



sappi

Inspired by life



Second quarter results

for the period ended March 2016

2nd quarter results

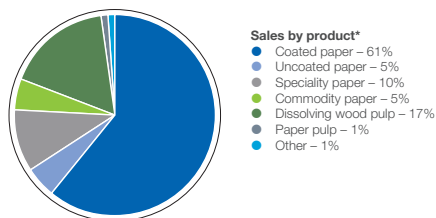
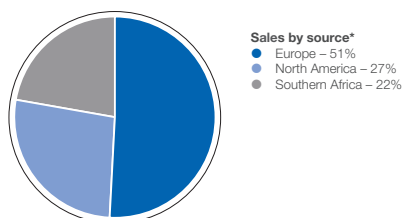
Sappi is a global diversified woodfibre company focused on providing graphic papers, packaging and speciality papers, dissolving wood pulp as well as products in adjacent fields including nanocellulose and lignosulphonate to our direct and indirect customer base across more than 150 countries.

Our market-leading range of graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; quality packaging and speciality 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 release papers used by suppliers to the fashion, textiles, automobile and household industries; 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.

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

Highlights for the quarter

- ▶ Profit for the period
US\$100 million
(Q2 2015 US\$56 million)
- ▶ EPS excluding special items 16 US cents
(Q2 2015 11 US cents)
- ▶ EBITDA excluding special items US\$195 million
(Q2 2015 US\$170 million)
- ▶ Net debt US\$1,652 million,
down US\$264 million
year-on-year



* for the period ended March 2016

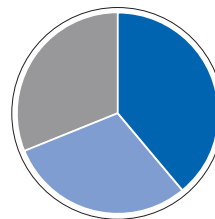
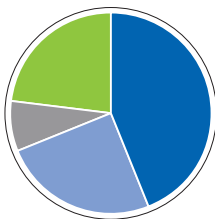
Financial highlights

	Quarter ended			Half-year ended	
	Mar 2016	Mar 2015	Dec 2015	Mar 2016	Mar 2015
Key figures: (US\$ million)					
Sales	1,294	1,338	1,284	2,578	2,715
Operating profit excluding special items ⁽¹⁾	133	104	112	245	178
Special items – gains ⁽²⁾	(22)	(68)	(11)	(33)	(63)
EBITDA excluding special items ⁽¹⁾	195	170	175	370	315
Profit for the period	100	56	75	175	80
Basic earnings per share (US cents)	19	11	14	33	15
EPS excluding special items (US cents) ⁽³⁾	16	11	13	29	16
Net debt ⁽³⁾	1,652	1,916	1,734	1,652	1,916
Key ratios: (%)					
Operating profit excluding special items to sales	10.3	7.8	8.7	9.5	6.6
Operating profit excluding special items to capital employed (ROCE) ⁽³⁾	19.3	13.5	16.2	17.7	11.8
EBITDA excluding special items to sales	15.1	12.7	13.6	14.4	11.6
Net debt to EBITDA excluding special items ⁽³⁾	2.4	2.9	2.6	2.4	2.9
Interest cover ⁽³⁾	6.5	3.7	5.1	6.5	3.7
Net asset value per share (US cents)	210	216	192	210	216

⁽¹⁾ Refer to page 20, note 10 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit, and profit for the period.

⁽²⁾ Refer to page 20, note 10 to the group results for details on special items.

⁽³⁾ Refer to page 22, supplemental information for the definition of the term.



* for the period ended March 2016

** as at March 2016

Commentary on the quarter

Operating performance in the quarter continued to be strong despite the US\$10 million adverse impact of planned maintenance shuts across the group when compared to the equivalent quarter last year. The group generated EBITDA excluding special items of US\$195 million, an increase of 15% over the prior year. Operating profit excluding special items was up 28% to US\$133 million. Profit for the period increased from US\$56 million to US\$100 million. The improvement was attributable mainly to higher dissolving wood pulp sales volumes and prices, savings from cost containment initiatives and lower finance charges.

The Specialised Cellulose business improved during the quarter, with EBITDA excluding special items of US\$94 million, despite the annual maintenance shuts which occurred at both Ngodwana and Saiccor Mills during the quarter. Average US Dollar prices in the quarter were higher than both those of the prior quarter and the equivalent quarter last year due to higher average Chinese spot prices for dissolving wood pulp. The weaker Rand/Dollar exchange rate led to increased Rand prices.

