sappi

Inspired by life

Third quarter results

for the period ended June 2016

3rd quarter results

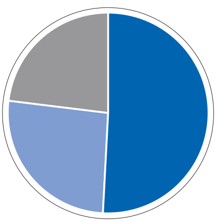
Sappi is a global diversified woodfibre company focused on providing graphic papers, packaging and speciality papers, dissolving wood pulp as well as products in adjacent fields including nanocellulose and lignosulphonate to our direct and indirect customer base across more than 150 countries.

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.

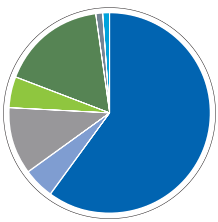
The wood and pulp needed for our products is either produced within Sappi or bought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Highlights for the quarter

- EBITDA excluding special items US$160 million (Q3 2015 US$109 million)
- Profit for the period US$32 million (Q3 2015 US$4 million)
- EPS excluding special items 11 US cents (Q3 2015 2 US cents)
- Net debt US$1,583 million, down US$334 million year-on-year



Sales by source*
- Europe – 51%
- North America – 26%
- Southern Africa – 23%



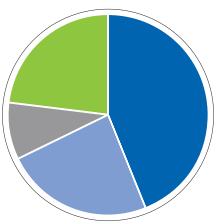
Sales by product*
- Coated paper – 60%
- Uncoated paper – 5%
- Speciality paper – 11%
- Commodity paper – 5%
- Dissolving wood pulp – 17%
- Paper pulp – 1%
- Other – 1%

** for the period ended June 2016*

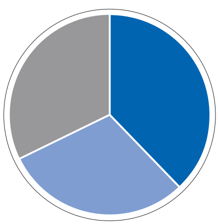
Financial highlights

	Quarter ended			Nine months ended	
	Jun 2016	Jun 2015	Mar 2016	**Jun 2016**	Jun 2015
Key figures: (US$ million)					
Sales	**1,223**	1,272	1,294	**3,801**	3,987
Operating profit excluding special items[(1)]	**97**	43	133	**342**	221
Special items – losses (gains)[(2)]	**1**	8	(22)	**(32)**	(55)
EBITDA excluding special items[(1)]	**160**	109	195	**530**	424
Profit for the period	**32**	4	100	**207**	84
Basic earnings per share (US cents)	**6**	1	19	**39**	16
EPS excluding special items (US cents)[(3)]	**11**	2	16	**40**	18
Net debt[(3)]	**1,583**	1,917	1,652	**1,583**	1,917
Key ratios:					
Operating profit excluding special items to sales (%)	**7.9**	3.4	10.3	**9.0**	5.5
Operating profit excluding special items to capital employed (ROCE) (%)[(3)]	**14.0**	5.7	19.3	**16.4**	9.8
EBITDA excluding special items to sales (%)	**13.1**	8.6	15.1	**13.9**	10.6
Net debt to EBITDA excluding special items (times)	**2.2**	3.1	2.4	**2.2**	3.1
Interest cover (times)[(3)]	**7.0**	3.9	6.5	**7.0**	3.9
Net asset value per share (US cents)[(3)]	**223**	213	210	**223**	213

(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.*



Sales by destination*
- Europe – 44%
- North America – 24%
- Southern Africa – 9%
- Asia and other – 23%



Net operating assets**
- Europe – 38%
- North America – 30%
- Southern Africa – 32%

** for the period ended June 2016*
*** as at June 2016*

Commentary on the quarter

The third quarter is seasonally the weakest for Sappi and significant annual maintenance work is scheduled during the period. Once again, operating performance in the quarter improved markedly over the equivalent quarter last year. The group generated EBITDA excluding special items of US$160 million, an increase of 47% over the prior year. Operating profit excluding special items for the quarter more than doubled to US$97 million, and profit for the period increased from US$4 million to US$32 million. The improvement was attributable mainly to lower variable costs in our graphic paper categories and improved sales prices and Rand weakness in our South African business.

The Specialised Cellulose business generated US$75 million of EBITDA, a 34% improvement over the equivalent quarter last year as a result of improved US Dollar pricing for dissolving wood pulp (DWP) and a weaker Rand/Dollar exchange rate. Average US Dollar prices in the quarter were higher than both those of the prior quarter and the equivalent quarter last year. The improved pricing was due to increases in average Chinese market prices for dissolving wood pulp driven by steady downstream demand for viscose staple fibre (VSF).

