

## Results for Q2 FY16 — the quarter ended March 2016

<b>Profit</b> for the period <b>US\$100 million</b> Q2FY15 US\$56 million	<b>EPS</b> excl special items <sup>1</sup> <b>US\$16</b> Q2FY15 US\$11	<b>EBITDA</b> excl special items <sup>1</sup> <b>US\$195 million</b> Q2FY15 US\$170 million	<b>Net debt</b> <b>US\$1,652 million</b> down US\$264 million year-on-year
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	US\$ million	Quarter ended			Half-year ended	
		Mar 2016	Mar 2015	Dec 2015	Mar 2016	Mar 2015
Key figures	Sales	1,294	1,338	1,284	2,578	2,715
	Operating profit excl special items <sup>1</sup>	133	104	112	245	178
	Special items gains <sup>1</sup>	(22)	(68)	(11)	(33)	(63)
	EBITDA excluding special items <sup>1</sup>	195	170	175	370	315
	Profit for the period	100	56	75	175	80
	Basic EPS (US cents)	19	11	14	33	15
	EPS excluding special items (US cents) <sup>1</sup>	16	11	13	29	16
	Net debt <sup>1</sup>	1,652	1,916	1,734	1,652	1,916

Key ratios (%)	Operating profit excl special items <sup>1</sup> to sales	10.3	7.8	8.7	9.5	6.6
	ROCE <sup>1</sup> Operating profit excluding special items <sup>1</sup> to capital employed	19.3	13.5	16.2	17.7	11.8
	EBITDA excl special items <sup>1</sup> to sales	15.1	12.7	13.6	14.4	11.6
	Net debt to EBITDA excl special items <sup>1</sup>	2.4	2.9	2.6	2.4	2.9
	Interest cover	6.5	3.7	5.1	6.5	3.7
	Net asset value per share (US cents)	210	216	192	210	216

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

Group **EBITDA**, excluding special items, **increased 15%** over the prior year.

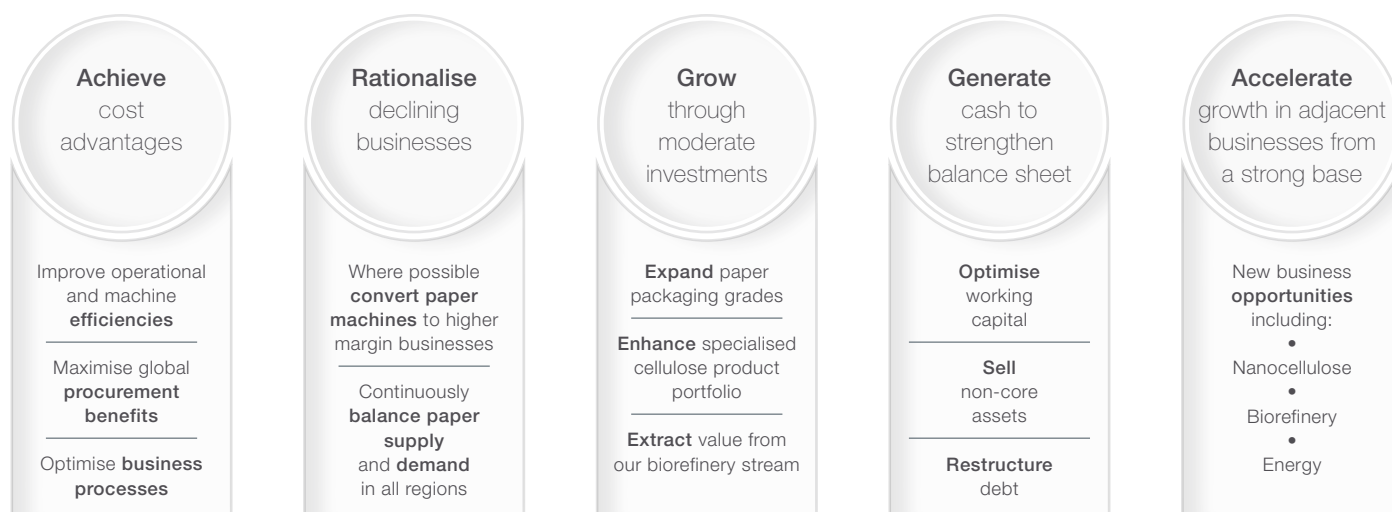
Our **improved profit** was attributed mainly to **higher dissolving wood pulp sales volumes and prices**, savings from cost containment initiatives and lower finance charges.

The European business delivered another **satisfactory performance**.

**Net finance costs** for the quarter were US\$25 million, a **36% reduction**, excluding the refinancing effect of the prior year's quarter, from the US\$97 million in the equivalent quarter last year.

