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

17 November 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

Fourth quarter results

for the period ended September 2017

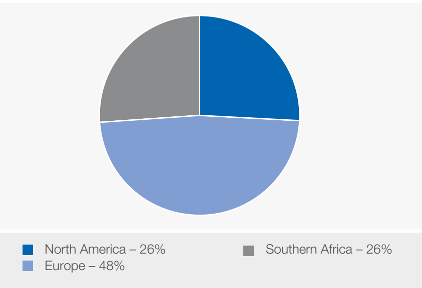
4th quarter results

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

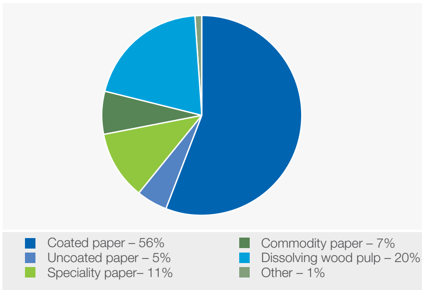
Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products as well as a wide range of consumer and household products. Quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting release papers used by suppliers to the fashion, textiles, automobile and household industries. Our market-leading range of graphic paper products 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.

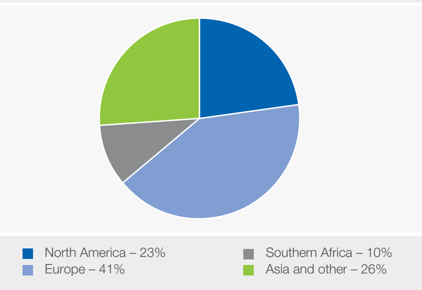
Sales by source*



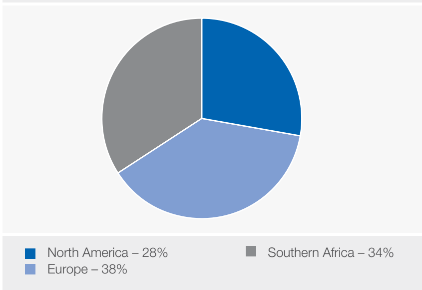
Sales by product*



Sales by destination*



Net operating assets**



* *For the period ended September 2017.*
** *As at September 2017.*

Highlights for the year

- EBITDA excluding special items US$785 million (FY16 US$739 million)
- Profit for the period US$338 million (FY16 US$319 million)
- EPS excluding special items 64 US cents (FY16 57 US cents)
- Net debt US$1,322 million, down US$86 million year-on-year
- Dividend of 15 US cents declared (FY16 11 US cents)

Highlights for the quarter

- EBITDA excluding special items US$221 million (Q4 FY16 US$209 million)
- Profit for the period US$102 million (Q4 FY16 US$112 million)
- EPS excluding special items 19 US cents (Q4 FY16 18 US cents)

Financial highlights

	Quarter ended			Year ended	
	Sept 2017	Sept 2016	Jun 2017	**Sept 2017**	Sept 2016
Key figures: (US$ million)					
Sales	**1,411**	1,340	1,260	**5,296**	5,141
Operating profit excluding special items[1]	**152**	145	93	**526**	487
Special items – (gains) losses[2]	**1**	(25)	3	**–**	(57)
EBITDA excluding special items[1]	**221**	209	155	**785**	739
Profit for the period	**102**	112	58	**338**	319
Basic earnings per share (US cents)	**19**	21	11	**63**	60
EPS excluding special items (US cents)[3]	**19**	18	11	**64**	57
Net debt[3]	**1,322**	1,408	1,318	**1,322**	1,408
Key ratios:					
Operating profit excluding special items to sales	**10.8**	10.8	7.4	**9.9**	9.5
Operating profit excluding special items to capital employed (ROCE)[3]	**20.2**	20.9	12.8	**18.0**	17.5
EBITDA excluding special items to sales	**15.7**	15.6	12.3	**14.8**	14.4
Net debt to EBITDA excluding special items	**1.7**	1.9	1.7	**1.7**	1.9
Interest cover[3]	**9.1**	7.3	8.4	**9.1**	7.3
Net asset value per share (US cents)[3]	**327**	260	304	**327**	260

(1) *Refer to page 16, 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 16, note 2 to the group results for details on special items.*
(3) *Refer to page 22, supplemental information for the definition of the term.*

Year ended September 2017 compared to year ended September 2016

The group delivered a further increase in EBITDA as the growth of the dissolving wood pulp (DWP) and speciality packaging businesses gained momentum. Higher paper pulp prices, a key input cost, and the negative impact of a stronger Rand/Dollar exchange rate created significant challenges but ongoing initiatives to reduce variable costs and lower interest charges contributed to the success.

