

Q1 FY16 financial results

10 February 2016



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Chief Executive Officer
Sappi Limited

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Forward-looking statements and Regulation G

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, and may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- *the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);*
- *the impact on our business of a global economic downturn;*
- *unanticipated production disruptions (including as a result of planned or unexpected power outages);*
- *changes in environmental, tax and other laws and regulations;*
- *adverse changes in the markets for our products;*
- *the emergence of new technologies and changes in consumer trends including increased preferences for digital media;*
- *consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;*
- *adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;*
- *the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies; and*
- *currency fluctuations.*

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

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 'Investors | Financial information' section of www.sappi.com.

Summary



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Highlights



Q1 FY16

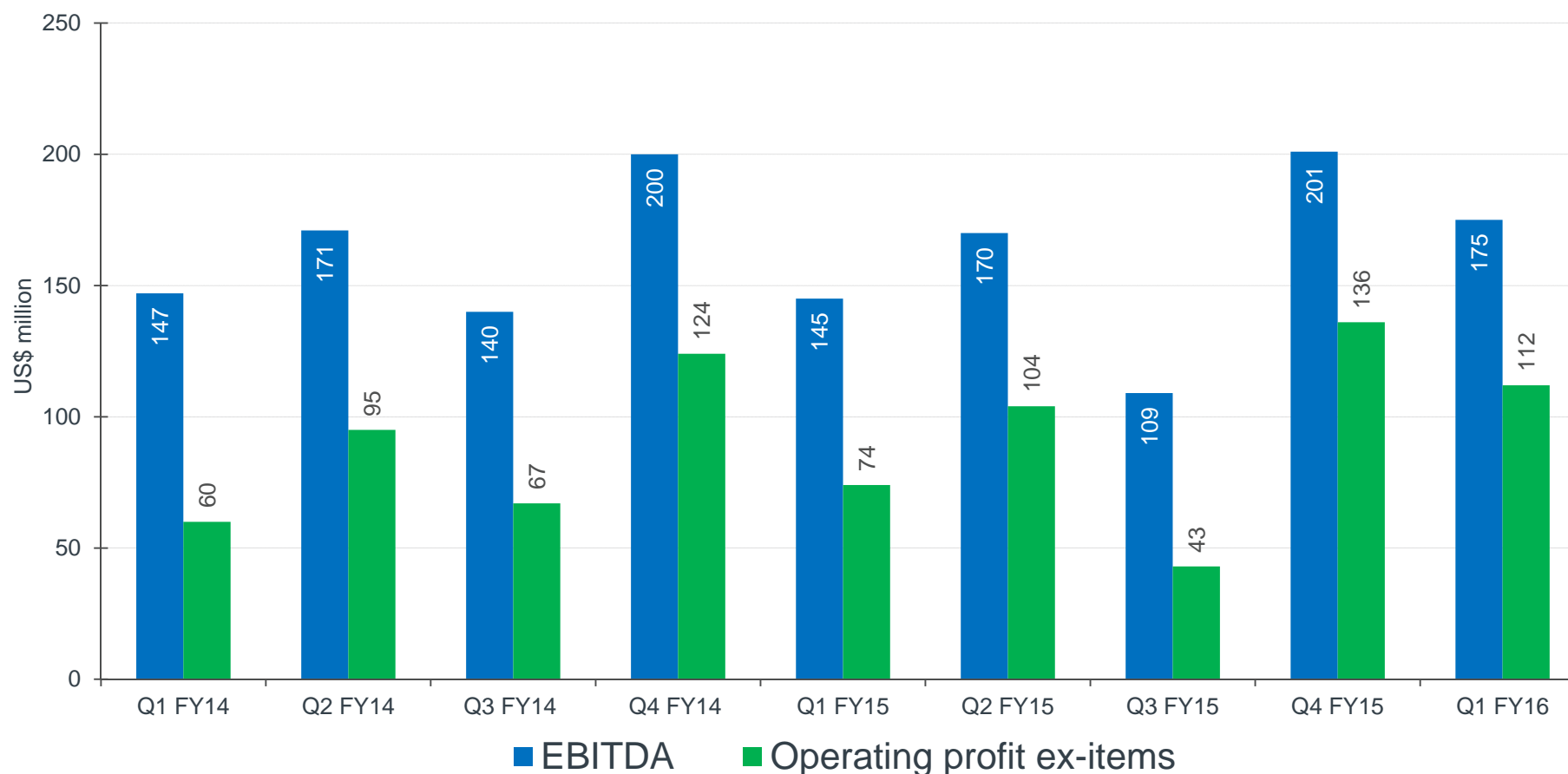
- Profit for the period US\$75m (Q1 FY15 US\$24m)
- EPS ex-special items 13 US cents (Q1 FY15 5 US cents)
- EBITDA ex-special items US\$175m (Q1 FY15 US\$145m)
- Net debt US\$1,734m, down US\$306m year-on-year



EBITDA and operating profit



Excluding special items*



Intentional
evolution

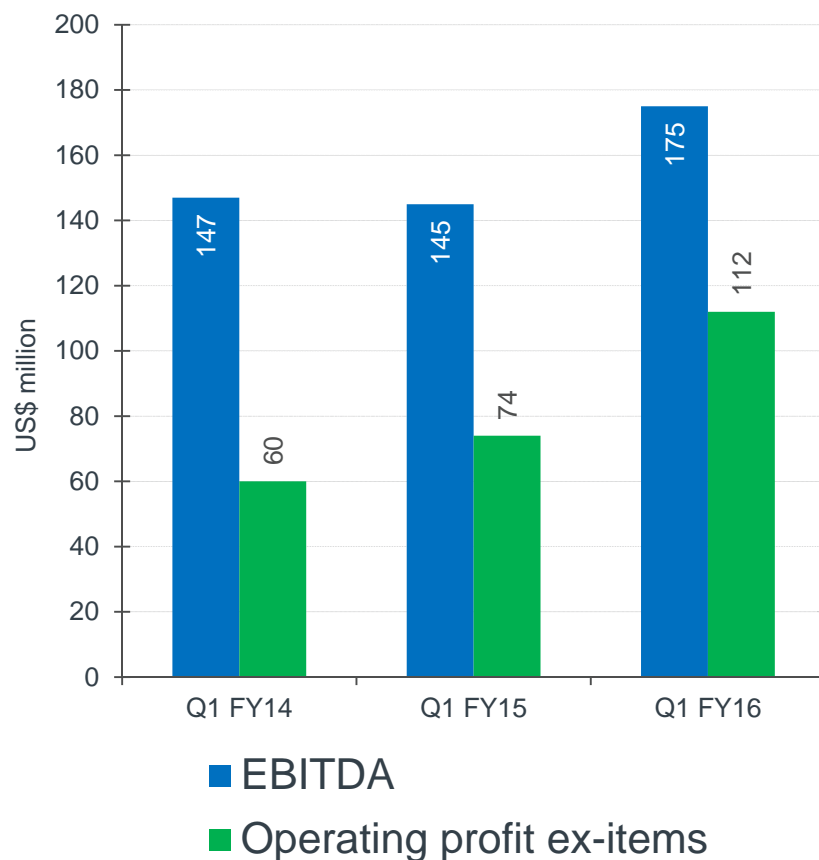
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* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 18 in our Q1 FY16 results booklet (available on www.sappi.com) for a definition of special items.

