

Q3 2011  
Results Presentation

4 Aug 2011

# 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, which do not relate to historical matters, identify forward-looking statements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to:

- the impact of the global economic downturn,
- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing),
- adverse changes in the markets for the group's products,
- consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed,
- changing regulatory requirements, possible early termination of alternative fuel tax credits, unanticipated production disruptions (including as a result of planned or unexpected power outages), economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions 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.

## Regulation G disclosure

Certain non-GAAP financial information is contained in this presentation that management believe may be useful in comparing the company's operating results from period to period. Reconciliation's of certain of the non-GAAP measures to the corresponding GAAP measures can be found in the quarterly results booklet for the relevant period. These booklets are located in the 'Investor Info' section of [www.sappi.com](http://www.sappi.com).



# Summary

## 3Q 2011 Summary

- Operating profit excluding special items US \$60m; Q3 2010 US\$75m
- General economic uncertainty, particularly in Europe
- North American and chemical cellulose businesses continue to perform strongly
- Planned annual maintenance shuts at major pulp mills
- High input costs only partly offset by higher prices
- Loss per share excluding special items and once off debt restructuring costs 4 US cents; Q3 2010 EPS excluding special items 2 US cents

## Group Financial Summary

### Key figures: (US\$ million)

	Q3 10	Q3 11	YoY	YTD 10	YTD 11	YoY
Sales volume ('000)	1 982	1 911	↓	5 799	5 920	↑
Sales	1 602	1 802	↑	4 798	5 499	↑
EBITDA ex special items	176	164	↓	525	638	↑
Operating Profit ex special items	75	60	↓	210	324	↑
Adjusted EPS (US cents)	2	(4)	↓	-	15	↑

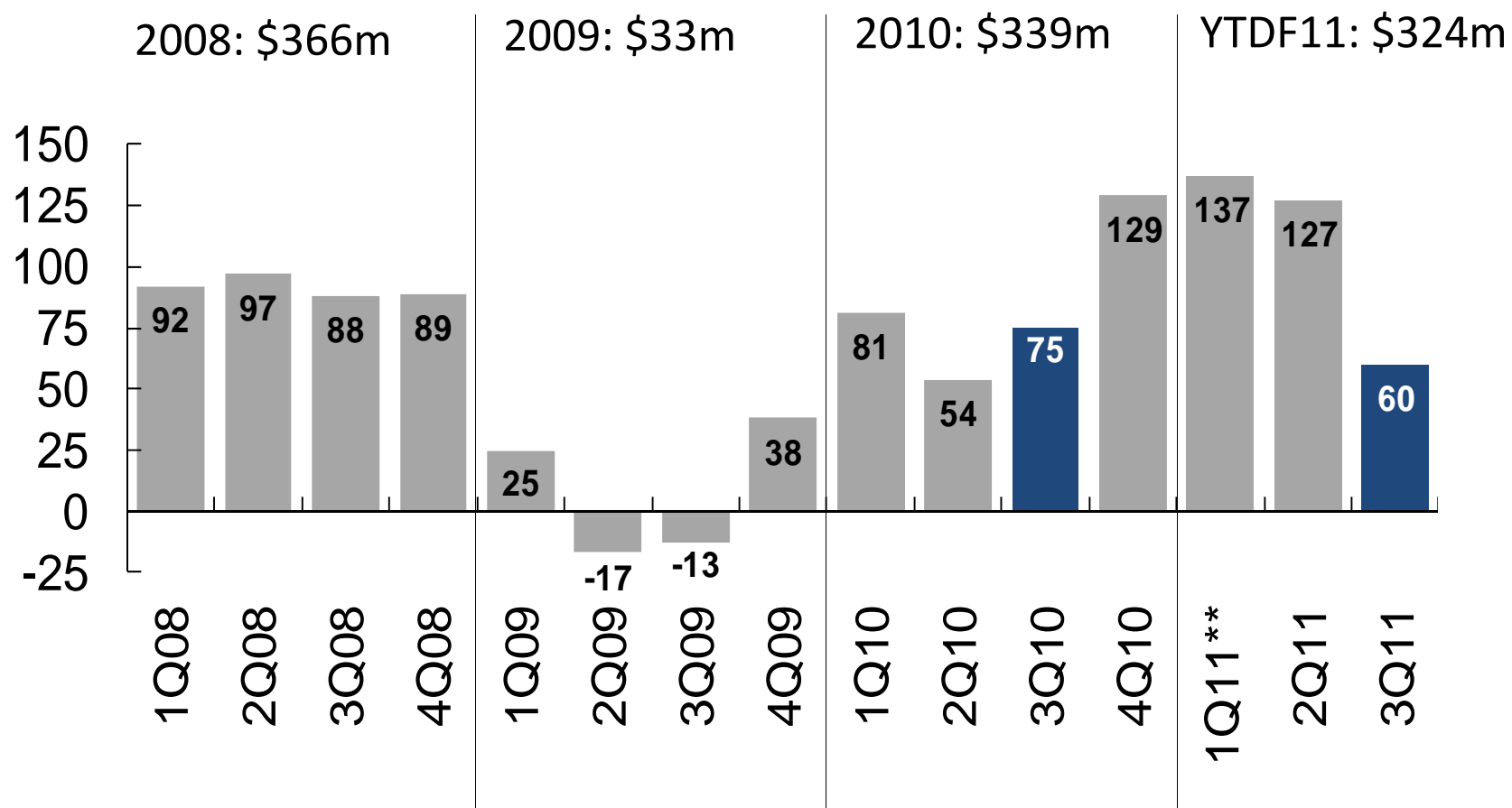
### Key ratios: (%)

Op. profit ex-items to sales	4.7	3.3	↓	4.4	5.9	↑
Op. profit ex-items to capital employed	7.3	5.5	↓	6.6	10.2	↑
Net Debt to total capitalisation	57.6	56.8	↓	57.6	56.8	↓

Refer to the supplementary information in this presentation for a reconciliation of operating profit excluding special items to reported operating profit and page 16 in our Q3 2011 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition and list of special items.