Following the achievement of our targeted leverage of less than two times net debt to EBITDA in the prior year, we increased investments into growth projects. Principally, these related to conversions of paper machines in Europe and the United States into speciality packaging grades and DWP debottlenecking projects in South Africa.

The group's EBITDA excluding special items was US$785 million, an increase of 6% on the prior year's US$739 million. The results benefited by approximately US$20 million from an additional accounting week in the first quarter, when compared to the prior year. Operating profit excluding special items for the year was US$526 million compared to US$487 million in the prior year.

Net finance costs for the year were US$80 million, a decrease from the US$121 million in the prior year as a result of both lower debt levels and once-off finance charges incurred in 2016.

Net profit for the year increased by 6% to US$338 million.

Fourth quarter commentary

The group generated EBITDA excluding special items of US$221 million, an increase of 6% over the same quarter last year. Demand for DWP was robust, growing at double-digits throughout the year. Speciality packaging continued to advance and we shifted more production capacity into this category. Rapidly rising prices for purchased paper pulp affected our variable costs negatively, however, a series of selling price increases for graphic paper in Europe and North America helped offset this impact. A stronger Rand/Dollar compared to a year ago lowered the South African profitability somewhat. Profit for the period decreased from US$112 million to US$102 million as a result of a positive forestry fair value adjustment of US$24 million last year compared to only US$7 million this year.

Increased DWP sales volumes enabled the specialised cellulose business to generate US$95 million of EBITDA excluding special items, which was slightly lower than the equivalent quarter last year as a result of a stronger Rand/Dollar exchange rate.

The European business experienced a good quarter, with expanded sales volumes, particularly in the export markets, offsetting the consequences of a stronger Euro and higher paper pulp prices. Price increases were implemented in both local and export markets during the quarter to help counteract the impact of rising hardwood paper pulp costs.

Improved packaging and release sales volumes in addition to lower fixed and variable costs outweighed lower coated paper sales prices and volumes in our North American business. Profitability was higher than that of the prior quarter due to seasonally stronger sales volumes, higher coated selling prices and lower costs.

The packaging paper business in South Africa had another positive quarter, with higher sales volumes and prices compared to the prior quarter. Variable costs were tightly managed and lower than in both comparative periods.

Net finance costs were US$15 million, a reduction from the US$23 million in the equivalent quarter last year, due to the repayment of the 2017 bonds earlier in the year.

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

Cash flow and debt

Net cash generated for the quarter was US$41 million, compared to US$168 million in the equivalent quarter last year. The lower net cash generation was largely attributable to increases in capital expenditure and cash taxes. Capital expenditure rose to US$197 million in the quarter compared to US$97 million a year ago and related mainly to the paper machine conversion projects in both Europe and North America.

Net cash generation for the financial year was US$108 million (FY2016 US$359 million, which included proceeds from the sale of Cape Kraft and Enstra mills of US$39 million). Higher working capital, a dividend payment, increases in capital expenditure and cash taxes were also responsible for the decline in cash generation.

Net debt at financial year-end decreased to US$1,322 million as a result of the cash generation. At the end of September 2017, liquidity comprised cash on hand of US$550 million and US$623 million from the unutilised committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended				
€ million	**Sept 2017**	Jun 2017	Mar 2017	Dec 2016	Sept 2016
Sales	**583**	554	581	602	579
Operating profit excluding special items	**35**	23	29	40	31
Operating profit excluding special items to sales (%)	***6.0***	*4.2*	*5.0*	*6.6*	*5.4*
EBITDA excluding special items	**63**	51	56	69	61
EBITDA excluding special items to sales (%)	***10.8***	*9.2*	*9.6*	*11.5*	*10.5*
RONOA pa (%)	***12.2***	*8.2*	*10.3*	*14.3*	*11.0*

During this seasonally stronger quarter, graphic paper volumes were 7% above those of the prior quarter and 3% above those of the equivalent quarter last year. Export sales volumes were particularly strong and, coupled with a slowdown in the rate of demand decline in domestic markets, we achieved good operating rates.