EBITDA and operating profit



Excluding special items*



Key ratios: (%)

	Q1 FY14	Q1 FY15	Q1 FY16
Net Debt/ LTM EBITDA	4.6	3.1	2.6
Interest Cover	3.0	3.8	5.1
EBITDA %	9.8	10.5	13.6
ROCE %	7.0	9.7	16.2

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evolution

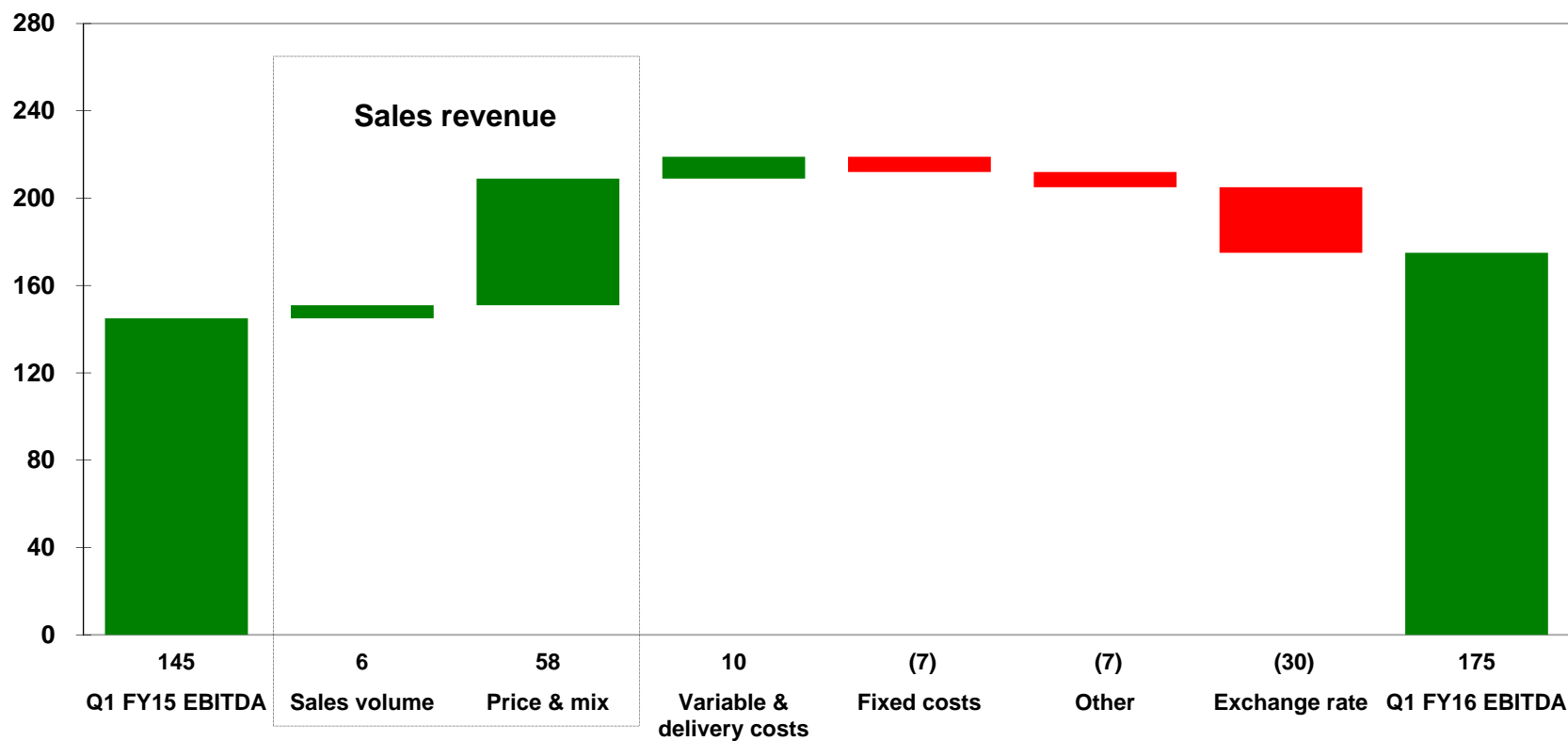
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EBITDA Bridge*



Q1 FY15 to Q1 FY16

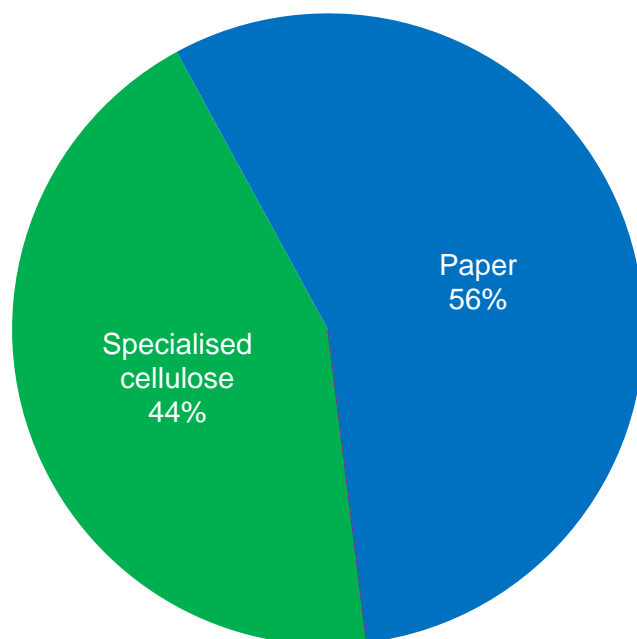


- All variances were calculated excluding Sappi Forests
- EBITDA shown above excludes special items
- 'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results

