About this report

Our Annual Integrated Report for the year ended September 2017 provides both an assessment of our strategy and delivery as well as an introduction of our strategic direction, mission and vision together with our value statement. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues.

The scope of this report includes all of our operations, as set out on page 20. We aim to present information that is material, comparable, relevant and complete. The issues and indicators we cover reflect our significant economic, environmental and social impacts, and those we believe would substantively influence the assessments and decisions of investors. The materiality of the information presented has been determined on the basis of extensive ongoing engagement with our stakeholders and has been assessed against the backdrop of current business operations, as well as prevailing trends in our industry and the global economy.

In preparing this report, we have tracked environmental findings and research, public opinion, employee views and attitudes, the interests and priorities of environmental and social groups, as well as the activities, profiles and interests of investors, employees, suppliers and customers, communities, governments and regulatory authorities.

This report is aligned with the King IV Code on Corporate Governance (King IV).

Board approval
The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Annual Integrated Report and, to the best of its knowledge and belief, the Sappi Limited Annual Integrated Report for 2017 addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The report has been prepared in line with best practice and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 09 December 2017.

External assurance
Currently, assurance of sustainability information is conducted by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation. During 2017 we conducted a readiness review for external assurance and intend to have internal verification validating non-financial data, as well as reviewing reported information.

In practice, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe and globally; ISO 14001 environmental certification, ISO 9001 quality certification and OHSAS 18001 certification.

We are also assessed in terms of the forest certification systems we use, and in South Africa, our Broad-based Black Economic Empowerment (BBBEE) performance is assessed by an external ratings agency.

In addition, our global governance, social and environmental performance is assessed annually in terms of our listing on the Socially Responsible Investment (SRI) Index of the JSE Securities Exchange (JSE).

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social, Ethics, Transformation and Sustainability Committee reviews the efficacy of conducting external assurance annually. The committee considered external verification in the year under review, but is satisfied that the sustainability information presented in this report has been provided with a reasonable degree of accuracy.

Due to our delisting from the New York Stock Exchange in 2013, we no longer publish an annual report on Form 20-F. For information on the combined assurance framework relevant to the disclosure in this report, and for the Independent Auditor’s Report, please refer to page 67 of this report and page 6 in the Group Annual Financial Statements. This year’s report does not include summarised financials. However, the full Annual Integrated Report with financials is available on www.sappi.com in electronic and PDF format.

For important information relating to forward-looking statements, refer to the inside back cover. We present this Annual Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 130.

Stay informed: For a more comprehensive overview of our social, ethics, transformation and sustainability performance, please refer to:

- Quarterly results announcements and analyst presentations: www.sappi.com/quarterly-reports
- Group Sustainability Report: www.sappi.com/sustainability

Group and regional sustainability reports
We will once again publish a Group Sustainability Report for 2017 in accordance with the Global Reporting Initiative’s G4 guidelines. Additionally, each of our regions will publish separate sustainability reports for FY2017. These reports will be available early in 2018 on www.sappi.com.

GalerieArt™ coated fine paper manufactured at Sappi’s European mills is made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests, plantations and controlled sources. These mills are third party certified according to internationally recognised standards including ISO 9001 quality and ISO 14001 and EMAS environmental certification. GalerieArt™ is acid free and fully recyclable. Printed on 135, 250 and 350g/m².
Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.
Our business model

Inputs

Prosperity

Financial capital
We manage our financial capital, including shareholders’ equity, debt and reinvested capital to maintain a solid balance between growth, profitability and liquidity.
- Total assets: US$5.247 billion
- Net debt: down US$86 million to US$1.32 billion
- Cash and cash equivalents: US$550 million

Manufactured capital
Investing in building, maintaining, operating and improving this infrastructure requires significant financial capital, together with human and intellectual capital.
- Nine paper mills, two specialised cellulose and paper mills, one specialised cellulose mill, two specialty paper mills, and one sawmill

Intellectual capital
Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company.
- R&D spend: US$29.5 million (including Exciter projects)
- Technology centres in each region
- Technology investments in 2017

People

Human capital
By creating a safe and healthy workplace for our people in which diversity is encouraged and valued, and providing them with ongoing development opportunities, we enhance productivity and our ability to service global markets.
- 12,158 employees including 851 fixed-term contractors
- US$514 average training spend per employee

Social capital
Building relationships with our key stakeholders in a spirit of trust and mutual respect enhances both our licence to trade and our competitive advantage, thereby enabling shared value creation.
- Ongoing stakeholder engagement
- CSR spend: US$5.3 million

Planet

Natural capital
Recognising that our business depends on natural capital, we focus on managing and mitigating our impacts.
- 2,734MW energy purchased, 1,893MW generated
- Specific energy usage: 22.77GJ/adt
- Specific process water extracted 33.74m³/adt
- 479,000ha owned or leased plantations with approximately 27.4 million tons of standing timber
- Contracted supply covers a further almost 92,000ha

Material issues
- Stakeholder relationships
- Governance
- Cost containment and capital allocation
- Growth in the packaging sector
- Declining for graphics paper
- Growing popularity of cellulosic-based fibres
- Adjacent markets
- Safety
- Labour relations
- Community investment
- Sustainability of our woodfibre base and climate change
- Emissions regulations and carbon tax
- Energy
- Water
We have aligned our long-established approach to sustainable development – **Prosperity, People and Planet** – with the IIRC’s six capitals model.

**Outputs**

- 6.4 million tons of saleable production
- Reduction in net debt
- Profits up by 6%
- Dividends up by 36%
- Produced first nanocellulose at our pilot plant
- Launched sugar extraction demonstration plant
- Assessing results of anaerobic digestion pilot plant

**Governance**

- Board of directors with diverse experience and expertise
- Social, Ethics, Transformation and Sustainability Committee ensures sustainability is integrated into business strategy
- Other board committees cover all governance aspects
- New Code of Ethics launched in 2016

**Unlocking the chemistry of trees in adjacent markets**

Nanocellulose, sugars, lignins, furfural, biocomposites, bio-energy

**Outcomes**

- 45.2% renewable energy, of which 73.6% own black liquor – increase in energy self-sufficiency of 8.7% over five years
- 92% of water drawn returned to the environment
- 73.5% of fibre used certified
- 1,515,014 tons of waste, of which almost 465,395 tons sent to landfill
- Combined own employee and contractor LTIFR: 0.44 (three own employee fatalities, one contractor fatality)
- 62% of training spend allocated to skills development and 38% to compliance
- Positive, measurable impact on communities

**Papermaking**

are presented on the following page
Our activities add value to all our stakeholders.