Average graphic paper sales prices in Euro were flat compared to both comparative periods as domestic price increases were offset by the translation impact of a stronger Euro on Dollar-denominated export pricing.

Sales volumes in the speciality paper business grew 8% year-on-year, ahead of the market, and the production capacity of our machines are currently fully utilised. As with the graphic papers, the stronger Euro negatively impacted Euro pricing for Dollar-based exports.

Variable costs rose year-on-year, led by higher hardwood pulp and latex prices. Hardwood paper pulp is a major input cost for our European operation and Euro costs have risen 22% in the past year due to significantly higher Dollar pricing.

North America

US$ million	Quarter ended **Sept 2017**	Jun 2017	Mar 2017	Dec 2016	Sept 2016
Sales	**357**	314	335	354	360
Operating profit (loss) excluding special items	**27**	(2)	14	8	25
Operating profit (loss) excluding special items to sales (%)	***7.6***	*(0.6)*	*4.2*	*2.3*	*6.9*
EBITDA excluding special items	**47**	17	34	28	43
EBITDA excluding special items to sales (%)	***13.2***	*5.4*	*10.1*	*7.9*	*11.9*
RONOA pa (%)	***10.7***	*(0.8)*	*5.8*	*3.3*	*10.2*

The performance of the North American business recovered in a seasonally stronger period with no scheduled maintenance shuts. Despite the impact of lower year-on-year coated market pricing, improved profitability in the DWP and packaging businesses, as well as lower costs led to an increase in profitability compared to the equivalent quarter last year.

Coated paper sales volumes improved seasonally on the prior quarter, and the successful implementation of a coated paper price increase in July led to higher average prices compared to earlier in the year, although pricing was still 2% lower than the equivalent quarter last year. Coated volume was 2% below the equivalent quarter last year, with the decline largely due to shifting some production capacity to packaging. Coated paper sales volumes declined less than that of the overall market, leading to a market share gain.

Higher DWP sales volumes and lower variable costs compared to the prior quarter were partially offset by lower average realised selling prices, leading to increased profitability for the business.

Packaging paper volumes for the quarter increased 54% year-on-year, led by our coated-one-side (C1S) product, albeit from a small base. However, selling prices were under pressure throughout the year. The casting and release paper business remained subject to weak demand from the garment sector in China.

Variable costs reduced as efficiency initiatives and lower wood and energy prices more than offset purchased pulp and chemical price increases compared to the equivalent quarter last year.

Southern Africa

ZAR million	Quarter ended **Sept 2017**	Jun 2017	Mar 2017	Dec 2016	Sept 2016
Sales	**4,879**	4,432	4,818	4,230	4,760
Operating profit excluding special items	**1,106**	918	1,317	1,169	1,256
Operating profit excluding special items to sales (%)	***22.7***	*20.7*	*27.3*	*27.6*	*26.4*
EBITDA excluding special items	**1,344**	1,102	1,489	1,364	1,441
EBITDA excluding special items to sales (%)	***27.5***	*24.9*	*30.9*	*32.2*	*30.3*
RONOA pa (%)	***26.0***	*21.5*	*30.5*	*27.8*	*31.1*

Margins in the Southern African business were affected negatively by a stronger Rand/Dollar exchange rate when compared to the equivalent quarter last year. This outweighed greater overall sales volumes, and lower average variable costs.

Average DWP Dollar selling prices were below those of the prior quarter. However, spot prices for DWP, while lower at the start of the quarter, rebounded strongly over the last few weeks.

The paper business experienced good growth in profitability, with year-on-year sales price increases and lower variable and delivery costs. Overall sales volumes were flat year-on-year, with gains in containerboard offset by lower tissue and lumber sales.

Ongoing procurement and efficiency initiatives along with the stronger Rand/Dollar exchange rate led to lower fibre and energy costs in particular. Fixed costs were less than the prior quarter due to an absence of scheduled maintenance shuts in the fourth quarter.

Directorate

Dr Rudolf Thummer, independent non-executive director, will retire from the board at the end of December 2017, having reached the board's mandatory retirement age. Dr Thummer was appointed to the board in February 2010 and was appointed to the Social, Ethics, Transformation and Sustainability Committee in February 2012.

