Strategy and 2020Vision progress review — December 2016

Our strategy

Through intentional evolution we will continue to grow **Sappi** into a profitable and cash-generative diversified woodfibre group — focused on dissolving wood pulp, paper and products in adjacent fields.

At the start of a new financial year, it's opportune to take stock of our **intentional evolution**, the achievements of the past year and the challenges that remain ahead towards realising our **2020Vision**. Much has been achieved to address Sappi's challenges and to prepare the company for renewed growth.

We've started leveraging the benefits that come from operating as **One Sappi**, and are ready to act on the opportunities that our preparations have made possible.

All regions achieved their budgets in 2016 and the group made great strides towards achieving our 2020Vison targets. In fact, we are ahead of where we had projected to be at this stage.

We have seen strong performance in our share price, our credit rating has been upgraded and Sappi has re-entered the Top-40 share index of the JSE. All confirming that our efforts are being recognised by investors.

Together we've created significant value and opportunity for all our stakeholders. Our successes during FY16, and the fact that we're **shifting** our **focus towards growth** as we enter FY17, is possible only through your whole hearted commitment and continuous focus on our Mission, 2020Vision, Strategy and living our Values.

As we face the challenges and embrace the opportunities that FY17 will bring, ensuring the safety of everyone who works at Sappi must inform everything we do. Safety is an ethical imperative for which every one of us must accept responsibility and demonstrate leadership. It also impacts productivity, costs, our reputation and ability to focus on executing our strategy. Let's all commit unequivocally to making Sappi a safe place to work.

We've made significant strides towards improving our financial position. We've reduced our debt by US$800 million in the last three years while preparing the business for growth and improved profitability. We remain committed to maintaining our net debt to EBITDA ratio at below 2.0. Our progress is reflected also in our share price as investors recognise the value presented by Sappi's remarkable people, our resources and assets.

Our ability to leverage the substantial benefits accruing from One Sappi shared services and synergies in administrative support, procurement and our supply chains — which we've begun to realise during FY16 — will play a key role in keeping costs down and provide the wherewithal to invest in growth as we work towards fulfilling our 2020Vision.

We remain committed to operate in the lowest cost quartile in all our markets. Our continued focus on production efficiencies and eliminating products and activities that don't generate value, while keeping the mills running at full capacity, will ensure that we remain a strong cash generator.

Our continued focus on further cleaning up our balance sheet over the next two years will enable us to accelerate our growth in adjacent businesses.

Our challenge… **execute** our many projects with **speed** while remaining **proactive** and **anticipating** the **changes** that are occurring in our business.

The FY17 **capex balance** has been **refocused** from maintenance and cost reduction with **US$200m allocated to growth**.

Improve operational and machine efficiencies

Maximise global **procurement benefits**

Optimise **business processes**

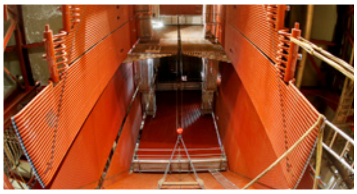
The pulp and paper business, is a commodity business and the only way to compete is to be cost efficient.

We have to seek out and pursue those cost advantages with complete determination.

Mills made future fit through moderate capital investments

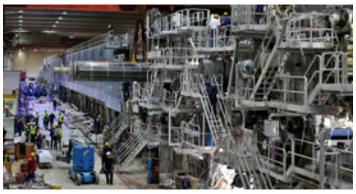
Energy efficiency is one of our key **sustainability** indicators and we continue striving to become more efficient in how we use energy. Energy efficiency reduces costs, lowers emissions and, since one of the key levers in improving energy efficiency is minimising water use, it proffers that additional environmental benefit. FY16 **investments** in **key energy-focused engineering projects** entrenched the ongoing advantages of a **reduced energy cost base**.

Several **paper machine upgrades** and modifications **shifted** graphic paper production **capacity** to **specialised packaging grades**.