# Operating Profit excluding special items \*

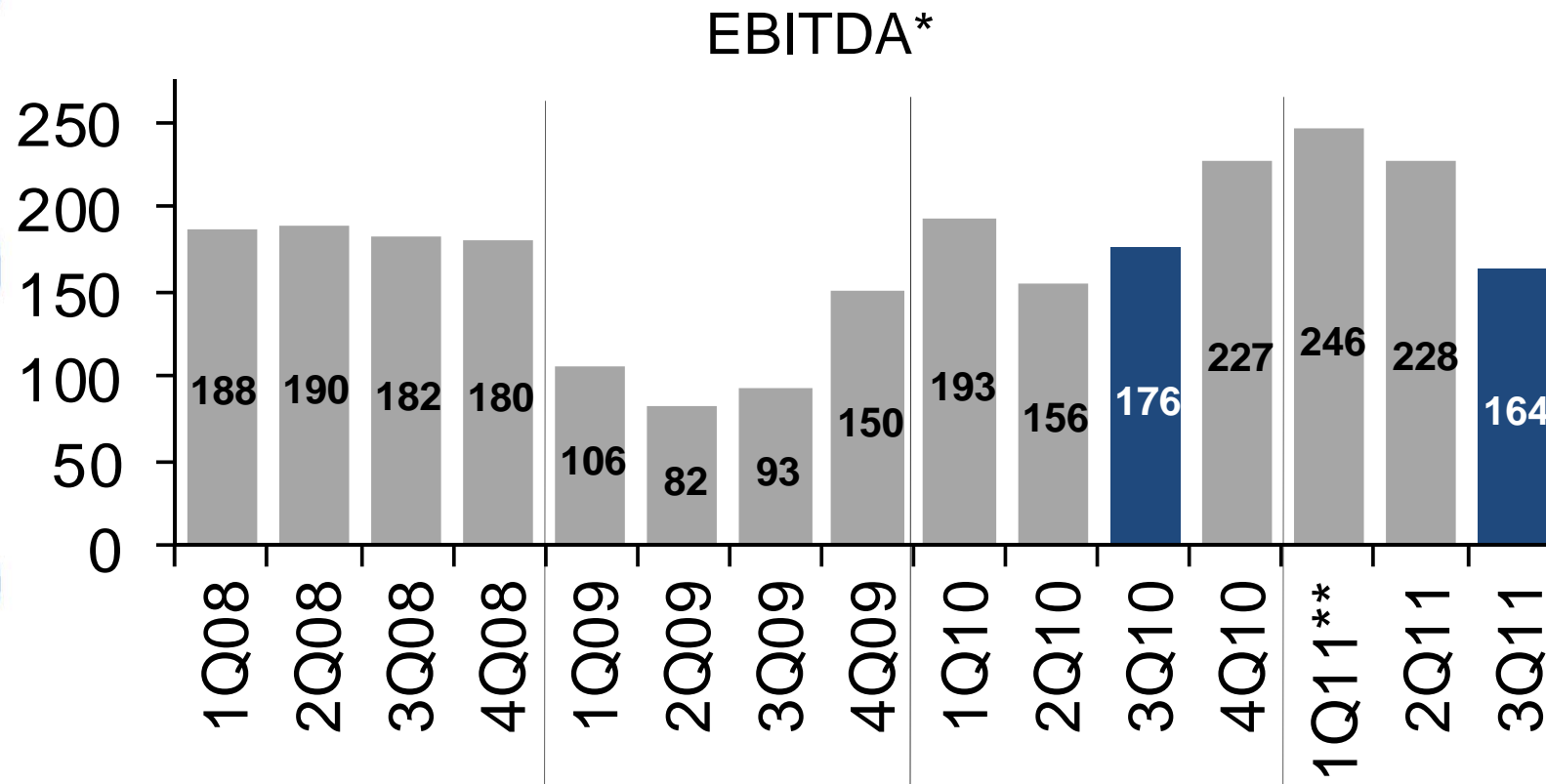
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\*\*Q1 2011 included extra week

\*Refer to the supplementary information in this presentation for a reconciliation to reported operating profit and page 16 in our Q3 2011 results booklet for a definition of special items.