Dividends

On 15 November 2017, the directors approved a dividend (number 87) of 15 US cents per share which will be paid to shareholders on 16 January 2018. This dividend was declared after year-end and was not included as a liability at the end of the financial year.

The 2017 dividend is covered four times by basic earnings per share, excluding non-cash special items. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividend ratio of three to one.

Outlook

Demand for DWP remains favourable and spot prices have increased significantly in recent weeks. After the quarter-end a severe storm caused significant damage to the harbour and logistics infrastructure in Durban, South Africa. The estimated impact on first quarter profitability is approximately US$4 million due to damaged inventory and lost production at Saiccor.

A significant proportion of our DWP sales prices are based on the prior quarter average CCF hardwood DWP price. For the first quarter of 2018 average pricing is therefore likely to be slightly lower than in the past quarter. The recent upward momentum in CCF prices will only be realised in our second quarter. Longer-term market dynamics remain favourable with additional demand expected to exceed supply over the next few years.

In Europe, local demand for graphic paper has stabilised somewhat and sales to export markets continue to grow. Paper pulp costs have continued to rise after year-end and without further price adjustments margins will be put under pressure.

In the United States, closures of competing mills have tightened the supply in a market that otherwise remains difficult. Further price increases have been announced and implemented after a long period of declining prices, and we are more optimistic about the prospects in the forthcoming year.

Demand for speciality packaging continues to grow, and we require the additional capacity from the conversions of the paper machines at Maastricht and Somerset mills in order to continue to serve this growth. These conversions have commenced and are set to be completed in the second and third fiscal quarters of 2018 respectively.

Capital expenditure in 2018 is expected to increase to US$450 million as we continue the conversions in both Europe and North America, complete the Saiccor and Ngodwana debottlenecking and start the upgrade of the Saiccor woodyard. The increase in expansionary capital spending during 2018 is focused on higher margin growth segments including dissolving wood pulp and speciality packaging. This will position us for stronger profitability from 2019 onwards.

The 2017 financial year included an extra trading week which contributed approximately US$20 million to EBITDA in the first quarter of last financial year. In addition, the higher external pulp costs and the aforementioned storm damage will have a negative impact on current profitability. As a result, we expect the group's first quarter operating performance to be below that of the prior year.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

16 November 2017

Dividend announcement

The directors have resolved to declare a gross dividend (number 87) of 15 US cents per share, payable in ZAR at an exchange rate (US$1=ZAR) of 14.37037, being ZAR215.55555 cents per share, for the year ended September 2017 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi "A" ordinary unlisted shares in issue on the record date shall be entitled to receive 7.5 US cents per share being 50% of the ordinary dividend so declared.

The South African dividend withholding tax (DWT) rate is 20% and the net dividend payable to shareholders who are not exempt from DWT is ZAR172.44444 cents per share. Sappi currently has 557 202 573 ordinary shares in issue. The income tax reference number is 9175203711.

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

Declaration and finalisation date:	16 November 2017
Last day to trade to qualify for the dividend:	9 January 2018
Shares commence trading ex-dividend:	10 January 2018
Record date:	12 January 2018
Payment date:	16 January 2018

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

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

No currency elections are permitted.

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

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

Share certificates will not be dematerialised or rematerialised from 10 January 2018 to 12 January 2018, both days inclusive.

Forward-looking statements

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

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Condensed group income statement

US$ million	Note	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
Sales		**1,411**	1,340	**5,296**	5,141
Cost of sales		**1,164**	1,093	**4,429**	4,270
Gross profit		**247**	247	**867**	871
Selling, general and administrative expenses		**89**	79	**334**	336
Other operating expenses (income)		**8**	(1)	**14**	–
Share of profit from equity investments		**(1)**	(1)	**(7)**	(9)
Operating profit	3	**151**	170	**526**	544
Net finance costs		**15**	23	**80**	121
Net interest expense		**18**	25	**92**	124
Net foreign exchange gain		**(3)**	(2)	**(12)**	(2)
Net fair value (gain) loss on financial instruments		**–**	–	**–**	(1)
Profit before taxation		**136**	147	**446**	423
Taxation		**34**	35	**108**	104
Profit for the period		**102**	112	**338**	319
Basic earnings per share (US cents)	4	**19**	21	**63**	60
Weighted average number of shares in issue (millions)		**534.9**	530.4	**533.9**	529.4
Diluted earnings per share (US cents)	4	**19**	21	**62**	59
Weighted average number of shares on fully diluted basis (millions)		**548.9**	542.6	**547.4**	540.3