The European business delivered another satisfactory performance, with stable sales volumes and higher selling prices, aided by good variable and fixed cost control.

Increased sales volumes and lower variable costs more than offset a decline in average sales prices for the North American business when compared to the equivalent quarter last year.

The paper business in South Africa was impacted negatively by the extended annual maintenance shut at Ngodwana, which commenced in March. The later onset of the citrus picking season also delayed some containerboard sales destined for the agricultural market. Higher sales prices offset variable cost increases, driven primarily by a weaker Rand/Dollar exchange rate.

Net finance costs for the quarter were US\$25 million, a reduction from the US\$97 million in the equivalent quarter last year (which included US\$63 million in once-off charges relating to the refinancing of the 2018 and 2019 bonds).

Earnings per share excluding special items for the quarter were 16 US cents, a healthy improvement over the 11 US cents generated in the equivalent quarter last year. Special items for the quarter resulted in a gain of US\$22 million, related mainly to a plantation fair value price adjustment.

Our strategy to reposition Sappi as a profitable and cash-generative diversified woodfibre group remains well on track.

Cash flow and debt

Net cash generated for the quarter was US\$90 million, compared to the US\$82 million generated in the equivalent quarter last year. This increase was as a result of the improved operating performance and lower finance costs, offset somewhat by a rise in working capital. Capital expenditure in the quarter of US\$45 million was in line with the equivalent quarter last year.

Net debt of US\$1,652 million is substantially lower than the US\$1,916 million at the end of the equivalent quarter last year as a result of strong cash generation in the past financial year and the translation benefit of the weaker Euro on the Euro denominated debt.

Since quarter-end we have completed the refinancing of our 2021 bonds. This will result in a reduction in the interest charge of approximately US\$8 million per annum going forward. The transaction costs of US\$23 million for the refinancing will be expensed during our third quarter.

Liquidity comprises cash on hand of US\$457 million and US\$584 million available from undrawn committed revolving credit facilities.

Operating review for the quarter

Europe

	Mar 2016 € million	Quarter ended			
		Dec 2015 € million	Sept 2015 € million	Jun 2015 € million	Mar 2015 € million
Sales	604	601	609	567	590
Operating profit excluding special items	33	29	23	5	24
<i>Operating profit excluding special items to sales (%)</i>	5.5	4.8	3.8	0.9	4.1
EBITDA excluding special items	62	59	51	35	54
<i>EBITDA excluding special items to sales (%)</i>	10.3	9.8	8.4	6.2	9.2
<i>RONOA pa (%)</i>	11.0	9.7	7.8	1.7	8.0

The performance of the European business improved compared to both the prior quarter as well as the equivalent period last year, a quarter that benefited from the transfer of the Sappi Dutch pension fund.

Coated woodfree markets were relatively stable and sales volumes and selling prices were higher than a year ago. Conversely, coated mechanical markets continued to experience challenging conditions. Market share gains offset overall declines in demand for coated papers.

The specialties market improved in the quarter, and sales volumes for the quarter were up 19% year-on-year, well above average market growth rates of 1 to 5% for our products. Selling prices were stable compared to both the prior quarter and equivalent quarter last year.

Variable and delivery costs were 5% lower year-on-year as a result of lower energy, chemical and softwood pulp prices. Hardwood pulp prices declined significantly during the quarter, but on average were still higher than the equivalent quarter last year.

North America

	Quarter ended				
	Mar 2016 US\$ million	Dec 2015 US\$ million	Sept 2015 US\$ million	Jun 2015 US\$ million	Mar 2015 US\$ million
Sales	339	343	369	313	342
Operating profit (loss) excluding special items	13	13	31	(7)	7
<i>Operating profit (loss) excluding special items to sales (%)</i>	3.8	3.8	8.4	(2.2)	2.0
EBITDA excluding special items	32	31	50	11	26
<i>EBITDA excluding special items to sales (%)</i>	9.4	9.0	13.6	3.5	7.6
<i>RONOA pa (%)</i>	5.2	5.2	12.2	(2.7)	2.7

The business continues to improve on the prior year performance, with increased sales volumes and significantly lower delivery and variable costs offsetting lower coated paper prices.

