

Q2 FY16 financial results

9 May 2016



Steve Binnie
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, identify forward looking statements. In addition, this document includes forward looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. 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 adverse changes in global economic conditions;*
- *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 restructurings or other strategic initiatives, and achieving expected savings and synergies;*
- *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



Q2 FY16

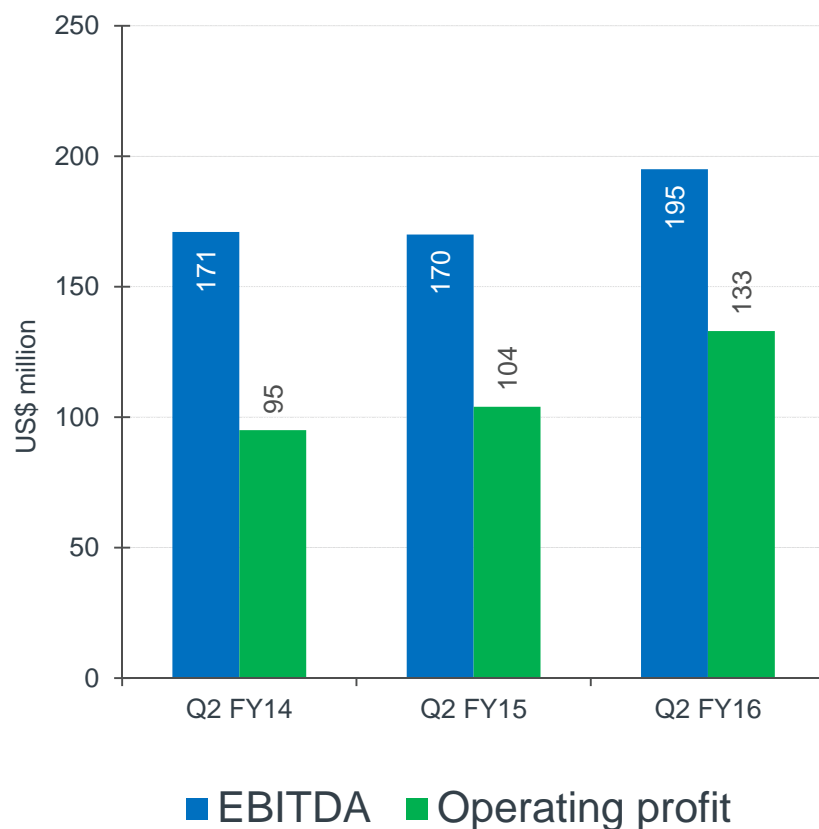
- Profit for the period US\$100m (Q2 FY15 US\$56m)
- EPS ex-special items 16 US cents (Q2 FY15 11 US cents)
- EBITDA ex-special items US\$195m (Q2 FY15 US\$170m)
- Net debt US\$1,652m, down US\$264m year-on-year



EBITDA and operating profit



Excluding special items*

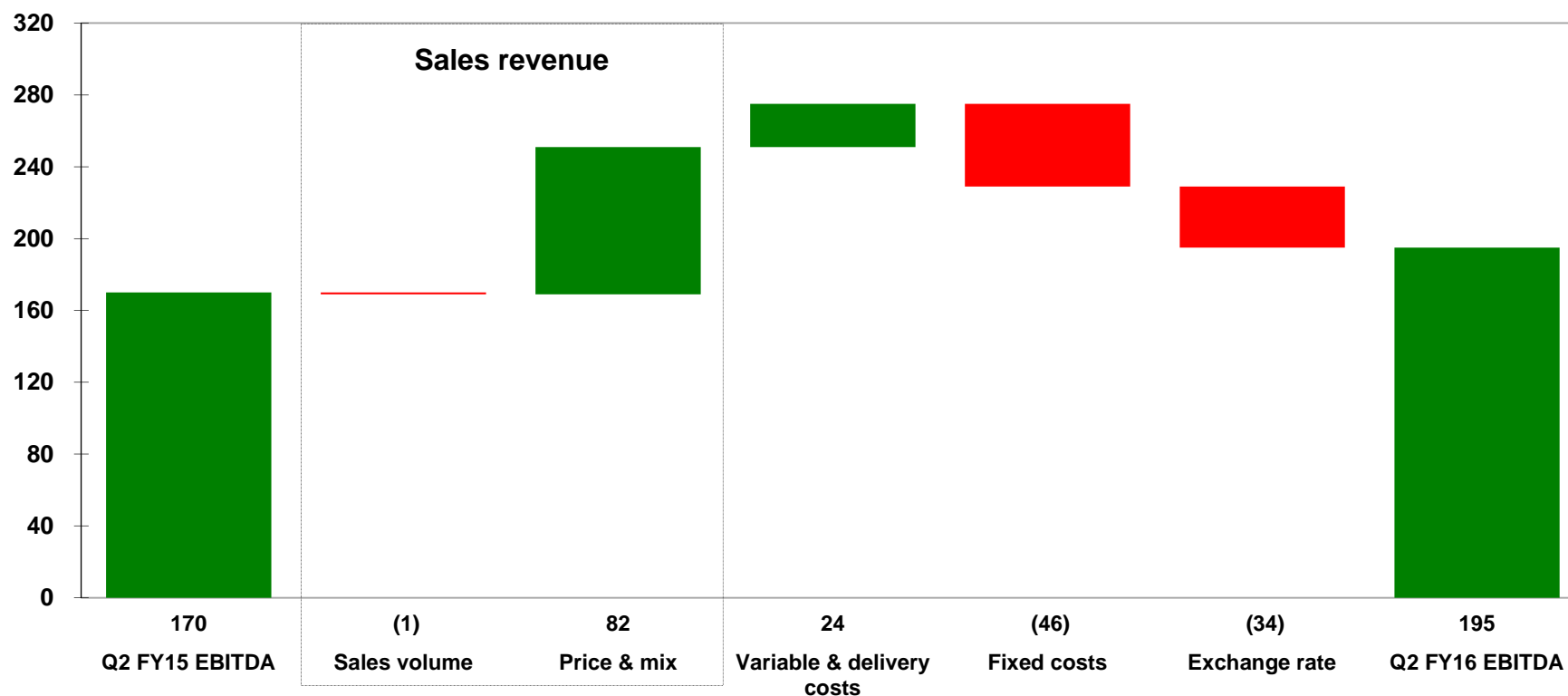


Key ratios

	Q2 FY14	Q2 FY15	Q2 FY16
Net Debt/ LTM EBITDA	4.0	2.9	2.4
Interest Cover	3.1	3.7	6.5
EBITDA %	10.9	12.7	15.1
ROCE %	11.0	13.5	19.3

EBITDA Bridge*

Q2 FY15 to Q2 FY16



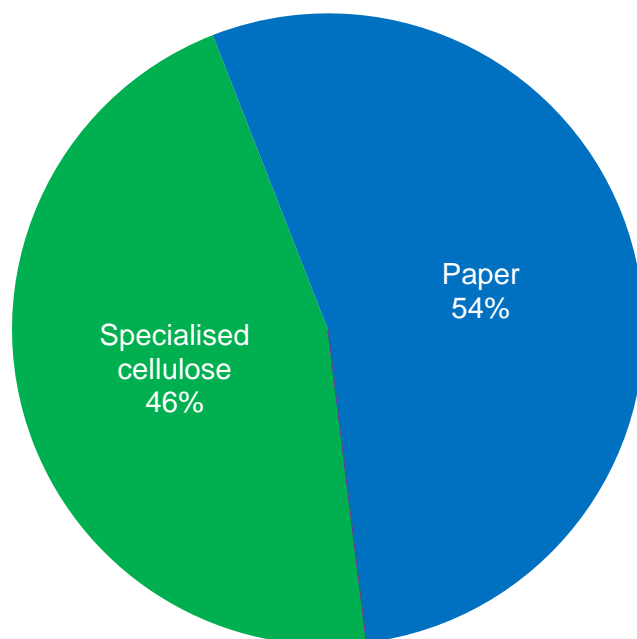
- All variances calculated excluding Sappi Forestry.
- EBITDA above excludes special items*
- "Exchange rate" reflects the impact of changes in the average rates of translation of foreign currency results.

* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q2 FY16 results booklet (available on www.sappi.com) for a definition of special items.