Globally, we contributed **US$135 million** to governments as taxation.

We paid **US$911 million** to employees as salaries, wages and other benefits.

We reinvested **US$552 million** to grow the business.

Lenders of capital received **US$95 million** as interest.

Our shareholders received **US$59 million** in dividends.

Our high levels of innovation give our customers a competitive edge in global markets – we were the world’s first manufacturer to present an innovative speciality paper with a mineral oil barrier and heat sealing properties integrated directly into the paper.

Over a third of customers prefer sustainable brands¹ and our products help meet this need.

As a natural resources-based company, we are an attractive investment for investors looking for an alternative to fossil fuel-based materials.

In Southern Africa, our operations provide employment for just over 10,300 contractor employees. Our engaged, motivated workforce enable realisation of our 2020Vision, with engagement monitored by a global target. We play an active role in South Africa’s transformation agenda and are classified as a level 3 BBBEE contributor.

In Southern Africa, our operations provide employment for just over 10,300 contractor employees. We support local communities and livelihoods by creating employment and business.

Our specialised, sustainable packaging solutions:
- Preserve and protect
- Convey information
- Offer convenience, and
- Communicate and enhance brand image.

Our customers rely on us for technical, operational and market expertise.

We promote active environmental stewardship of our land.

We recently launched Neoterix™ ST, which creates surfaces that resist bacterial attachment and growth without the use of toxic additives or chemicals.

Our world-leading tree improvement programmes have led to shorter growth times and enhanced fibre gain.
We are inspired by the art of nature and we depend on nature, so we aim to tread more lightly.

Using less water (m³/act)
Globally, we have reduced specific process water extracted by 7.2% over five years.

Increasing energy self-sufficiency by 8.7% over five years.

Reducing greenhouse gas emissions
Globally, over five years we have reduced Specific Scope 1 emissions by 4.6%.
Globally, over five years we have reduced Specific Scope 2 emissions by 7.4%.

5.4% reduction of absolute emissions intensity (Specific Scope 1 and 2) globally over five years.

Our products come from nature and return to nature
Recyclable
Biodegradable
Some of our packaging papers are compostable.

Improving effluent quality
We discharge 35.5% fewer total suspended solids in effluent than we did five years ago and our effluent has 12.9% less chemical oxygen demand.
Generating 45.2% renewable energy generated, of which 73.6% own black liquor.

Responsible harvesting in sustainably managed forests and plantations perpetuates the carbon cycle and is not the same as deforestation: Europe’s net forest area is currently increasing at a rate of approximately 1.6 million hectares per annum. In the United States of America, over the last six decades, the total net forest area has increased by over 3%. In Southern Africa, we plant 1.2 trees for every tree harvested.

Ensuring responsible management of our woodfibre sources

The forests and plantations from which we source woodfibre are actively managed to enhance biodiversity.

Our plantations in Southern Africa are 100% FSC-certified.

73.5% of woodfibre supplied to our mills is certified.

Approximately a third of our land is set aside for conservation purposes.

The forests and plantations from which we source woodfibre help mitigate global warming by acting as carbon sinks.

Carbon is lost back to the atmosphere through respiration and decomposition of organic matter.

Aboveground carbon: stem, branches, foliage.

Carbon is lost to the atmosphere through soil respiration.

Some carbon is transferred from aboveground to belowground carbon (for example root mortality) to the soils.

Belowground carbon: roots, litter.

Atmospheric carbon is fixed by trees and other vegetation through photosynthesis.
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 Sappi we do business with integrity and courage; making smart decisions which we execute with speed. **Our values are underpinned by an unrelenting focus and commitment to safety.**
## Performance to targets

### 2017 achievements

- Ongoing fixed cost savings year-on-year
- Ongoing variable cost savings year-on-year
- Investments in infrastructure and energy projects at core mills
- Maintained target of net debt/EBITDA of <2x
- Reduced net debt by US$86 million to US$1,322 million
- Paid back US$400 million bond with cash reserves
- Strong cash generation
- Advancing the expansion of specialities and packaging paper grades in Europe and North America through conversions
- Acquired Rockwell solutions
- Strong pipeline of biotech business opportunities
- Maintain global leadership position in dissolving wood pulp
- Identified various growth opportunities in dissolving wood pulp and specialties and packaging papers
- Completed the construction of the nanocellulose pilot plant
- Commissioned the construction of a sugars extraction plant and acquired complementary clean-up technology (Xylex)

### 2018 objectives

- Continuously improve cost position
- Continue to maximise global benefits
- Best-in-class production efficiencies
- Maximise production at low-cost mills
- Continuously balance paper supply and demand in all regions
- Continue to convert low contributing graphic capacity to higher profitable specialities and packaging paper grades
- Maintain net debt/EBITDA below 2x
- Continuously improve working capital
- Grow dissolving wood pulp capacity matching customer demand
- Continue to expand and grow specialities and packaging paper grades in all regions targeting 25% of group EBITDA
- Commence commercialisation of biotech opportunities

### Graphs

#### ROCE (%)

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<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Target</th>
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<td>12.4</td>
<td>17.5</td>
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#### Net debt/EBITDA

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<th>2016</th>
<th>2017</th>
<th>Target</th>
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<td>2.8</td>
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#### EBITDA margin (%)

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<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Target</th>
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</thead>
<tbody>
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<td></td>
<td>11.6</td>
<td>14.4</td>
<td>14.8</td>
<td>15.0</td>
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Our performance in 2017

The **successful execution** of our strategy delivered a further **increase in earnings** in 2017.

We invested capital in lowering our cost base at a number of mills during the year and repaid debt in order to lower our future debt service costs. We have also started investing for growth in our specialities and packaging papers business, with investments in both Europe and North America to convert graphic paper machines to specialities and packaging papers grades. The previous investments in dissolving wood pulp and specialities and packaging papers again delivered strong performances in the year.

Our **European business** was able to offset lower average paper prices and significant cost pressure from higher paper pulp and latex prices through increased specialities and packaging papers sales volumes and excellent cost control.