Condensed group statement of comprehensive income

US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
Profit for the period	**102**	112	**338**	319
Other comprehensive income (loss), net of tax				
Items that will not be reclassified subsequently to profit or loss	**68**	(12)	**68**	(12)
Actuarial gains (losses) on post-employment benefit funds	**101**	(20)	**101**	(20)
Tax effect of above item	**(33)**	8	**(33)**	8
Items that may or are reclassified subsequently to profit or loss	**(53)**	94	**10**	42
Exchange differences on translation of foreign operations	**(53)**	93	**(1)**	38
Movements in hedging reserves	**(1)**	–	**10**	4
Tax effect of above items	**1**	1	**1**	–
Total comprehensive income (loss) for the period	**117**	194	**416**	349

Condensed group balance sheet

US$ million	Note	Reviewed Sept 2017	Sept 2016
ASSETS			
Non-current assets		**3,378**	3,171
Property, plant and equipment		**2,681**	2,501
Plantations	5	**458**	441
Deferred tax assets		**123**	152
Derivative financial instruments		**–**	1
Other non-current assets		**116**	76
Current assets		**1,869**	2,006
Inventories		**636**	606
Trade and other receivables		**668**	642
Derivative financial instruments		**3**	44
Taxation receivable		**12**	11
Cash and cash equivalents		**550**	703
Total assets		**5,247**	5,177
EQUITY AND LIABILITIES			
Equity			
Ordinary shareholders' interest		**1,747**	1,378
Non-current liabilities		**2,457**	2,325
Interest-bearing borrowings		**1,739**	1,535
Deferred tax liabilities		**295**	272
Other non-current liabilities		**423**	518
Current liabilities		**1,043**	1,474
Interest-bearing borrowings		**133**	576
Trade and other payables		**858**	839
Provisions		**10**	15
Derivative financial instruments		**5**	2
Taxation payable		**37**	42
Total equity and liabilities		**5,247**	5,177
Number of shares in issue at balance sheet date (millions)		**535.0**	530.6

Condensed group statement of cash flows

US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
Profit for the period	**102**	112	**338**	319
Adjustment for:				
Depreciation, fellings and amortisation	**83**	79	**322**	308
Taxation	**34**	35	**108**	104
Net finance costs	**15**	23	**80**	121
Defined post-employment benefits paid	**(10)**	(15)	**(43)**	(51)
Plantation fair value adjustments	**(20)**	(40)	**(79)**	(120)
Net restructuring provisions	**–**	–	**1**	4
Profit on disposal and written off assets	**2**	1	**2**	(15)
Non-cash employee benefit liability settlement	**–**	(8)	**–**	(8)
Other non-cash items	**(2)**	4	**19**	31
Cash generated from operations	**204**	191	**748**	693
Movement in working capital	**103**	70	**(27)**	4
Net finance costs paid	**(20)**	(4)	**(81)**	(91)
Taxation paid	**(38)**	(2)	**(100)**	(56)
Dividend paid	**–**	–	**(59)**	–
Cash generated from operating activities	**249**	255	**481**	550
Cash utilised in investing activities	**(208)**	(87)	**(373)**	(191)
Capital expenditure	**(197)**	(97)	**(357)**	(241)
Proceeds on disposal of assets	**1**	5	**4**	44
Acquisition of subsidiary	**(11)**	–	**(11)**	–
Other movements	**(1)**	5	**(9)**	6
Net cash generated	**41**	168	**108**	359
Cash effects of financing activities	**51**	(29)	**(279)**	(130)
Proceeds from interest-bearing borrowings	**50**	1	**186**	381
Repayment of interest-bearing borrowings	**1**	(30)	**(465)**	(511)
Net movement in cash and cash equivalents	**92**	139	**(171)**	229
Cash and cash equivalents at beginning of period	**446**	542	**703**	456
Translation effects	**12**	22	**18**	18
Cash and cash equivalents at end of period	**550**	703	**550**	703