Kirkniemi's PM3 has been upgraded and a new multifuel boiler enables the mill to switch between fuel sources to take advantage of price differentials.

Ngodwana Mill's pulverised fuel (PF) boiler has been upgraded, paving the way for future debottlenecking and capacity increases.



Following upgrades to its recovery boiler and PM11, Gratkorn Mill is fit for the future.

As part of our continued drive for efficiency and profitability Lanaken Mill's PM7 can now produce the entire portfolio of grades.

Following the removal of older turbines, three turbines being installed at Saiccor and Tugela Mills will increase our net generating capacity by 23MW, making us less dependent on the national grid, reducing costs and insulating us from electricity price increases from FY17 onwards. Tugela Mill's turbine shown.

Somerset Mill's completed heat recovery project reduces future energy costs. Engineering and capex for a woodyard upgrade has been completed in preparation for a FY17 US$25 million upgrade which will yield efficiencies and improve reliability.

Global procurement

Reducing variable and fixed costs throughout the business is integral to improving margins, particularly in commodity-type businesses such as printing paper, where declining demand places additional pressure on margins and revenues.

Project Ranulph, our global procurement initiative launched during FY16, puts Sappi on track to achieve targeted group wide cost reductions of US$150 million per annum by 2020.

In addition to our usual cost management and continuous improvement initiatives during **FY16**, we realised **US$13 million** in **savings**. We expect Project Ranulph to accelerate and realise an additional US$50 million in ongoing savings during FY17.

Shared services manifests power of One Sappi

Our focus on lowering fixed costs through greater use of shared service centres — which have been particularly successful in our European business — is paying dividends.

FY16 **fixed expenses** were US$**29** million lower than FY15.

Sappi Europe Shared Service Centre, Kraków, Poland.

Where possible **convert paper machines** to higher margin businesses

Continuously **balance paper supply** and **demand** in all regions

Our declining businesses — mainly graphic paper — are shrinking, but they are still significant cash contributors. We must continue to realise their strategic importance and maximise the cash flow they generate to support our intentional evolution.

Sappi Biotech established to commercialise **lignin** and **nanocellulose** businesses.	We will continue to **invest** in **machine efficiency** and **product quality**.	**New business** could constitute as much as **10%** of group EBITDA within the **next five years**.

Maximising graphic and printing papers' ability to generate cash

We are evaluating all our graphic and printing paper machines in both the United States and Europe for potential conversion to speciality grades.

We are rationalising our graphic and printing paper businesses by:

- Reducing graphic paper production to match supply with demand and continuously carouseling speciality grades across Europe and North America
- Bottom-slicing the European graphics business.

In South Africa we sold our Cape Kraft and Enstra Mills, exiting the waste-based packaging paper business. Office paper, previously produced at the Enstra Mill shifted to our integrated Stanger Mill.

We are making continued progress in converting existing paper machines to higher margin products, including paper packaging and speciality grades.

Direct to market
In Europe, our updated customer portal and the shift towards a direct-to-market strategy is paying dividends. Project Blue Fox is aimed at strengthening our achievements to date and building on this initial work — deepening this approach.

Graphic papers development
All our graphic papers were brand refreshed, and some brand ranges have been reorganised and updated. We've made quality improvements, and some grades now boast 'HP Indigo' status for digital printing.

Speciality products
The release paper business launched PolyEX, our entry into the polypropylene segment of the coated fabric-casting market. Ultracast Universal has been upgraded and rebranded as Ultracast Nexus. Ultracast Rainbow (our first truly microscopic pattern) was introduced alongside 17 other new patterns.

Accelerate growth in adjacent businesses from a strong base

New business **opportunities** including:
- Nanocellulose
- Biorefinery
- Energy

The global shift towards renewable carbon-neutral materials offers an opportunity to bring our resources and our expertise in R&D to bear on developing new products and markets for products derived from wood chemistry.