Coated graphic paper markets continued to be challenging during the quarter and demand was somewhat weaker than in recent periods. Notwithstanding these challenges, the European business delivered a solid improvement on last year, with good variable and fixed cost control initiatives more than offsetting the effect of declining sales volumes. In addition, a reduction in variable costs and improved sales volumes negated the impact of lower average paper prices for the North American business.

The paper business in South Africa improved its performance compared to the prior year as a result of higher sales prices and the disposal of the lower margin recycled packaging paper mills which diminished the impact of exchange rate-driven variable cost increases.

Net finance costs for the quarter were US$48 million, an increase from the US$23 million in the equivalent quarter last year, mainly due to the inclusion in the finance costs for the quarter of the once-off charges of US$23 million related to the refinancing of the 2021 bonds.

Earnings per share excluding special items for the quarter were 11 US cents, a strong improvement over the 2 US cents generated in the equivalent quarter last year. Special items for the quarter were a loss of US$1 million.

Our strategy to reposition Sappi as a profitable and cash-generative diversified woodfibre group remains well on track.

Cash flow and debt

Net cash generated for the quarter was US$82 million, compared to the US$25 million generated in the equivalent quarter last year. This increase was the result of an improved operating performance and lower working capital, offset somewhat by higher tax. Capital expenditure in the quarter of US$58 million mainly related to maintenance and efficiency improvement projects.

Net debt of US$1,583 million is substantially lower than the US$1,917 million at the end of the equivalent quarter last year as a result of the strong cash generation and the weakening of the Euro and Rand against the Dollar in the past financial year.

During the quarter, we completed the refinancing of our 2021 bonds. This will result in a reduction in the interest charge of approximately US$8 million per annum going forward. The once-off refinancing costs, including the call premium, of US$23 million were expensed during the quarter.

Liquidity comprises cash on hand of US$542 million and US$583 million available from undrawn committed revolving credit facilities.

Operating review for the quarter

Europe

	Quarter ended				
	Jun 2016 € million	Mar 2016 € million	Dec 2015 € million	Sept 2015 € million	Jun 2015 € million
Sales	**540**	604	601	609	567
Operating profit excluding special items	**25**	33	29	23	5
Operating profit excluding special items to sales (%)	***4.6***	*5.5*	*4.8*	*3.8*	*0.9*
EBITDA excluding special items	**53**	62	59	51	35
EBITDA excluding special items to sales (%)	***9.8***	*10.3*	*9.8*	*8.4*	*6.2*
RONOA pa (%)	***8.6***	*11.0*	*9.7*	*7.8*	*1.7*

The performance of the European business in this seasonally slow quarter improved compared to the equivalent quarter last year, which was negatively impacted by €10 million as a result of the upgrade of the recovery boiler at Gratkorn.

Graphic paper sales volumes were 6% below those of the equivalent quarter last year. Consistent with recent reporting periods, the coated mechanical market was particularly weak; however, the decline in demand for coated woodfree also accelerated during the quarter. Average net sales prices of graphic paper were flat compared to both the prior quarter and the equivalent quarter last year.

Sales of our speciality packaging papers grew by 15% year-on-year, continuing to outpace average market growth rates of 1% to 5% for the products we produce. Average selling prices continued to be stable.

Variable costs were lower for all major raw materials compared to both comparative periods as a result of improved pricing and efficiency improvements.

North America

	Quarter ended				
	Jun 2016 US$ million	Mar 2016 US$ million	Dec 2015 US$ million	Sept 2015 US$ million	Jun 2015 US$ million
Sales	**325**	339	343	369	313
Operating (loss) profit excluding special items	**(2)**	13	13	31	(7)
Operating (loss) profit excluding special items to sales (%)	***(0.6)***	*3.8*	*3.8*	*8.4*	*(2.2)*
EBITDA excluding special items	**18**	32	31	50	11
EBITDA excluding special items to sales (%)	***5.5***	*9.4*	*9.0*	*13.6*	*3.5*
RONOA pa (%)	***(0.8)***	*5.2*	*5.2*	*12.2*	*(2.7)*

The US coated paper market remained challenging, particularly for woodfree sheets and lightweight web. Our results were negatively impacted by 5% lower coated paper prices; however, sales volumes were 3% higher than the equivalent quarter last year, a particularly soft period when a surge in imports affected the market.