Condensed group statement of changes in equity

US$ million	Reviewed Year ended Sept 2017	Sept 2016
Balance – beginning of period	**1,378**	1,015
Total comprehensive income for the period	**416**	349
Dividend paid	**(59)**	–
Transfers from the share purchase trust	**5**	14
Transfers of vested share options	**(2)**	(7)
Share-based payment reserve	**9**	7
Balance – end of period	**1,747**	1,378

Notes to the condensed group results

1. Basis of preparation

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

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

The condensed consolidated financial statements for the year ended September 2017 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in this financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

2. Segment information

	Quarter ended		Year ended	
Metric tons (000s)	**Sept 2017**	Sept 2016	**Sept 2017**	Sept 2016
Sales volume				
North America	**361**	363	**1,359**	1,329
Europe	**842**	822	**3,343**	3,252
Southern Africa – Pulp and paper	**447**	429	**1,606**	1,626
Forestry	**290**	274	**1,102**	1,046
Total	**1,940**	1,888	**7,410**	7,253
Which consists of:				
Specialised cellulose	**325**	302	**1,184**	1,111
Paper	**1,325**	1,312	**5,124**	5,096
Forestry	**290**	274	**1,102**	1,046

2. Segment information continued

US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
Sales				
North America	**357**	360	**1,360**	1,367
Europe	**684**	646	**2,564**	2,582
Southern Africa – Pulp and paper	**352**	318	**1,307**	1,136
Forestry	**18**	16	**65**	56
Total	**1,411**	1,340	**5,296**	5,141
Which consists of:				
Specialised cellulose	**277**	262	**1,059**	929
Paper	**1,116**	1,062	**4,172**	4,156
Forestry	**18**	16	**65**	56
Operating profit (loss) excluding special items				
North America	**27**	25	**47**	49
Europe	**41**	35	**140**	131
Southern Africa	**84**	88	**337**	305
Unallocated and eliminations[1]	**–**	(3)	**2**	2
Total	**152**	145	**526**	487
Which consists of:				
Specialised cellulose	**80**	84	**334**	294
Paper	**72**	64	**190**	191
Unallocated and eliminations[1]	**–**	(3)	**2**	2
Special items – (gains) losses				
North America	**–**	(10)	**–**	(6)
Europe	**1**	2	**4**	6
Southern Africa	**(1)**	(19)	**(10)**	(62)
Unallocated and eliminations[1]	**1**	2	**6**	5
Total	**1**	(25)	**–**	(57)
Segment operating profit (loss)				
North America	**27**	35	**47**	55
Europe	**40**	33	**136**	125
Southern Africa	**85**	107	**347**	367
Unallocated and eliminations[1]	**(1)**	(5)	**(4)**	(3)
Total	**151**	170	**526**	544

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

Notes to the condensed group results continued

2. Segment information continued

US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
EBITDA excluding special items				
North America	**47**	43	**126**	124
Europe	**73**	68	**262**	261
Southern Africa	**102**	101	**396**	352
Unallocated and eliminations[1]	**(1)**	(3)	**1**	2
Total	**221**	209	**785**	739
Which consists of:				
Specialised cellulose	**95**	96	**386**	339
Paper	**127**	116	**398**	398
Unallocated and eliminations[1]	**(1)**	(3)	**1**	2
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	**221**	209	**785**	739
Depreciation and amortisation	**(69)**	(64)	**(259)**	(252)
Operating profit excluding special items	**152**	145	**526**	487
Special items – gains (losses)	**(1)**	25	**–**	57
Plantation price fair value adjustment	**7**	24	**21**	64
Net restructuring provisions	**–**	–	**(1)**	(4)
Profit on disposal and written off assets	**(2)**	(1)	**(2)**	15
Asset impairments	**(6)**	(2)	**(6)**	(2)
Employee benefit liability settlement	**–**	8	**–**	8
Black economic empowerment charge	**–**	–	**(1)**	(1)
Fire, flood, storm and other events	**–**	(4)	**(11)**	(23)
Segment operating profit	**151**	170	**526**	544
Net finance costs	**(15)**	(23)	**(80)**	(121)
Profit before taxation	**136**	147	**446**	423
Taxation	**(34)**	(35)	**(108)**	(104)
Profit for the period	**102**	112	**338**	319