Our **North American business** delivered a steady performance in difficult paper markets characterised by declining paper prices for much of the year and declines in overall paper demand in the United States of America. Gains in coated paper market share, higher dissolving wood pulp pricing, increased specialities and packaging papers sales and the realisation of cost savings enabled the business to improve slightly on last year’s performance.

The **Southern African business** benefited from increased dissolving wood pulp sales volumes and prices, as well as good local demand for packaging papers. These negated the impact of a stronger Rand on the business.
In a world increasingly exposed to the effects of climate change, both energy efficiency and water use are key metrics for us as we seek to maintain a sustainable business.

We continue to investigate and invest in processes that can make us more efficient in this regard.

We regret to have to report one contractor and four own employee (one of which was post year-end) fatalities in our forestry and mill operations respectively. After four years with no fatalities in our pulp and paper mills we have had four in the space of four months in three separate incidents. As a company we do not accept that injuries and accidents are inevitable. We have been, and continue to be, committed to our Project Zero goal of zero injuries.
In 2017, we achieved all of our short-term targets and made significant strides towards our 2020Vision. We now have **greater flexibility to increase investments in strategic growth.**
Operating review
The group delivered a further increase in EBITDA as the growth of the dissolving wood pulp (DWP) and specialities and packaging papers 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 specialities and packaging papers grades and DWP debottlenecking projects in South Africa.

Both net profit for the year and EBITDA excluding special items increased by 6% to US$233 million and US$765 million respectively. The results benefited by approximately US$20 million from an additional accounting week in the first quarter, when compared to the prior year.

We have worked very hard to create a culture which prioritises safety for our own employees and contractors at all times. While there was an improvement in the lost-time injury frequency rate for the group, we deeply regret having to report four own employee fatalities, one of which was post our year-end, and one contractor fatality in our operations. We have brought in outside experts to advise us on where we may further improve in our practices and procedures in order to entrenched the safety culture with the ultimate target of zero harm.

We have built on our commitment to being an ethical corporate citizen with a continued communication and training campaign following our roll-out of the revised Code of Ethics in 2016. The Code of Ethics recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy. We have to ensure we interact ethically and honestly with our staff, customers and other stakeholders. How we do business is never a short-term consideration, but should rather contribute to our long-term sustainability. For our Code to be effective, we have to live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

Good corporate governance is of prime importance to Sappi. As such, we moved to implement the external auditor rotation recommendation of King IV prior to its formal implementation. A process in this regard commenced in 2015. KPMG was selected after a thorough search for a globally capable firm reflecting Sappi’s global footprint. They have just completed their first audit for Sappi. The Sappi board is concerned about the recent allegations and investigations into KPMG and continues to engage with them on this matter. The board had a very serious debate as to whether we should appoint KPMG as our auditors at the AGM on 07 February 2018. We have expressed our concern to the senior management of KPMG around their lack of basic risk controls and potential loss of key staff. We have been assured by KPMG International that they will support the local firm as necessary to alleviate any such risks. As a result we decided to continue with KPMG in the short-term. After the publication of the various enquiries and reports into KPMG we will revisit our decision.

Our European business delivered good profitability once again, with increased sales volumes and excellent cost control offsetting the impact of lower average paper prices and significant increases in paper pulp prices, a key raw material input. The specialities and packaging papers business continued to make good progress, with sales volumes for the year up 15% over 2016. Our focus on the growing higher-margin coated specialities and packaging papers such as release liner, solid bleached board and functional papers categories allows us to leverage our coating expertise and we are working closely with customers to develop new and innovative solutions to their packaging needs. Variable costs declined marginally during the year. This despite a 26% increase in the Euro list price of hardwood paper pulp and a 25% increase in latex costs, both major inputs to our paper business. The ongoing initiatives to reduce usage and boost efficiency were key to managing overall variable costs. Industry demand for coated woodfree and coated mechanical paper was slightly better than expected in 2017, particularly in the export markets where coated woodfree shipments increased year-on-year.

Coated paper pricing in the North American business declined 4% compared to 2016 due to an oversupplied market. However, gains in market share, increased packaging paper sales and reductions in variable costs helped offset the weaker market conditions. The Cloquet pulp mill produced both DWP and paper pulp for internal consumption in 2017 in order to maximise the profitability of the business. As our customers’ demand for DWP increases we expect to slowly move towards full DWP production over the next two years. The casting release paper business remained affected by weaker demand from China.

The South African paper operations delivered enhanced profitability in 2017 notwithstanding the materially stronger Rand/Dollar exchange rate during the year. Increased sales volumes, and higher overall pricing more than offset the below inflation variable cost increases. Local containerboard sales were particularly strong and the growth in the domestic agricultural sector, particularly for fruit exports, is positive for this business.

Global demand for DWP continues to grow, and along with a generally constrained cotton supply this resulted in slightly higher average US Dollar market prices for DWP in 2017, and along with improved sales volumes led to improved profitability for our specialised cellulose business in 2017. Our specialised cellulose business was once again the main contributor to our success, delivering 49% of the group’s EBITDA excluding special items, with strong margins. The stronger Rand/US Dollar lowered margins somewhat in our South African mills, though good cost control helped maintain their low-cost competitive position.
Strategic review
Our strategic 2020Vision was developed during the course of 2015, and while the core focus remains on improving profitability, cash generation and growth, we have turned our attention to more specific growth targets and aspirations. In 2017, we achieved all of our short-term targets and made significant strides towards the 2020Vision. As we have achieved our target of reducing leverage to below two times we have revised the description of our objectives somewhat to reflect the progress we have made.

Our strategy now encompasses the following four main objectives:

- **Achieve cost advantages** – We will work to improve operational and machine efficiencies, maximise procurement benefits and optimise business processes in order to lower costs.
- **Rationalise declining businesses** – Recognising the decreasing demand for graphic papers, we continuously balance paper supply and demand in all regions to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation. Where possible we will convert paper machines to higher margin businesses.
- **Maintain a healthy balance sheet** – This will reduce risk and improve our strategic flexibility.
- **Accelerate growth in higher margin growth segments** – We will invest in expanding our paper packaging grades, enhancing our specialised cellulose portfolio and in the extraction of value from our biorefinery stream.

Initiatives and actions undertaken to support our strategic objectives are outlined below.