The DWP business benefited from increased sales volumes and higher average sales prices compared to the equivalent quarter last year.

The casting release paper business experienced improved sales volumes compared to the prior year equivalent quarter, with growth in decorative laminate and automotive end-use segments.

Variable costs were lower than the equivalent quarter last year with lower input prices as well as continued benefits from our variable usage improvement and efficiency programmes.

The quarter was also impacted by a scheduled annual shut and an upgrade to the lime kiln at our Cloquet pulp mill.

Southern Africa

	Quarter ended				
	Jun 2016 ZAR million	Mar 2016 ZAR million	Dec 2015 ZAR million	Sept 2015 ZAR million	Jun 2015 ZAR million
Sales	**4,306**	4,568	3,993	4,556	4,002
Operating profit excluding special items	**1,050**	1,255	949	1,047	538
Operating profit excluding special items to sales (%)	***24.4***	*27.5*	*23.8*	*23.0*	*13.4*
EBITDA excluding special items	**1,215**	1,430	1,119	1,228	707
EBITDA excluding special items to sales (%)	***28.2***	*31.3*	*28.0*	*27.0*	*17.7*
RONOA pa (%)	***26.2***	*32.2*	*25.2*	*28.1*	*14.3*

The Southern African business improved margins year-on-year as a result of higher net selling prices for both DWP and paper, which more than offset variable cost increases and lower sales volumes post the sale of the Enstra and Cape Kraft Mills. The current period benefited by ZAR100 million due to lower shut costs in the quarter.

DWP sales volumes were lower than in the equivalent quarter last year mainly due to a shipment after month-end. Higher average US Dollar prices in the quarter were offset by a stronger Rand/Dollar exchange rate. This led to stable Rand pricing for DWP when compared to the prior quarter. Chinese market prices for DWP increased marginally during the quarter. Generally, improved textile fibre prices, continued reasonable operating rates at Chinese VSF producers and solid downstream VSF demand are supporting DWP prices at these levels.

With the onset of the citrus picking season, paper sales volumes improved compared to the prior quarter. Sales volumes remained below those of the equivalent quarter last year post the sale of the Enstra and Cape Kraft Mills in our first quarter of 2016.

Variable costs increased compared to the prior year due to higher wood and chemical costs due to the weaker Rand. These were offset by lower energy costs and improved raw material usage. Fixed costs were flat year-on-year.

Outlook

Demand for DWP remains favourable and recent improvements in textile fibre prices and VSF operating rates should support DWP prices at current levels for the coming months. Drought conditions persist in South Africa and the possibility that we may have to curtail production at our Saiccor Mill remains should the summer rains arrive later than usual. In order to mitigate this potential impact, we will produce more DWP at our Cloquet Mill, taking advantage of our ability to swing capacity between paper pulp and DWP at that mill.

Graphic paper markets have weakened in Europe and the United States in the past quarter, with both volume and pricing under pressure. Lower raw material costs have enabled us to offset these impacts so far. We will continue to look for opportunities to lower costs and adapt to the market conditions. As is typical in the fourth quarter, orders are expected to be more robust.

Based on current market conditions, and assuming current exchange rates, we expect our fourth quarter EBITDA excluding special items to be approximately in line with that of the solid performance in the equivalent quarter last year. However, a worsening of the drought in South Africa, effects of Brexit and further graphic paper market pressure could negatively impact the expected result.

Capex expenditure in the last quarter of fiscal 2016 is expected to be approximately US$100 million (US$245 million for the full year) and is focused largely on maintenance, energy and efficiency projects.

We expect to reduce net debt levels during the fourth quarter and improve our financial leverage closer to our target ratio of less than two times net debt to EBITDA.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

04 August 2016

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

	Note	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
Sales		**1,223**	1,272	**3,801**	3,987
Cost of sales		**1,039**	1,161	**3,177**	3,523
Gross profit		**184**	111	**624**	464
Selling, general and administrative expenses		**82**	79	**257**	247
Other operating expenses (income)		**9**	3	**1**	(48)
Share of profit from equity investments		**(3)**	(6)	**(8)**	(11)
Operating profit	3	**96**	35	**374**	276
Net finance costs		**48**	23	**98**	157
Net interest expense		**45**	27	**99**	153
Net foreign exchange loss (gain)		**4**	(3)	**–**	(9)
Net fair value (gain) loss on financial instruments		**(1)**	(1)	**(1)**	13
Profit before taxation		**48**	12	**276**	119
Taxation		**16**	8	**69**	35
Profit for the period		**32**	4	**207**	84
Basic earnings per share (US cents)		**6**	1	**39**	16
Weighted average number of shares in issue (millions)		**530.2**	526.3	**529.1**	525.5
Diluted earnings per share (US cents)		**6**	1	**38**	16
Weighted average number of shares on fully diluted basis (millions)		**541.9**	532.4	**539.6**	531.3