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

2. Segment information continued

US$ million	Reviewed Sept 2017	Sept 2016
Segment assets		
North America	**1,026**	967
Europe	**1,373**	1,256
Southern Africa	**1,263**	1,182
Unallocated and eliminations[1]	**2**	19
Total	**3,664**	3,424
Reconciliation of segment assets to total assets		
Segment assets	**3,664**	3,424
Deferred taxation	**123**	152
Cash and cash equivalents	**550**	703
Trade and other payables	**858**	839
Provisions	**10**	15
Derivative financial instruments	**5**	2
Taxation payable	**37**	42
Total assets	**5,247**	5,177

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

3. Operating profit

US$ million	Quarter ended Sept 2017	Quarter ended Sept 2016	Reviewed Year ended Sept 2017	Reviewed Year ended Sept 2016
Included in operating profit are the following items:				
Depreciation and amortisation	**69**	64	**259**	252
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**14**	15	**63**	56
Growth	**(13)**	(16)	**(58)**	(56)
	1	(1)	**5**	–
Plantation price fair value adjustment	**(7)**	(24)	**(21)**	(64)
	(6)	(25)	**(16)**	(64)
Net restructuring provisions	**–**	–	**1**	4
Profit on disposal and written off assets	**2**	1	**2**	(15)
Asset impairment reversals	**(2)**	–	**(2)**	–
Asset impairments	**6**	2	**6**	2
Employee benefit liability settlement	**–**	(8)	**–**	(8)

Notes to the condensed group results continued

4. Earnings per share

	Quarter ended		Reviewed Year ended	
	Sept 2017	Sept 2016	**Sept 2017**	Sept 2016
Basic earnings per share (US cents)	**19**	21	**63**	60
Headline earnings per share (US cents)	**20**	21	**64**	58
EPS excluding special items (US cents)	**19**	18	**64**	57
Weighted average number of shares in issue (millions)	**534.9**	530.4	**533.9**	529.4
Diluted earnings per share (US cents)	**19**	21	**62**	59
Diluted headline earnings per share (US cents)	**19**	21	**63**	57
Weighted average number of shares on fully diluted basis (millions)	**548.9**	542.6	**547.4**	540.3
US$ million				
Calculation of headline earnings				
Profit for the period	**102**	112	**338**	319
Asset impairments	**6**	2	**6**	2
Asset impairment reversals	**(2)**	–	**(2)**	–
Profit on disposal and written off assets	**2**	1	**2**	(15)
Tax effect of above items	**(1)**	(2)	**(1)**	3
Headline earnings	**107**	113	**343**	309
Calculation of earnings excluding special items				
Profit for the period	**102**	112	**338**	319
Special items after tax	**2**	(18)	**2**	(39)
Special items	**1**	(25)	**–**	(57)
Tax effect	**1**	7	**2**	18
Refinancing costs	**–**	–	**–**	23
Earnings excluding special items	**104**	94	**340**	303

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 is valued using unadjusted current market prices. Immature timber and mature timber that are 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*.

	Reviewed	
US$ million	**Sept 2017**	Sept 2016
Fair value of plantations at beginning of year	**441**	383
Gains arising from growth	**58**	56
Fire, flood, storm and other events	**(5)**	(13)
In-field inventory	**1**	(1)
Gain arising from fair value price changes	**21**	64
Harvesting – agriculture produce (fellings)	**(63)**	(56)
Disposals	**–**	(1)
Translation difference	**5**	9
Fair value of plantations at end of period	**458**	441

Notes to the condensed group results continued

6. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments, available for sale financial assets and a contingent consideration liability. These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

US$ million	Fair value hierarchy	Fair value[1] Reviewed Sept 2017	Sept 2016
Investment funds[2]	Level 1	**7**	7
Derivative financial assets	Level 2	**3**	45
Derivative financial liabilities	Level 2	**5**	2
Contingent consideration liability[3]	Level 3	**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

	Reviewed	
US$ million	**Sept 2017**	Sept 2016
Contracted	**253**	42
Approved but not contracted	**219**	71
	472	113

8. Contingent liabilities

Guarantees and suretyships	**–**	10
Other contingent liabilities	**19**	11
	19	21

9. Material balance sheet movements

Cash and cash equivalents, derivative financials assets and interest-bearing borrowings

In April 2017, the group repaid its US$400 million public bond due July 2017 during the call window period from available cash resources and unwound the related interest rate currency swap.