The US coated paper market remained challenging, particularly for lightweight web products. However, strong sales of heavyweight web resulted in higher overall paper sales volumes. Pricing, particularly for sheets and lightweight web, continued to be under pressure. This was primarily due to the impact of an increase in coated paper imports from the prior quarter as a result of the strong Dollar.

Dissolving wood pulp sales volumes were also higher year-on-year as we increased production at Cloquet Mill to offset some of the loss of production at Saiccor Mill in the prior quarter due to the impacts of the drought in South Africa. Average sales prices were higher than both the prior quarter and the equivalent quarter last year.

The casting release paper business experienced improved sales volumes to China, particularly after the Chinese New Year. Overall volumes were 4% higher than last year, with growth in the classics segment.

Variable costs were significantly lower than both the prior quarter and equivalent quarter last year, driven by lower wood, paper pulp, chemicals and energy prices.

Southern Africa

	Quarter ended				
	Mar 2016 ZAR million	Dec 2015 ZAR million	Sept 2015 ZAR million	Jun 2015 ZAR million	Mar 2015 ZAR million
Sales	4,568	3,993	4,556	4,002	3,817
Operating profit excluding special items	1,255	949	1,047	538	772
<i>Operating profit excluding special items to sales (%)</i>	27.5	23.8	23.0	13.4	20.2
EBITDA excluding special items	1,430	1,119	1,228	707	947
<i>EBITDA excluding special items to sales (%)</i>	31.3	28.0	27.0	17.7	24.8
<i>RONOA pa (%)</i>	32.2	25.2	28.1	14.3	20.4

The Southern African business further enhanced margins as a result of higher net selling prices for both dissolving wood pulp and paper, notwithstanding the impact of the extended planned maintenance shut at Ngodwana which commenced during March, and the shift in the maintenance shut at Saiccor.

Dissolving wood pulp sales volumes were higher than both the prior quarter and the equivalent quarter last year. Higher average US Dollar spot prices in the preceding quarter and a weaker Rand/Dollar exchange rate led to substantially increased dissolving wood pulp prices. Spot prices in China declined

early in the quarter but, post the Chinese New Year, prices started to rebound with Chinese VSF producers operating at close to capacity.

The sale of the Enstra and Cape Kraft Mills during the prior quarter as well as the later onset of the citrus picking season, which impacted agricultural containerboard demand, led to lower paper sales volumes.

Variable costs increased for wood and chemicals as a result of the weaker exchange rate. Fixed costs were higher due to the timing of the shuts at Ngodwana and Saiccor Mill.

Directorate

Dr Danie Cronjé retired as independent Chairman of the board at the end of February 2016. Sir Nigel Rudd, the lead independent director, succeeded Dr Cronjé as independent Chairman of the company with effect from 01 March 2016.

Outlook

The Specialised Cellulose business has benefited from rising US Dollar sales prices for dissolving wood pulp over the past year. Spot prices peaked in November 2015, declining through to February and have since partially recovered. Our expectation is for US Dollar spot prices to remain fairly stable for the remainder of the financial year but, for our South African mills, there will be the added benefit of a weaker Rand/Dollar exchange rate when compared to the prior year. Demand remains positive and we remain confident that, at current pricing levels and exchange rates, the outlook for this business is positive.

In North America, our graphic paper business is performing solidly in a difficult and competitive environment which is being impacted negatively by the strength of the US Dollar and the weak publication paper market. Variable costs have reduced significantly over the past year and sales volumes are stable heading into a seasonally slow third quarter. Our European business continues to improve with reasonable operating rates and lower variable costs. However, graphic paper markets have softened in recent months. The outlook for the specialities market in Europe

remains positive, with growth of 3% in our key product categories expected in the coming year. The large exposure to the export market through our South African agricultural containerboard sales is driving good sales volumes in a weak ZAR exchange rate environment.

Based on current market conditions, and assuming current exchange rates, we expect the growth in the second half EBITDA excluding special items to be in line with that of the first half of the year. As a result of improved operating profits and lower expected finance costs, offset somewhat by increased tax charges, we expect a strong increase in our earnings.

Capex in 2016 is expected to be in line with 2015 and is focused largely on energy and debottlenecking projects in South Africa together with the annual maintenance at the mills.

We expect to reduce our net debt further over the course of the year and improve our financial leverage closer to our target of less than two times net debt to EBITDA.