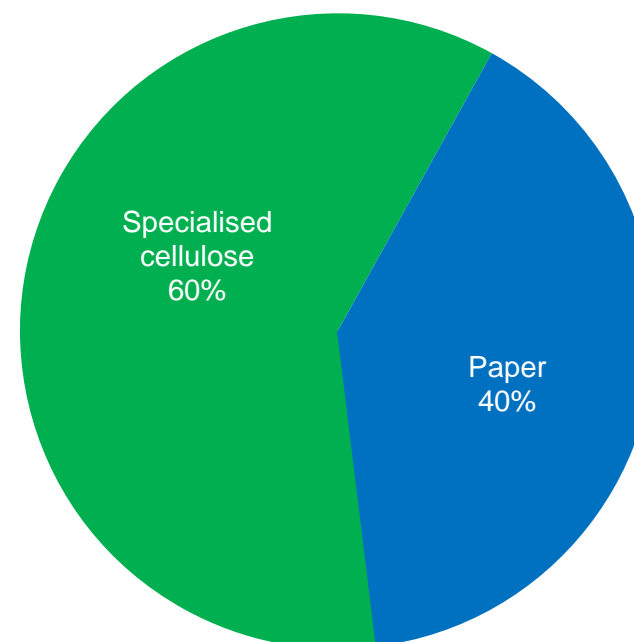
Product contribution split - LTM



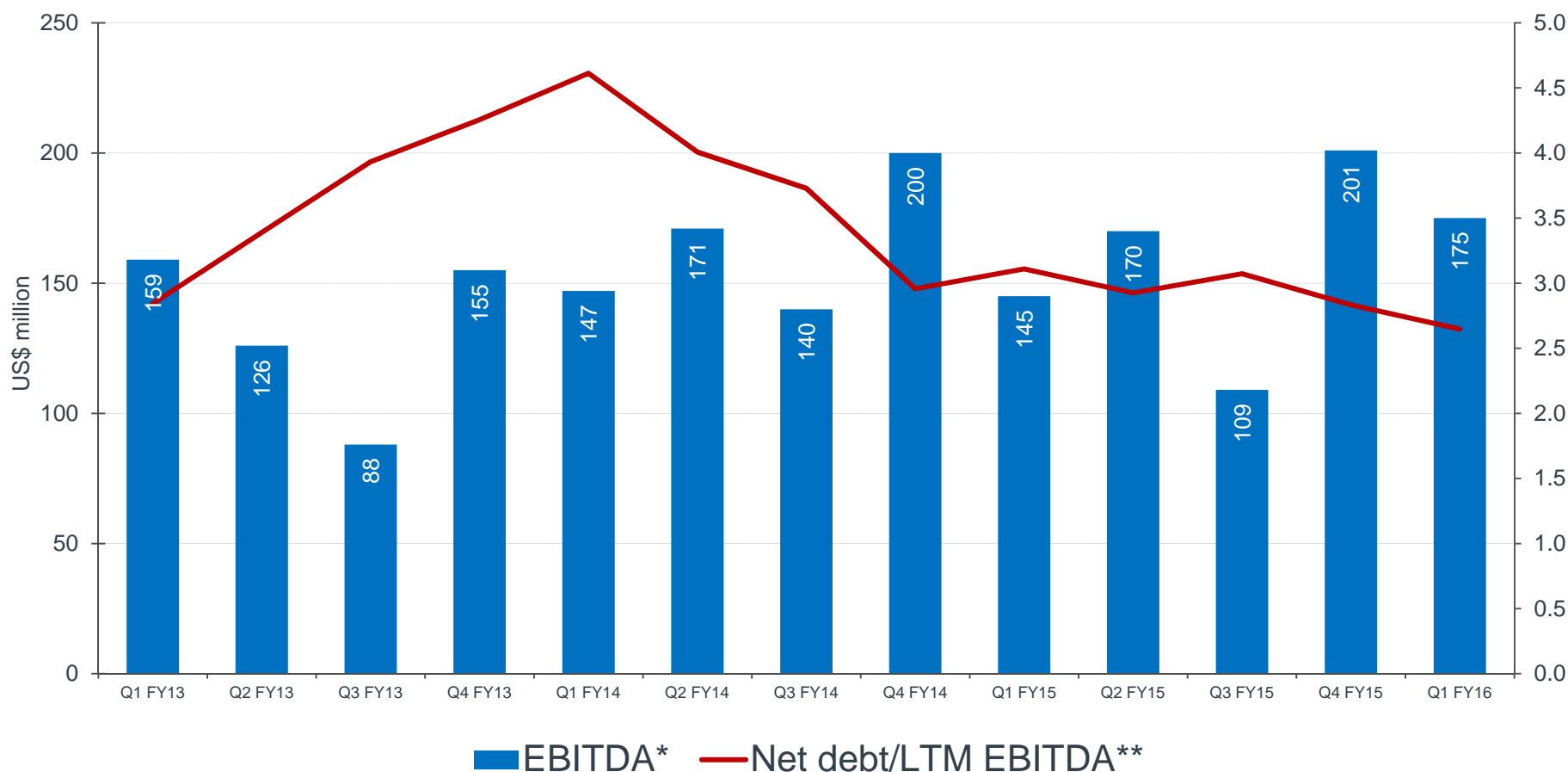
EBITDA excluding special items*



Operating profit excluding special items



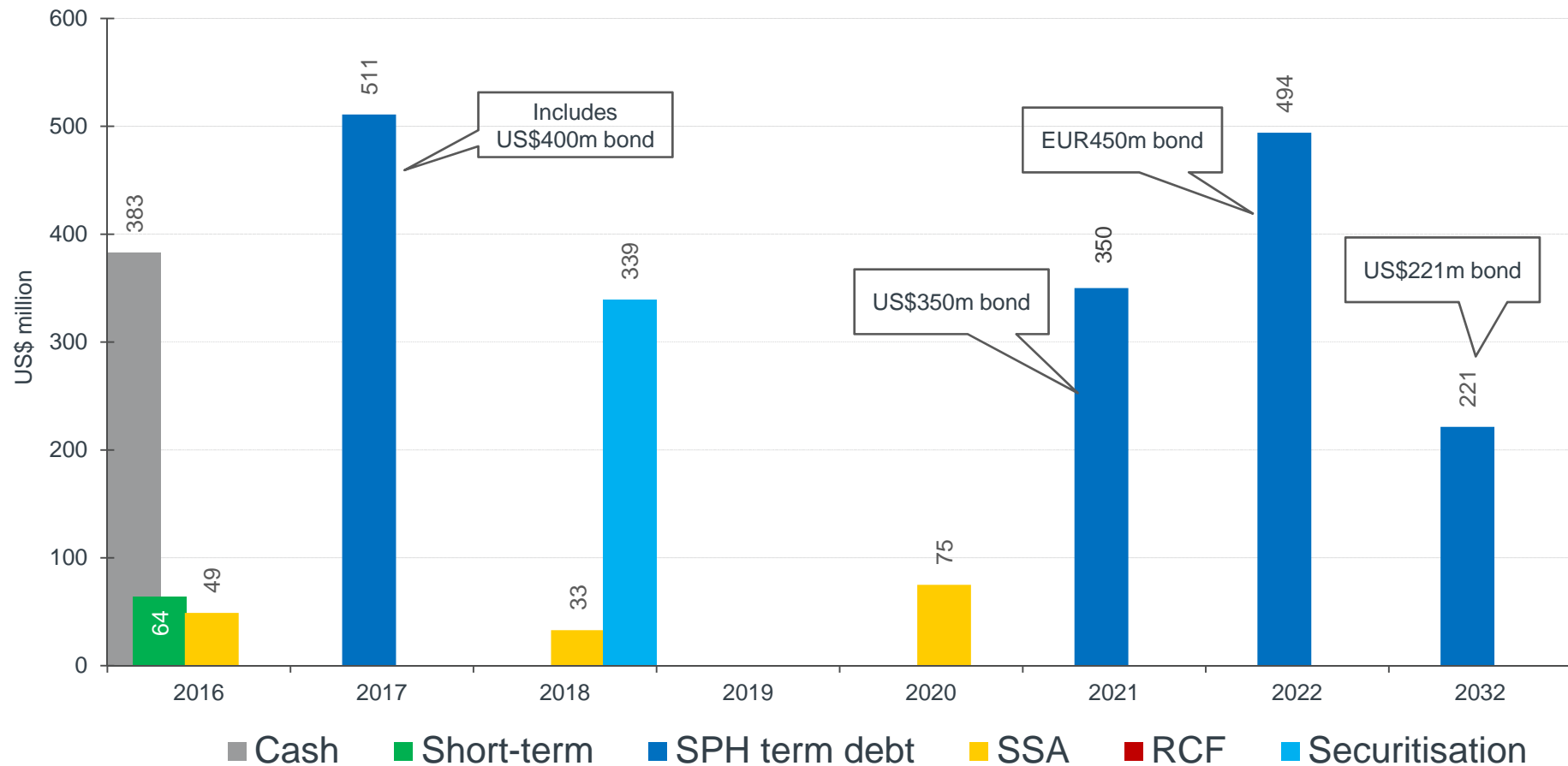
Net debt/EBITDA development



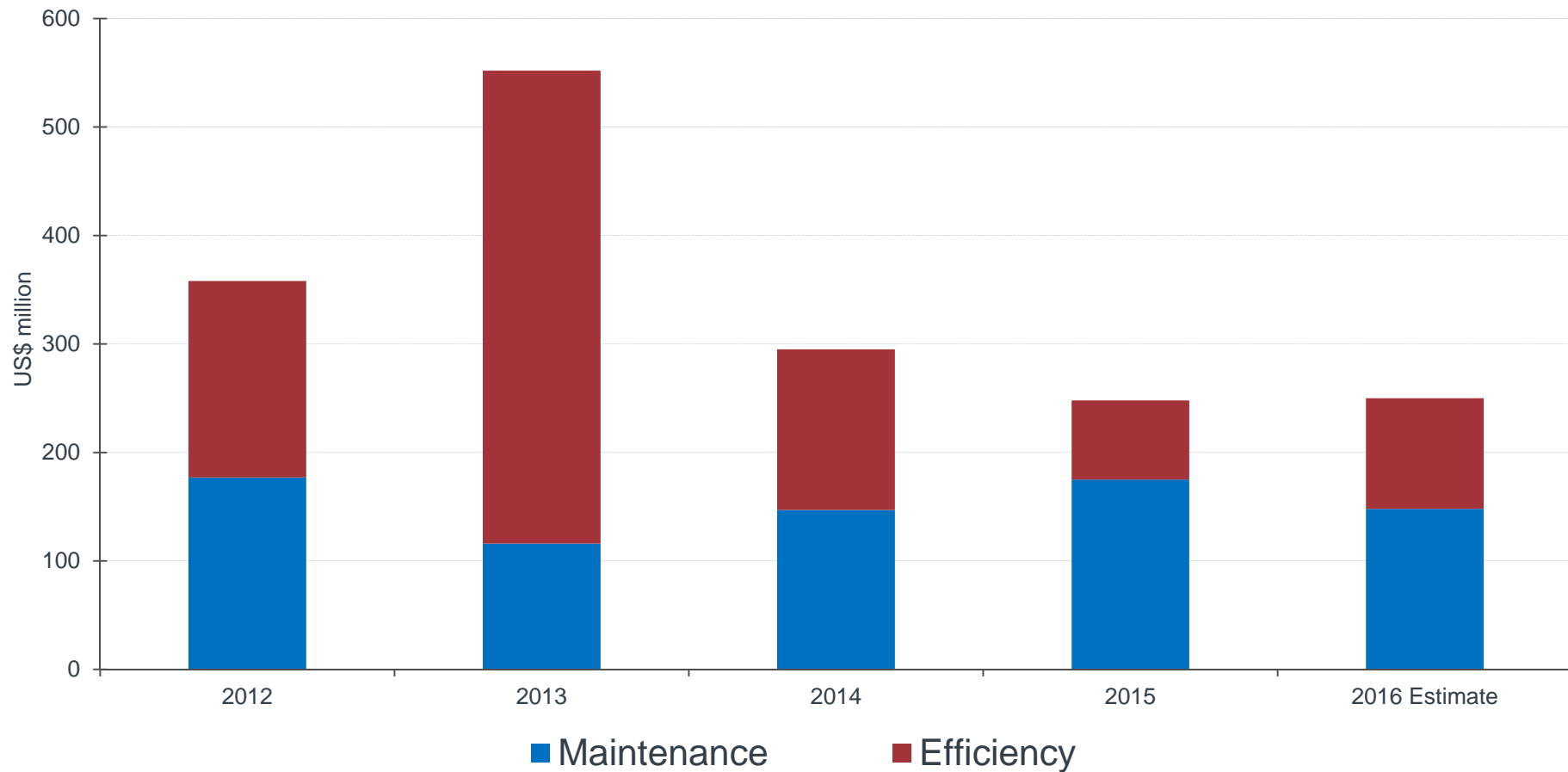
Maturity profile



Fiscal years



Capex development



Divisional overviews



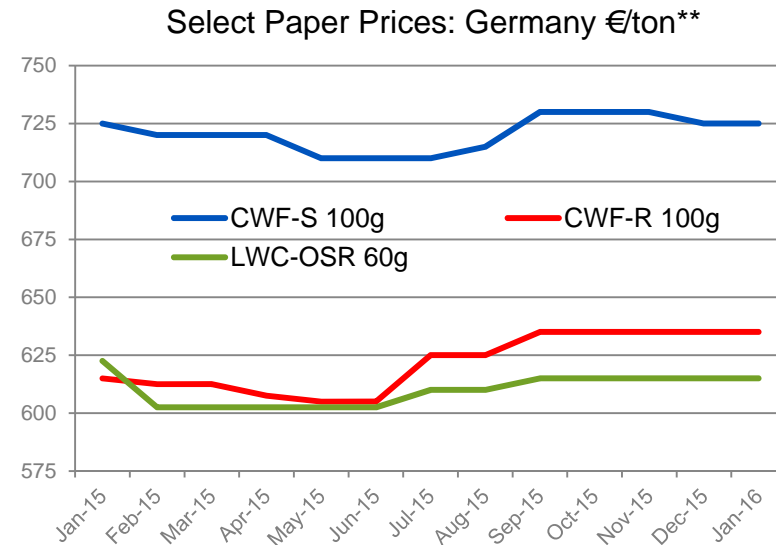
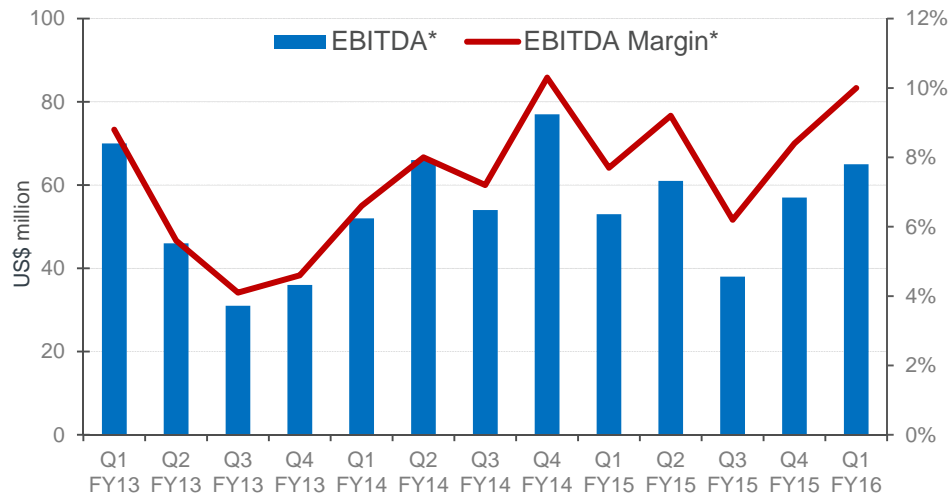
Global paper market trends



- Supply and demand
 - Currency shift (leaves/makes) US exports uncompetitive
 - Coated paper capacity shuts/conversions continue in Europe and NA
 - Mechanical paper under pressure
- Selling prices and input costs
 - CWF and CM sales prices moving up in Europe
 - Fuel oil, energy and oil-based chemical prices have decreased
 - Paper pulp prices declining
- Strategy
 - Implement price increases when/where market allows
 - Reducing fixed and variable costs
 - Reduce or convert capacity in line with demand declines



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- Price increases implemented, demand stabilised, volumes higher on Husum transfer.
- Speciality paper volumes improved late in the quarter and were substantially higher than last year.
- Both fixed and variable costs were flat year-on-year. Higher pulp prices were offset by lower chemical and energy costs

