US cents)	**17**	14	21
EPS excluding special items (US cents)[3]	**16**	13	18
Net debt[3]	**1,338**	1,734	1,408
Key ratios: (%)			
Operating profit excluding special items to sales	**10.4**	8.7	10.8
Operating profit excluding special items to capital employed (ROCE)[3]	**19.5**	16.2	20.9
EBITDA excluding special items to sales	**15.4**	13.6	15.6
Net debt to EBITDA excluding special items	**1.7**	2.6	1.9
Interest cover[3]	**7.7**	5.1	7.3
Net asset value per share (US cents)[3]	**270**	192	260

[1] *Refer to page 13, 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 page 13, note 2 to the group results for details on special items.*
[3] *Refer to page 18, supplemental information for the definition of the term.*

Commentary on the quarter

Operating performance in the quarter was satisfactory and the group generated EBITDA excluding special items of US$201 million. Profit for the comparative period increased from US$75 million to US$90 million. The improvement was attributable to greater sales volumes across all major categories, higher dissolving wood pulp (DWP) prices and cost savings initiatives. These were offset partially by lower selling prices for graphic paper. An additional accounting week in the quarter augmented sales and boosted EBITDA by approximately US$20 million.

DWP markets remained robust, with strong demand driving spot prices to four year highs in October, before declining towards the end of the quarter, albeit still at relatively high levels. As a result, the Specialised Cellulose business delivered strong returns, with EBITDA excluding special items of US$95 million.

Consistent with recent quarters, the European business achieved strong results, aided by an extra week of sales. A focus on controlling variable costs and excellent growth in the specialities categories enabled the business to deliver enhanced margins.

In the US market, despite further declines in coated paper demand, year-on-year sales volumes improved leading to gains in market share. Lower coated paper prices were partially offset by a number of cost and efficiency improvements. The North American business further benefited from strong DWP volumes and prices.

The South African business continued to deliver excellent margins, with higher DWP and paper prices. Paper volumes were lower due to weak December sales as customers focused on reducing inventory.

Earnings per share excluding special items for the quarter was 16 US cents, an improvement over the 13 US cents generated in the equivalent quarter last year. Special items in the quarter resulted in a gain of US$7 million and related mainly to a positive plantation fair value adjustment.

Cash flow and debt

Net cash generated for the quarter was US$17 million, compared to US$19 million in the equivalent quarter last year, which included the proceeds from the sale of our Cape Kraft and Enstra Mills. Capital expenditure in the quarter of US$37 million was less than the US$40 million spent in the comparative period last year.

Tax payments of US$34 million were higher than last year as a result of increased taxable income in South Africa.

Net debt of US$1,338 million was down substantially from US$1,734 million at the end of the equivalent quarter last year as a result of strong cash generation over the past 12 months.

Liquidity comprised cash on hand of US$681 million and US$562 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended				
	Dec 2016 € million	Sept 2016 € million	Jun 2016 € million	Mar 2016 € million	Dec 2015 € million
Sales	**602**	579	540	604	601
Operating profit excluding special items	**40**	31	25	33	29
Operating profit excluding special items to sales (%)	***6.6***	*5.4*	*4.6*	*5.5*	*4.8*
EBITDA excluding special items	**69**	61	53	62	59
EBITDA excluding special items to sales (%)	***11.5***	*10.5*	*9.8*	*10.3*	*9.8*
RONOA pa (%)	***14.3***	*11.0*	*8.6*	*11.0*	*9.7*

The performance of the European business improved compared to both the prior quarter and the equivalent period last year. Sales volumes were higher due to the additional trading week and market share gains for coated woodfree paper. However, selling prices for graphic paper were lower due to the difficult market environment. Profitability was boosted further by substantial savings on raw material costs.

The Specialities business experienced a much stronger first quarter than that of a year ago, and sales volumes increased by 26%. Average selling prices remained constant compared to both equivalent periods.

All major variable cost categories with the exception of latex showed significant reductions compared to the equivalent quarter last year. During the quarter we experienced a moderate increase in purchased softwood pulp and energy prices. Fixed costs increased slightly as a result of annual personnel cost increases.