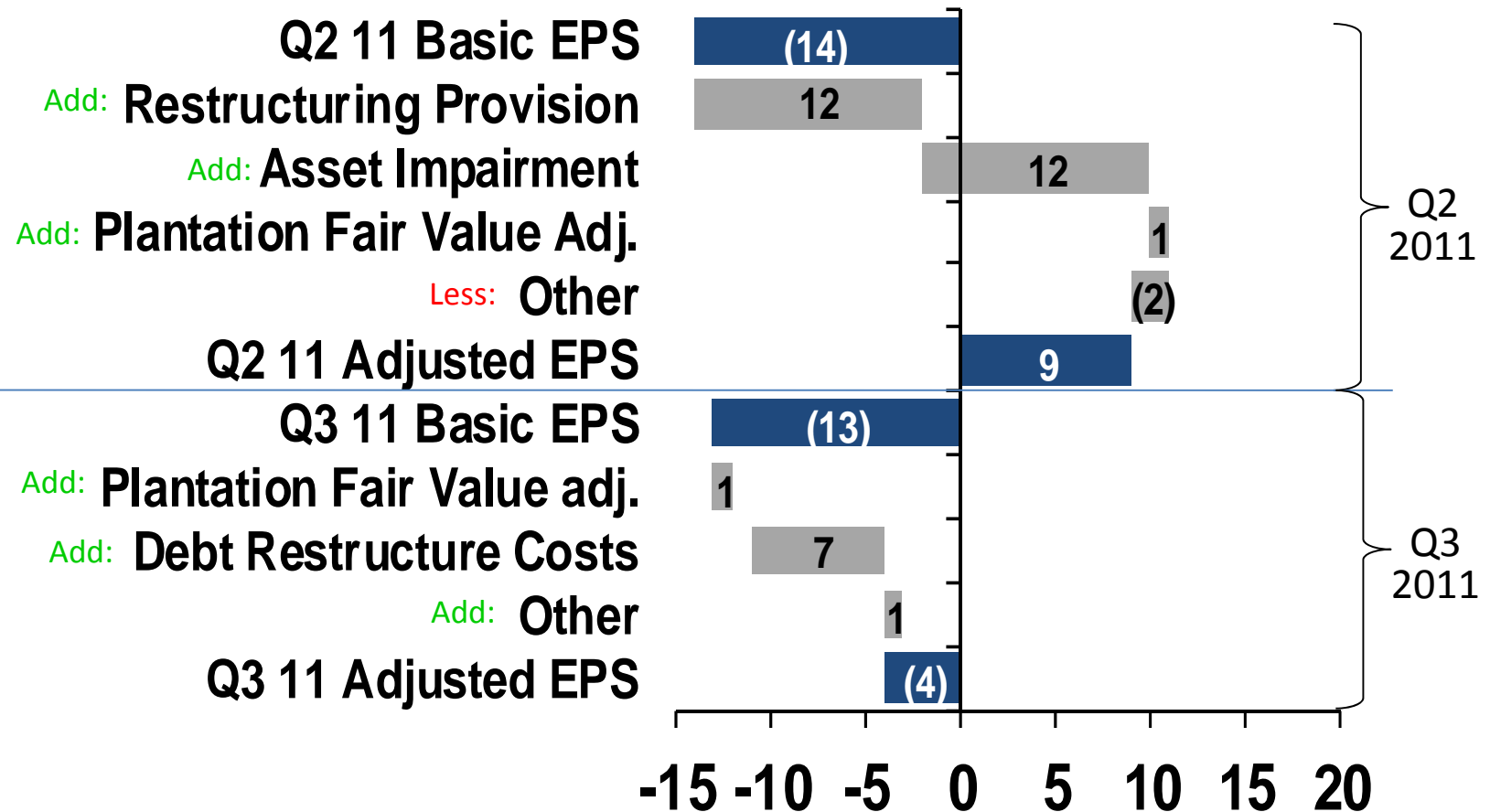
## EBITDA Trend



\*\*Q1 2011 included extra week

\*EBITDA as shown above excludes special items. Refer to page 16 in our Q3 2011 results announcement booklet for a definition of special items.

## Earnings Versus Prior Quarter

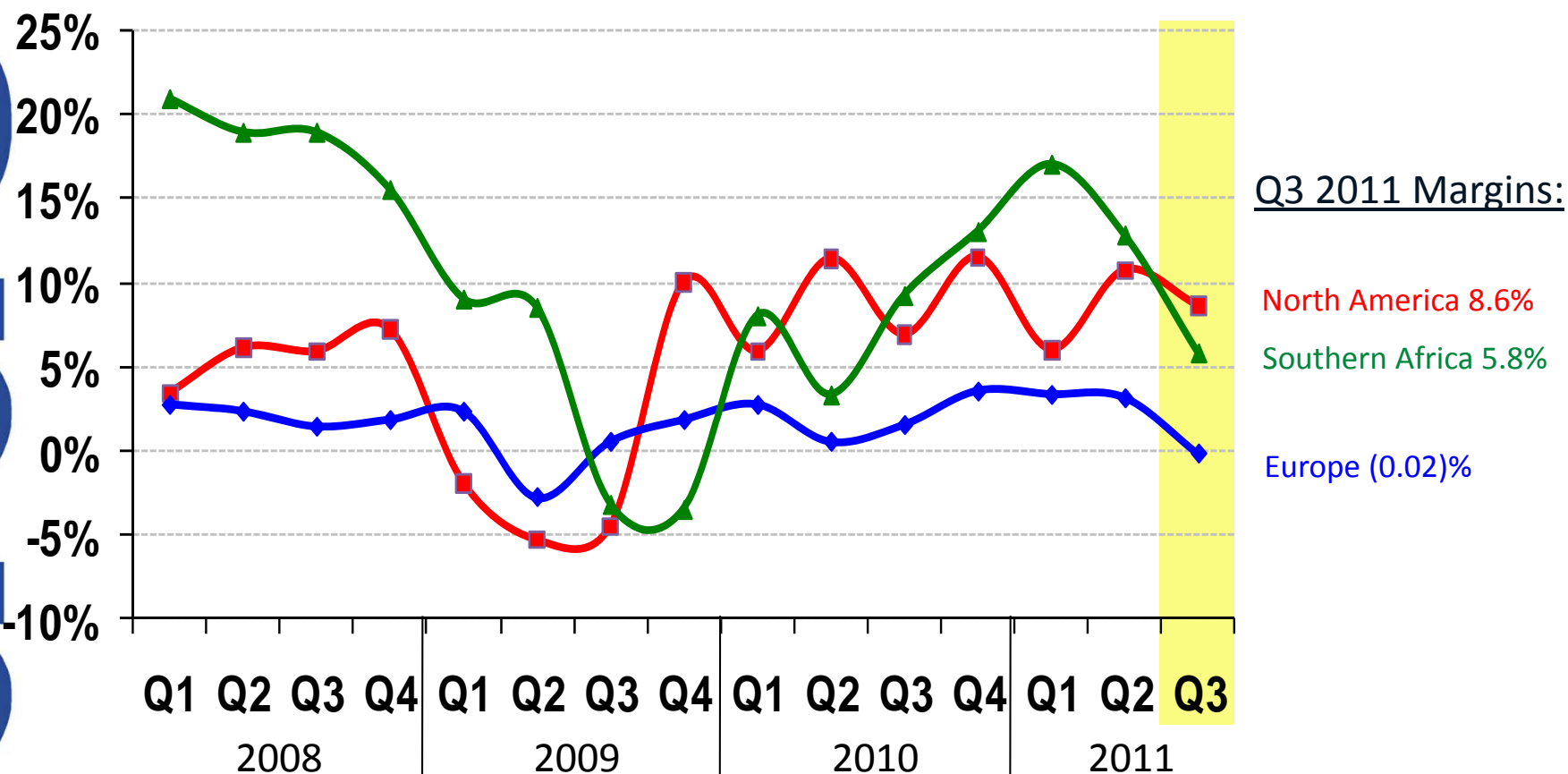






# Divisional Overviews

## Divisional Operating Margins \*



\*The divisional operating margins exclude special items. Refer to page 16 in our Q3 2011 results announcement booklet for a definition of special items.