On behalf of the board

S R Binnie

Director

G T Pearce

Director

09 May 2016

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; 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.

Condensed group income statement

		Reviewed		Reviewed
	Note	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million
				Half-year ended Mar 2015 US\$ million
Sales		1,294	1,338	2,578
Cost of sales		1,048	1,138	2,138
Gross profit		246	200	440
Selling, general and administrative expenses		93	84	175
Other operating expenses (income)		1	(53)	(8)
Share of profit from equity investments		(3)	(3)	(5)
Operating profit	2	155	172	278
Net finance costs		25	97	50
Net interest expense		27	86	54
Net foreign exchange gain		(2)	(4)	(4)
Net fair value loss on financial instruments		–	15	–
Profit before taxation		130	75	228
Taxation		30	19	53
Profit for the period		100	56	175
Basic earnings per share (US cents)		19	11	33
Weighted average number of shares in issue (millions)		529.7	525.7	528.6
Diluted earnings per share (US cents)		18	11	33
Weighted average number of shares on fully diluted basis (millions)		541.4	531.5	538.4

Condensed group statement of comprehensive income

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
Profit for the period	100	56	175	80
Other comprehensive income (loss), net of tax				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
	–	(10)	–	(10)
Actuarial losses on post-employment benefit funds	–	(10)	–	(10)
<i>Items that must be reclassified subsequently to profit or loss</i>				
	(8)	26	(87)	14
Exchange differences on translation of foreign operations	(15)	28	(86)	20
Movements in hedging reserves	9	(3)	–	(7)
Tax effect of above items	(2)	1	(1)	1
Total comprehensive income for the period	92	72	88	84

Condensed group balance sheet

Reviewed

	Mar 2016 US\$ million	Sept 2015 US\$ million
ASSETS		
Non-current assets	3,033	3,174
Property, plant and equipment	2,389	2,508
Plantations	369	383
Deferred tax assets	157	162
Other non-current assets	118	121
Current assets	1,750	1,711
Inventories	646	595
Trade and other receivables	636	650
Taxation receivable	11	10
Cash and cash equivalents	457	456
Assets held for sale	–	28
Total assets	4,783	4,913
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,114	1,015
Non-current liabilities	2,732	2,806
Interest-bearing borrowings	1,974	2,031
Deferred tax liabilities	235	245
Other non-current liabilities	523	530
Current liabilities	937	1,091
Interest-bearing borrowings	135	196
Other current liabilities	759	865
Taxation payable	43	30
Liabilities associated with assets held for sale	–	1
Total equity and liabilities	4,783	4,913
Number of shares in issue at balance sheet date (millions)	530.0	526.4

Condensed group statement of cash flows

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
Profit for the period	100	56	175	80
<i>Adjustment for:</i>				
Depreciation, fellings and amortisation	73	80	150	165
Taxation	30	19	53	27
Net finance costs	25	97	50	134
Defined post-employment benefits paid	(13)	(17)	(24)	(31)
Plantation fair value adjustments	(38)	(34)	(54)	(52)
Net restructuring provisions	1	2	4	3
Profit on disposal of assets held for sale and other assets	(1)	–	(16)	–
Non-cash employee benefit liability settlement	–	(70)	–	(70)
Other non-cash items	10	3	20	17
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)
Cash effects of financing activities	(22)	28	(94)	(33)
Net movement in cash and cash equivalents	68	110	15	(72)
Cash and cash equivalents at beginning of period	383	329	456	528
Translation effects	6	(40)	(14)	(57)
Cash and cash equivalents at end of period	457	399	457	399

Condensed group statement of changes in equity

	Reviewed	
	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
Balance – beginning of period	1,015	1,044
Total comprehensive income for the period	88	84
Transfers from the share purchase trust	12	9
Transfers of vested share options	(5)	(6)
Share-based payment reserve	4	4
Balance – end of period	1,114	1,135

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and half-year ended March 2016 have been prepared in accordance with the Listings Requirements of the JSE Limited, International Financial Reporting Standard, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

The preparation of these interim condensed consolidated financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA).