Sappi North America

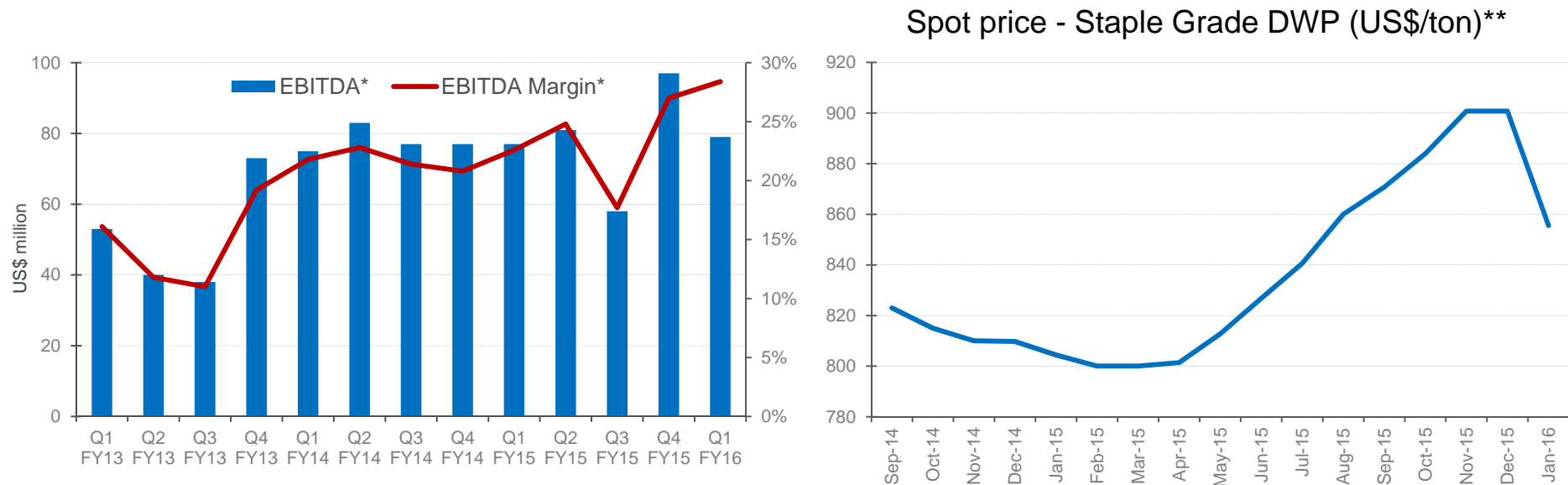


- Better results year-on-year due to higher paper volumes and lower variable costs.
- Paper prices were flat sequentially, but down 3% from last year.
- DWP prices were higher versus prior quarter and comparative quarter.
- Release business continues to experience weak demand from China. Elsewhere business is stabilising. Average prices realized were higher due to successful price increases

Global specialised cellulose market trends

- Supply and demand
 - Outlook for BEK will impact swing capacity
 - Underlying demand trends for commodity grades still positive
- Selling prices and input costs
 - Spot prices for commodity grade DWP declining in line with textile prices
 - Input costs declining for producers with non-US\$ cost base
 - Chinese currency devaluation impacting DWP selling prices
- Strategy
 - Manage capacity
 - Continue working with customers supporting common growth
 - Investigate adjacent end-uses

Sappi Southern Africa



- Better margins year-on-year on higher prices and impact of weaker Rand.
- DWP volumes were lower than last year due to drought conditions impacting Saiccor (\$6m impact on EBITDA) and a delayed shipping of a break bulk vessel.
- Demand for containerboard continues to be robust.
- Sales of Cape Kraft and Enstra finalised.

Strategic focus



Focus areas



Achieve cost advantages



- We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages
 - Saiccor and Tugela turbines – FY2016/17
 - Ngodwana boiler upgrade for future debottlenecking – Q2 FY2016
 - Group procurement initiatives
 - Ongoing continuous improvement across all mills
 - Cloquet Mill's kraft campaigns



Focus areas



Rationalise and optimise declining businesses



Focus areas



Grow through moderate investments



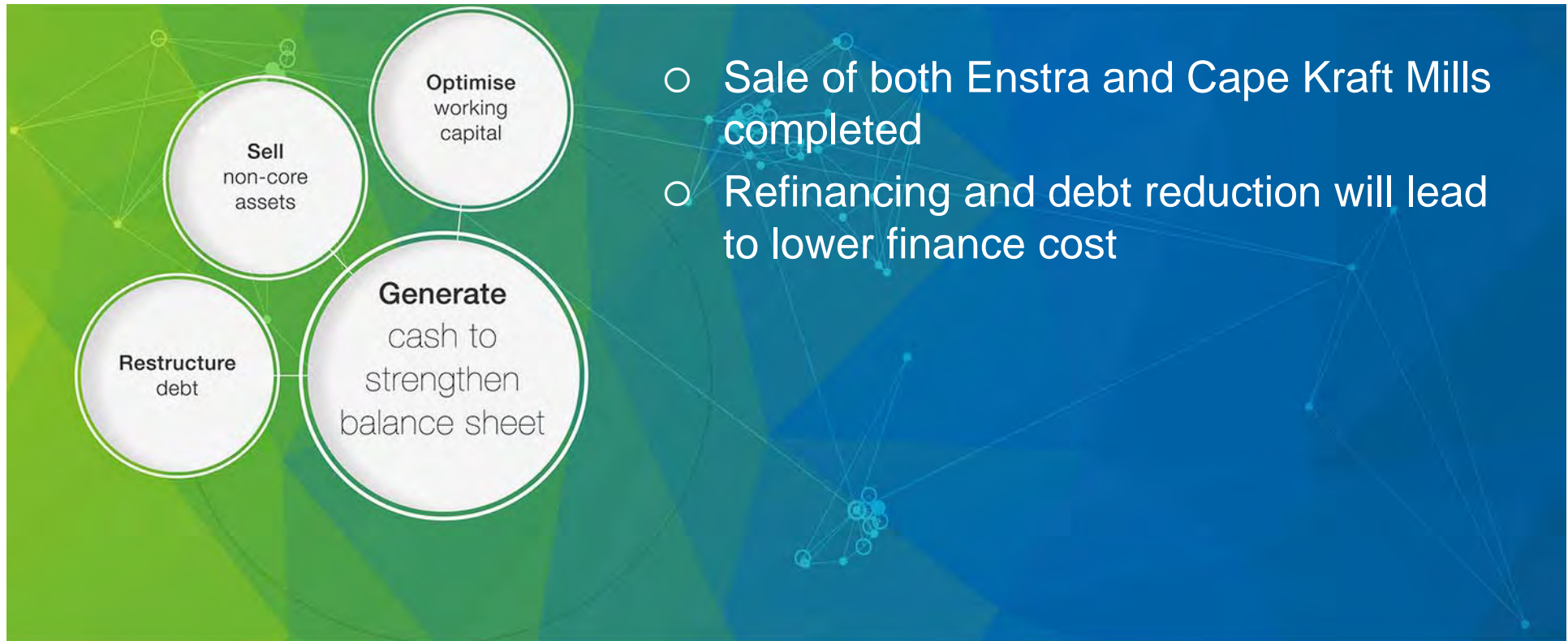
- We will make smaller investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers
 - Additional packaging at Ngodwana and Tugela
 - Nano-cellulose pilot plant in the Netherlands
 - Electricity opportunities in South Africa
 - Debottlenecking of Saiccor and Ngodwana DWP
 - Securing additional HW timber supply in SA



Focus areas



Generate cash to strengthen the balance sheet



Focus areas



Accelerate growth in adjacent businesses from a strong base

Accelerate
growth in
adjacent
businesses from
a strong base

- Over the next two years we will continue our focus on having a cleaner, stronger balance sheet so that we can then accelerate our growth in adjacent businesses
 - Speciality packaging
 - New business – lignins, sugars
 - Longer term DWP capacity expansion

Outlook



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Outlook



- Specialised Cellulose business is benefiting from higher average USD prices and a weaker ZAR/US Dollar exchange rate. Spot prices have been under pressure, but demand remains strong.
- In North America variable costs are down and market share is growing
- Paper price increases in Europe, costs coming down as a result of strategic projects.
- Strong demand for virgin packaging and weaker ZAR/US Dollar creating positive outlook for South African paper business.