Achieve cost advantages
Reducing both variable and fixed costs throughout the business is integral to improving margins and to the sustainability of our operations, particularly in commodity type businesses such as graphic papers, where declining demand places additional pressure on margins and revenues. In 2016 we implemented a groupwide cost reduction project to lower costs through greater emphasis on global procurement, as well as local projects focused on efficiency and raw material usage. Our initial target was to achieve US$100 million in annual savings by 2020. We are pleased to report that in 2017 we achieved more than US$100 million in savings compared to our 2015 base year. These savings have allowed us to offset the impact of rising paper pulp and latex prices and the impact of lower graphic paper prices. In 2018 we are targeting a further US$60 million in savings. During the year we commenced the Somerset Mill woodyard upgrade to improve reliability and enhance efficiency. In 2018 we will invest in the Saiccor woodyard, upgrade PM9 at Gratkorn Mill and will be focusing on a global logistics initiative, all of which will lower costs.

Rationalise declining businesses
Graphic paper demand in Europe and North America continues to be in long-term structural decline. Maintaining operating rates and lowering costs, in order to maximise cash generation, has been our strategy in these markets.

In a difficult North American market, our cost-competitive manufacturing facilities, excellent service to customers and superior paper quality, allowed us to increase market share in 2017.

In Europe we have focused both on cost containment and our go-to-market strategy – Sappi&You – which has enabled us to be a preferred supplier in the coated woodfree grades in particular and has seen us increase market share in a declining market.

In South Africa, we have become the sole local producer of newsprint after the closure of the last competing machine. The transfer of office paper production from Enstra Mill to Stanger Mill post the disposal of Enstra Mill in December 2015 has resulted in a more cost competitive product.

During the year we announced that in North America we will be investing approximately US$165 million to convert PM1 at the Somerset Mill. The capacity of the machine will be expanded and it will have the flexibility to produce both coated graphics paper and paper packaging products. The project is expected to be completed in April 2018 and will replace approximately 150,000tpa of graphic paper with 350,000tpa of specialty grades.

In Europe we will undertake a number of projects that will result in a significant increase in our speciality packaging paper capacity and capability. The Maastricht Mill will be converted to focus predominantly on packaging grades and we will invest at Ehingen and Alfeld to enhance the specialities offerings. Lanaken Mill PM8 will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market. In total these European projects will cost approximately US$140 million over a three-year period and will result in the replacement of 200,000tpa of graphic paper with a similar volume of specialty packaging paper.

Maintain a healthy balance sheet
A healthy balance sheet is an important prerequisite in order for Sappi to make investments in higher-margin businesses. The continued improvement in our operational performance enabled us to reduce debt further and our net debt/EBITDA leverage sooner than the targets we had set ourselves. As a result we repaid US$400 million of debt from cash reserves during the year, and our future net finance costs are expected to be in the range of US$60 million to US$70 million/annum. This is a significant reduction from the US$182 million spent in 2015.

At a group level we are focused on optimising our working capital management, containing capital expenditure to US$450 million and generating sufficient free cash to pay the annual dividend, while keeping the net debt/EBITDA ratio below two times leverage.

Accelerate growth in higher margin growth segments
With debt and leverage at levels that provide us with the necessary comfort and flexibility we started to accelerate investments in higher margin products and businesses. As
mentioned above, we are investing more than US$300 million to convert graphic paper capacity to specialities and packaging papers and we have also completed the acquisition of Rockwell Solutions, a firm specialising in innovative barrier packaging solutions. Concerns about climate change, recycling and the environment are driving encouraging growth in paper-based packaging and we continue to look for more opportunities to expand our product offering in complementary segments of the market.

In 2017 we have initiated debottlenecking projects at both Saiccor and Ngodwana Mills with the aim to boost production by 50,000tpa at Ngodwana Mill and 10,000tpa at Saiccor Mill. Further significant expansion opportunities are also apparent in our specialised cellulose business, with robust demand growth expected from our major customers and from the DWP market in general. We intend to announce details of our plans in this regard during the first half of 2018.

Our new business development team, now named Sappi Biotech, has had a busy and successful year. During the year we commissioned a sugar extraction pilot plant at Ngodwana Mill, and produced the first batch of cellulose nanofibrils (CNF) and cellulose microfibrils (CMF) at our pilot plant at Maastricht Mill. We also acquired technology from Plaxica, a firm based in the United Kingdom which specialises in sugar extraction from waste streams. Within the next four years we believe that Sappi Biotech could contribute as much as 10% of the group’s EBITDA.

Looking forward
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 market 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 market 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 margins will be 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 specialities and packaging papers 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 DWP and specialities and packaging papers. 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 2017. 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.

Appreciation
Every business depends on a wide and varied group of stakeholders that contribute in many ways to our development and performance. Our interactions with these stakeholders, their ideas, suggestions and support guides us and we thank them for their contribution.

We are grateful for the support of our customers in all of our different markets, with whom we continue to work together, providing relevant products and services which provide sustainable value.

Our employees have supported the strategic initiatives of the group, and we thank them for this support and enacting our One Sappi vision. We also thank them for embracing the values and ethics that are vital to good corporate citizenship.

Our gratitude goes to the board for their continued commitment to the group, their valuable insights and encouragement and for holding us to the highest ethical standards.

We welcomed Dr Boni Mehlomakulu to the board as an independent non-executive director and as a member of the Social, Ethics, Transformation and Sustainability Committee, with effect from 01 March 2017.

In November we announced the retirement of Dr Rudolf Thummer, independent non-executive director, with effect from 31 December 2017, having reached mandatory retirement age. Dr Thummer has been a valued colleague for more than seven years having been appointed to the board in February 2010, and was appointed to the Social, Ethics, Transformation and Sustainability Committee in February 2012. We would like to thank him for the significant contribution which he has made to the board since his appointment.

In conclusion, we value the support which our shareholders have provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the AGM on 07 February 2018.
Each of our regions improved its operating performance and cash generation exceeded our own goals, as a result, we now have greater flexibility to increase investments in strategic growth.

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

EBITDA increased by 6% to US$785 million

Dividend declared 15 US cents

Net debt declined to US$1,322 million
Does the growth in Sappi’s specialities and packaging papers sales volumes this year indicate that your investment in this market segment is justified?

Sales growth in this segment, both in Europe and North America, has been above the overall market growth rates, and we have reached the limit of our current specialities and packaging papers capacity. The investments announced in February 2017 to convert graphic paper machines at our Maastricht and Somerset Mills are well underway and are expected to be complete in the second and third fiscal quarters respectively. These conversions will boost our specialities and packaging papers capacity by approximately 550,000tpa.