## Sappi Fine Paper Europe

**Volumes** ↓

**Prices** ↑

**Costs** ↑

- Volumes down Y-on-Y, higher YTD v 2010.
- Higher prices realized Y-on-Y
- Price increases announced for CWF paper as seasonally stronger period begins, CM prices up in July
- Input costs are high, but market pulp prices have started to drop
- Ceased production at Biberist Mill – expect \$50m in annual savings
- Additional \$50m in annual cost saving measures have begun
- Economic uncertainty persists

## Sappi Fine Paper North America

**Volumes** ↑

**Prices** ↑

**Costs** ↑

- Another strong quarter from all 3 businesses
- Volume up 3%, weaker demand for coated web in the 1<sup>st</sup> 2 months of the quarter but significant seasonal rebound in June and into 4<sup>th</sup> Qtr.
- Average prices realized for casting release paper and coated graphic paper up Q-on-Q and Y-on-Y
- Raw material prices increased sharply during the quarter

## Sappi Southern Africa

### *Paper & Paper Packaging*

Volumes	↓
Prices	↑
Costs	↑

### *Chemical Cellulose*

Volumes	↑
Prices	↑
Costs	↑

- Performance unfavourably impacted by extended annual shuts at Ngodwana and Saiccor during the quarter
- Domestic markets suffered as a result of the strong local currency which led to increased competition from imports
- More details of our profit improvement plans & our Ngodwana conversion project to be announced before the end of the calendar year



# Strategy



## Strategy

# Maintain and Optimize Performance

- **North America**

- Continued focus on cost reduction
- Actively manage customer and product mix

- **Chemical Cellulose**

- Demand remains strong
- Benchmark prices declining towards longer term trend
- Good production volumes – impacted by strike in July

## Strategy

# Improve Businesses

- **Fine Paper Europe**

- Manage capacity – Biberist coated production ceased in July
- Recover cost increases through pricing – July CM and Sep CWF
- Reduce costs by \$50m per annum through fixed and variable cost initiatives in addition to \$50m from Biberist closure
- Implement new service model

- **Paper and Paper Packaging**

- We will match our assets to our resources and the market
- Adamas closure announced
- Fixed and variable cost reductions
- Further restructuring plans to be detailed in 2011





## Strategy

# Invest in Growth Businesses

- **Chemical Cellulose Expansion**

- 210,000t chemical cellulose expansion at Ngodwana (\$340m)
- Cost base – lowest quartile: wood, energy, distribution
- Responding to customer needs
- Realistic price expectations

- **Specialities**

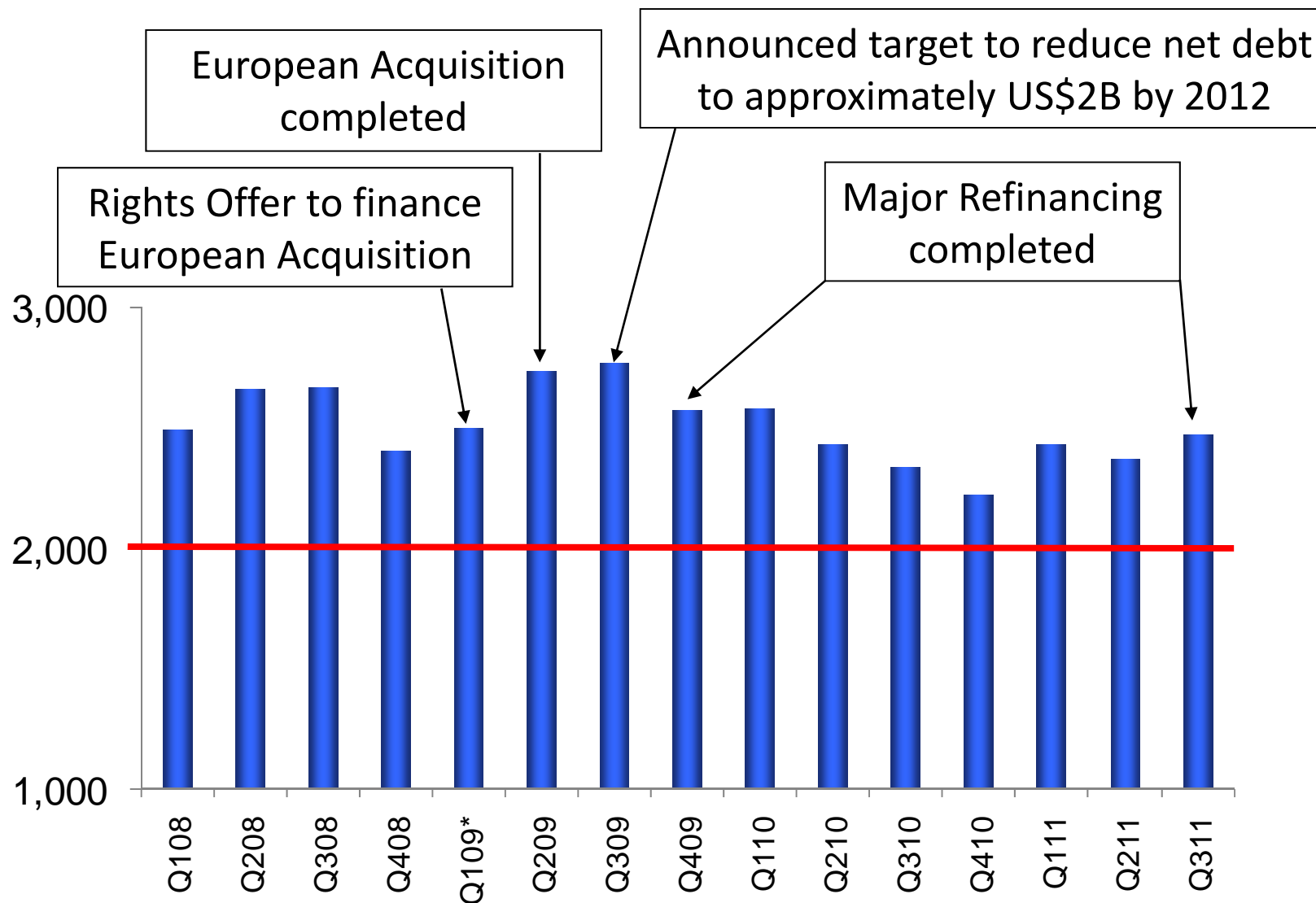
- North America – Release Paper
- Europe - Packaging