North America

	Quarter ended				
	Dec 2016 US$ million	Sept 2016 US$ million	Jun 2016 US$ million	Mar 2016 US$ million	Dec 2015 US$ million
Sales	**354**	360	325	339	343
Operating profit (loss) excluding special items	**8**	25	(2)	13	13
Operating profit (loss) excluding special items to sales (%)	***2.3***	*6.9*	*(0.6)*	*3.8*	*3.8*
EBITDA excluding special items	**28**	43	18	32	31
EBITDA excluding special items to sales (%)	***7.9***	*11.9*	*5.5*	*9.4*	*9.0*
RONOA pa (%)	***3.3***	*10.2*	*(0.8)*	*5.2*	*5.2*

The performance of the North American business was impacted negatively by lower coated paper pricing, somewhat offset by strong dissolving wood pulp volumes and prices. The annual pulp mill maintenance outage at Somerset Mill, which occurs each first quarter, also impacted the results by approximately US$10 million compared to the prior quarter.

The US coated paper market remains under pressure due to declining demand and lower pricing, exacerbated by the strong US Dollar. Sales volumes increased marginally year-on-year despite declines in overall demand in the US. Sales prices however were 6% lower than the equivalent quarter last year.

The dissolving wood pulp market strengthened through the quarter, while paper pulp pricing remained at low levels. The Cloquet Mill optimised DWP production in order to benefit from the wider spread between northern bleached hardwood kraft pulp and DWP pricing.

The release paper business continues to experience weak sales volumes into the Chinese garment industry as well as lower average selling prices due to the sales mix.

Ongoing procurement and efficiency initiatives along with lower market prices for wood and purchased paper pulp led to lower average variable costs for the quarter. Fixed costs increased compared to the prior quarter largely as a result of increased annual personnel costs.

Southern Africa

	Quarter ended				
	Dec 2016 ZAR million	Sept 2016 ZAR million	Jun 2016 ZAR million	Mar 2016 ZAR million	Dec 2015 ZAR million
Sales	**4,230**	4,760	4,306	4,568	3,993
Operating profit excluding special items	**1,169**	1,256	1,050	1,255	949
Operating profit excluding special items to sales (%)	***27.6***	*26.4*	*24.4*	*27.5*	*23.8*
EBITDA excluding special items	**1,364**	1,441	1,215	1,430	1,119
EBITDA excluding special items to sales (%)	***32.2***	*30.3*	*28.2*	*31.3*	*28.0*
RONOA pa (%)	***27.8***	*31.1*	*26.2*	*32.2*	*25.2*

The South African business delivered enhanced margins compared to the comparative quarter last year as a result of higher net selling prices for dissolving wood pulp, which more than offset increased variable costs and a stronger Rand/US Dollar exchange rate.

Dissolving wood pulp sales volumes were greater than the equivalent quarter last year, a quarter in which production was interrupted at the Saiccor Mill due to the drought conditions experienced during that period. Higher average US Dollar prices more than offset the impact of a stronger Rand/US Dollar exchange rate for the period.

A number of tube leaks at Saiccor were experienced at the start of the quarter, but operations have since stabilised and we will replace the affected equipment during the annual maintenance shut in March.

Lower than expected demand over the Christmas period impacted containerboard and tissue sales for the quarter, though recent good rains over parts of South Africa have improved the outlook of packaging sales for the rest of the financial year due to better prospects for various fruit exports.

Fixed and variable costs remain well controlled and were consistent with the prior quarter.

Outlook

Demand for DWP remains favourable and pricing has recovered during January. Therefore a higher average US Dollar price is expected in the second quarter of 2017.

Graphic paper markets continue to be weak in Europe and the United States, however prices have started to stabilise. Raw material costs have started to rise, particularly for paper pulp, energy and chemicals but we remain focused on various efficiency and procurement initiatives in order to mitigate the effect of these increased costs.

Demand for speciality packaging grades remains robust and we will be undertaking a number of significant projects over the next two years in order to increase our production capacity in these grades while maintaining our focus on being a leading coated paper producer in both North America and Europe.

In North America we will be investing approximately US$165 million to convert PM1 at the Somerset Mill. The machine will have the capability to produce both coated graphics paper and paper packaging products. The project is expected to be completed in 2018.

In Europe we will undertake a number of projects that will result in a significant increase in our speciality packaging paper capacity and capability. The Maastricht Mill will be converted to focus predominantly on speciality grades and we will invest at Ehingen and Alfeld to enhance the specialities offerings. Lanaken Mill PM8 will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market. In total these projects will cost approximately US$140 million over a three year period.

Capital expenditure in 2017 is expected to be approximately US$350 million as we continue the debottlenecking of DWP production at Saiccor and Ngodwana, and undertake the first phases of the speciality packaging investments outlined previously.