10. Acquisition of subsidiary

On 3 July 2017, Sappi acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of US$23 million (GBP18 million) of which US$12 million (GBP10 million) is a contingent consideration and US$11 million was paid in cash. The net assets acquired include tangible net assets of US$7 million, goodwill of US$3 million and identified intangible assets of US$13 million.

11. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2016 financial year-end.

12. Events after balance sheet date

The directors have resolved to declare a gross dividend (number 87) out of income earned for the financial year ended September 2017 of 15 US cents per ordinary share in issue on the record date, being 12 January 2018. The dividend is payable in ZAR at an exchange rate of 14.37037, being ZAR215.55555 cents per share. Holders of Sappi "A" ordinary unlisted shares, issued in terms of the BBBEE scheme, are entitled to receive 7.5 US cents (ZAR107.77778 cents per share) per share being 50% of the ordinary dividend declared.

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

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Broad-based Black Economic Empowerment (BBBEE) charge – represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in fiscal 2010 in terms of BBBEE legislation in South Africa

Capital employed – shareholders' equity plus net debt

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

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

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

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

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

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

Summary Rand convenience translation

	Quarter ended		Year ended	
	Sept 2017	Sept 2016	**Sept 2017**	Sept 2016
Key figures: (ZAR million)				
Sales	**18,591**	18,981	**70,867**	76,025
Operating profit excluding special items[1]	**2,003**	2,054	**7,039**	7,202
Special items – (gains) losses[1]	**13**	(354)	**–**	(843)
EBITDA excluding special items[1]	**2,912**	2,960	**10,504**	10,928
Profit for the period	**1,344**	1,586	**4,523**	4,717
Basic earnings per share (SA cents)	**251**	299	**847**	891
Net debt[1]	**17,921**	19,309	**17,921**	19,309
Key ratios: (%)				
Operating profit excluding special items to sales	**10.8**	10.8	**9.9**	9.5
Operating profit excluding special items to capital employed (ROCE)[1]	**20.0**	20.6	**17.6**	18.7
EBITDA excluding special items to sales	**15.7**	15.6	**14.8**	14.4

[1] *Refer to page 22, 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.

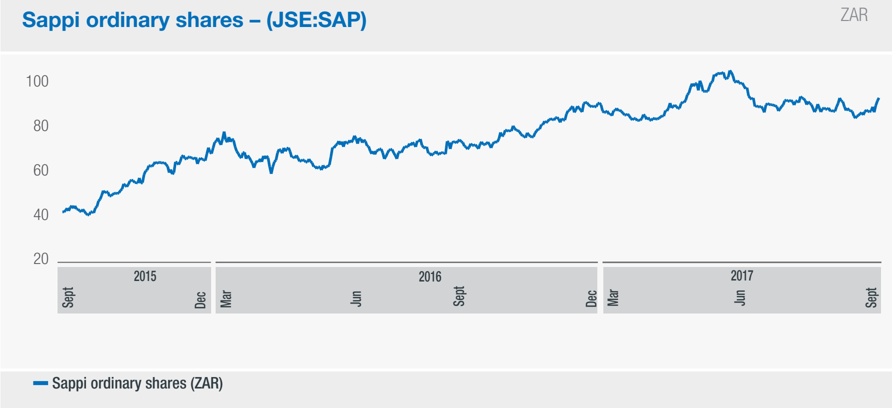
Supplemental information (this information has not been audited or reviewed)

continued

Exchange rates

	Sept 2017	Jun 2017	Mar 2017	Dec 2016	Sept 2016
Exchange rates:					
Period end rate: US$1 = ZAR	**13.5561**	13.0551	13.4259	13.7386	13.7139
Average rate for the quarter: US$1 = ZAR	**13.1761**	13.1857	13.2260	13.9155	14.1648
Average rate for the year to date: US$1 = ZAR	**13.3813**	13.4536	13.5861	13.9155	14.7879
Period end rate: €1 = US$	**1.1814**	1.1426	1.0652	1.0516	1.1226
Average rate for the quarter: €1 = US$	**1.1756**	1.1011	1.0656	1.0814	1.1150
Average rate for the year to date: €1 = US$	**1.1055**	1.0827	1.0738	1.0814	1.1111

Sappi ordinary shares – (JSE:SAP)



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

South Africa

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