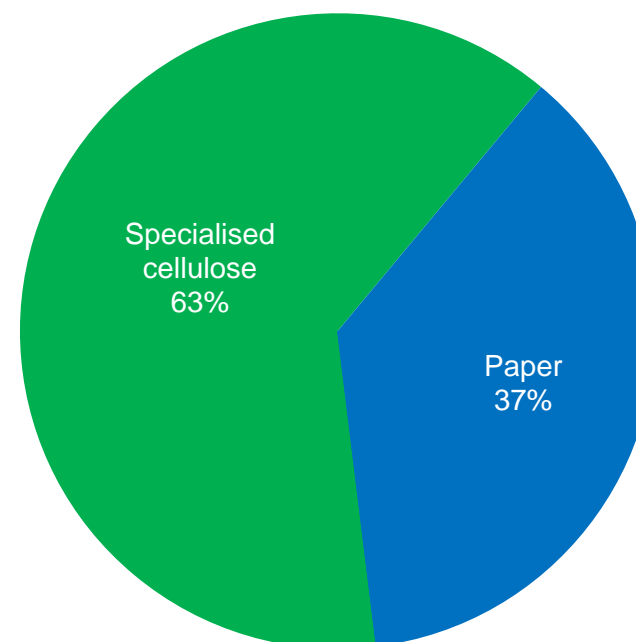
Product contribution split - LTM



EBITDA excluding special items*

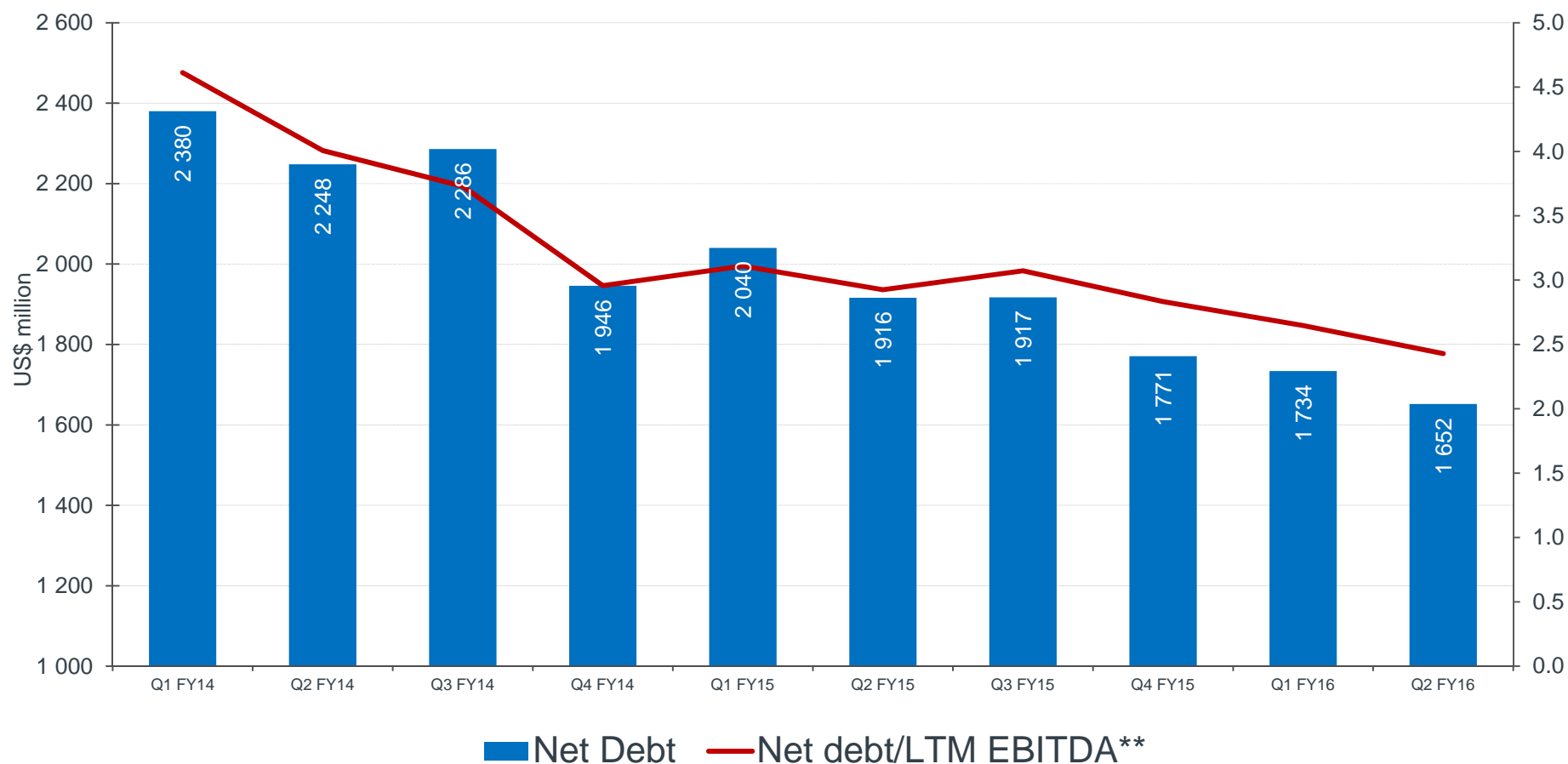


Operating profit excluding special items



* Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q2 FY16 results booklet (available on www.sappi.com) for a definition of special items. Data above excludes treasury operations and insurance captive.