Based on current market conditions; in particular the recent strength of the Rand, continued strength in US Dollar pricing for DWP and further weakness in graphic paper demand and pricing in Europe and the US, we expect the group's operating performance for the second quarter to be broadly in line with that of 2016. Further Rand strength could result in a weaker performance for the remainder of the year. The board is mindful of uncertainty wrought by global political events.

We expect to reduce net debt levels further during the course of 2017 and it remains our intention to repay the maturing 2017 bonds from current liquidity sources in order to lower future finance costs.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

08 February 2017

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

	Note	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Sales		**1,309**	1,284
Cost of sales		**1,082**	1,090
Gross profit		**227**	194
Selling, general and administrative expenses		**82**	82
Other operating (income) expenses		**4**	(9)
Share of profit from equity investments		**(2)**	(2)
Operating profit	3	**143**	123
Net finance costs		**25**	25
Net interest expense		**27**	27
Net foreign exchange gain		**(2)**	(2)
Profit before taxation		**118**	98
Taxation		**28**	23
Profit for the period		**90**	75
Basic earnings per share (US cents)		**17**	14
Weighted average number of shares in issue (millions)		**531.6**	527.4
Diluted earnings per share (US cents)		**17**	14
Weighted average number of shares on fully diluted basis (millions)		**544.0**	535.4

Condensed group statement of comprehensive income

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Profit for the period	**90**	75
Other comprehensive income (loss), net of tax		
Items that must be reclassified subsequently to profit or loss	**33**	(79)
Exchange differences on translation of foreign operations	**33**	(71)
Movements in hedging reserves	**1**	(9)
Tax effect of above items	**(1)**	1
Total comprehensive income (loss) for the period	**123**	(4)

Condensed group balance sheet

	Dec 2016 US$ million	Reviewed Sept 2016 US$ million
ASSETS		
Non-current assets	**3,077**	3,171
Property, plant and equipment	**2,404**	2,501
Plantations	**445**	441
Deferred tax assets	**150**	152
Derivative financial instruments	**1**	1
Other non-current assets	**77**	76
Current assets	**1,968**	2,006
Inventories	**647**	606
Trade and other receivables	**559**	642
Derivative financial instruments	**69**	44
Taxation receivable	**12**	11
Cash and cash equivalents	**681**	703
Total assets	**5,045**	5,177
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	**1,442**	1,378
Non-current liabilities	**2,250**	2,325
Interest-bearing borrowings	**1,473**	1,535
Deferred tax liabilities	**276**	272
Other non-current liabilities	**501**	518
Current liabilities	**1,353**	1,474
Interest-bearing borrowings	**546**	576
Other current liabilities	**717**	854
Derivative financial instruments	**2**	2
Taxation payable	**39**	42
Shareholders for dividend	**49**	–
Total equity and liabilities	**5,045**	5,177
Number of shares in issue at balance sheet date (millions)	**534.5**	530.6

Condensed group statement of cash flows

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Profit for the period	**90**	75
Adjustment for:		
Depreciation, fellings and amortisation	**83**	77
Taxation	**28**	23
Net finance costs	**25**	25
Defined post-employment benefits paid	**(9)**	(11)
Plantation fair value adjustments	**(26)**	(16)
Net restructuring provisions	**–**	3
Profit on disposal of assets held for sale	**–**	(15)
Other non-cash items	**11**	10
Cash generated from operations	**202**	171
Movement in working capital	**(97)**	(100)
Net finance costs paid	**(17)**	(36)
Taxation paid	**(34)**	(18)
Cash generated from operating activities	**54**	17
Cash (utilised in) generated from investing activities	**(37)**	2
Capital expenditure	**(37)**	(40)
Net proceeds on disposal of assets	**2**	41
Other movements	**(2)**	1
Net cash generated	**17**	19
Cash effects of financing activities	**(6)**	(72)
Net movement in cash and cash equivalents	**11**	(53)
Cash and cash equivalents at beginning of period	**703**	456
Translation effects	**(33)**	(20)
Cash and cash equivalents at end of period	**681**	383

Condensed group statement of changes in equity

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Balance – beginning of period	**1,378**	1,015
Total comprehensive income (loss) for the period	**123**	(4)
Shareholders for dividend	**(59)**	–
Transfers from the share purchase trust	**2**	11
Transfers of vested share options	**(3)**	(8)
Share-based payment reserve	**1**	1
Balance – end of period	**1,442**	1,015

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the three months ended December 2016 have been prepared in accordance with the Listings Requirements of the JSE Limited, the framework concepts and measurement recognition requirements of International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and containing the minimum information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous group annual financial statements.