Bio-energy and new products derived from wood chemistry

Sappi Biotech has been established to take global responsibility for the commercialisation of this developing business portfolio. This new business unit reflects our response to market demand for a lower carbon footprint and renewable products. Sappi Biotech will initially focus on our lignin and nanocellulose businesses. Additional segments will be added as projects enter the commercial phase. The team will drive the commercialisation of our R&D projects and are seeking collaboration and partnerships with other companies.

Nanocellulose
We are focusing on developing the Cellulose Nano Fibrils (CNF) market which could reach 35 million tons per year by the 2020s. Nanocellulose has potential to be used in a wide range of applications.

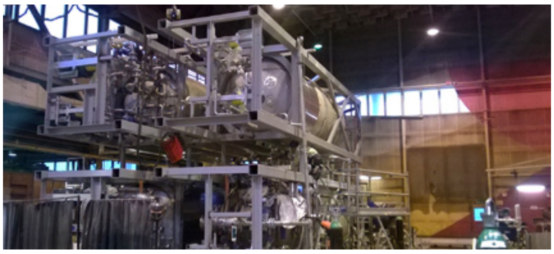
Construction of our nanocellulose pilot plant at Brightlands Chemelot Campus in the Netherlands is complete.

We're continuing with investigations into potential biotech business opportunities such as:

- Nanocellulose applications
- Organic acid extraction at Saiccor Mill
- Lignin for energy storage
- Sugar conversion applications
- Fibre composites.

In addition, we are exploring power (electricity) generation opportunities, using bio-energy, in South Africa.

Extracting sugars
Construction of a second-generation demonstration plant at Ngodwana Mill to extract C5 (xylose) and C6 (glucose) sugars from the pulping waste stream will be commissioned early in 2017.



The demonstration sugar extraction plant, built off-site, will be shipped to Ngodwana Mill early in 2017. Civil works at the mill have been completed.

Expand paper packaging grades

Enhance specialised cellulose product portfolio

Extract value from our biorefinery stream

We will **invest** US$**200** million on **growth projects** during FY17.

We have identified **brownfield** and **greenfield growth opportunities** and expect to make announcements about some of the following in 2017: • Tugela Mill — packaging paper • Saiccor Mill — DWP capacity expansion • Exploring dissolving wood pulp opportunities in South America and South East Asia.

As we achieve our debt targets, we turn our attention to what comes next…

In the short term, we are investing in areas identified for growth, including opportunities in the wider pulp market, speciality grades and the packaging business.

Becoming a premium global supplier of specialty packaging paper

Globally, paper-based packaging is resurgent as consumers increasingly opt for sustainably produced carbon-neutral products.

We're exploring opportunities to **increase production capacity** by **converting** existing graphic paper machines to speciality packaging machines.

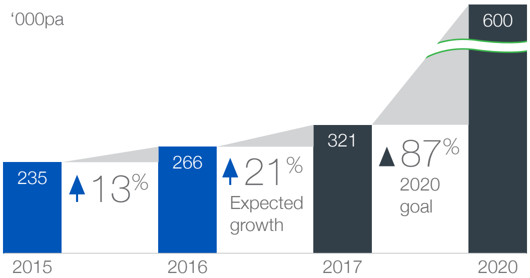
We commissioned a study by Pöyry, a leading management forestry industry and energy sector advisors, to identify **acquisition opportunities** in the speciality packaging sector. The study has been completed and we expect decisions flowing from this study to be implemented from FY17 onwards.

South Africa
Building on our long-term competitive advantages in virgin fibre packaging grades, we will be making investments in additional containerboard and fluting production capacity projects at Ngodwana and Tugela Mills in 2017 to increase capacity 10-20%.