Our expertise in paper-based coatings, investment in R&D and our commitment to develop product solutions alongside some of the world’s leading fast moving consumer goods (FMCG) companies have all contributed to our success in the past few years. In the past year we also announced the acquisition of Rockwell Solutions, a firm specialising in film coatings for the packaging industry and which has recently developed a non-solvent-based barrier for paper applications. Sappi has a growing reputation for offering premium speciality papers and boards for the packaging industry, but market requirements are changing continuously and brand owners are aiming for more sustainable solutions without compromising functionality. Paper-based barrier solutions have gained more focus as a sustainable alternative to film/foil laminate-based flexible packaging materials. This acquisition will give Sappi valuable insight into film products we will compete with, product performance experience and a much deeper market insight. Our focus is to introduce paper-based packaging solutions to brand owners who are used to working with plastic packaging solutions. Rockwell has been working on recyclable and compostable barrier films, making them a complementary solution to Sappi’s paper-based barrier solutions.

Post the reporting period Sappi announced an important investment due to be finalised in calendar Q1 2018. More details can be found at www.sappi.com. Sappi agreed to acquire the specialities and packaging papers business of Cham Paper Group Holding AG for CHF146.5 million. The acquisition will add 160,000tpa of specialty paper to our capacity. The transaction will increase profitability and unlock the significant growth and innovation potential in this market.

 Demand for dissolving wood pulp (DWP) continues to grow above your stated market expectations – what expansion plans do you have in your specialised cellulose business?

Demand for DWP has indeed exceeded our longer-term 4% to 5% growth per annum expectation, having been closer to 10% per annum on average. Both cotton, which competes with viscose, and cotton linter pulp, an alternative feedstock to the viscose staple fibre (VSF) industry, experienced either diminishing or, at most, stable supply over the past few years facilitating increased demand for VSF and consequently DWP. Our VSF customers have increased demand during this time, and have additional expansion plans over the next five years or more. Currently we produce 1.2 million tons per annum of DWP, with production capacity of 1.4 million tons per annum. We currently produce 1.2 million tons per annum of DWP, with production capacity of 1.4 million tons per annum. We currently operate our Cloquet Mill as a swing mill producing both paper pulp for internal use and DWP. Based on expectations of overall market growth, we believe that we need to be producing at least 1.7 million tons per annum by 2020. Fully utilising our current capacity, and debottlenecking our existing plants will enable us to produce an additional 200,000tpa within the 2020 timeframe. In order to meet the further 300,000tpa of demand we have been looking for further investment opportunities, both internal and external to our current operations. We hope to be able to detail these plans during the first half of 2018.
Q: Did the rapid and sustained rise in paper pulp prices surprise you in 2017? What can you do to offset this cost pressure?

A: Both the magnitude and duration of the rise in paper pulp prices, particularly hardwood paper pulp, surprised us. Like many in the industry we believed that new supply would outpace demand growth in 2017. This proved to be wrong due to a number of factors. Firstly, demand was stronger than expected, partly as a result of a decision by Chinese authorities to curtail the import of low-quality waste paper. This paper is used in many sectors of the paper market that traditionally rely on recycled paper. Secondly, supply did not grow as fast as predicted due to the late start-up of some new pulp plants and operating problems at some other facilities. For the moment the hardwood pulp market remains tightly supplied and prices are expected to continue to rise into the new year. Over the past year we have been successful in offsetting much of the increased prices through various cost containment initiatives, usage efficiency and by becoming more flexible in our product makeup. More recently, we have also been successful in raising paper prices in both Europe and North America, which clearly helps minimise the impact. Lastly, higher paper pulp prices support higher DWP prices as swing producers who can switch between paper pulp and DWP would be incentivised to produce paper pulp if the price premium of DWP over paper pulp narrowed.

Q: Sappi’s capital expenditure has increased over the past two years, and you indicated that 2018 will see a further increase. Should investors be concerned about leverage and dividends, and what returns do you expect on major expansionary projects?

A: We remain committed to maintaining our leverage to below two times net debt to EBITDA. Our capital expenditure plans take into account this leverage cap, as well as our intention to pay a reliable dividend at a long-term average cover ratio of three times. We focus on capital projects that achieve our strategic objectives and, as a minimum, beat our cost of capital. Typically, however, expansionary projects should earn a return on capital employed of at least 12%.
What are the major environmental and sustainability trends that are shaping your strategy and approach to risk?

There are two major trends shaping our strategic thinking as well as our understanding of risks that may impact our business. Firstly, consumers, brand owners and governments are becoming more aware of the impact packaging has on the environment. The advantage paper-based packaging has over other competing materials such as plastics and foils is the renewable nature of the raw material and, in a well-designed product, the relative ease with which the packaging can be recycled or even composted in some circumstances. These factors are driving the development of paper-based alternatives to many common packaging solutions. As mentioned above, the Rockwell acquisition was aimed squarely at addressing this opportunity. Secondly, the textile industry, from raw material supplier through to final retailer or brand owner are becoming increasingly sensitive to the environmental and social impact of the various textile choices available to them. These include impact of water sources and quality, emissions, energy intensity, impact on biodiversity and working conditions. To address this effectively, NGOs, investors and responsible growers and manufacturers are conducting lifecycle assessments and insisting on greater supply chain transparency. While we believe that the viscose textile value chain has a lot of positive benefits compared to many other textiles, there are still areas that can be improved on, and aligning ourselves with more responsible value chains and constantly improving our own environmental performance enable us to grow and reduce risk.
Where we operate

Sappi is a global diversified wood fibre company focused on providing dissolving wood pulp, specialities and packaging papers, graphic/printing papers, as well as biomaterials and biochemicals 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 specialities and packaging papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionary packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. Our market-leading range of coated and uncoated graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail, newspapers and many other print applications.

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

Sappi Trading
Sappi Trading operates a network for the sale and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Trading also coordinates our shipping and logistical functions for exports from these regions.