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

The results are unaudited.

2. Segment information

	Quarter ended Dec 2016 Metric tons (000's)	Quarter ended Dec 2015 Metric tons (000's)
Sales volume		
North America	**353**	330
Europe	**867**	836
Southern Africa – Pulp and paper	**364**	386
Forestry	**244**	259
Total	**1,828**	1,811
Which consists of:		
Specialised cellulose	**281**	255
Paper	**1,303**	1,297
Forestry	**244**	259

Notes to the condensed group results continued

2. Segment information continued

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Sales		
North America	**354**	343
Europe	**651**	659
Southern Africa – Pulp and paper	**289**	268
Forestry	**15**	14
Total	**1,309**	1,284
Which consists of:		
Specialised cellulose	**247**	209
Paper	**1,047**	1,061
Forestry	**15**	14
Operating profit (loss) excluding special items		
North America	**8**	13
Europe	**43**	32
Southern Africa	**84**	67
Unallocated and eliminations[1]	**1**	–
Total	**136**	112
Which consists of:		
Specialised cellulose	**82**	62
Paper	**53**	50
Unallocated and eliminations[1]	**1**	–
Special items – (gains) losses		
North America	**–**	–
Europe	**–**	4
Southern Africa	**(7)**	(15)
Unallocated and eliminations[1]	**–**	–
Total	**(7)**	(11)
Segment operating profit (loss)		
North America	**8**	13
Europe	**43**	28
Southern Africa	**91**	82
Unallocated and eliminations[1]	**1**	–
Total	**143**	123

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

2. Segment information continued

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
EBITDA excluding special items		
North America	**28**	31
Europe	**75**	65
Southern Africa	**98**	79
Unallocated and eliminations[1]	**–**	–
Total	**201**	175
Which consists of:		
Specialised cellulose	**95**	74
Paper	**106**	101
Unallocated and eliminations[1]	**–**	–
Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.		
EBITDA excluding special items	**201**	175
Depreciation and amortisation	**(65)**	(63)
Operating profit excluding special items	**136**	112
Special items – gains (losses)	**7**	11
Plantation price fair value adjustment	**11**	2
Net restructuring provisions	**–**	(3)
Profit on disposal of assets held for sale	**–**	15
Fire, flood, storm and other events	**(4)**	(3)
Segment operating profit	**143**	123
Net finance costs	**(25)**	(25)
Profit before taxation	**118**	98
Taxation	**(28)**	(23)
Profit for the period	**90**	75

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

Notes to the condensed group results continued

2. Segment information continued

	Dec 2016 US$ million	Reviewed Dec 2015 US$ million
Segment assets		
North America	**956**	983
Europe	**1,184**	1,325
Southern Africa	**1,265**	1,004
Unallocated and eliminations[1]	**2**	29
Total	**3,407**	3,341
Reconciliation of segment assets to total assets		
Segment assets	**3,407**	3,341
Deferred taxation	**150**	158
Cash and cash equivalents	**681**	383
Other current liabilities	**717**	753
Derivative financial instruments	**2**	–
Taxation payable	**39**	25
Shareholders for dividend	**49**	–
Total assets	**5,045**	4,660

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

3. Operating profit

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Included in operating profit are the following items:		
Depreciation and amortisation	**65**	63
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**18**	14
Growth	**(15)**	(14)
	3	–
Plantation price fair value adjustment	**(11)**	(2)
	(8)	(2)
Net restructuring provisions	**–**	3
Profit on disposal of assets held for sale	**–**	(15)

4. Earnings per share

	Quarter ended Dec 2016 US$ million	Reviewed Quarter ended Dec 2015 US$ million
Basic earnings per share (US cents)	**17**	14
Headline earnings per share (US cents)	**17**	12
EPS excluding special items (US cents)	**16**	13
Weighted average number of shares in issue (millions)	**531.6**	527.4
Diluted earnings per share (US cents)	**17**	14
Diluted headline earnings per share (US cents)	**17**	12
Weighted average number of shares on fully diluted basis (millions)	**544.0**	535.4
Calculation of headline earnings		
Profit for the period	**90**	75
Profit on disposal of assets held for sale	**–**	(15)
Tax effect of above items	**–**	4
Headline earnings	**90**	64
Calculation of earnings excluding special items		
Profit for the period	**90**	75
Special items after tax	**(5)**	(7)
Special items	**(7)**	(11)
Tax effect	**2**	4
Earnings excluding special items	**85**	68

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), and 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*.