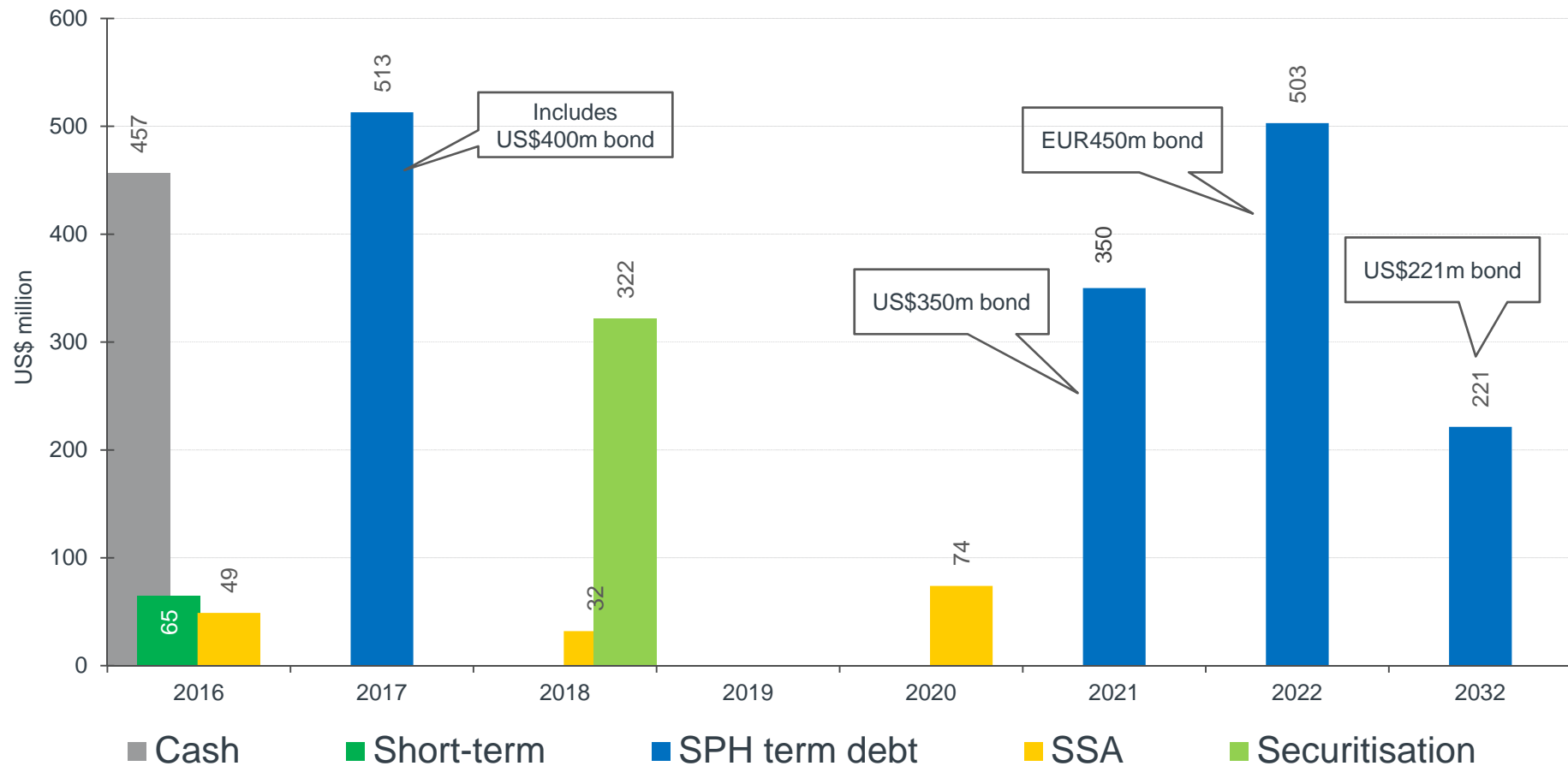
Net debt/EBITDA development



Maturity profile



Fiscal years



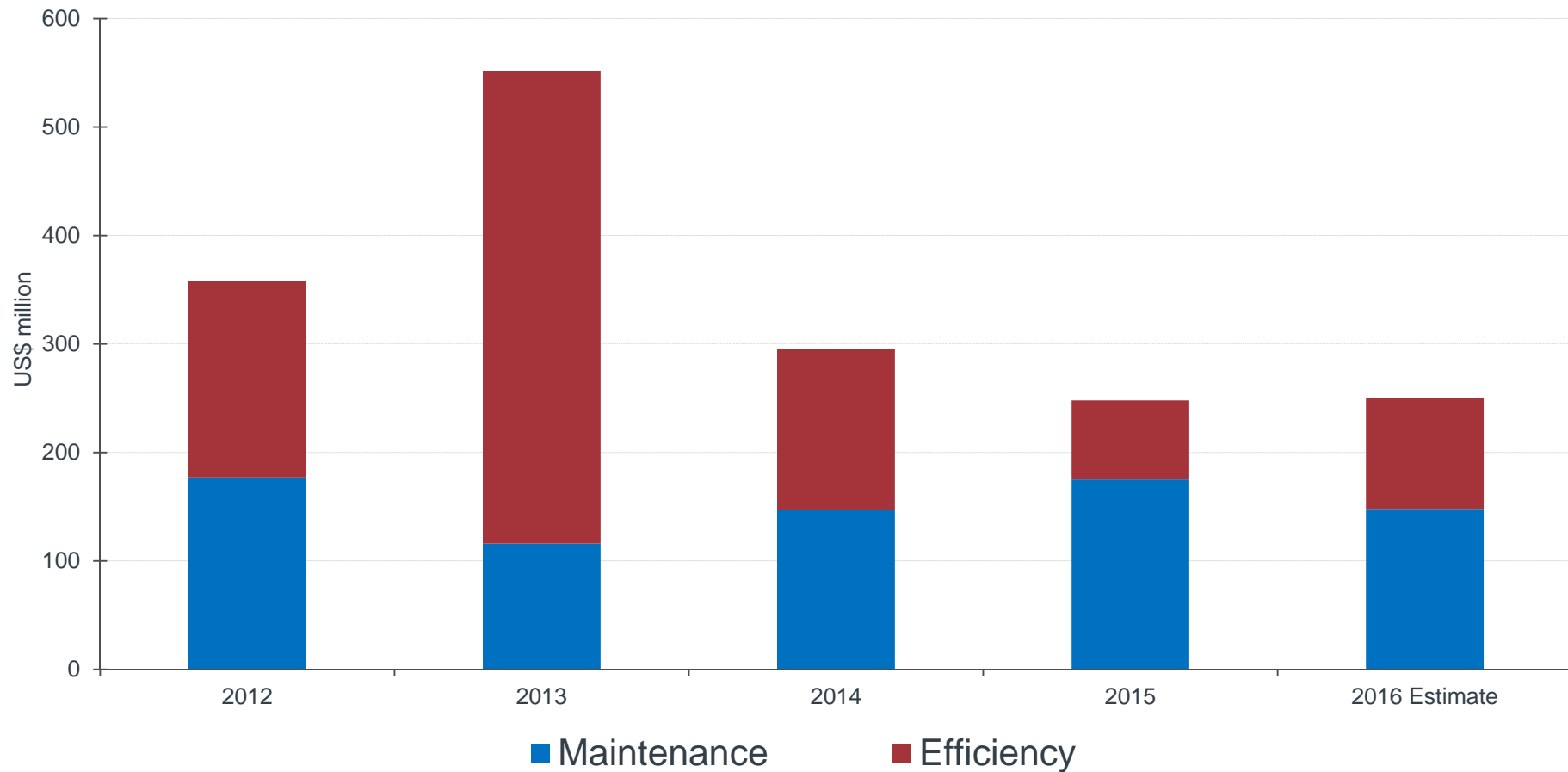
Post quarter-end refinancing



- Refinanced our 2021 bonds (\$350m 6.625%)
- New notes now due 2023 (€350m 4.0%)
- Interest cost to reduce by approximately \$8m annually
- Costs incurred of US\$23m to be recognized in Q3 FY16



Capital and investment spend



Divisional overviews



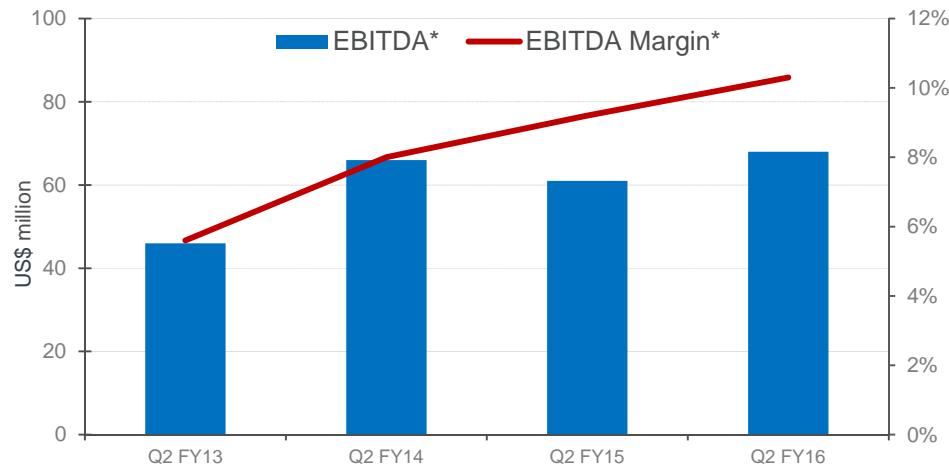
Global paper market trends

- Supply and demand
 - Soft demand in most markets
 - Operating rates declining
 - Mechanical paper grades under pressure

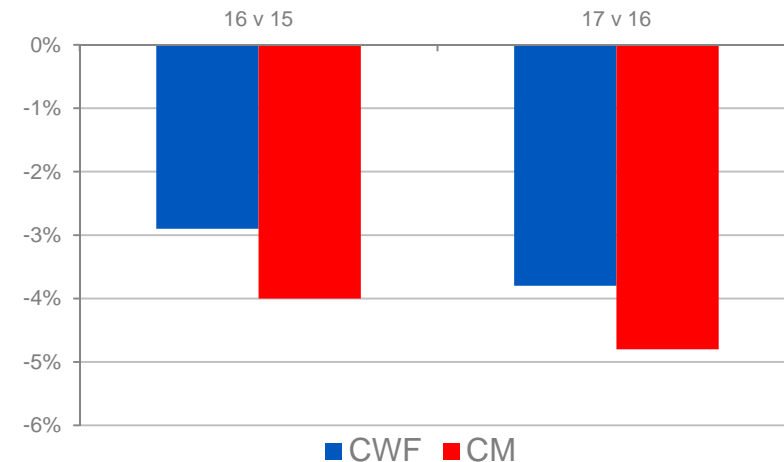
- Selling prices and input costs
 - CWF and CM sales prices stable
 - Fuel oil, energy and oil-based chemical prices still low
 - Paper pulp prices remain low

- Strategy
 - Reduce or convert capacity in line with demand declines
 - Reduce fixed and variable costs