Condensed group statement of comprehensive income

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	**Nine months ended Jun 2016 US$ million**	Nine months ended Jun 2015 US$ million
Profit for the period	**32**	4	**207**	84
Other comprehensive income (loss), net of tax				
Items that will not be reclassified subsequently to profit or loss	**–**	–	**–**	(10)
Actuarial losses on post-employment benefit funds	**–**	–	**–**	(10)
Items that must be reclassified subsequently to profit or loss	**35**	(22)	**(52)**	(8)
Exchange differences on translation of foreign operations	**31**	(30)	**(55)**	(10)
Movements in hedging reserves	**4**	9	**4**	2
Tax effect of above items	**–**	(1)	**(1)**	–
Total comprehensive income (loss) for the period	**67**	(18)	**155**	66

Condensed group balance sheet

	Jun 2016 US$ million	Reviewed Sept 2015 US$ million
ASSETS		
Non-current assets	**3,057**	3,174
Property, plant and equipment	**2,391**	2,508
Plantations	**382**	383
Deferred tax assets	**161**	162
Derivative financial instruments	**44**	41
Other non-current assets	**79**	80
Current assets	**1,811**	1,711
Inventories	**632**	595
Trade and other receivables	**621**	645
Derivative financial instruments	**5**	5
Taxation receivable	**11**	10
Cash and cash equivalents	**542**	456
Assets held for sale	**–**	28
Total assets	**4,868**	4,913
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	**1,182**	1,015
Non-current liabilities	**2,675**	2,806
Interest-bearing borrowings	**1,915**	2,031
Deferred tax liabilities	**242**	245
Other non-current liabilities	**518**	530
Current liabilities	**1,011**	1,091
Interest-bearing borrowings	**210**	196
Other current liabilities	**770**	860
Derivative financial instruments	**2**	5
Taxation payable	**29**	30
Liabilities associated with assets held for sale	**–**	1
Total equity and liabilities	**4,868**	4,913
Number of shares in issue at balance sheet date (millions)	**530.3**	526.4

Condensed group statement of cash flows

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	**Nine months ended Jun 2016 US$ million**	Nine months ended Jun 2015 US$ million
Profit for the period	**32**	4	**207**	84
Adjustment for:				
Depreciation, fellings and amortisation	**79**	82	**229**	247
Taxation	**16**	8	**69**	35
Net finance costs	**48**	23	**98**	157
Defined post-employment benefits paid	**(12)**	(15)	**(36)**	(46)
Plantation fair value adjustments	**(26)**	(17)	**(80)**	(69)
Net restructuring provisions	**–**	1	**4**	4
Profit on disposal of assets held for sale and other assets	**–**	–	**(16)**	–
Non-cash employee benefit liability settlement	**–**	1	**–**	(69)
Other non-cash items	**7**	3	**27**	20
Cash generated from operations	**144**	90	**502**	363
Movement in working capital	**56**	16	**(66)**	(97)
Net finance costs paid	**(29)**	(21)	**(87)**	(111)
Taxation paid	**(32)**	(12)	**(54)**	(16)
Cash generated from operating activities	**139**	73	**295**	139
Cash utilised in investing activities	**(57)**	(48)	**(104)**	(153)
Capital expenditure	**(59)**	(49)	**(144)**	(163)
Net proceeds on disposal of assets	**1**	–	**39**	–
Other movements	**1**	1	**1**	10
Net cash generated (utilised)	**82**	25	**191**	(14)
Cash effects of financing activities	**(7)**	(77)	**(101)**	(110)
Net movement in cash and cash equivalents	**75**	(52)	**90**	(124)
Cash and cash equivalents at beginning of period	**457**	399	**456**	528
Translation effects	**10**	4	**(4)**	(53)
Cash and cash equivalents at end of period	**542**	351	**542**	351

Condensed group statement of changes in equity

	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
Balance – beginning of period	**1,015**	1,044
Total comprehensive income for the period	**155**	66
Transfers from the share purchase trust	**13**	10
Transfers of vested share options	**(6)**	(5)
Share-based payment reserve	**5**	5
Balance – end of period	**1,182**	1,120

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and nine months ended June 2016 have been prepared in accordance with the Listings Requirements of the JSE Limited, International Financial Reporting Standard, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. 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 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.

