

## Results for Q3 FY16 — the quarter ended June 2016

<b>Profit</b> for the period <b>US\$32 million</b> Q3FY15 US\$4 million	<b>EPS</b> excl special items <sup>1</sup> <b>US\$11</b> Q3FY15 US\$2	<b>EBITDA</b> excl special items <sup>1</sup> <b>US\$160 million</b> Q3FY15 US\$109 million	<b>Net debt</b> <b>US\$1,583 million</b> down US\$334 million year-on-year
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	US\$ million	Quarter ended			Nine months ended	
		Jun 2016	Jun 2015	Mar 2016	Jun 2016	Jun 2015
<b>Key figures</b>						
Sales		1,223	1,272	1,294	3,801	3,987
Operating profit excl special items <sup>1</sup>		97	43	133	342	221
Special items losses (gains) <sup>1</sup>		1	8	(22)	(32)	(55)
EBITDA excluding special items <sup>1</sup>		160	109	195	530	424
Profit for the period		32	4	100	207	84
Basic EPS (US cents)		6	1	19	39	16
EPS excluding special items (US cents) <sup>1</sup>		11	2	16	40	18
<b>Net debt<sup>1</sup></b>		<b>1,583</b>	<b>1,917</b>	<b>1,652</b>	<b>1,583</b>	<b>1,917</b>

<b>Key ratios (%)</b>						
Operating profit excl special items <sup>1</sup> to sales		7.9	3.4	10.3	9.0	5.5
ROCE <sup>1</sup> Operating profit excluding special items <sup>1</sup> to capital employed		14.0	5.7	19.3	16.4	9.8
EBITDA excl special items <sup>1</sup> to sales		13.1	8.6	15.1	13.9	10.6
Net debt to EBITDA excl special items <sup>1</sup>		2.2	3.1	2.4	2.2	3.1
Interest cover <sup>1</sup>		7.0	3.9	6.5	7.0	3.9
Net asset value per share <sup>1</sup> (US cents)		223	213	210	223	213

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

The Specialised Cellulose business business benefitted from **improved USD pricing for dissolving wood pulp (DWP)** and a weaker ZAR/USD exchange rate amidst **steady downstream demand** for viscose staple fibre (VSF).

Operating performance improvement attributed mainly to **lower variable costs** in our graphic paper categories and improved sales prices and Rand weakness in our South African business.

**Coated graphic paper markets** continued to be **challenging** during the quarter and **demand** was somewhat **weaker** than in recent periods. Nevertheless, the European business delivered a solid improvement on last year and improved sales volumes negated the impact in the North American business.

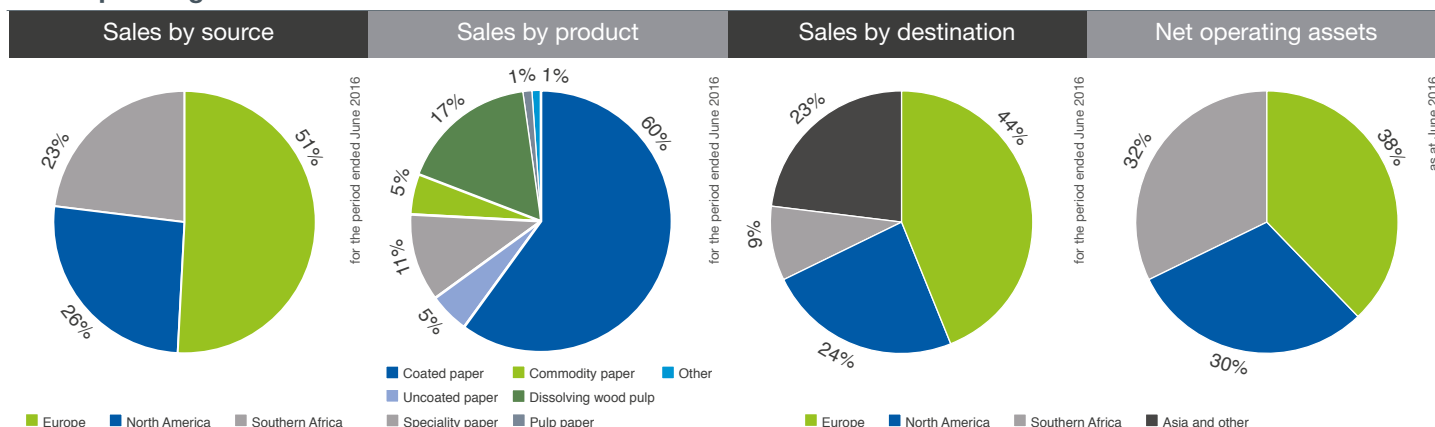
The **paper business in South Africa improved** its **performance** compared to the prior year as a result of higher sales prices and the disposal of the lower margin recycled packaging paper mills which diminished the impact of exchange rate driven variable cost increases.