The interim condensed consolidated financial statements for the quarter and half-year ended March 2016 as set out on pages 8 to 21 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group's auditors, Deloitte & Touche. Their unmodified review report is available for inspection at the company's registered office. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million

2. Operating profit

Included in operating profit are the following items:

Depreciation and amortisation	62	66	125	137
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	11	14	25	28
Growth	(12)	(16)	(26)	(33)
	(1)	(2)	(1)	(5)
Plantation price fair value adjustment	(26)	(18)	(28)	(19)
	(27)	(20)	(29)	(24)
Net restructuring provisions	1	2	4	3
Profit on disposal of assets held for sale and other assets	(1)	–	(16)	–
Employee benefit liability settlement	–	(70)	–	(70)

Notes to the condensed group results continued

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
3. Earnings per share				
Basic earnings per share (US cents)	19	11	33	15
Headline earnings per share (US cents)	19	11	31	15
EPS excluding special items (US cents)	16	11	29	16
Weighted average number of shares in issue (millions)	529.7	525.7	528.6	525.1
Diluted earnings per share (US cents)	18	11	33	15
Diluted headline earnings per share (US cents)	18	11	30	15
Weighted average number of shares on fully diluted basis (millions)	541.4	531.5	538.4	530.4
Calculation of headline earnings				
Profit for the period	100	56	175	80
Profit on disposal of assets held for sale and other assets	(1)	–	(16)	–
Tax effect of above items	–	–	4	–
Headline earnings	99	56	163	80
Calculation of earnings excluding special items				
Profit for the period	100	56	175	80
Special items after tax	(15)	(63)	(22)	(59)
Special items	(22)	(68)	(33)	(63)
Tax effect	7	5	11	4
Refinancing costs	–	63	–	63
Earnings excluding special items	85	56	153	84

		Reviewed	
		Mar 2016 US\$ million	Sept 2015 US\$ million
4.	Capital commitments		
	Contracted	58	60
	Approved but not contracted	74	73
		132	133
5.	Contingent liabilities		
	Guarantees and suretyships	18	13
	Other contingent liabilities	10	11
		28	24

6. Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates (pre-tax weighted average cost of capital), and volume and growth estimations.

Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value. Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Immature timber and mature timber that is to be felled in more than 12 months from the reporting date are valued using a 12 quarter rolling historical average price which, taking the length of the growth cycle of a plantation into account, is considered reasonable.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*.

		Reviewed	
		Mar 2016 US\$ million	Sept 2015 US\$ million
	Fair value of plantations at beginning of year	383	430
	Gains arising from growth	26	65
	Fire, flood, storm and related events	(2)	(7)
	In-field inventory	(1)	(1)
	Gain arising from fair value price changes	28	41
	Harvesting – agriculture produce (fellings)	(25)	(57)
	Translation difference	(40)	(88)
	Fair value of plantations at end of period	369	383

Notes to the condensed group results continued

7. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of cash and cash equivalents, derivative financial instruments and available for sale financial assets. These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

		Fair value ⁽¹⁾ Reviewed	
	Fair value hierarchy	Mar 2016 US\$ million	Sept 2015 US\$ million
Available for sale assets	Level 1	8	8
Derivative financial assets	Level 2	46	46
Derivative financial liabilities	Level 2	1	5

⁽¹⁾ The fair values of the financial instruments are equal to their carrying values.

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

The carrying amounts of other financial instruments which include accounts receivable, certain investments, accounts payable and current interest-bearing borrowings approximate their fair values.

8. Material balance sheet movements

Since the 2015 financial year-end, the ZAR has weakened by approximately 11% against the US Dollar, the group's presentation currency. This has resulted in a similar decrease of the group's South African assets and liabilities, which are held in the aforementioned functional currency, on translation to the presentation currency.

Inventory and other current liabilities

The movements in inventory and other current liabilities are largely attributable to seasonal working capital movements.

Assets held for sale

During the financial year, the conditions precedent related to the sale of the group's Enstra and Cape Kraft mills were fulfilled. Proceeds of US\$38 million were received and a combined profit on disposal of US\$15 million was recorded.

Interest-bearing borrowings

During the financial year, the group repaid the amount owing under the partially drawn US\$519 million (€465 million) revolving credit facility of US\$55 million (€50 million) as well as US\$19 million (€18 million) under the OekB term loan from existing cash resources.

9. Events after balance sheet date

Subsequent to quarter end, the group issued an aggregate principal amount of €350 million (US\$391 million) in senior secured notes due 2023 at a coupon of 4.00% per annum. The proceeds from these notes was used to redeem the full amount of the group's US\$350 million senior secured notes due 2021 at a price of 103.313% of the principal amount thereof. The coupon on the notes redeemed was 6.625%.