	Quarter ended Jun 2016 Metric tons (000's)	Quarter ended Jun 2015 Metric tons (000's)	**Nine months ended Jun 2016 Metric tons (000's)**	Nine months ended Jun 2015 Metric tons (000's)
2. Segment information				
Sales volume				
North America	**305**	294	**966**	948
Europe	**760**	792	**2,430**	2,395
Southern Africa – Pulp and paper	**407**	436	**1,197**	1,286
Forestry	**272**	283	**772**	744
Total	**1,744**	1,805	**5,365**	5,373
Which consists of:				
Specialised cellulose	**265**	282	**809**	849
Paper	**1,207**	1,240	**3,784**	3,780
Forestry	**272**	283	**772**	744

Notes to the condensed group results continued

		Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
2.	**Segment information** continued				
	Sales				
	North America	**325**	313	**1,007**	1,008
	Europe	**611**	627	**1,936**	1,981
	Southern Africa – Pulp and paper	**273**	315	**818**	952
	Forestry	**14**	17	**40**	46
	Total	**1,223**	1,272	**3,801**	3,987
	Which consists of:				
	Specialised cellulose	**220**	216	**667**	664
	Paper	**989**	1,039	**3,094**	3,277
	Forestry	**14**	17	**40**	46
	Operating profit (loss) excluding special items				
	North America	**(2)**	(7)	**24**	(4)
	Europe	**28**	5	**96**	48
	Southern Africa	**70**	44	**217**	173
	Unallocated and eliminations[(1)]	**1**	1	**5**	4
	Total	**97**	43	**342**	221
	Which consists of:				
	Specialised cellulose	**64**	43	**210**	152
	Paper	**32**	(1)	**127**	65
	Unallocated and eliminations[(1)]	**1**	1	**5**	4

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

2. **Segment information** continued

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
Special items – losses (gains)				
North America	**1**	–	**4**	–
Europe	**2**	4	**4**	(51)
Southern Africa	**(3)**	–	**(43)**	(15)
Unallocated and eliminations[(1)]	**1**	4	**3**	11
Total	**1**	8	**(32)**	(55)
Segment operating profit (loss)				
North America	**(3)**	(7)	**20**	(4)
Europe	**26**	1	**92**	99
Southern Africa	**73**	44	**260**	188
Unallocated and eliminations[(1)]	**–**	(3)	**2**	(7)
Total	**96**	35	**374**	276
EBITDA excluding special items				
North America	**18**	11	**81**	52
Europe	**60**	38	**193**	152
Southern Africa	**81**	58	**251**	216
Unallocated and eliminations[(1)]	**1**	2	**5**	4
Total	**160**	109	**530**	424
Which consists of:				
Specialised cellulose	**75**	56	**243**	191
Paper	**84**	51	**282**	229
Unallocated and eliminations[(1)]	**1**	2	**5**	4

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

Notes to the condensed group results continued

2. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period

Special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure.

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	**Nine months ended Jun 2016 US$ million**	Nine months ended Jun 2015 US$ million
EBITDA excluding special items	**160**	109	**530**	424
Depreciation and amortisation	**(63)**	(66)	**(188)**	(203)
Operating profit excluding special items	**97**	43	**342**	221
Special items – (losses) gains	**(1)**	(8)	**32**	55
Plantation price fair value adjustment	**12**	–	**40**	19
Net restructuring provisions	**–**	(1)	**(4)**	(4)
Profit on disposal of assets held for sale and other assets	**–**	–	**16**	–
Employee benefit liability settlement	**–**	(1)	**–**	56
Black economic empowerment charge	**–**	–	**(1)**	(1)
Fire, flood, storm and other events	**(13)**	(6)	**(19)**	(15)
Segment operating profit	**96**	35	**374**	276
Net finance costs	**(48)**	(23)	**(98)**	(157)
Profit before taxation	**48**	12	**276**	119
Taxation	**(16)**	(8)	**(69)**	(35)
Profit for the period	**32**	4	**207**	84