Sappi Europe



W. Europe Apparent Consumption Forecast**



- Improved performance, volumes and prices better than last year. CM markets still challenged. Market share gains offset overall declines in coated paper.
- Speciality paper volumes up 19% - market average growth of 1%-5%.
- Variable and delivery costs down 5% y-o-y

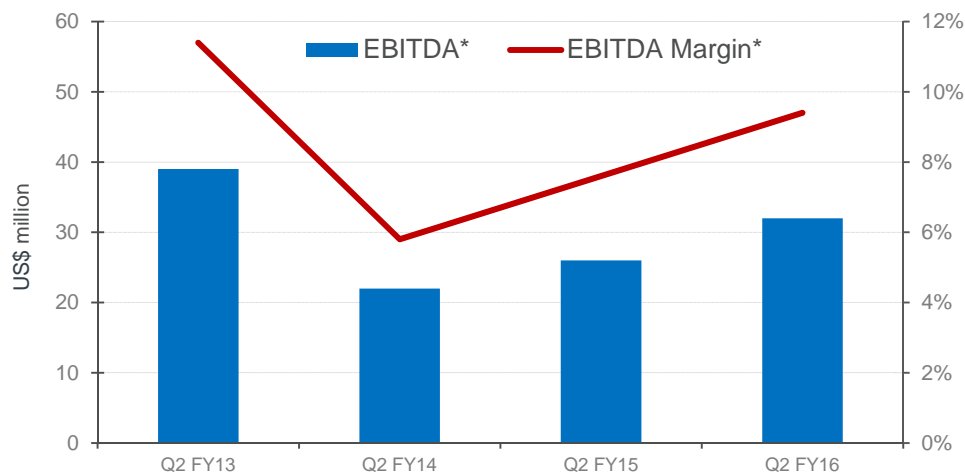


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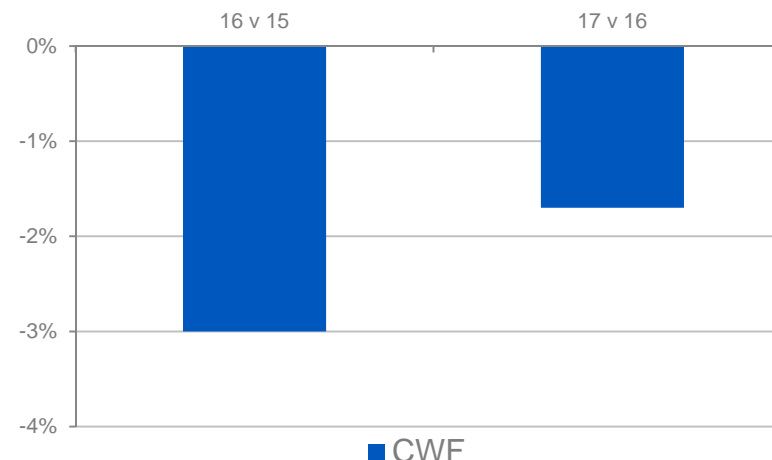
* EBITDA and EBITDA margin shown excluding special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported operating profit and page 22 in our Q2 FY16 results booklet (available on www.sappi.com) for a definition of special items.

** Source: RISI

Sappi North America



N. America Apparent Consumption Forecast**



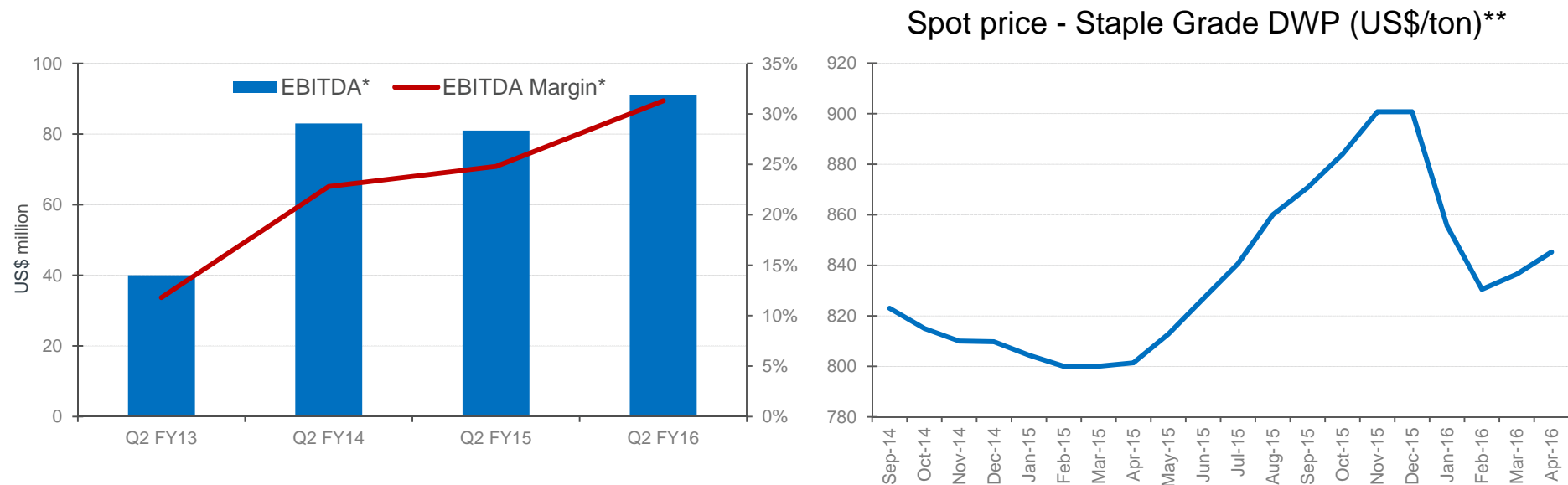
- Continued improvement - higher paper volumes, lower costs
- HW web good demand
- Pricing for sheeted products and lightweight web under pressure from imports
- DWP volumes - supplemented prior quarter drought impacted volumes from Saiccor
- Release business volumes 4% higher than last year



Global specialised cellulose market trends

- Supply and demand
 - Most swing capacity has entered the market as hardwood paper pulp prices fell
 - Continued strong demand, high Chinese VSF operating rates
- Selling prices and input costs
 - Spot prices for commodity grade DWP fell during the quarter but have since recovered somewhat
- Strategy
 - Maintain low-cost position
 - Continue working with customers supporting common growth
 - Investigate adjacent DWP grades

Sappi Southern Africa



- Improved margins on higher prices and impact of weaker Rand, notwithstanding the Ngodwana and Saiccor shuts (usually Q3)
- DWP volumes were higher than both comparative periods, higher selling prices from Q1.
- Mill sales during the prior quarter, as well as the later onset of the citrus picking season negatively impacted paper sales volumes.