- **Forestry Resource**

- Will continue to seek new expansion opportunities in SA and elsewhere

- **Energy Projects**

## Balance Sheet - Net Debt

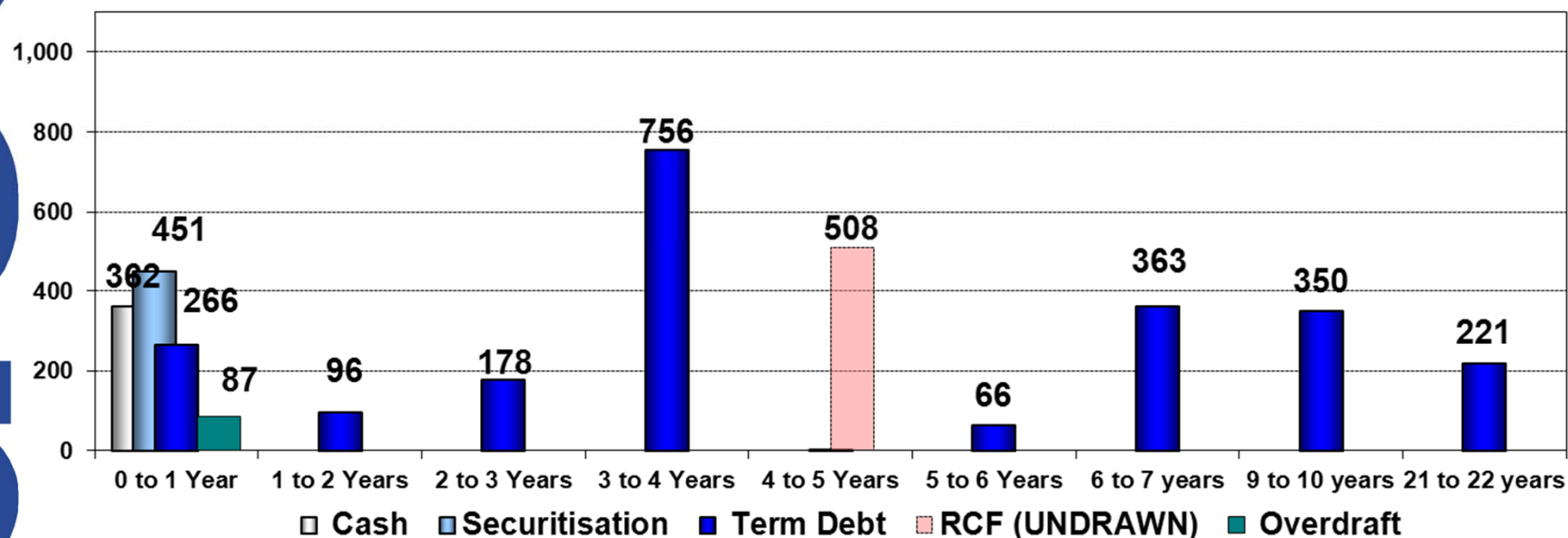


**Recent refinancing:** Favourable rates and improved debt profile

\* Cash proceeds of US\$536m for European Acquisition from rights offer not offset against debt

## Balance Sheet – Maturity Profile

USD million



**Recent refinancing:** April – \$705m raised (€250m-2018 \$350m-2021)

- Proceeds plus cash to repay \$350m of 2012 notes and €320m/\$455m of OeKB loan
- RCF increased from €209m to €350m and extended to 2016 (undrawn)
- Issued 500m ZAR bond due June 2016. Will be used, together with 500m ZAR from cash holdings to repay ZAR1bn bond (due Oct 2011)



