sappi Inspired by life — 1936 2016

Q4 Fact Sheet 2016

Results for Q4FY16 and the full year ended September 2016

FY16

EBITDA excl special items[1]	Profit for the period	EPS excl special items[1]	Net debt	Dividend
↑ 18%	↑ 91%	↑ 68%	↓ 20%	declared
US$739 million	US$319 million	US¢57	US$1,408 million	US¢11
FY15 US$625 million	FY15 US$167 million	FY15 US¢34	down US$363 million year-on-year	

Q4FY16

EBITDA excl special items[1]	Profit for the period	EPS excl special items[1]
US$209 million Q4FY15 US$201 million	US$112 million Q4FY15 US$83 million	US¢18 Q4FY15 US¢16

	US$ million	Quarter ended			Year ended	
		Sept 2016	Sept 2015	Jun 2016	Sept 2016	Sept 2015
Key figures	Sales	1,340	1,403	1,223	5,141	5,390
	Operating profit excl special items[1]	145	136	97	487	357
	Special items (gains) losses[1]	(25)	1	1	(57)	(54)
	EBITDA excluding special items[1]	209	201	160	739	625
	Profit for the period	112	83	32	319	167
	Basic EPS (US cents)	21	16	6	60	32
	EPS excluding special items (US cents)[1]	18	16	11	57	34
	Net debt[1]	1,408	1,771	1,583	1,408	1,771
Key ratios (%)	Operating profit excl special items[1] to sales	10.8	9.7	7.9	9.5	6.6
	ROCE[1] Operating profit excluding special items[1] to capital employed	20.9	18.7	14.0	17.5	12.4
	EBITDA excl special items[1] to sales	15.6	14.3	13.1	14.4	11.6
	Net debt to EBITDA excl special items[1]	1.9	2.8	2.2	1.9	2.8
	Interest cover[1]	7.3	4.4	7.0	7.3	4.4
	Net asset value per share[1] (US cents)	260	193	223	260	193

1 Refer to the published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

Commentary

Continued success of our strategy and the benefits of a weaker ZAR/USD exchange rate delivered **significant earnings gains**.

Ongoing projects to improve our cost position and **enhance** our **competitiveness** in **graphic paper** improved operating performance.

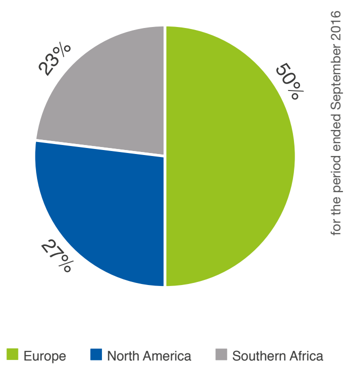
Initiatives to **accelerate growth** in **speciality packaging** in Europe and North America boosted volumes and lifted margins. We continue to seek opportunities to **shift production from graphic paper to** various **speciality packaging grades**.

Improved cash generation has resulted in the group achieving the targeted **leverage of less than two times net debt to EBITDA** earlier than expected. The reduction in net debt and refinancing of high cost debt will result in lower ongoing interest charges.

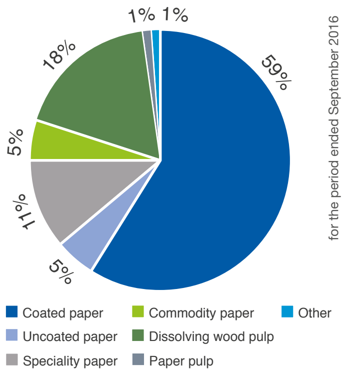
The fourth quarter was characterised by **buoyant dissolving wood pulp** (DWP) **markets**, **strong growth** in **speciality packaging sales** and cost savings across the group. These helped to offset the effect of lower graphic paper volumes and selling prices.

Net operating assets and sales distribution

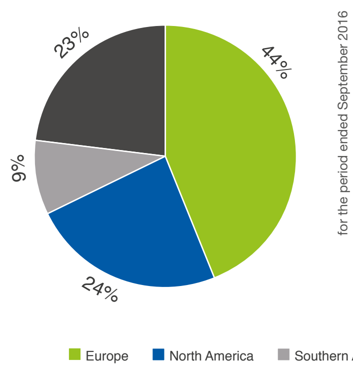
Sales by source



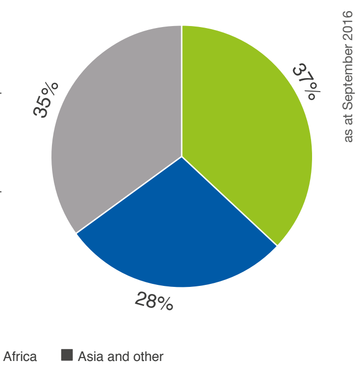
Sales by product



Sales by destination



Net operating assets



Fourth quarter and year-end results – September 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.

Achieve cost advantages
- Improve operational and machine **efficiencies**
- Maximise global **procurement benefits**
- Optimise **business processes**

Rationalise declining businesses
- Where possible **convert paper machines** to higher margin businesses
- Continuously **balance paper supply** and **demand** in all regions

Grow through moderate investments
- **Expand** paper packaging grades
- **Enhance** specialised cellulose product portfolio
- **Extract** value from our biorefinery stream

Generate cash to strengthen balance sheet
- **Optimise** working capital
- **Sell** non-core assets
- **Restructure** debt

Accelerate growth in adjacent businesses from a strong base
- New business **opportunities** including:
  - Nanocellulose
  - Biorefinery
  - Energy

Outlook

Demand for **DWP remains favourable** and recent gains in the spot prices in China indicate that the **market is currently tightly supplied**. We therefore expect higher average USD pricing during Q1FY2017. We do not currently foresee any impact from the drought in South Africa on Saiccor Mill production during Q1FY2017.