	Jun 2016 US$ million	Jun 2015 US$ million
2. Segment information continued		
Segment assets		
North America	**991**	1,029
Europe	**1,271**	1,334
Southern Africa	**1,072**	1,225
Unallocated and eliminations[1]	**30**	21
Total	**3,364**	3,609
Reconciliation of segment assets to total assets		
Segment assets	**3,364**	3,609
Deferred taxation	**161**	141
Cash and cash equivalents	**542**	351
Other current liabilities	**770**	824
Derivative financial instruments	**2**	2
Taxation payable	**29**	26
Total assets	**4,868**	4,953

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

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
3. Operating profit				
Included in operating profit are the following items:				
Depreciation and amortisation	**63**	66	**188**	203
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**16**	16	**41**	44
Growth	**(14)**	(17)	**(40)**	(50)
	2	(1)	**1**	(6)
Plantation price fair value adjustment	**(12)**	–	**(40)**	(19)
	(10)	(1)	**(39)**	(25)
Net restructuring provisions	**–**	1	**4**	4
Profit on disposal of assets held for sale and other assets	**–**	–	**(16)**	–
Employee benefit liability settlement	**–**	1	**–**	(69)

Notes to the condensed group results continued

	Quarter ended Jun 2016 US$ million	Quarter ended Jun 2015 US$ million	Nine months ended Jun 2016 US$ million	Nine months ended Jun 2015 US$ million
4. Earnings per share				
Basic earnings per share (US cents)	**6**	1	**39**	16
Headline earnings per share (US cents)	**6**	1	**37**	16
EPS excluding special items (US cents)	**11**	2	**40**	18
Weighted average number of shares in issue (millions)	**530.2**	526.3	**529.1**	525.5
Diluted earnings per share (US cents)	**6**	1	**38**	16
Diluted headline earnings per share (US cents)	**6**	1	**36**	16
Weighted average number of shares on fully diluted basis (millions)	**541.9**	532.4	**539.6**	531.3
Calculation of headline earnings				
Profit for the period	**32**	4	**207**	84
Profit on disposal of assets held for sale and other assets	**–**	–	**(16)**	–
Tax effect of above items	**1**	–	**5**	–
Headline earnings	**33**	4	**196**	84
Calculation of earnings excluding special items				
Profit for the period	**32**	4	**207**	84
Special items after tax	**1**	8	**(21)**	(51)
Special items	**1**	8	**(32)**	(55)
Tax effect	**–**	–	**11**	4
Refinancing costs	**23**	–	**23**	63
Earnings excluding special items	**56**	12	**209**	96

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*.

		Reviewed
	Jun 2016 US$ million	Sept 2015 US$ million
Fair value of plantations at beginning of year	**383**	430
Gains arising from growth	**40**	65
Fire, flood, storm and related events	**(10)**	(7)
In-field inventory	**(1)**	(1)
Gain arising from fair value price changes	**40**	41
Harvesting – agriculture produce (fellings)	**(41)**	(57)
Translation difference	**(29)**	(88)
Fair value of plantations at end of period	**382**	383

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]	
			Reviewed
	Fair value hierarchy	**Jun 2016 US$ million**	Sept 2015 US$ million
Available for sale assets[2]	Level 1	**8**	8
Derivative financial assets	Level 2	**49**	46
Derivative financial liabilities	Level 2	**2**	5

[1] *The fair value of the financial instruments are equal to their carrying value.*
[2] *Included in other non-current assets.*

Notes to the condensed group results continued

6. Financial instruments continued

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.

		Reviewed
	Jun 2016 US$ million	Sept 2015 US$ million
7. Capital commitments		
Contracted	**50**	60
Approved but not contracted	**59**	73
	109	133
8. Contingent liabilities		
Guarantees and suretyships	**16**	13
Other contingent liabilities	**10**	11
	26	24

9. Material balance sheet movements

Since the 2015 financial year-end, the ZAR has weakened by approximately 8% against the US Dollar, the group's presentation currency. This has resulted in a similar decrease of the group's South African assets and liabilities, which are held in the aforementioned functional currency, on translation to the presentation currency.

Inventory and other current liabilities

The movements in inventory and other current liabilities are largely attributable to seasonal working capital movements.

Assets held for sale

During the financial year, the conditions precedent related to the sale of the group's Enstra and Cape Kraft mills were fulfilled. Proceeds of US$37 million were received and a combined profit on disposal of US$14 million was recorded.