Outlook (cont'd)



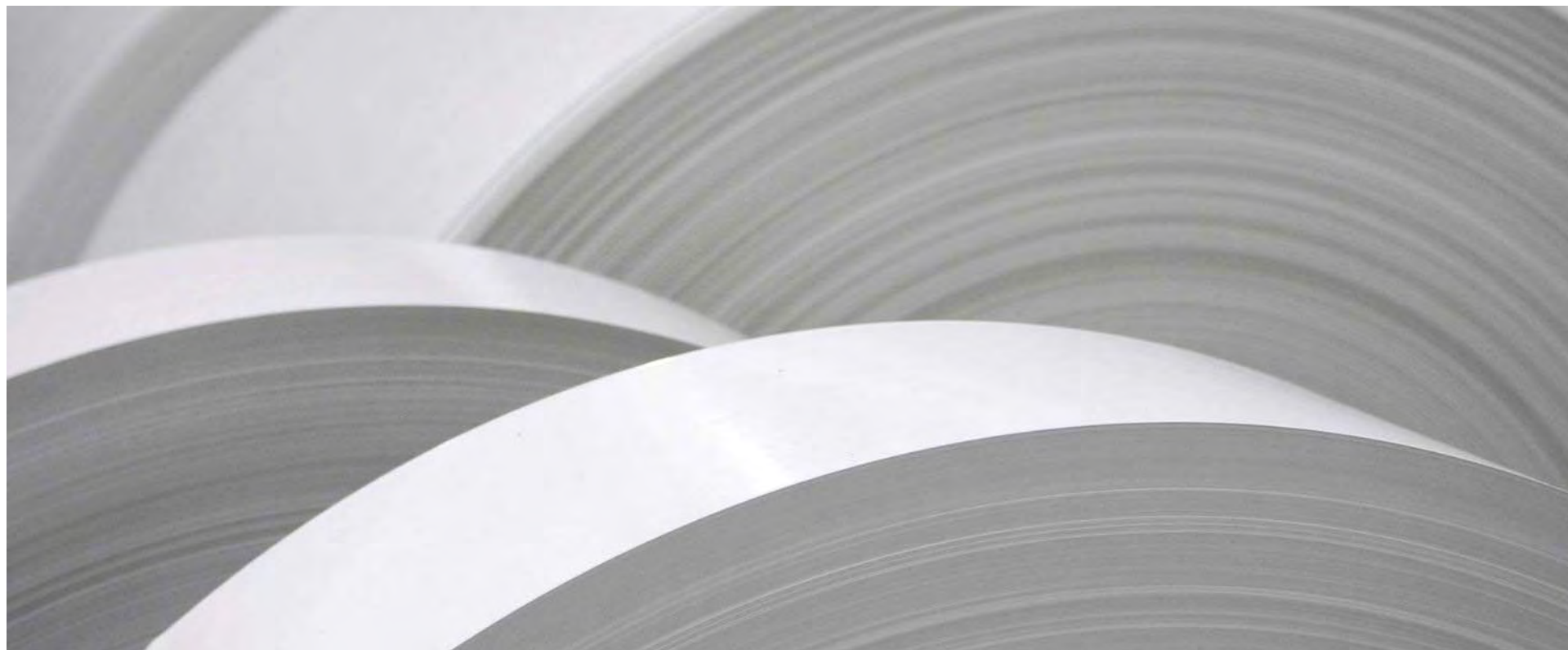
- We expect Q2 EBITDA to be in-line with the Q1, slightly ahead year-on-year despite US\$12m of additional maintenance impact.
- Based on current market conditions, and assuming current exchange rates, we expect EBITDA ex-items in FY16 to be higher than FY15.
- We expect strong growth in our EPS ex-items.
- Net debt expected to reduce further over the course of the year toward our targeted ceiling of two times net debt to EBITDA.

Thank you –



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Supplementary information

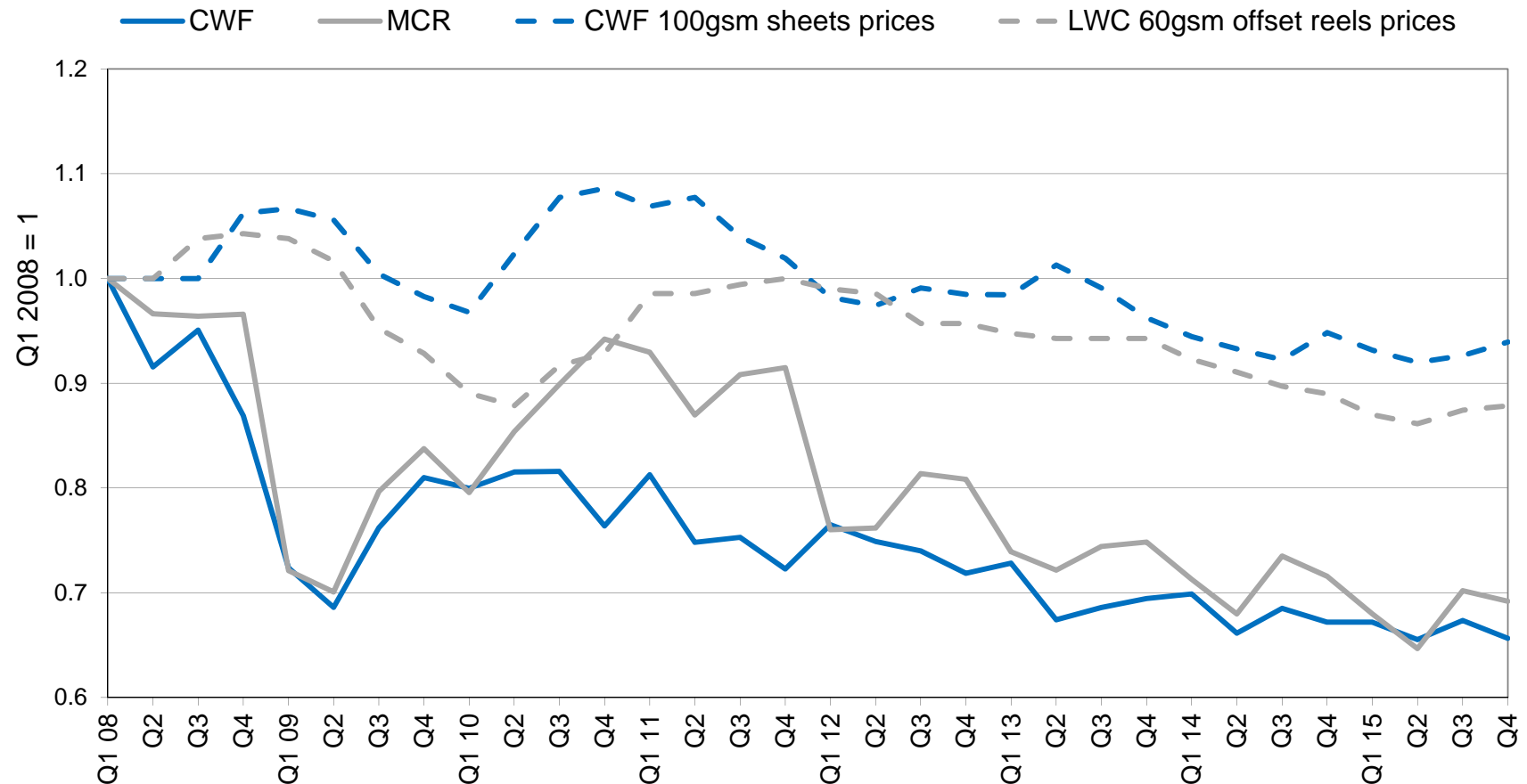


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Coated paper deliveries and prices