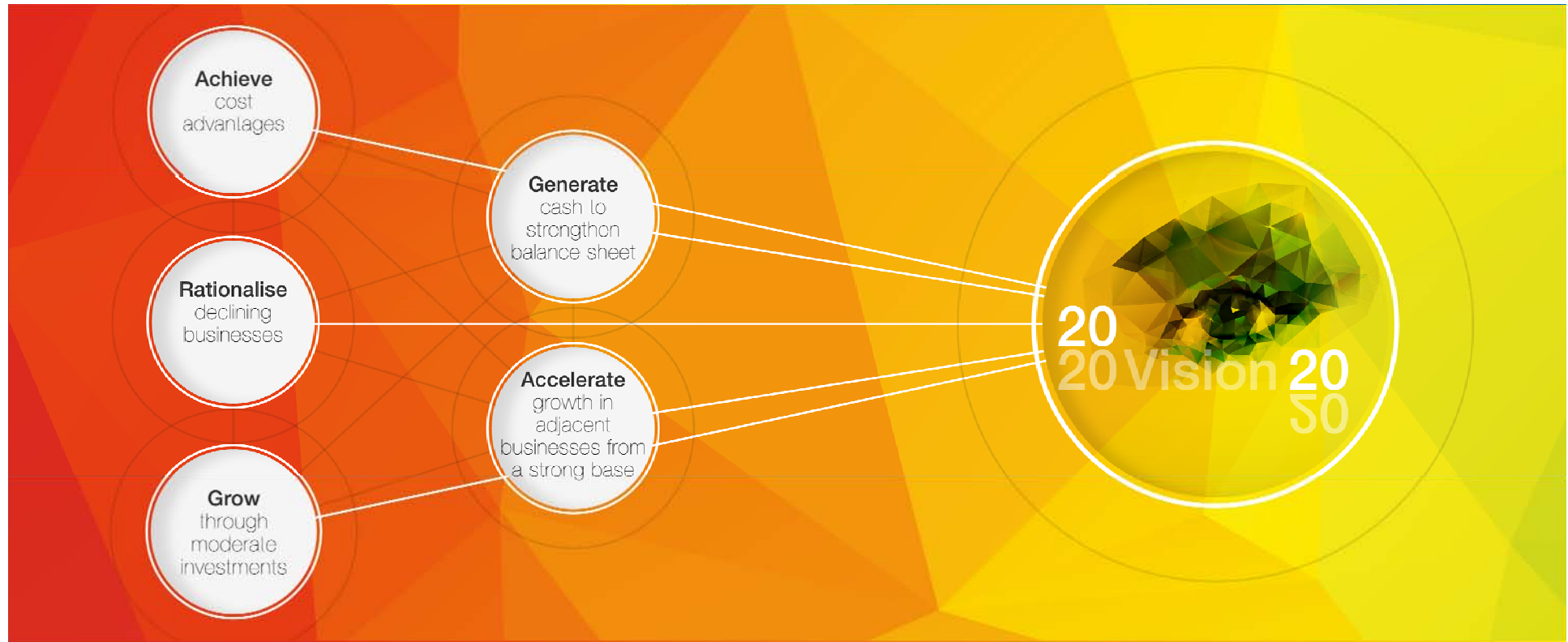


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** Source: CCF

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Strategic focus



Focus areas



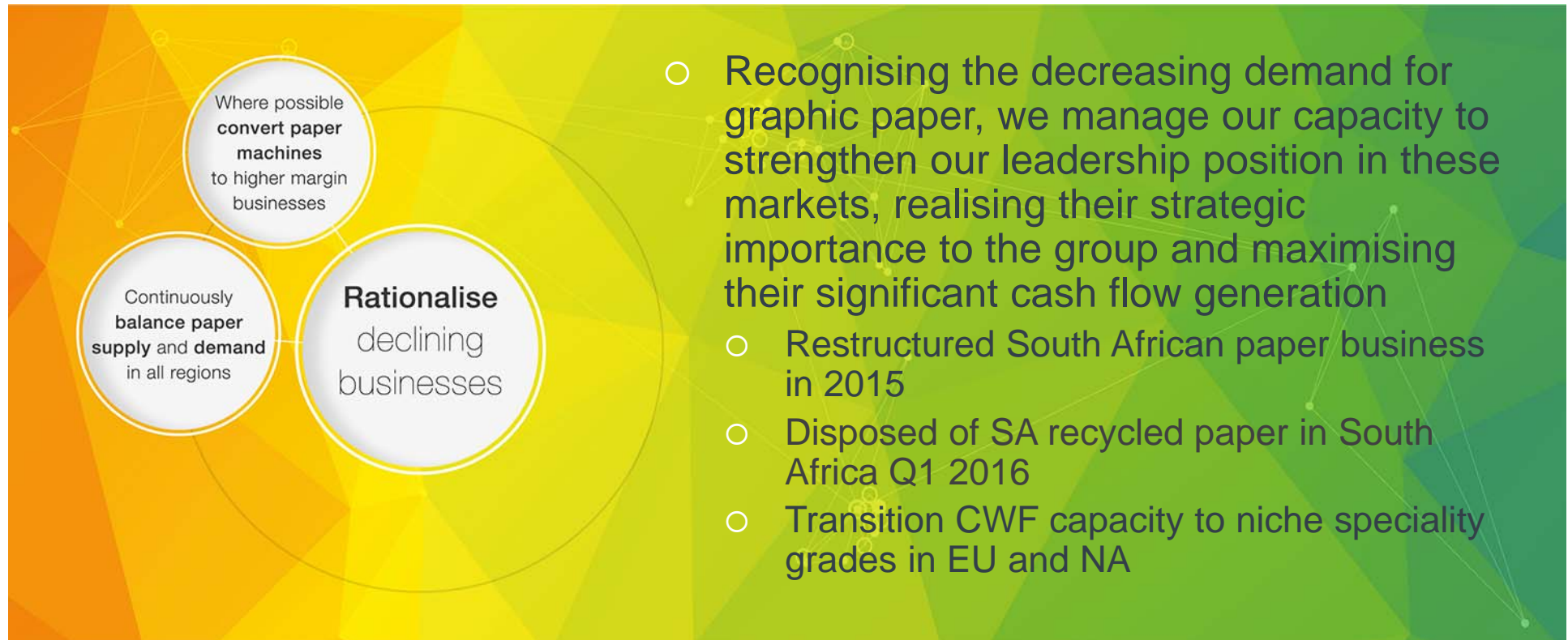
Achieve cost advantages



Focus areas



Rationalise and optimise declining businesses



Focus areas



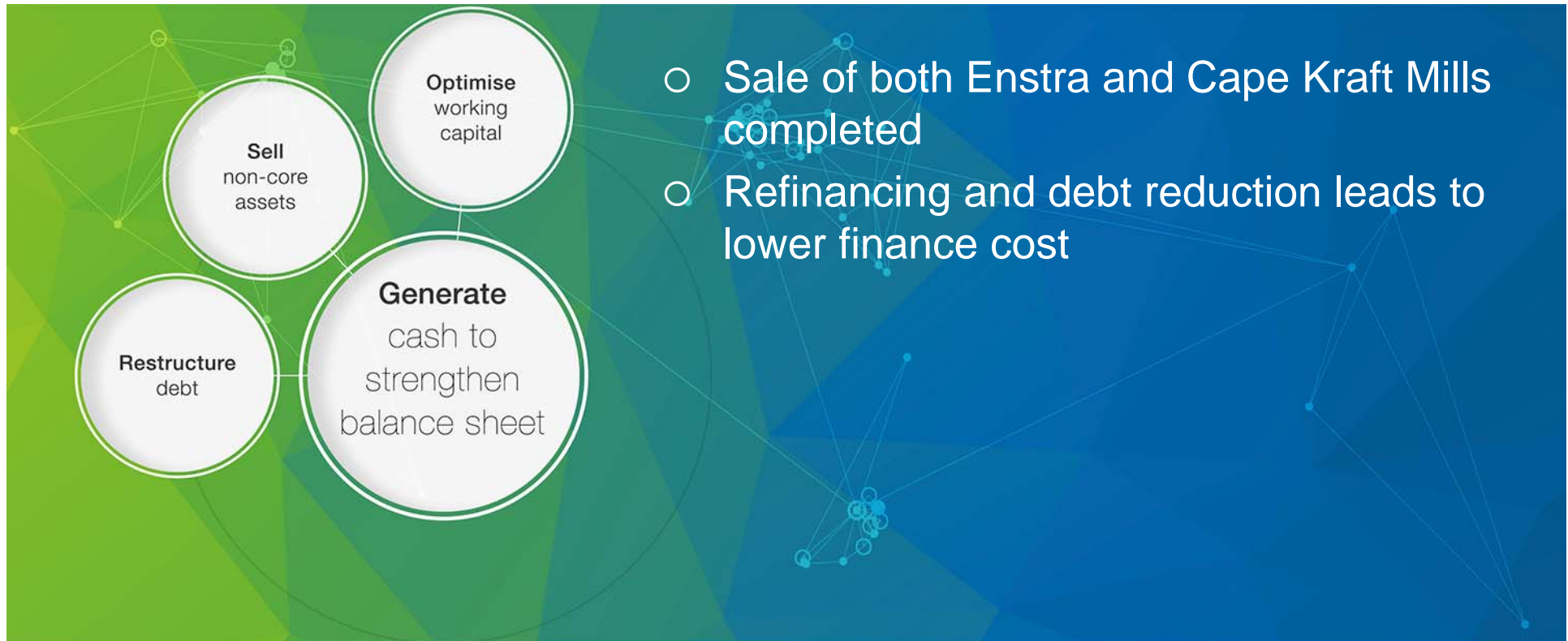
Grow through moderate investments



Focus areas



Generate cash to strengthen the balance sheet



Focus areas



Accelerate growth in adjacent businesses from a strong base

A network diagram with blue nodes and lines on a dark blue background, surrounding the central focus area.