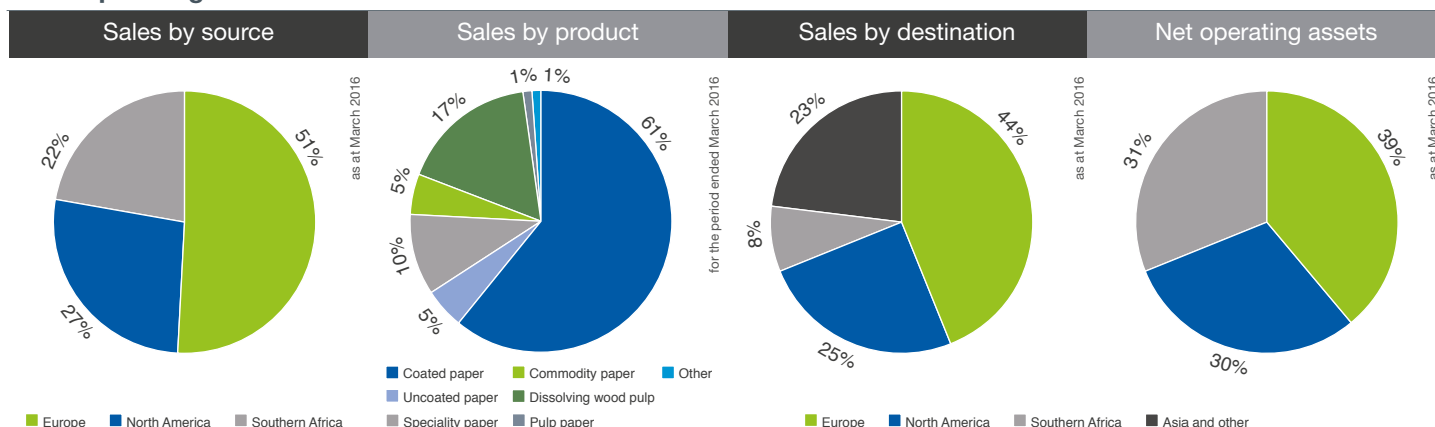
Since quarter-end we have completed refinancing our 2021 bonds, **reducing annual interest charges by approximately US\$8 million per annum** going forward.

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.



# Second quarter results – March 2016

## Net operating assets and sales distribution



The Specialised Cellulose business has benefitted from **rising USD sales prices for dissolving wood pulp** over the past year. Spot prices peaked in November 2015, declining through to February 2016 but have since partially recovered. Our expectation is for USD spot prices to remain fairly stable for the remainder of the financial year. For our South African mills, there will be the added benefit of a weaker ZAR/USD 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**.

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 specialties market in Europe remains positive**, with **growth of 3%** in our key product categories expected in the coming year.

In **North America**, our **graphic paper business is performing solidly** in a difficult and competitive environment impacted negatively by USD strength and a weak publication-paper market. Variable costs have reduced significantly over the past year; sales volumes are stable heading into a seasonally slow Q3.

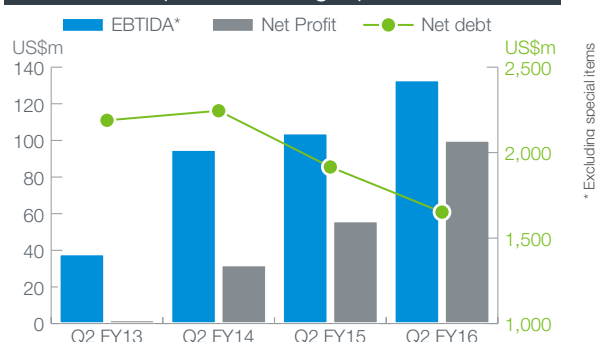
The large exposure to the export market through our South African agricultural **containerboard** sales is driving **good sales volumes** in a weak ZAR exchange rate environment.

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**.

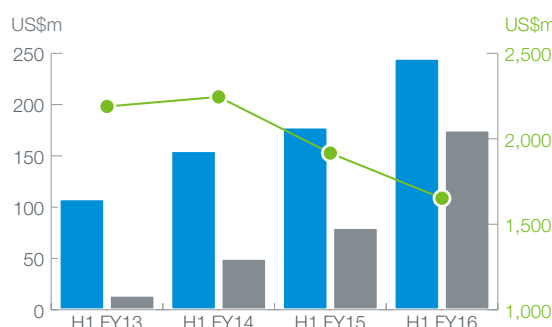
**FY16 capex is expected to be in line with FY15**, focused largely on annual mill maintenance and energy as well as debottlenecking projects in South Africa.

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**.

## Quarter-on-quarter earnings, profit and debt



## Half-yearly earnings, profit and debt



The outlook for the specialties market in Europe remains positive, with growth of 3% in our key product categories expected in the coming year.

# Second quarter results – March 2016

## Europe



- 6 Paper mills
- 1 Speciality paper mill
- 16 Sales offices

**Performance improved** compared to both the prior quarter as well as the equivalent period last year, a quarter that benefitted 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.

**Coated mechanical** markets continued to experience **challenging** conditions.

**Market share gains** offset overall declines in demand for coated papers.

The **specialities** market improved in the quarter, and **sales volumes** for the quarter were **up 19%** year-on-year, well above average market growth rates of 1-5% 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 in the equivalent quarter last year.

## North America



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

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

The **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, primarily due to increased coated paper imports in the prior quarter as a result of the strong USD.

**Dissolving wood pulp sales volumes** were **higher** year-on-year as we increased production at Cloquet Mill to offset some of Saiccor Mill's loss of production 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 **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



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

The 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 Mill, which commenced during March, and the shift in the maintenance shut at Saiccor Mill which was brought forward from Q3 to Q2.

**Dissolving wood pulp sales volumes** were **higher** than both the prior quarter and the equivalent quarter last year. Higher average USD spot prices in the preceding quarter and a weaker ZAR/USD 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 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 Mills.



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