Sales offices
Bogotá, Hong Kong, Johannesburg, Mexico City, Nairobi, São Paulo, Singapore, Shanghai, Sydney, Vienna

Logistics offices
Durban, New York

Europe

<table>
<thead>
<tr>
<th>Mills</th>
<th>Products produced</th>
<th>Capacity(^{1}) (’000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfeld Mill</td>
<td>Bleached chemical pulp for own consumption</td>
<td>Paper 275, Pulp 120</td>
</tr>
<tr>
<td>Ehingen Mill</td>
<td>Bleached chemical pulp for own consumption and market pulp</td>
<td>Paper 280, Pulp 140</td>
</tr>
<tr>
<td>Gratkorn Mill</td>
<td>Bleached chemical pulp for own consumption</td>
<td>Paper 980, Pulp 250</td>
</tr>
<tr>
<td>Kirkniemi Mill</td>
<td>Bleached mechanical pulp for own consumption</td>
<td>Paper 750, Pulp 300</td>
</tr>
<tr>
<td>Lanaken Mill</td>
<td>Bleached chemical mechanical pulp for own consumption</td>
<td>Paper 530, Pulp 165</td>
</tr>
<tr>
<td>Maastricht Mill</td>
<td>Coated woodfree paper</td>
<td>Paper 280</td>
</tr>
<tr>
<td>Stockstadt Mill</td>
<td>Bleached chemical pulp for own consumption and market pulp</td>
<td>Paper 445</td>
</tr>
<tr>
<td>Total Sappi Europe</td>
<td></td>
<td>Paper 3,540, Pulp 1,120</td>
</tr>
</tbody>
</table>

6 paper mills
1 speciality paper mill
18 sales offices
5,201 employees

Produces 48% of group sales
Southern Africa

1 paper mill
1 speciality paper mill
1 paper and specialised cellulose mill
6 sales offices
2,079 employees

KwaZulu-Natal
Plantations (pulpwood and sawlogs)**
Sawmills

Mpumalanga
Plantations (pulpwood and sawlogs)**

Sawn timber (m³)

221
258
11,017
16,380
102

Total Sappi Forests
479
27,397
102

Mills

Capacity(1) ('000 ha)

Plantations

Products produced

Ha

Standing tons

KwaZulu-Natal

Mpumalanga

Sawmills

Sawmills

Total Sappi Forests

Sappi ReFibre***

Waste paper collection and recycling for own consumption

220
110
240
140
110
135
195
140
685
665
210
800
1,010
685
1,675

North America

1 paper mill
1 speciality paper mill
1 paper and specialised cellulose mill
6 sales offices
2,079 employees

525
790
40

Total Sappi Forests
479,000ha

Group overview

1 paper mill
1 speciality paper mill
1 paper and specialised cellulose mill
6 sales offices
2,079 employees

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Sawmills

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Plantations (pulpwood and sawlogs)**

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16,380
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Total Sappi Forests
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Mills

Products produced

Paper

Pulp

Cloquet Mill
Dissolving wood pulp
Coated woodfree paper
340

Somerset Mill
Bleached chemical pulp for own consumption and market pulp
Coated woodfree paper
525
790

Westbrook Mill
Coated specialities paper
40

Total Sappi Forests
1,170
865

(1) Capacity at maximum continuous run rate.
* Approximately 140,000ha of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.
** Plantations include owned and leased areas as well as projects.
*** Sappi ReFibre collects waste paper in the South African market which is used to produce packaging papers.

Produces 26% of group sales

North America

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1 speciality paper mill
1 paper and specialised cellulose mill
6 sales offices
2,079 employees

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479,000ha

Group overview

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Sawmills

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Produces 26% of group sales
Product review

A total global DWP capacity of 1.4 million tons

We currently supply 17% of global demand from our three mills located in Southern Africa and North America.

A truly sustainable raw material, DWP is noted for its versatility. We’re innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Coated and uncoated papers designed to get the best results for you and your customers.

Our range of coated and uncoated graphic printing papers cover varying visual and tactile qualities to ensure that whether you’re looking for a high-end product with extra wow factor, a comprehensive solution that caters to all of your campaign’s requirements, or a paper that helps you make a distribution savings then we have the solutions.
To reshape Sappi’s future, our 2020Vision draws on the power of One Sappi as we expand beyond pulp and paper to unlock and commercialise the potential of woodfibre-derived bioproducts.

As a longstanding leader and innovator in our industry, we deliver customised solutions for your specific needs. We don’t just supply materials, we deliver sustainable and innovative solutions. Whether you are a brand owner, converter, printer or designer, our specialities and packaging papers give you the advantage you need.
Dissolving wood pulp

Dissolving wood pulp (DWP) is a highly purified form of cellulose extracted from wood through specialised cellulose chemistry. DWP is the primary input into the manufacture of viscose staple fibre (VSF) which is a natural substitute for cotton and polyester in the textile industry.

Sappi produces DWP in Southern Africa and North America. Sappi is the world's largest manufacturer of DWP and exports almost all of the production from our Saiccor and Ngodwana Mills in Southern Africa and Cloquet Mill in the United States. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives. With a total global DWP capacity of over 1.3 million tons, we currently supply 17% of global demand from our three mills. A truly sustainable raw material, DWP is noted for its versatility. We are innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Demand for DWP used in textiles, particularly for viscose, is both the largest market and fastest growing, while end markets and demand growth for other, more highly purified forms of cellulose can be characterised as smaller, and with slower growth rates. Based on the growth rate in the overall textile market (driven by factors such as population growth and wealth effects) and the move towards more comfortable, environmentally friendly natural fibres, we expect long-term growth of 4% to 5% per annum for DWP.

In 2013, Sappi converted facilities in both North America and Southern Africa from paper grade pulp to DWP to capture the growth in this market and we have plans to invest further in the forthcoming years. We are currently debottlenecking our Saiccor, Ngodwana and Cloquet Mills, adding 90,000 tons by the end of 2019, and we maintain the flexibility to increase our production in North America by utilising swing capacity at our Cloquet Mill, which will add 100,000 tons of DWP production. Over and above these internal actions, we require 300,000tpa of additional capacity to meet our growing customer needs. We are making good progress in identifying how best to serve our customers.