Western Europe



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	Q1 FY16	Q4 FY15	Q1 FY15
Tons sold ('000)	836	847	775
Sales (EURm)	601	609	547
Price/Ton (EUR)	719	719	706
Cost/Ton* (EUR)	684	692	690
Operating profit excluding special items** (EURm)	29	23	12



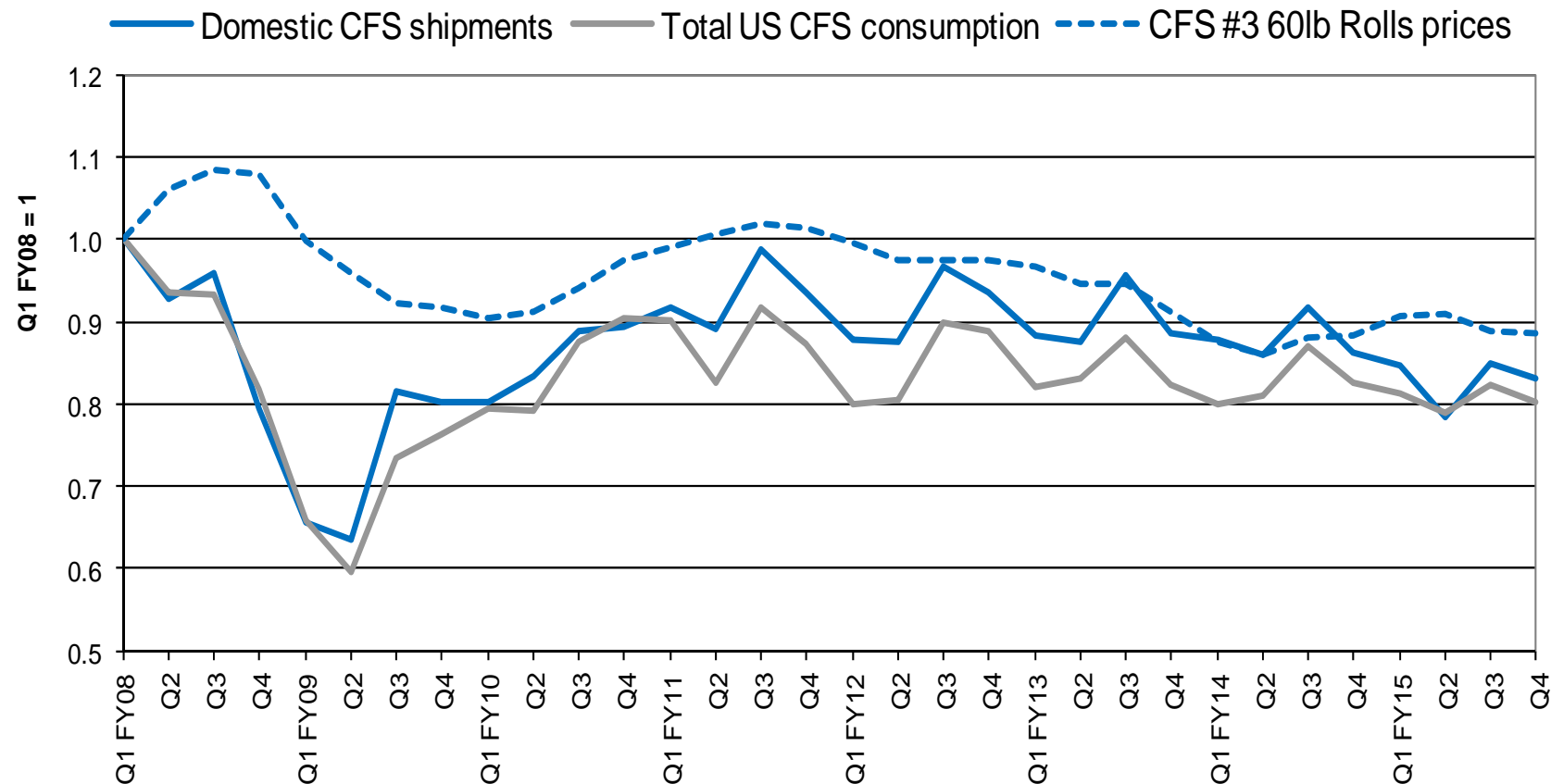
* Sales less operating profit excluding special items divided by tons sold.

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Coated paper prices and shipments