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 paper
 - Biomaterials, biochemicals – lignins, sugars
 - Expanded DWP portfolio – nano-cellulose, other speciality grades

Outlook



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Outlook



- Specialised Cellulose benefiting from rising average USD prices and weaker ZAR/US Dollar exchange rate. Demand remains good and the outlook for this business is positive.
- In North America variable costs are down significantly while volumes are stable.
- European business continues to improve with reasonable operating rates and lower variable costs. Speciality Packaging showing strong growth.



Outlook (cont'd)



- Based on current market conditions, and assuming current exchange rates, we expect the growth in 2H EBITDA ex-items to be in line with 1H FY16.
- We expect a strong increase in our earnings based on improved operating profits and lower expected finance costs, offset somewhat by increased taxes.
- Expect further net debt declines toward our target of less than 2-times net debt to EBITDA.



Thank you –



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Supplementary information

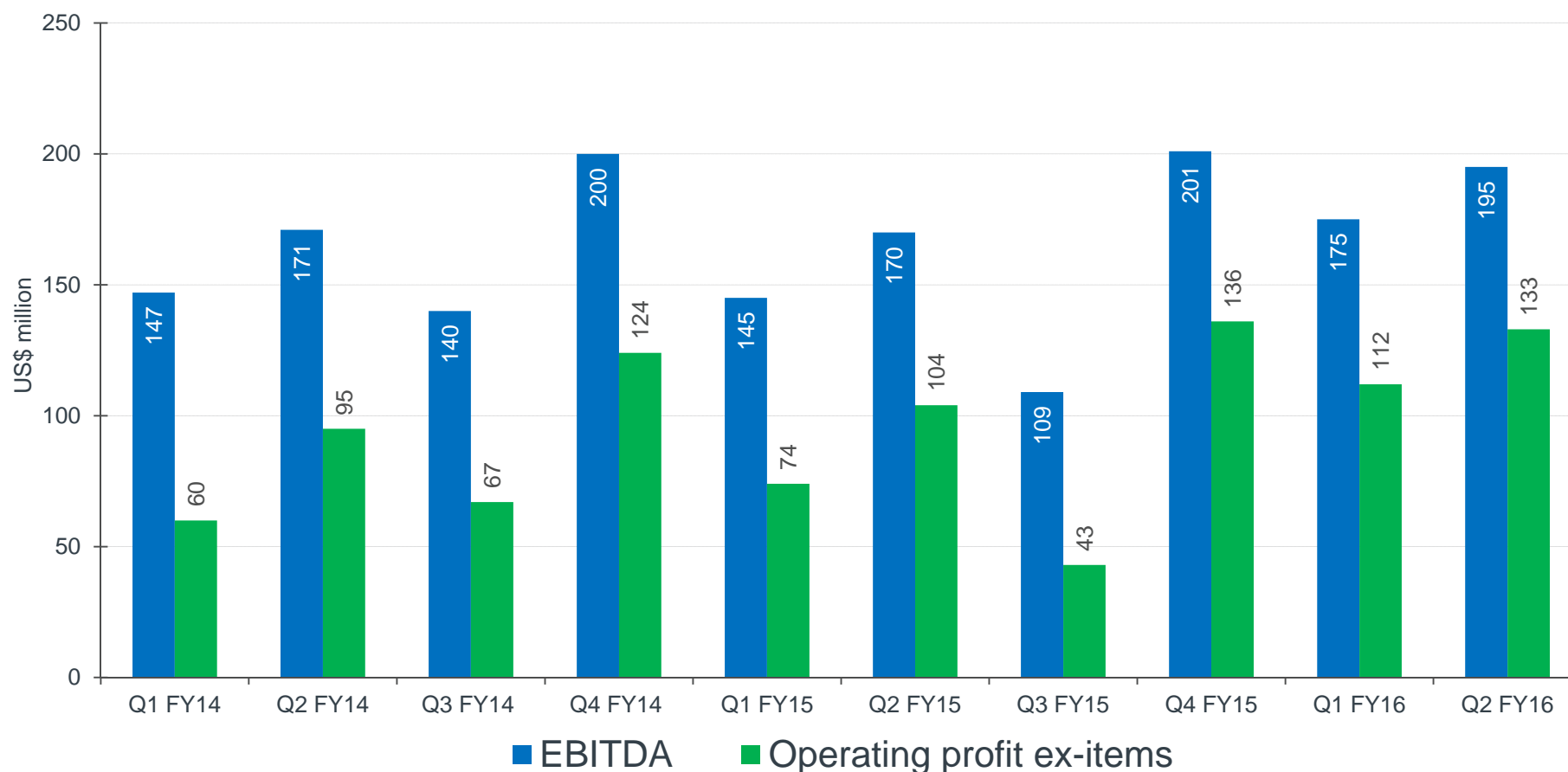


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EBITDA and operating profit



Excluding special items*



Sappi Packaging and Speciality Papers

Global production sites

Sappi Alfeld (Germany)



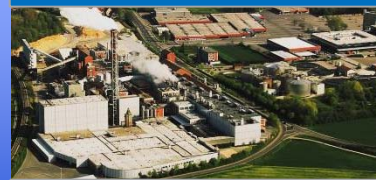
Flexible Packaging, Label, SBB Board, Topliner and Release Liner

Sappi Maastricht (Netherlands)



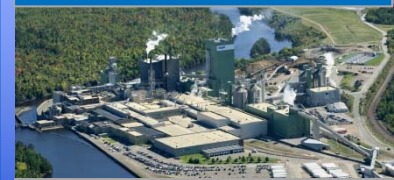
Folding Box Board - atelier™

Sappi Eching (Germany)



Topliner - Fusion®

Sappi Cloquet (USA)



Label Paper – LusterCote®

Sappi Somerset (USA)



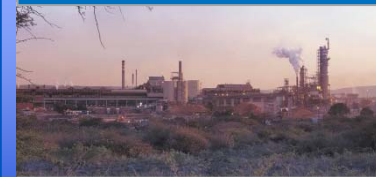
Label Paper – LusterCote® and Flex. Pack. Paper - LusterPrint®

Sappi Westbrook (USA)



Release Paper – Ultracast® and different classic brands

Sappi Tugela (South Africa)



Liner – Ultratest and Fluting – Ultraflute™

Sappi Ngodwana (South Africa)



Liner – Kraftpride™



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Markets and Growth rates

Global Market size – Speciality packaging



Flexible Packaging and Label Papers

- C1S papers
- 1.2 mtons
- Growth: 2-3 % p.a.



Release Liner

- CCK graphic arts
- 300 ktons
- Growth: 6 % p.a.



Rigid Packaging

- SBS printing and converting
- 4.7 mtons
- Growth: 2 % p.a.



Containerboard

- Coated White Topliner
- 1 mtons
- Growth: 1-2 % p.a.