Graphic paper markets continue to be weak in Europe and the United States. Variable cost reductions in both regions continue to be important as prices remain under pressure. While the prices of most inputs are not expected to continue to reduce in the coming year, we believe **savings in variable costs can be achieved** as a result of the **group procurement** and **efficiency initiatives** currently underway.

We believe that **demand** for our **speciality packaging grades** will **continue** to **grow** and we will therefore look to allocate more of our graphic paper capacity to these products.

The first quarter of our 2017 financial year will comprise 14 weeks instead of the typical 13 week quarter. This is in order to adjust our reporting periods closer to the calendar periods. This will result in increased sales compared to comparative quarters.

Based on current market conditions; in particular the recent strengthening of the Rand relative to the US Dollar, stronger US Dollar pricing for DWP and weaker paper demand and pricing in Europe, **we expect the group's performance in 2017 to be broadly in line with 2016**.

We expect to **reduce net debt levels further** during the course of 2017 and are considering utilising some cash reserves to repay the maturing 2017 bonds in order to lower future finance costs.

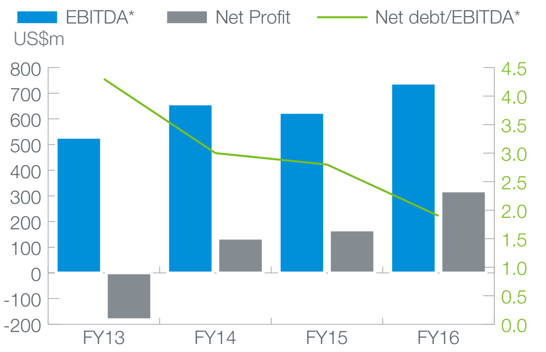
Capex expenditure in **FY2017** is expected to increase to approximately **US$350 million** as we continue the **debottlenecking** of **DWP production** at Ngodwana and Saiccor and seek to **take advantage** of our **strong growth** in **speciality packaging**.

Dividends

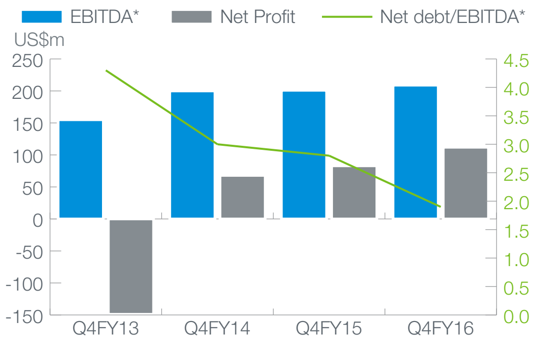
On 09 November 2016, the directors declared a dividend (number 86) of **11 US cents per share** (US$60 million) which will be paid to shareholders on 17 January 2017. This dividend was declared after year-end and was not included as a liability at the end of the financial year.

The **2016 dividend** was **covered five times** by basic **earnings per share**. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividend ratio of three to one.

Full year earnings, profit and debt



Quarter-on-quarter earnings, profit and debt



* Excluding special items

Fourth quarter and year-end results – September 2016

Europe

6 Paper mills
1 Speciality paper mill
16 Sales offices

During this seasonally stronger quarter, **graphic paper sales volumes** were 9% above those of the prior quarter, but **4% below** those of the equivalent quarter last year.

Average net sales prices in Euro were **marginally down** compared to both the prior quarter and the equivalent quarter last year, largely as a result of **weak demand in** the **summer months** for coated woodfree and coated mechanical paper.

The improved cost competitiveness of the industry together with lower paper pulp prices has **increased** the **pressure on selling prices**.

Lower raw material prices and ongoing cost reduction initiatives ensured **variable costs** were **9% lower** than last year.

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

Average **selling prices** continued to be **stable**.

North America

1 Paper mill
1 Speciality paper mill
1 Paper and specialised cellulose mill
4 Sales offices

The **business recovered** in a seasonally stronger quarter that had no scheduled maintenance shuts.

The strong Dollar, low paper pulp prices and an oversupplied coated freesheet market **continued** to put **pressure** on **selling prices**.

Improved coated web and **packaging volumes** as well as **lower variable costs offset** the abovementioned headwinds.

DWP sales volumes were **higher** than both the prior quarter and equivalent quarter last year as we sought to benefit from improved selling prices and proactively offset any potential drought impact in South Africa.

The **release paper business** continues to experience **weak sales volumes** into China and **lower average sales prices** due to the sales mix.

Ongoing procurement and efficiency initiatives along with favourable markets for purchased pulp, chemicals, wood and energy led to **lower average variable costs**. Fixed costs were less than in the prior quarter due to the absence of scheduled annual maintenance shuts in the fourth quarter.

Southern Africa

2 Paper mills
1 Paper and specialised cellulose mill
1 Specialised cellulose mill
1 Sawmill
4 Sales offices
492,000ha Forests

The business **continued** to **strengthen** in the quarter.

Higher average net selling prices for containerboard, tissue and offices papers, **tight fixed cost control** and an **improved sales mix** contributed to the **enhanced margins** when compared to the equivalent quarter last year.

DWP pricing was **lifted** by higher US Dollar spot prices in China.

Demand remained strong and **sales volumes improved** versus the prior quarter.

Variable costs were **well controlled** with lower fibre, chemical and energy costs compared to the prior quarter.

Fixed costs remained below those of the prior year post the disposal of the Cape Kraft and Enstra Mills in December 2015.

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