sappi

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1936 2016

Q1 Fact Sheet 2016

Results for Q1 FY16 — the quarter ended December 2015

EPS excl special items[1]	Profit for the period	EBITDA excl special items[1]	Net debt
US¢13	US$75 million	US$175 million	US$1,734 million
Q1FY15 US¢5	Q1FY15 US$24 million	Q1FY15 US$145 million	down US$306 million year-on-year

	US$ million	Quarter ended		
		Dec 2015	Dec 2014	Sept 2015
Key figures	Sales	**1,284**	1,377	1,403
	Operating profit excl special items[1]	**112**	74	136
	Special items (gains) losses [1]	**(11)**	5	1
	EBITDA excluding special items[1]	**175**	145	201
	Profit for the period	**75**	24	83
	Basic EPS (US cents)	**14**	5	16
	EPS excluding special items (US cents)[1]	**13**	5	16
	Net debt[1]	**1,734**	2,040	1,771
Key ratios (%)	Operating profit excluding special items to sales	**8.7**	5.4	9.7
	ROCE[1] Operating profit excluding special items to capital employed	**16.2**	9.7	18.7
	EBITDA excluding special items to sales	**13.6**	10.5	14.3
	Net debt to EBTIDA excluding special items[1]	**2.6**	3.1	2.8
	Interest cover[1]	**5.1**	3.8	4.4
	Net asset value per share (US cents)	**192**	202	193

1 Refer to the published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

Commentary

Operating performance in the quarter was **excellent** — substantially above Q1 FY15.

Operating profit excluding special items **up 51%**.

Successful results attributable to **higher graphic paper volumes, improved pricing** for **dissolving wood pulp** (but with some downward pressure at the end of the quarter) and **cost containment** initiatives.

European business delivered a strong performance.

In North America, coated paper sales volumes recovered and selling prices stabilised.

South African paper business' profitability increased.

Increased cash generation atributed to **improved operating performance** and proceeds from the sale of our Cape Kraft and Enstra mills.

Net debt substantially down.

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.

Achieve cost advantages

- Improve operational and machine **efficiencies**
- Maximise global **procurement benefits**
- Optimise **business processes**

Rationalise declining businesses

- Where possible **convert paper machines** to higher margin businesses
- Continuously **balance paper supply** and **demand** in all regions

Grow through moderate investments

- **Expand** paper packaging grades
- **Enhance** specialised cellulose product portfolio
- **Extract** value from our biorefinery stream

Generate cash to strengthen balance sheet

- **Optimise** working capital
- **Sell** non-core assets
- **Restructure** debt

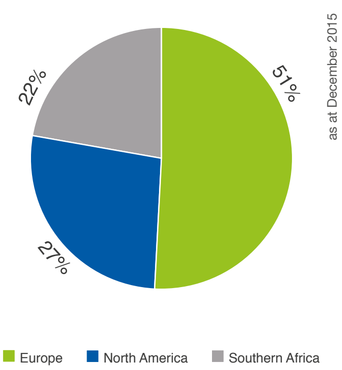
Accelerate growth in adjacent businesses from a strong base

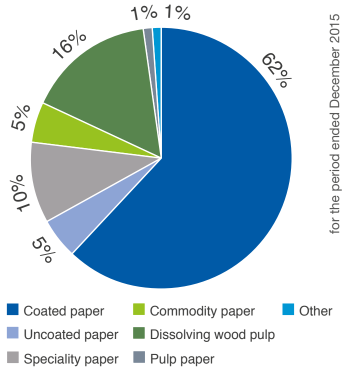
New business **opportunities** including:
- Nanocellulose
- Biorefinery
- Energy

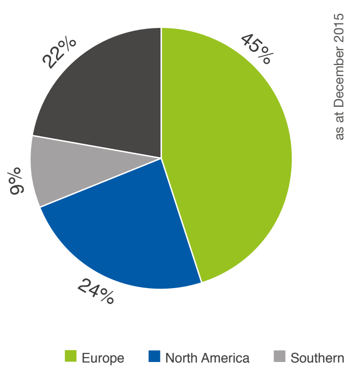
First quarter results – December 2015

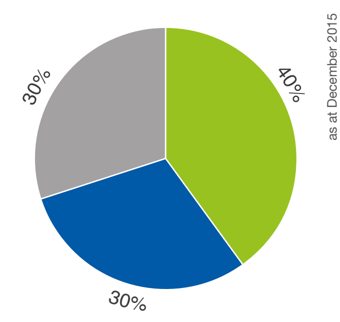
Net operating assets and sales distribution

Sales by source	Sales by product	Sales by destination	Net operating assets









Outlook

The **Specialised Cellulose** business is **benefiting** from **higher average** USD dissolving wood pulp (DWP) **prices** and, for our South African mills, a weaker ZAR/USD exchange rate. USD spot prices for DWP have come under pressure since December 2015 due to lower textile prices and added benefit of a weaker Chinese currency. **Demand remains strong** and we **remain confident** that, at current pricing levels and exchange rates, the **outlook** for this business is **positive**.

In North America, **graphic paper** is **performing solidly** in a difficult and competitive environment impacted by USD strength. Variable costs are reducing and **sales volumes have improved** after a particularly difficult Q3 FY15.

The European business is improving due to actions we have taken to reduce costs and enhance returns over the past few years.

Strong demand for fruit exports, a key market for our **packaging products**, is **supporting** South African **growth**.