Functional Papers

- Barrier and grease resistant papers
- Virtually unlimited

Source for growth rates: AWA, Pira and Risi

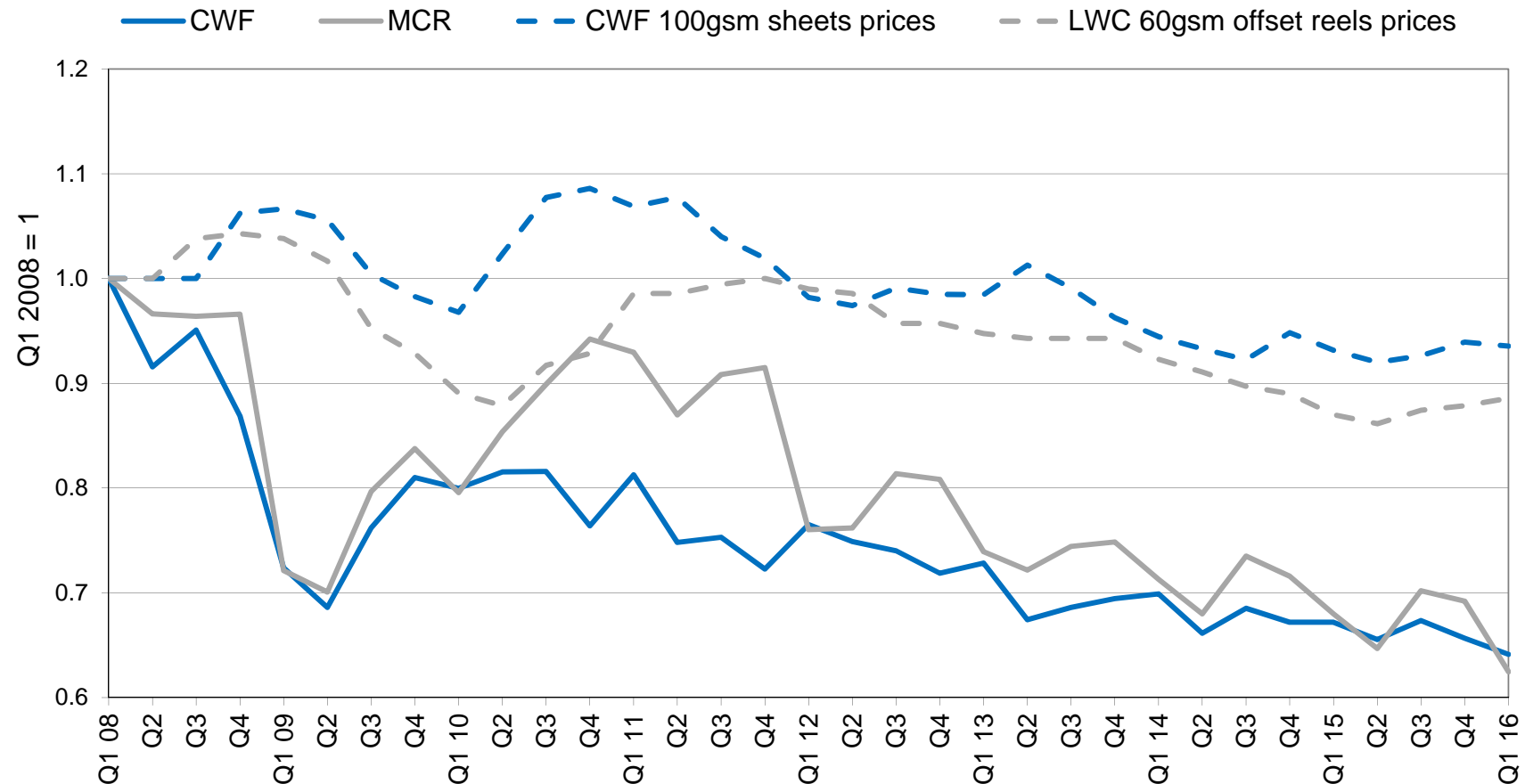
Intentional
evolution

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Coated paper deliveries and prices



Western Europe



Sappi Europe

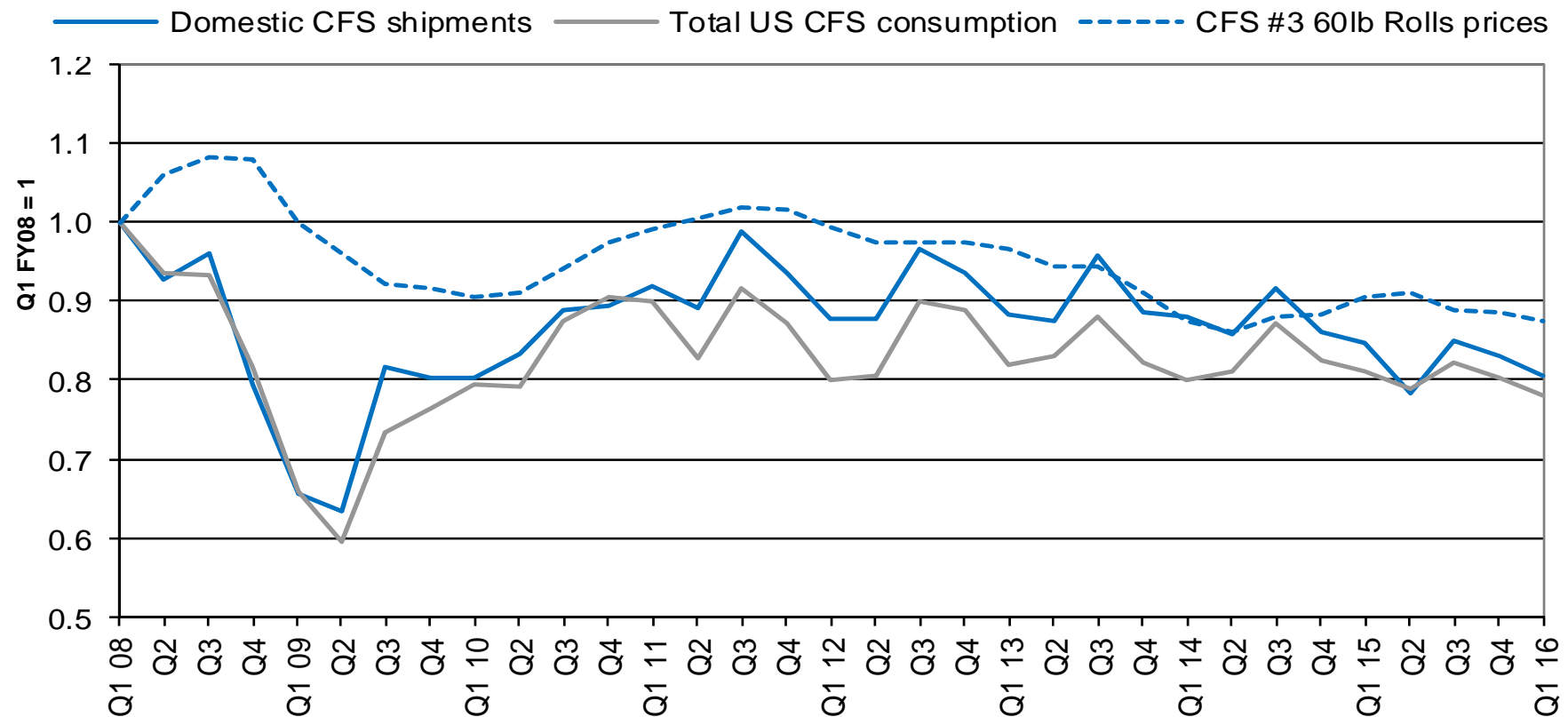


	Q2 FY16	Q2 FY15	1H FY16	1H FY15
Tons sold ('000)	834	828	1,670	1,603
Sales (EURm)	604	590	1,205	1,137
Price/Ton (EUR)	724	713	722	709
Cost/Ton* (EUR)	685	684	685	687
Operating profit excluding special items** (EURm)	33	24	62	36

Coated paper prices and shipments



United States



34

* US industry shipments and total US consumption
Source: AF&PA and RISI indexed to calendar Q1 FY08