In addition, the group utilised existing cash resources to redeem its ZAR255 million public bond which became due in April 2016.

10. Segment information

	Quarter ended		Half-year ended	
	Mar 2016 Metric tons (000's)	Mar 2015 Metric tons (000's)	Mar 2016 Metric tons (000's)	Mar 2015 Metric tons (000's)
Sales volume				
North America	331	321	661	654
Europe	834	828	1,670	1,603
Southern Africa – Pulp and paper	404	424	790	850
Forestry	241	233	500	461
Total	1,810	1,806	3,621	3,568
Which consists of:				
Specialised cellulose	289	267	544	567
Paper	1,280	1,306	2,577	2,540
Forestry	241	233	500	461

Notes to the condensed group results continued

10. Segment information continued

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
Sales				
North America	339	342	682	695
Europe	666	670	1,325	1,354
Southern Africa – Pulp and paper	277	312	545	637
Forestry	12	14	26	29
Total	1,294	1,338	2,578	2,715
Which consists of:				
Specialised cellulose	238	205	447	448
Paper	1,044	1,119	2,105	2,238
Forestry	12	14	26	29
Operating profit excluding special items				
North America	13	7	26	3
Europe	36	28	68	43
Southern Africa	80	66	147	129
Unallocated and eliminations ⁽¹⁾	4	3	4	3
Total	133	104	245	178
Which consists of:				
Specialised cellulose	84	53	146	109
Paper	45	48	95	66
Unallocated and eliminations ⁽¹⁾	4	3	4	3

⁽¹⁾ Includes the group's treasury operations and our insurance captive.

10. Segment information continued

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
Special items – (gains) losses				
North America	3	–	3	–
Europe	(2)	(56)	2	(55)
Southern Africa	(25)	(19)	(40)	(15)
Unallocated and eliminations ⁽¹⁾	2	7	2	7
Total	(22)	(68)	(33)	(63)
Segment operating profit (loss)				
North America	10	7	23	3
Europe	38	84	66	98
Southern Africa	105	85	187	144
Unallocated and eliminations ⁽¹⁾	2	(4)	2	(4)
Total	155	172	278	241
EBITDA excluding special items				
North America	32	26	63	41
Europe	68	61	133	114
Southern Africa	91	81	170	158
Unallocated and eliminations ⁽¹⁾	4	2	4	2
Total	195	170	370	315
Which consists of:				
Specialised cellulose	94	65	168	135
Paper	97	103	198	178
Unallocated and eliminations ⁽¹⁾	4	2	4	2

⁽¹⁾ Includes the group's treasury operations and our insurance captive.

10. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.

	Reviewed		Reviewed	
	Quarter ended Mar 2016 US\$ million	Quarter ended Mar 2015 US\$ million	Half-year ended Mar 2016 US\$ million	Half-year ended Mar 2015 US\$ million
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 assets held for sale and other assets	1	–	16	–
Employee benefit liability settlement	–	57	–	57
Black Economic Empowerment charge	(1)	(1)	(1)	(1)
Fire, flood, storm and other events	(3)	(4)	(6)	(9)
Segment operating profit	155	172	278	241
Net finance costs	(25)	(97)	(50)	(134)
Profit before taxation	130	75	228	107
Taxation	(30)	(19)	(53)	(27)
Profit for the period	100	56	175	80

10. Segment information continued

	Reviewed	
	Mar 2016 US\$ million	Mar 2015 US\$ million
Segment assets		
North America	1,013	1,049
Europe	1,324	1,278
Southern Africa	1,026	1,262
Unallocated and eliminations ⁽¹⁾	4	33
Total	3,367	3,622
Reconciliation of segment assets to total assets		
Segment assets	3,367	3,622
Deferred taxation	157	138
Cash and cash equivalents	457	399
Other current liabilities	759	801
Taxation payable	43	31
Total assets	4,783	4,991

⁽¹⁾ Includes the group's treasury operations and our insurance captive.