Interest-bearing borrowings

During the year, the group issued an aggregate principal amount of €350 million (US$389 million) in senior secured notes due 2023 at a coupon of 4.00% per annum. The proceeds from these notes were used to redeem the full amount of the group's US$350 million senior secured notes due 2021 at a price of 103.313% of the principal amount thereof. The coupon on the notes redeemed was 6.625%.

As at the 2015 financial year-end, the group had drawn €50 million (US$55 million) from its €465 million (US$517 million) revolving credit facility. This amount as well as amounts due under the OekB term loan of €18 million (US$20 million) and the group's ZAR255 million (US$17 million) public bond were repaid from existing cash resources.

10. Related parties

There has been no material change, by nature or amount, in transactions with a related party since the 2015 financial year-end.

11. Events after balance sheet date

Subsequent to quarter-end, the group utilised existing cash resources to redeem its ZAR500 million (US$33 million) public bond on maturity.

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		Nine months ended	
	Jun 2016	Jun 2015	**Jun 2016**	Jun 2015
Key figures: (ZAR million)				
Sales	**18,351**	15,368	**57,002**	46,464
Operating profit excluding special items[1]	**1,456**	520	**5,129**	2,576
Special items – losses (gains)[1]	**15**	97	**(480)**	(641)
EBITDA excluding special items[1]	**2,401**	1,317	**7,948**	4,941
Profit for the period	**480**	48	**3,104**	979
Basic earnings per share (SA cents)	**91**	9	**587**	186
Net debt[1]	**23,848**	23,392	**23,848**	23,392
Key ratios: (%)				
Operating profit excluding special items to sales	**7.9**	3.4	**9.0**	5.5
Operating profit excluding special items to capital employed (ROCE)[1]	**13.8**	5.6	**17.0**	9.7
EBITDA excluding special items to sales	**13.1**	8.6	**13.9**	10.6

[1] *Refer to page 22, supplemental information for the definition of the term.*

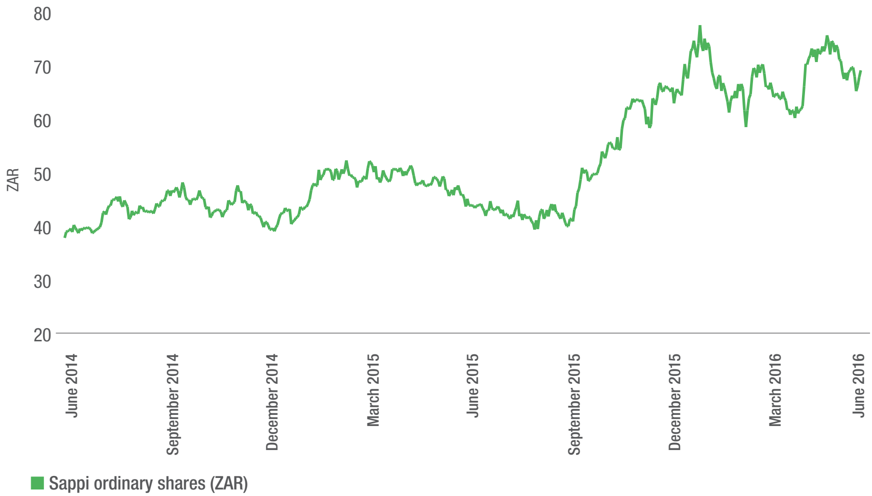
The above financial results have been translated into Rand from US Dollar as follows:
– assets and liabilities at rates of exchange ruling at period-end; and
– income, expenditure and cash flow items at average exchange rates.

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

Exchange rates

	Jun 2016	Mar 2016	Dec 2015	Sept 2015	Jun 2015
Exchange rates:					
Period-end rate: US$1 = ZAR	**15.0650**	15.4548	15.2865	13.9135	12.2025
Average rate for the quarter: US$1 = ZAR	**15.0053**	15.8226	14.1577	12.9364	12.0820
Average rate for the YTD: US$1 = ZAR	**14.9966**	14.9921	14.1577	11.9641	11.6540
Period-end rate: €1 = US$	**1.1117**	1.1166	1.0977	1.1195	1.1166
Average rate for the quarter: €1 = US$	**1.1304**	1.1020	1.0968	1.1125	1.1060
Average rate for the YTD: €1 = US$	**1.1097**	1.0994	1.0968	1.1501	1.1627

Sappi ordinary shares (JSE:SAP)



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