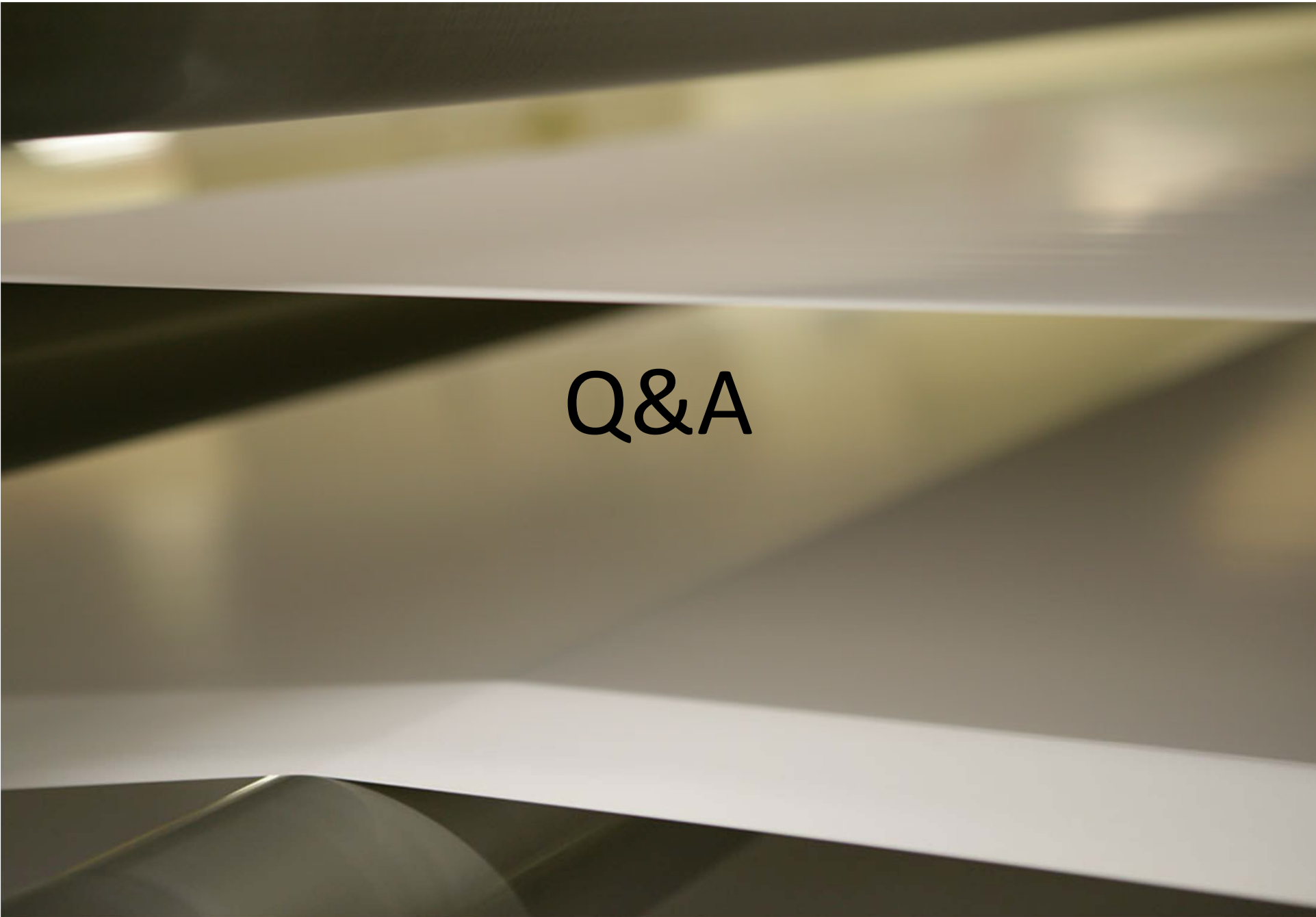
# Outlook

## Outlook

- Market conditions remain challenging and uncertain, but entering the typically busiest period of the year for coated paper
- Expect to start realizing the benefits of our cost and capacity management plan towards end of our 4<sup>th</sup> financial quarter: Biberist, fixed and variable cost savings plans - \$50m + \$50m of annual savings
- Input costs remain high, market pulp prices softened
- Strong order book for chemical cellulose
- SA Paper and paper packaging business unfavourably impacted by the industry-wide strikes in July and stronger local currency continues to hinder performance

## Outlook

- We expect considerable sequential improvement in operating profit excluding special items, but well short of equivalent prior year quarter.
- Expect a much improved operating profit excluding special items for the full year
- Anticipate strong net cash generation in our 4<sup>th</sup> quarter and positive net cash generation for the fiscal year



# Q&A

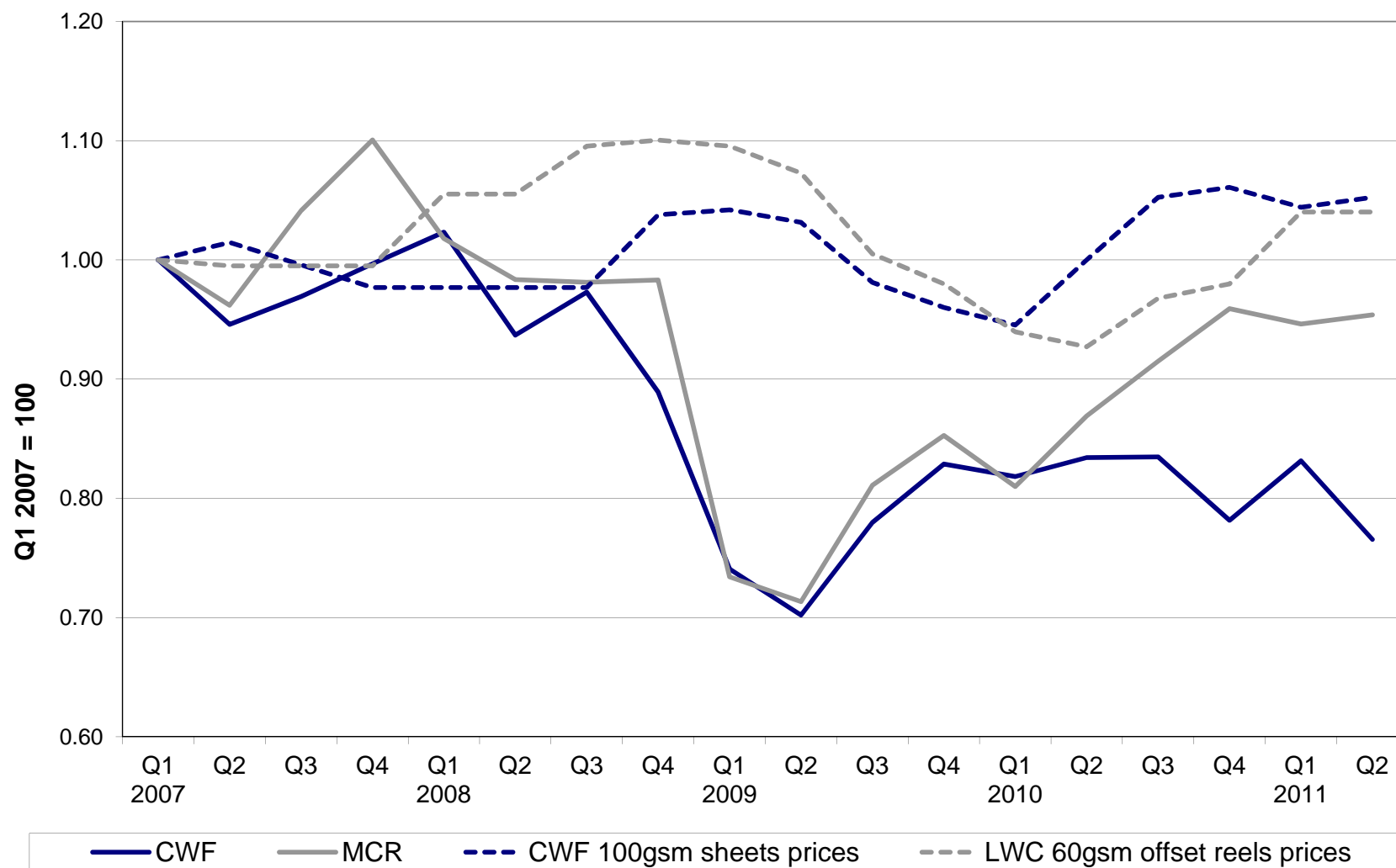


A photograph of a paper mill. A large, white sheet of paper is being processed by a series of rollers. The rollers are arranged in a line, and the paper is being fed through them. The background shows more of the mill's infrastructure, including pipes and structural elements.