Supplemental information (this information has not been audited or reviewed)

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Broad-based Black Economic Empowerment (BBBEE) charge

– represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in fiscal 2010 in terms of BBBEE legislation in South Africa

Capital employed – shareholders' equity plus net debt

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items – earnings per share excluding special items and certain once-off finance and tax items

Fellings – the amount charged against the income statement representing the standing value of the plantations harvested

Headline earnings – as defined in circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

Interest cover – Last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

Net assets – total assets less total liabilities

Net asset value per share – net assets divided by the number of shares in issue at balance sheet date

Net debt – current and non-current interest-bearing borrowings, bank overdrafts less cash and cash equivalents

Net debt to EBITDA excluding special items – net debt divided by the last 12 months EBITDA excluding special items

Net operating assets – total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to **segment assets**

Non-GAAP measures – the group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

ROCE – annualised return on average capital employed. Operating profit excluding special items divided by average capital employed

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

Special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry

Supplemental information (this information has not been audited or reviewed)

Summary Rand convenience translation

	Quarter ended		Half-year ended	
	Mar 2016	Mar 2015	Mar 2016	Mar 2015
Key figures: (ZAR million)				
Sales	20,474	15,686	38,650	31,101
Operating profit excluding special items ⁽¹⁾	2,104	1,219	3,673	2,039
Special items – gains ⁽¹⁾	(348)	(797)	(495)	(722)
EBITDA excluding special items ⁽¹⁾	3,085	1,993	5,547	3,608
Profit for the period	1,582	657	2,624	916
Basic earnings per share (SA cents)	299	125	496	174
Net debt ⁽¹⁾	25,531	23,078	25,531	23,078
Key ratios: (%)				
Operating profit excluding special items to sales	10.3	7.8	9.5	6.6
Operating profit excluding special items to capital employed (ROCE) ⁽¹⁾	19.9	13.4	18.0	11.6
EBITDA excluding special items to sales	15.1	12.7	14.4	11.6

⁽¹⁾ Refer to page 22, supplemental information for the definition of the term.

The above financial results have been translated into Rands from US Dollars as follows:

- assets and liabilities at rates of exchange ruling at period end; and
- income, expenditure and cash flow items at average exchange rates.

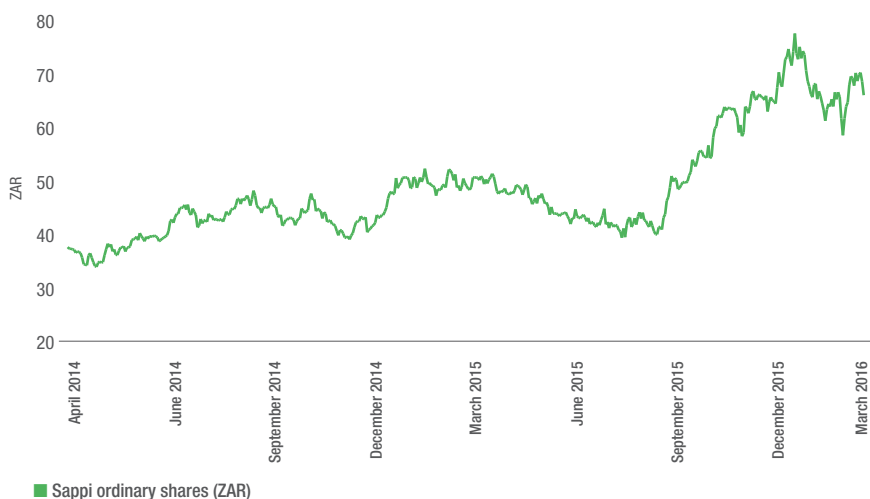
Supplemental information (this information has not been audited or reviewed)

Exchange rates

Exchange rates:

	Mar 2016	Dec 2015	Sept 2015	Jun 2015	Mar 2015
Period end rate: US\$1 = ZAR	15.4548	15.2865	13.9135	12.2025	12.0450
Average rate for the Quarter: US\$1 = ZAR	15.8226	14.1577	12.9364	12.0820	11.7236
Average rate for the year to date: US\$1 = ZAR	14.9921	14.1577	11.9641	11.6540	11.4552
Period end rate: €1 = US\$	1.1166	1.0977	1.1195	1.1166	1.0889
Average rate for the Quarter: €1 = US\$	1.1020	1.0968	1.1125	1.1060	1.1316
Average rate for the year to date: €1 = US\$	1.0994	1.0968	1.1501	1.1627	1.1910

Sappi ordinary shares (JSE:SAP)



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Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States

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