Notes to the condensed group results continued

5. **Plantations** continued

	Dec 2016 US$ million	Reviewed Sept 2016 US$ million
Fair value of plantations at beginning of year	**441**	383
Gains arising from growth	**15**	56
Fire, flood, storm and other events	**(4)**	(13)
In-field inventory	**–**	(1)
Gain arising from fair value price changes	**11**	64
Harvesting – agriculture produce (fellings)	**(18)**	(56)
Disposals	**–**	(1)
Translation difference	**–**	9
Fair value of plantations at end of period	**445**	441

6. **Financial instruments**

The group's financial instruments that are measured at fair value on a recurring basis consist of cash and cash equivalents, derivative financial instruments and available for sale financial assets. 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)]	
	Fair value hierarchy	**Dec 2016 US$ million**	Reviewed Sept 2016 US$ million
Available for sale assets[(2)]	Level 1	**7**	7
Derivative financial assets	Level 2	**70**	45
Derivative financial liabilities	Level 2	**2**	2

[(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 move 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 accounts receivable, certain investments, accounts payable and current interest-bearing borrowings approximate their fair values.

7. Capital commitments

	Dec 2016 US$ million	Reviewed Sept 2016 US$ million
Contracted	**55**	42
Approved but not contracted	**442**	71
	497	113

8. Contingent liabilities

	Dec 2016 US$ million	Reviewed Sept 2016 US$ million
Guarantees and suretyships	**10**	10
Other contingent liabilities	**12**	11
	22	21

9. Material balance sheet movements

Inventories, trade and other receivables and other current liabilities

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

10. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2016 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**

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

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

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

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

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

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

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

Summary Rand convenience translation

	Quarter ended	
	Dec 2016	Dec 2015
Key figures: (ZAR million)		
Sales	**18,215**	18,178
Operating profit excluding special items[1]	**1,893**	1,586
Special items – (gains) losses[1]	**(97)**	(156)
EBITDA excluding special items[1]	**2,797**	2,478
Profit for the period	**1,252**	1,062
Basic earnings per share (SA cents)	**236**	201
Net debt[1]	**18,382**	26,507
Key ratios: (%)		
Operating profit excluding special items to sales	**10.4**	8.7
Operating profit excluding special items to capital employed (ROCE)[1]	**19.8**	15.7
EBITDA excluding special items to sales	**15.4**	13.6

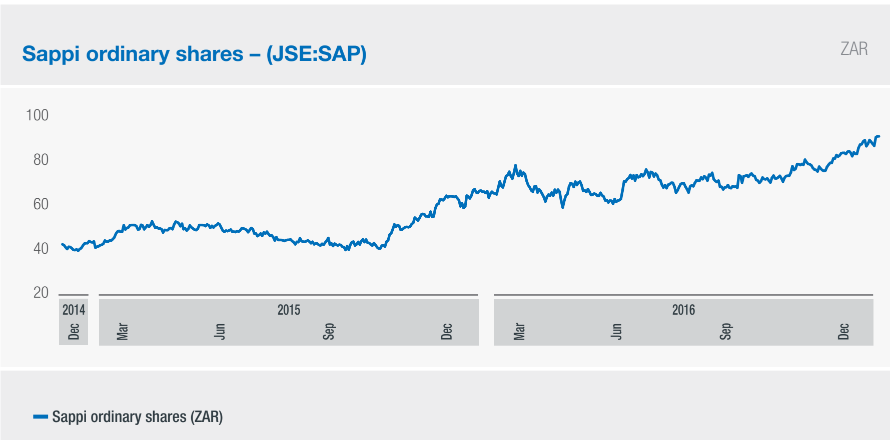
[1] *Refer to page 18, supplemental information for the definition of the term.*

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

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

Exchange rates

	Dec 2016	Sept 2016	Jun 2016	Mar 2016	Dec 2015
Exchange rates:					
Period end rate: US$1 = ZAR	**13.7386**	13.7139	15.0650	15.4548	15.2865
Average rate for the Quarter: US$1 = ZAR	**13.9155**	14.1648	15.0053	15.8226	14.1577
Average rate for the year to date: US$1 = ZAR	**13.9155**	14.7879	14.9966	14.9921	14.1577
Period end rate: €1 = US$	**1.0516**	1.1226	1.1117	1.1166	1.0977
Average rate for the Quarter: €1 = US$	**1.0814**	1.1150	1.1304	1.1020	1.0968
Average rate for the year to date: €1 = US$	**1.0814**	1.1111	1.1097	1.0994	1.0968



Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI

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

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