Market prices for DWP are derived from several supply and demand factors. Swing capacity – mills that can shift production between paper grade pulps, fluff pulps, and DWP – can and do optimise their facilities largely depending on the price differential of the markets they choose to serve. DWP is typically priced at a premium to paper grade pulps due to the lower yield per ton of wood and typically lower production volumes. When the price differential becomes sufficiently wide, swing producers may elect to produce DWP, the reverse also applies. The availability of cotton linter pulp, a competing source of cellulose for VSF production, also plays a role in determining the DWP price. In the last six years almost 50% of Chinese cotton linter pulp capacity closed due to the enforcement of more stringent environmental standards. Lastly, our customers – VSF producers – and the prices they realise on their products are governed by their own supply/demand dynamics and will influence the DWP market price.
Our markets in 2017 and outlook for 2018

Viscose production grew 11% in China in the first nine months of 2017 relative to the same period last year as producers added capacity. Consequently, demand for DWP grew at a similar rate. Despite this rapid growth in demand and production, prices for DWP declined from their highs in November 2016 of US$990/ton to approximately US$830/ton in June 2017 as a result of a slowdown in VSF production and a rise in DWP inventories. Subsequently, viscose inventories declined to historic lows, and prices for DWP increased for the balance of the fiscal year and are currently at US$935/ton in November 2017.

Sales volumes in fiscal 2016 were hampered by drought conditions in Southern Africa and an extended shut at our Ngodwana Mill. Production and sales volumes grew 6% in 2017. During the year, we began debottlenecking projects at our Ngodwana and Saiccor Mills in Southern Africa. These projects are expected to add approximately 60,000tpa to our current capacity. We anticipate these projects to begin making incremental tonnage in the latter half of fiscal 2018. At Cloquet Mill, we aim to optimise profitability by utilising our swing capability depending on the price differential between DWP versus the price of buying market pulp for our two paper machines. We will also be adding 30,000 tons at the Cloquet Mill through debottlecking in a project that will be completed in 2019.

We believe spot prices for DWP will continue to rise in the near term, mostly due to swing capacity moving away from DWP and toward hardwood paper pulp. Hardwood paper pulp prices have been on a clear upward trend through 2017 due to the closure of non-competitive and environmentally unfriendly paper pulp capacity in China. Chinese paper producers are also facing an import shortage on recovered paper forcing them more toward virgin fibre for paper production. Rising hardwood paper pulp prices should cause market prices for DWP to follow. We anticipate cotton linter pulp availability to continue to decline and, as such, demand for DWP will continue to grow.

More recently, we have seen a push for viscose manufacturers to source their DWP from sustainable forests – forests that are PEFC, FSC and/or SFI certified. Sappi adheres to strict sustainability guidelines put forth by these organisations to ensure our products not only meet, but exceed current environmental certification standards.

We expect demand to continue to grow, and we strive to serve our customers with unmatched quality, consistency and scale. The long-term market fundamentals for dissolving wood pulp are very attractive. Our competitive and geographic positioning provides us with the platform to grow the business further.
Specialities and packaging papers

Specialities and packaging paper products are an exciting growth area in Sappi. They offer customers an opportunity to add value to their products in niche markets where requirements are more specific and tailor-made.

Converters and end-use customers choose Sappi’s coated and uncoated speciality paper, such as paper used in flexible packaging, for food and luxury packaging for consumer goods and aspirational products, as well as packaging paper to protect products. Demand for these papers is growing as a result of the superior print quality and versatility the paper offers compared to non-paper options. Converters and customers also appreciate paper’s haptic potential, further extending the marketing message of a product’s campaign and creating an all-round sensory experience. Specialities and packaging papers can be customised and personalised with printing (both digital and litho), varnishing, foiling, embossing and folding. Environmental concerns, governmental regulations and customer demands are all contributing to make this segment an exciting growth part of Sappi’s business.

In FY2017, 18% of Sappi’s sales were specialities and packaging papers.

Sappi offers products and solutions in many different segments including:

- **Flexible packaging** with coated and uncoated paper for food and non-food applications, such as sachets, pouches and wrappers.
- **Label papers** for pressure sensitive and wet adhesive applications.
- **Functional papers** that offer highly efficient paper-based solutions with integrated functionality, like paper with barriers against mineral oil residuals, oxygen, water vapour and grease as well as sealing properties.
- **Containerboard**, including liner and fluting, for corrugated boxes. Sappi’s products are found in applications like consumer packaging, shelf ready packaging and transport packaging for agricultural and industrial uses.
- **Paperboard**, such as solid bleached board and folding box board for luxury packaging with more graphic applications. Packaging for cosmetic, perfume, confectionery and premium beverages use our products.
- **Release liner** with silicon base papers for self-adhesive applications, such as graphic art applications with outdoor advertisement and adhesive tapes and office material.
Technical papers for interleaving and thermal coating, for example, tickets for boarding pass and concert/stadium tickets.

Casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. It is used in the manufacture of synthetic leather and decorative laminate products, creating textures that make designs come to life.

Tissue paper used for toilet tissue, kitchen towels, serviettes and medical and industrial wipes.

Global market size
One of our strategic pillars is to invest in adjacent areas with strong potential for growth.

Four years ago, we invested €60 million to rebuild paper machine number two at our Alfeld Mill, converting the coated woodfree paper machine to coated specialities in order to support growth in this market. Four years later, we find ourselves capacity constrained at Alfeld Mill, with investments underway at our Ehingen and Masstricht Mills to convert printing paper capacity to specialities and packaging paper in order to match our capacity with demand in both markets. Specialities and packaging papers are also made in North America at our Somerset, Westbrook and Cloquet Mills and at Tugela and Ngodwana Mills in Southern Africa.

Sappi enjoys clear competitive advantages in this sector. We are experts at coating surfaces. We have a deep understanding of what happens to a substrate when a coating is applied, and we have experience in specialised chemistry to modify coatings to match a wide variety of customer preferences. We manufacture from a suite of machines from Europe, North America and Southern Africa, ensuring scale-based efficiencies and security of production, lower production costs, and passing savings on to our customers.

Sappi is geared to serve diverse customer markets with smart sustainable solutions for light and heavyweight packaging that can be recycled and is biodegradable.

Our markets in 2017 and outlook for 2018
Demand for Sappi’s wide range of products continues to grow in the specialities and packaging papers market, reflecting the increasing needs from customers for more sustainable and environmentally-friendly packaging solutions. We estimate global growth across the spectrum of our product focus is growing at approximately 3% per year. However, in fiscal 2017, demand for our products grew 15% relative to last year as we grew market share and developed new products to meet changing market demands. Average realised prices were flat relative to last year for the European portion of this business due to the translation impact of a stronger Euro on export sales. EBITDA margins were better than those achieved last year due to higher volumes and lower costs.