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.



# Third quarter results – June 2016

## Net operating assets and sales distribution



**Demand for dissolving wood pulp (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.**

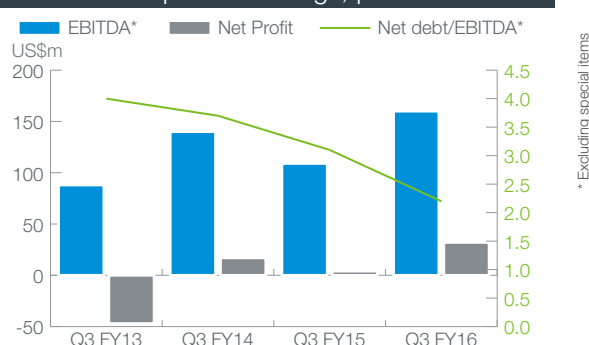
Based on current market conditions, and assuming current exchange rates, we expect our fourth quarter EBITDA excluding special items to be **approximately in line with that of the solid performance in the equivalent quarter last year.**

However, a worsening of the drought in South Africa, effects of Brexit and further graphic paper market pressure could negatively impact the expected result.

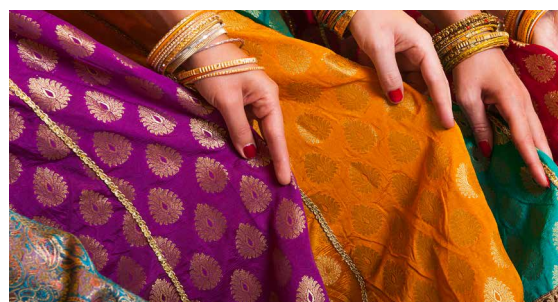
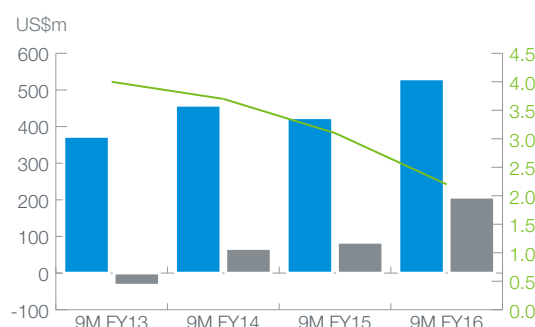
**Capex expenditure** in the last quarter of fiscal 2016 is expected to be approximately **US\$100 million** (US\$245 million for the full year) and is **focused largely on maintenance, energy and efficiency projects.**

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.

## Quarter-on-quarter earnings, profit and debt



## Nine month earnings, profit and debt



Demand for DWP remains favourable and recent improvements in textile fibre prices and VSF operating rates should support prices at current levels.

## Europe



- 6 Paper mills
- 1 Speciality paper mill
- 16 Sales offices

**Performance** in this seasonally slow quarter **improved** compared to the equivalent quarter last year, which was negatively impacted by Euro10 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**.

**Coated woodfree demand** **decline 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 1-5% 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



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

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, which was 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 impacted by a **scheduled annual shut** and an **upgrade to the lime kiln** at our **Cloquet** pulp mill.

## Southern Africa



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

**Margins improved** 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**.

**DWP sales volumes** were **lower** than in the equivalent quarter last year mainly due to a **shipment after month-end**. **Higher average USD prices** were offset by a stronger ZAR/USD exchange rate, leading to stable ZAR pricing. **Chinese market prices for DWP increased marginally**. Improved textile fibre prices, continued reasonable operating rates at Chinese VSF producers and solid downstream VSF demand are supporting DWP prices.

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.



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