United States

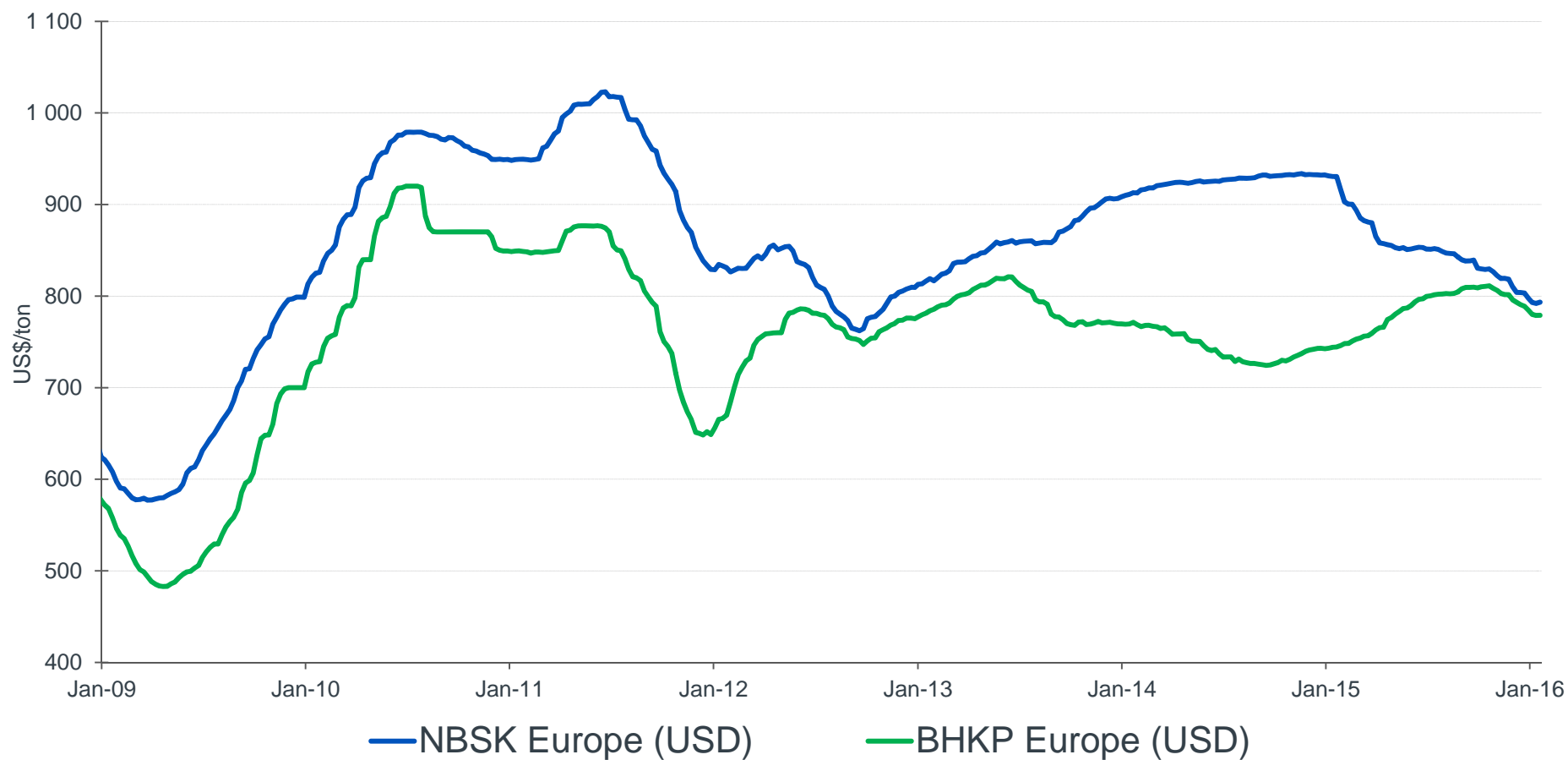


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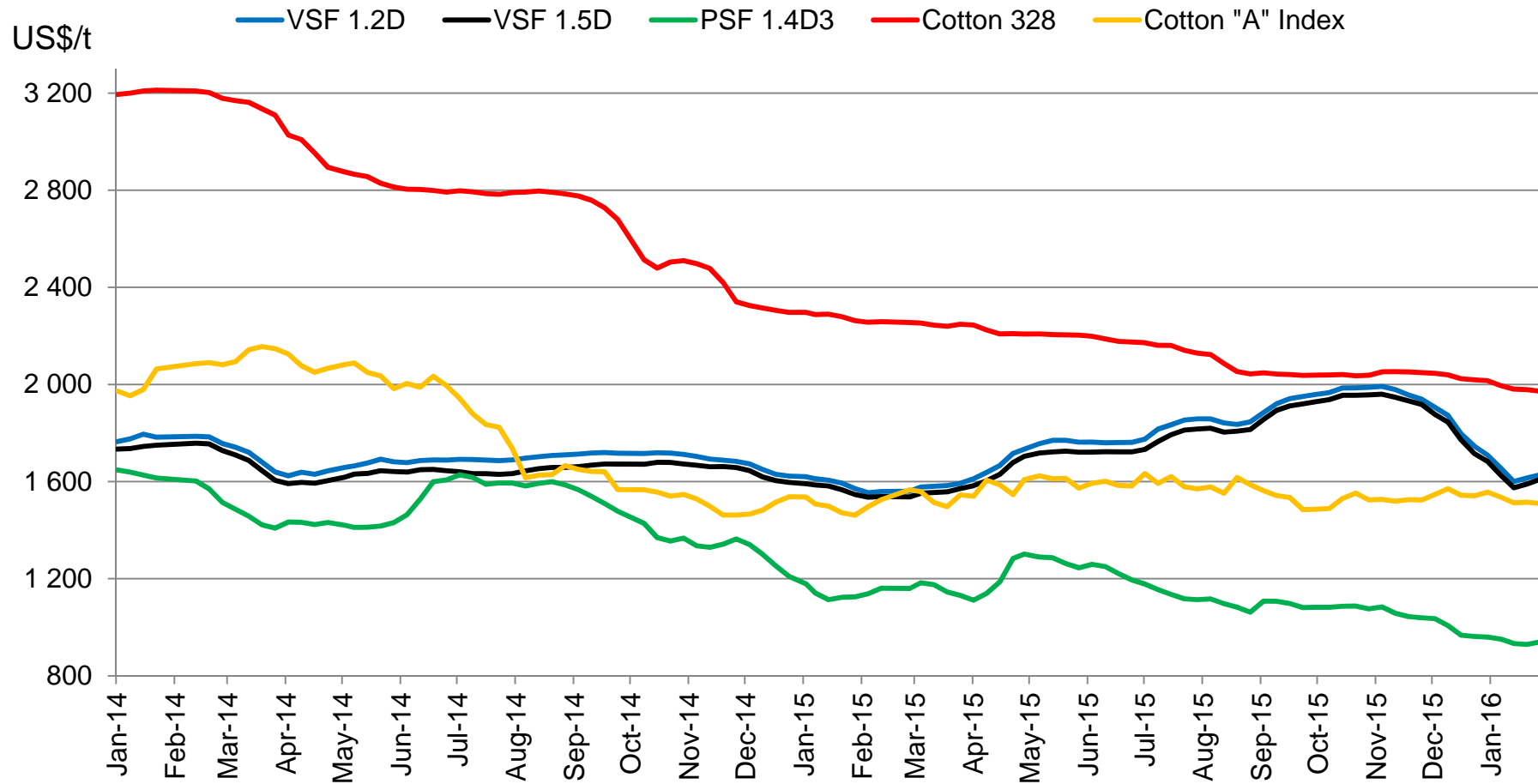


	Q1 FY16	Q4 FY15	Q1 FY15
Tons sold ('000)	330	357	333
Sales (US\$m)	343	369	353
Price/Ton (US\$)	1,039	1,034	1,060
Cost/Ton* (US\$)	1,000	947	1,072
Operating profit excluding special items** (US\$m)	13	31	(4)

Pulp prices*



Textile Fibre Prices



Sappi Southern Africa



Excluding Sappi Forests

	Q1 FY16	Q4 FY15	Q1 FY15
Tons sold ('000)	386	482	426
Sales (ZARm)	3,794	4,375	3,644
Price/Ton (ZAR)	9,829	9,077	8,554
Cost/Ton* (ZAR)	7,370	6,905	6,897
Operating profit excluding special items** (ZARm)	949	1,047	706

Cash flow



US\$m	Q1 FY16	Q4 FY15	Q1 FY15
Cash generated from operations	171	181	137
Movement in working capital	(100)	86	(136)
Net finance costs paid	(36)	(24)	(52)
Taxation paid	(18)	-	(3)
Cash generated from operating activities	17	243	(54)
Cash utilised in investing activities	2	(84)	(67)
Capital expenditure	(40)	(85)	(68)
Cash flows on disposal of assets and businesses	41	1	-
Other movements	1	-	1
Net cash (utilised) generated	19	159	(121)

EBITDA and operating profit



Excluding special items reconciliation to reported operating profit

US\$m	Q1 FY16	Q4 FY15	Q1 FY15
EBITDA excluding special items*	175	201	145
Depreciation and amortisation	(63)	(65)	(71)
Operating profit excluding special items*	112	136	74
Special items* - gains (losses)	11	(1)	(5)
Plantation price fair value adjustment	2	22	1
Net restructuring provisions	(3)	(2)	(1)
Profit on disposal of asset held for sale	15	-	-
Employee benefit liability settlement	-	(1)	-
BEE charge	-	(1)	-
Fire, flood, storm and other events	(3)	(19)	(5)
Segment operating profit	123	135	69



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Thank you



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