Our specialities and packaging business in North America also experienced good growth this year. Demand for our coated one-side label paper grew from a small base and we gained market share during the year. Margins grew relative to last year from better volumes and lower costs, whereas realised prices were flat. In 2017, we began work at our Somerset Mill to transition PM1 to make specialities and packaging papers. During the next three years, we expect to reduce coated woodfree sales by approximately 150,000tpa and to increase specialities and packaging paper sales by 350,000tpa.

In the containerboard market in Southern Africa, Sappi largely serves the agricultural sector with cartonboard to protect fresh produce as it is exported around the world. Volumes were 1% better than last year and average pricing was 9% higher than last year. As this market is expected to grow by 4% to 5% per annum going forward, we have plans to grow our capacity in order to meet that demand.

We have witnessed a growing need for more sustainable and environmentally-friendly packaging solutions from a wide variety of industries and sectors forced to review the effects that their packaging materials have on the environment. When a producer reviews the packaging component of its entire product, it generally regards the packaging aspect as a high-risk/low-cost part of its operation. With this newfound spotlight on packaging of products, and the role packaging paper can play, not only in regard to environmental standards, but in the other functions packaging papers can play – from moisture controls, barrier papers, heat-sealing, or even grease resistant barriers – we will be an innovative and trusted supplier, working with customers to find the solutions they require.
Graphic papers

Publishers, advertising agencies, designers and corporate end-users who want to make an impact with their brands know paper is an integral part of the marketing and now science tells us why.

Neuroscientists find that people absorb content through touch as well as sight, and touch influences our decisions powerfully at a subconscious level. The physicality of ink on paper elicits human emotions in ways that computer screens do not, because paper’s tactile quality engages the brain differently. Online, our eyes skim and scan information in a distinctive pattern. On paper, the pattern is much different. As we read, our fingers infuse the experience with touch-information that subtly shapes our perception of the content. On paper, we read more deeply, more responsively, and transfer more of what we read to long-term memory. Studies of direct mail, for example, show print ads generate more emotional response than digital ads and are remembered longer, and specific tactile qualities like warmth, weight, and texture influence cognitive response in ways that lie just beneath our conscious recognition. This use of paper and print is important to marketers who want their brands noticed, and remembered.

Our markets in 2017 and outlook for 2018

Average EBITDA margins were flat relative to last year. Lower average selling prices and rising paper pulp and latex costs offset gains from 2% growth in volume. During the FY2017, we announced that we would begin investing in our specialities and packaging papers businesses in Europe and North America. In Europe, we will collectively spend approximately US$140m over three years at our Maastricht, Ehingen, Alfeld and Lanaken mills to enable us to make approximately 200,000tpa of solid bleached board, folding boxboard and white top liner, as well as increase the flexibility of our assets to serve the market for our customary printing papers. In North America, we plan to spend approximately US$165m at our Somerset Mill to allow for the production of SBS board on PM1. Both these projects are aligned to our strategy of rationalising declining businesses and accelerating growth in high margin products.

Our outlook for 2018 is for average realised prices to be higher than that of FY2017. We announced and implemented price increases in both Europe and North America in the latter half of fiscal 2017 and more have been announced for January 2018. Mill closures from two of our North American competitors and our own conversion of PM1 at Somerset Mill, which will take place in mid-2018, will keep utilisation rates high. Increased paper pulp prices, a key input cost and good export demand are driving coated woodfree prices higher in Europe. In both Europe and North America, cost control remains a primary focus.
In FY2017, 62% of Sappi’s sales were in four different grades of graphic papers discussed below:

**Coated woodfree paper**

**Share of sales**
- **46%**

Printers and publishers use coated woodfree paper for a variety of marketing promotions including brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. Coated paper is brighter, smoother and tends to have greater opacity than uncoated grades. In FY2017, 46% of Sappi’s sales were in this segment, typically through large paper merchants.

**Demand trends:** Advertising spend follows consumer behaviour and as consumers are spending more time using digital and electronic platforms, advertisers are shifting their budgets away from printed materials. Although global demand for coated woodfree paper is expected to decline 1% to 2% year-on-year, we do, however, believe that there will always be a place for quality coated woodfree paper in the advertising mix.

**Sales volumes:** Sappi’s sales of coated woodfree paper were 1% less than last year. Sales volumes rose approximately 3% in 2017, while global demand fell by approximately 1.6%.

**Coated mechanical paper**

**Share of sales**
- **10%**

Coated mechanical paper is primarily used in magazines, catalogues and other advertising materials. In FY2017, 10% of Sappi’s sales constituted coated mechanical paper. Customers for this paper are typically large merchants, large printers and publishers of weekly or monthly magazine titles.

**Demand trends:** Demand for coated mechanical paper is more closely linked to that of demand for magazines. As readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease, demand for this paper is forecast to decline more rapidly than for coated woodfree paper.

**Sales volumes:** Sappi’s sales of coated mechanical paper were 8% lower than last year. Sales volumes were approximately 4% lower than fiscal 2016, while the global market contracted by approximately 4.5%.

**Uncoated woodfree paper**

**Share of sales**
- **5%**

Uncoated woodfree paper is used in letterhead, envelopes, business stationery, photocopy paper, cut-size, preprint, and office paper, with certain brands used for books, brochures and magazines. Uncoated paper absorbs ink faster, which means the text or images are not as crisp. In FY2017, 5% of Sappi’s sales were made up of uncoated woodfree paper. Typically large paper merchants are our main customers in this sector.

**Demand trends:** Demand for uncoated woodfree paper is expected to remain flat over the next several years. Demand is expected to fall in mature markets, where adoptions of paperless solutions are expected to continue. Much of that decline is expected to be offset by growth in emerging economies.

**Sales volumes:** The uncoated woodfree market was relatively stable this financial year, with a modest decline of 0.5%.

**Newsprint paper**

**Share of sales**
- **1%**

Newsprint, 1% of Sappi’s sales, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers.

**Demand trends:** Demand for newsprint is highly dependent on newspaper circulation and retail advertising. Though demand for newsprint continues to decline at a global level, our newsprint volumes were 10% higher in fiscal 2017 relative to last year, due to a capacity closure by a competitor in the local South African market.