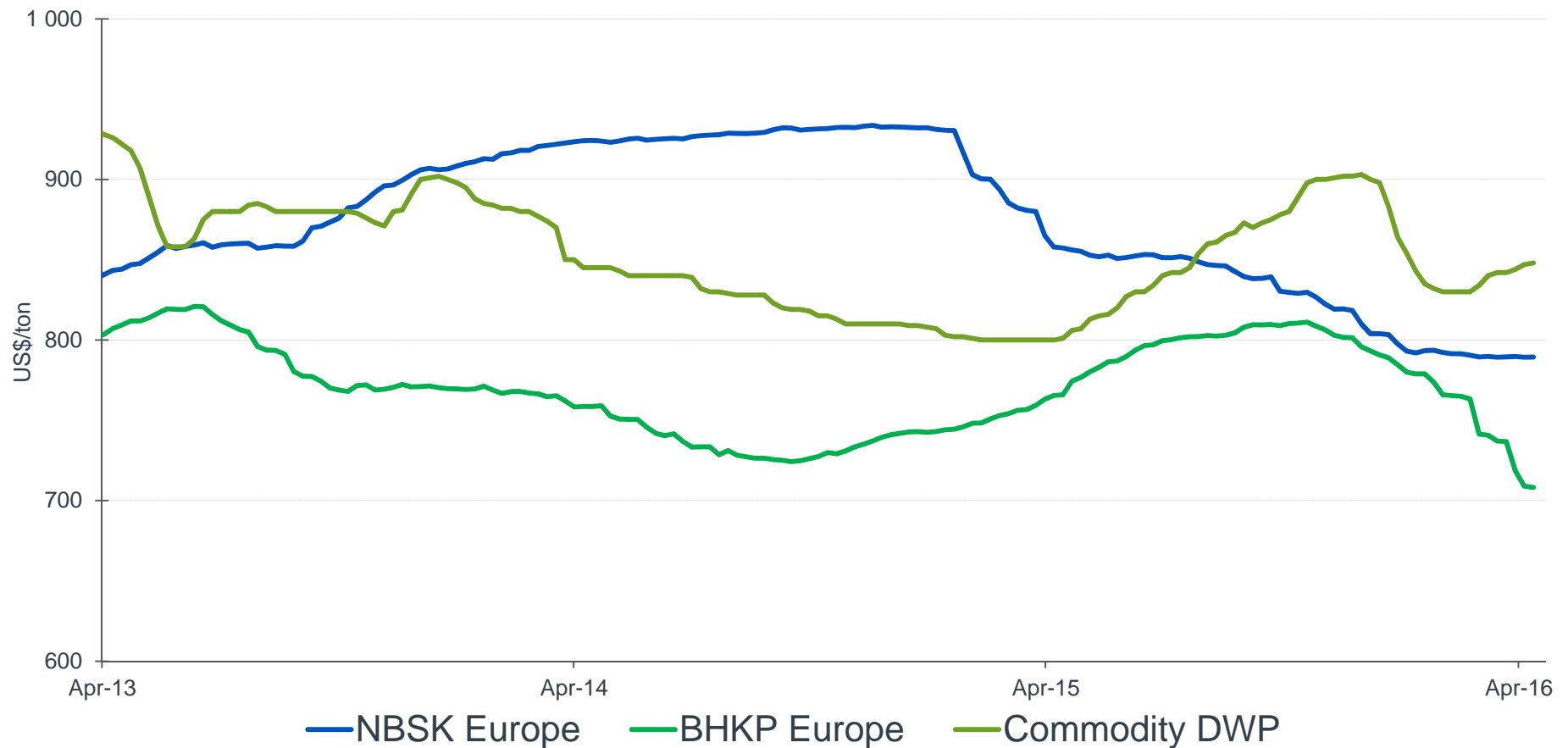
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Sappi North America



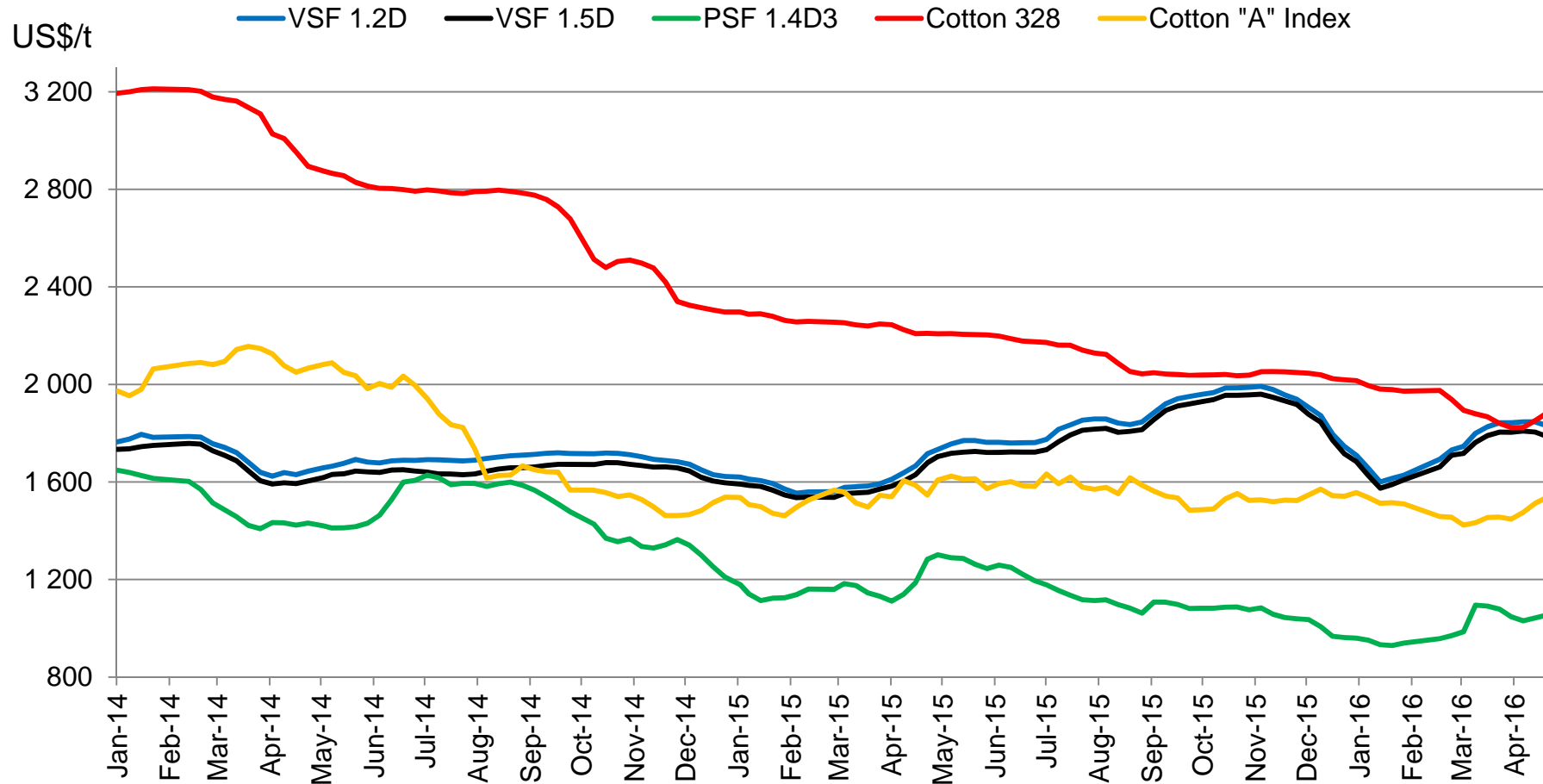
	Q2 FY16	Q2 FY15	1H FY16	1H FY15
Tons sold ('000)	331	321	661	654
Sales (US\$m)	339	342	682	695
Price/Ton (US\$)	1,024	1,065	1,032	1,063
Cost/Ton* (US\$)	985	1,044	992	1,058
Operating profit excluding special items** (US\$m)	13	7	26	3

Pulp prices*



• Source: FOEX, CCF group

Textile Fibre Prices



Sappi South Africa



Excluding Sappi Forests

	Q2 FY16	Q2 FY15	1H FY16	1H FY15
Tons sold ('000)	404	424	790	850
Sales (ZARm)	4,376	3,653	8,171	7,297
Price/Ton (ZAR)	10,832	8,616	10,343	8,585
Cost/Ton* (ZAR)	7,725	6,795	7,553	6,846
Operating profit excluding special items** (ZARm)	1,255	772	2,204	1,478



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

** Refer to the supplementary information in this presentation for a reconciliation to reported operating profit and page 22 in our Q2 FY16 results booklet (available on www.sappi.com) for a definition of special items.

Cash flow



US\$m	Q2 16	Q2 15	1H 16	1H 15
Cash generated from operations	187	136	358	273
Movement in working capital	(22)	23	(122)	(113)
Net finance costs paid	(22)	(38)	(58)	(90)
Taxation paid	(4)	(1)	(22)	(4)
Cash generated from operating activities	139	120	156	66
Cash utilised in investing activities	(49)	(38)	(47)	(105)
Capital expenditure	(45)	(46)	(85)	(114)
Net proceeds on disposal of assets	(3)	-	38	-
Other movements	(1)	8	-	9
Net cash generated (utilised)	90	82	109	(39)

EBITDA and operating profit



Excluding special items reconciliation to reported operating profit

US\$m	Q2 16	Q2 15	1H 16	1H 15
EBITDA excluding special items*	195	170	370	315
Depreciation and amortisation	(62)	(66)	(125)	(137)
Operating profit excluding special items*	133	104	245	178
Special Items* - gains (losses)	22	68	33	63
Plantation price fair value adjustment	26	18	28	19
Net restructuring provisions	(1)	(2)	(4)	(3)
Profit on disposal of asset held for sale and other assets	1	-	16	-
Employee benefit liability settlement	-	57	-	57
BEE charge	(1)	(1)	(1)	(1)
Fire, flood, storm and other events	(3)	(4)	(6)	(9)
Segment operating profit	155	172	278	241

Thank you



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