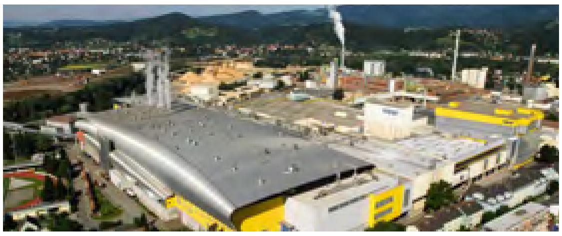
We expect Q2 FY16 EBITDA to be in line with Q1 FY16 and slightly ahead of Q2 FY15. Groupwide, total scheduled maintenance work will negatively impact the quarter by approximately US$12 million compared to Q2 FY15.

Based on current market conditions, and assuming current exchange rates, we expect that FY16 EBITDA excluding special items will be higher than FY15. As a result of **improved operating profits** and **lower** expected **finance costs**, offset somewhat by increased tax charges, we expect **strong earnings growth**.

Capex in FY16 is expected to be in line with FY15 and is **focused** largely on **energy** and **debottlenecking projects** in South Africa.

Depending on market conditions, we are considering utilising some of our cash reserves to **repay** and **refinance a portion of our debt** to **lower future interest costs**. We expect to reduce our net debt further over the course of the year and **reduce** our **financial leverage** closer to our targeted ceiling of **two times net debt to EBITDA**.

Gratkorn



The completed upgrade to Gratkorn Mill's pulp production facilities and improvements to its papermaking capabilities secures a significantly lower cost base. The investment increased PM11's weight range and ensures long-term emission limits compliance.

Kirkniemi

A new power plant, at Kirkniemi Mill, which is now operational significantly improved cost competitiveness and profitability by reducing energy costs and securing energy supply. The plant can potentially use 100% solid biomass such as bark from the mill's debarking process.

Ngodwana

Q2 FY16 will be impacted by a planned extended annual maintenance shut at our Ngodwana mill in South Africa and a regular maintenance stoppage at Saiccor which traditionally happens in the third quarter. The total scheduled maintenance work in the group will negatively impact the quarter by approximately US$12 million when compared to the equivalent quarter last year.

First quarter results – December 2015

Europe

6 Paper mills
1 Speciality paper mill
16 Sales offices

The performance of the European business improved compared to both the prior quarter and Q1 FY15, a quarter which was negatively impacted by €12 million due to the upgrade of the paper machine at Gratkorn Mill.

The business was able to maintain a portion of the price increases announced in the last financial year for graphic paper. As a result, selling prices were higher than a year ago.

Coated woodfree markets stabilised and, together with market share gains, resulted in higher volumes.

There were further gains from the transfer of volumes from the Husum Mill, a mill from which we previously sold on an agency basis.

The specialities market experienced a weak period through to November, however, orders recovered strongly in the last month and sales volumes for the quarter were nonetheless substantially higher than those of a year ago.

Fixed and variable costs were flat year-on-year, with higher pulp costs being offset by lower energy, post the completion of the multifuel boiler at Kirkniemi, and chemical costs.

Berry Wiersum
Chief Executive Officer
Sappi Europe

North America

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

The business made a stronger start to the year. Profits were significantly above Q1FY15 due to higher coated paper sales volumes and lower variable costs. The comparative quarter was negatively impacted by US$10 million for an extended annual maintenance shut at Somerset Mill.

The coated paper market remained under pressure due to the strong US Dollar, leading to a surge in coated paper imports and a large decline in exports. However, domestic market-share gains led to higher sales volumes compared to Q1 FY15. Sales prices held, quarter-on-quarter, but were 3% below Q1 FY15.

Dissolving wood pulp sales volumes were flat compared to the prior quarter, with higher average sales prices compared to both the prior quarter and Q1 FY15. Sales volume was 22% below Q1 FY15 as Cloquet Mill took advantage of the pulp mill's swing-capability to make kraft pulp for the paper machines at lower costs.

The casting release paper business continues to be adversely affected by a weak patterned-textile market in China. Sales prices improved compared to Q1 FY15 due to price increases implemented during 2015.

Variable costs were lower than Q1 FY15 driven mainly by lower fibre and energy prices. Fixed costs were well controlled and were flat year-on-year.

Mark Gardner
President and Chief Executive Officer
Sappi North America

Southern Africa

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

The Southern African business continued to enhance margins, as a result of higher net selling prices for dissolving wood pulp (DWP) and paper. Margins were further boosted by the weaker Rand.

DWP sales volumes were lower than both the prior quarter and Q1 FY15 as a result of the severe drought experienced in South Africa and a delayed shipping of a break-bulk vessel past quarter end. The drought slowed production at the Saiccor Mill for a few weeks and reduced the EBITDA excluding special items of the South African business by US$6 million (ZAR87 million). Higher average USD prices and a weaker ZAR/USD exchange rate led to substantially higher dissolving wood pulp prices.

The improvement in the paper business was due to the realisation of higher local selling prices and, despite pressure on raw material prices from the weaker Rand, a tight control of costs. Demand for containerboard continues to be robust.

The sales of the Cape Kraft and Enstra Mills were completed during the quarter.

Fixed and variable costs were flat year-on-year as a result of the sale of the Cape Kraft and Enstra Mills, with energy cost savings offsetting increased fibre costs.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa

Registration number: 1936/008963/06 Issuer code: SAWI JSE Code: SAP ISIN: ZAE000006284