# Supplementary Information



# W. Europe Coated Paper Deliveries & Prices



Western Europe Shipments Incl. Export – Source Cepifine, Cepiprint and RISI indexed to Calendar Q1 2007

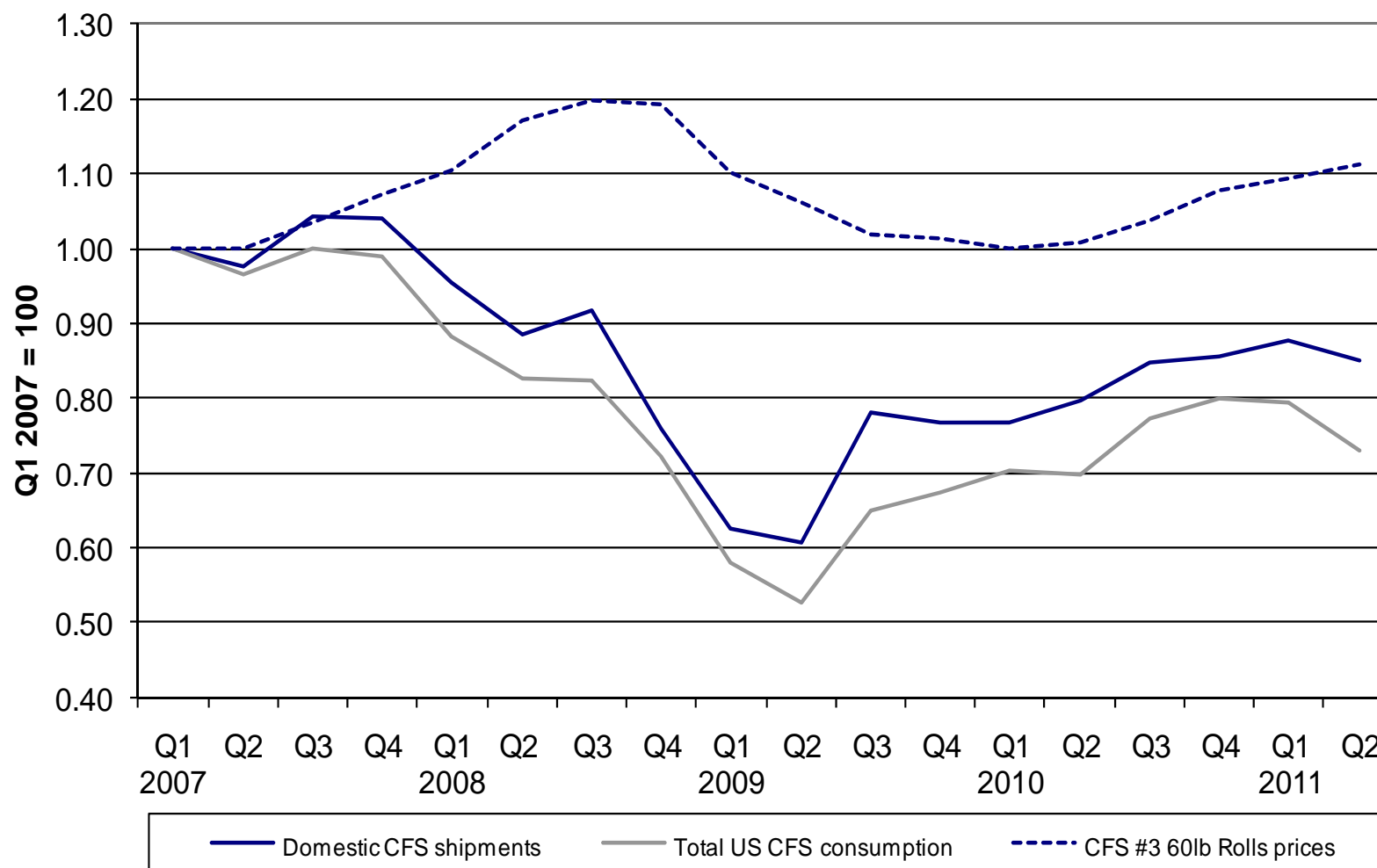
# Sappi Fine Paper Europe

	Q3 10	Q3 11	YoY	YTD 10	YTD 11	YoY
Tons Sold ('000)	939	909	↓	2 802	2 903	↑
Sales (\$'m)	873	979	↑	2 675	3 023	↑
Price / Ton (\$)	930	1 077	↑	955	1 041	↑
Price / Ton (€)	719	748	↑	690	750	↑
Cost / Ton* (€)	708	750	↑	679	734	↑
<b>Operating profit ex items** (\$'m)</b>	<b>13</b>	<b>(2)</b>	<b>↓</b>	<b>42</b>	<b>63</b>	<b>↑</b>

\* Sales less operating profit excluding special items divided by tons sold.

\*\* Operating profit excluding special items. Refer to the supplementary information in this presentation for a reconciliation to reported operating profit and page 16 in our Q3 2011 results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# US Coated Paper Prices and Shipments



US Industry Shipments and total US consumption – Source AF&PA and RISI indexed to Q1 2007