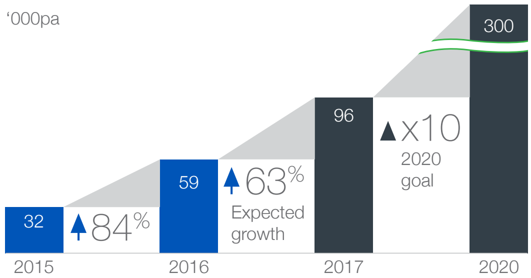
Europe
We extended production of packaging boards at Maastricht Mill and topliner at Ehingen Mill.

North America
We introduced LusterCote with great success in FY16, selling 20,000 tons.

Speciality packaging volume - Sappi Europe



Speciality packaging volume - Sappi North America



Dissolving wood pulp (DWP) opportunities beckon

North America
The Cloquet Mill which presently utilises approximately two thirds of its production capacity to produce DWP (the balance is used to produce hardwood paper pulp) is expected to swing entirely to DWP production over time, adding up to **100ktpa** to our DWP capacity.

South Africa
We have concluded engineering and are ready to commence with debottlenecking projects at Saiccor Mill and the DWP line at Ngodwana Mill in 2017 and 2018. This will increase our South African DWP production capacity by 10% (50ktpa at each mill) up to **1.1 million tons per annum**.

Securing additional hardwood timber supply in South Africa will be necessary to support our expanding pulping capacities.

Global capacity growth opportunities
We are currently investigating opportunities in South America and South East Asia that could add up to **300ktpa** of low cost DWP capacity to our mix.

Speciality opportunities
Opportunities exist to expand our product offering to include more specialty products, as well as diversifying our customer base.

Beyond 2020
As we look beyond the next three years, we foresee the need for further investment in DWP capacity.

This business is all about generating cash.

When we think about our business' performance, the number that matters most should be our EBITDA* — a measure of our operating cash flow and our ability to repay debt.

Net debt and EBITDA*

Over the last three years, we've generated sufficient cash to

reduce our debt by

US$**800** million.

From a 4.26 peak at the end of FY14, our **Net Debt:EBITDA ratio decreased** to

1.9 at the end of FY16.

We intend to **maintain** our **Net Debt:EBITDA ratio**

at **<2.0** going forward.

Further debt reduction

We expect to reduce net debt further during the course of FY17 and are considering utilising some cash reserves to

repay the maturing

US$**400** million

2017 bonds callable in April 2017 to further lower future finance costs.

Operating efficiency

We remain committed to operate in the **lowest cost quartile** in all our markets.

Financing our capital requirements

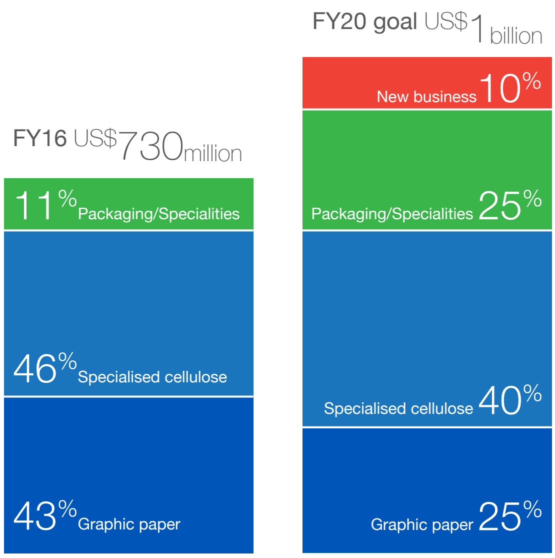
We refinanced 2021 bonds (US$350 million at 6.6625%) with a new bond issue maturing in 2023 (€350 million at 4.0%), which

reduced our interest bill

by US$**8** million per annum.

Potential for growth

We are repositioning the business and accelerating growth with the goal of increasing EBITDA* to US$1 billion in 2020 through organic growth, acquisitions and developing new business while reducing our reliance on graphic paper.



Expected FY17 performance

We expect the group's **FY17 performance** to be broadly **in line with FY16**.

*Earnings Before Interest, Taxes, Depreciation and Amortisation.