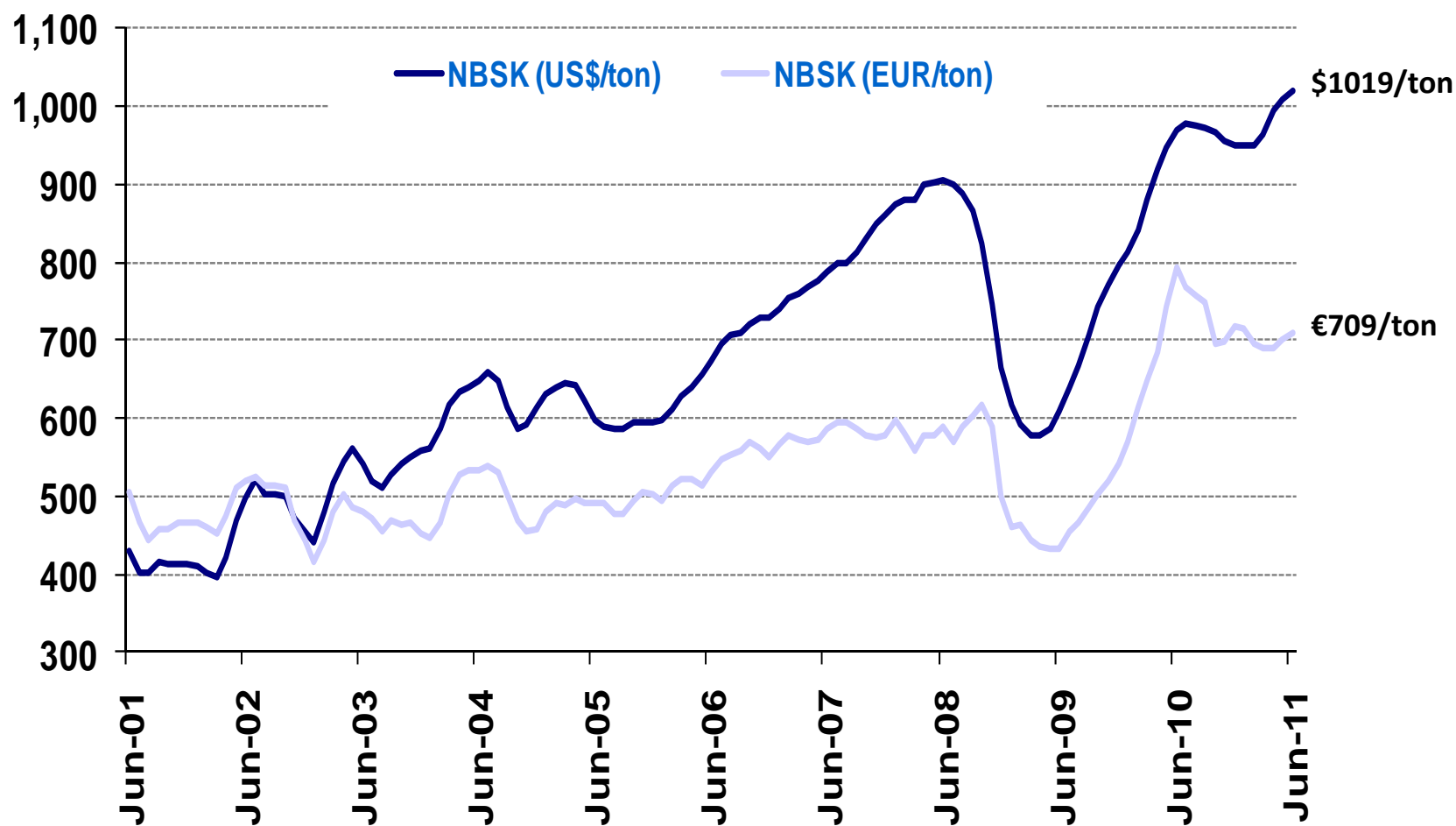
## Sappi Fine Paper North America

	Q3 10	Q3 11	YoY	YTD 10	YTD 11	YoY
Tons Sold ('000)	335	344	↑	1,002	1,057	↑
Sales (\$'m)	347	371	↑	1,009	1,125	↑
Price / Ton (\$)	1,036	1,078	↑	1,007	1,064	↑
Cost / Ton* (\$)	964	985	↑	925	974	↑
<b>Operating Profit ex items** (\$'m)</b>	<b>24</b>	<b>32</b>	↑	<b>82</b>	<b>95</b>	↑

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## NBSK Pulp Price\*



- Pulp prices staying high

\* Source: Average monthly FOEX delivered European prices

## Sappi Southern Africa

	Q3 10	Q3 11	YoY	YTD 10	YTD 11	YoY
Tons Sold - Pulp & Paper ('000)	416	406	↓	1 291	1 272	↓
Sales - Pulp & Paper (\$'m)	361	430	↑	1 062	1 291	↑
Price / Ton - Pulp & Paper (\$)	868	1 059	↑	823	1 015	↑
Price / Ton - Pulp & Paper (ZAR)	6 580	7 190	↑	6 220	6 997	↑
Cost / Ton* - Pulp & Paper (ZAR)	5 942	6 756	↑	5 775	6 141	↑
<b>Operating Profit ex items** (\$'m)</b>	<b>35</b>	<b>26</b>	<b>↓</b>	<b>76</b>	<b>158</b>	<b>↑</b>

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## Cash Flow

	Q3 10	Q3 11	YTD 10	YTD 11
<b>Cash generated from operations</b>	<b>188</b>	<b>148</b>	<b>555</b>	<b>615</b>
- Movement in working capital	(84)	(46)	(186)	(364)
- Net finance costs paid	(35)	(40)	(128)	(194)
- Taxation paid	(4)	(17)	(8)	(31)
- Cash utilised in investing activities	(41)	(65)	(130)	(142)
<b>Cash flow after investing activities</b>	<b>24</b>	<b>(20)</b>	<b>103</b>	<b>(116)</b>

## Operating Profit - Sappi Group

### Reconciliation of reported operating profit to operating profit excluding special items \*

	Q3 10	Q3 11	YTD 10	YTD 11
<b>Operating profit as reported</b>	<b>154</b>	<b>54</b>	<b>183</b>	<b>174</b>
Plantation price fair value adj.	(108)	2	(2)	16
Restructuring provision raised	5	2	46	68
Profit (loss) on the sale of assets	-	-	1	-
Profit (loss) on the sale of investments	-	-	(1)	-
Asset (impairment) reversal	1	-	(12)	69
Alternative fuel tax credit	-	-	(51)	-
BEE Charge	23	1	23	3
Insurance Recoveries	(1)	1	(1)	(10)
Fire, flood and related events	1	-	24	4
<b>Operating profit ex. special items</b>	<b>75</b>	<b>60</b>	<b>210</b>	<b>324</b>

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