

Third quarter results – June 2015

EPS excluding special items ¹ US\$2 Q3 2014 US\$2	Profit for the period US\$4 million Q3 2014 US\$17 million	EBITDA excluding special items ¹ US\$109 million Q3 2014 US\$140 million	Net debt US\$1,917 million Q3 2014 US\$2,286 million
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	US\$ million	Quarter ended			Nine months ended	
		Jun 2015	Jun 2014	Mar 2015	Jun 2015	Jun 2014
Key figures	Sales	1,272	1,484	1,338	3,987	4,556
	Operating profit excl special items ¹	43	67	104	221	222
	Special items losses (gains) ¹	8	(2)	(68)	(55)	(16)
	EBITDA excluding special items ¹	109	140	170	424	458
	Profit for the period	4	17	56	84	67
	Basic EPS (US cents)	1	3	11	16	13
	EPS excluding special items (US cents) ¹	2	2	11	18	10
	Net debt ¹	1,917	2,286	1,916	1,917	2,286
Key ratios (%)	Operating profit excl special items ¹ to sales	3.4	4.5	7.8	5.5	4.9
	ROCE ¹ Operating profit excluding special items ¹ to capital employed	5.7	7.8	13.5	9.8	8.7
	EBITDA excl special items ¹ to sales	8.6	9.4	12.7	10.6	10.1
	ROE ¹ Return on average equity	1.4	5.9	20.4	10.4	7.8
	Net debt to total capitalisation ¹	63.1	66.3	62.8	63.1	66.3
	Net asset value per share (US cents)	213	222	216	213	222

The **third quarter** is **seasonally the weakest** for Sappi. The pulp mill upgrade at Gratkorn and planned annual maintenance shuts in all three regions reduced profit by approximately US\$27 million compared to Q3 2014.

The stronger US dollar led to increased coated paper imports in the USA where the **domestic graphic paper market** was **weaker than expected**.

The **specialised cellulose** business continued to generate **solid returns**. US Dollar prices for dissolving wood pulp remained constant compared Q2 2015

The market for **graphic paper** continues to **decline** in Western Europe. However, the weaker Euro made exports more competitive and profitable.

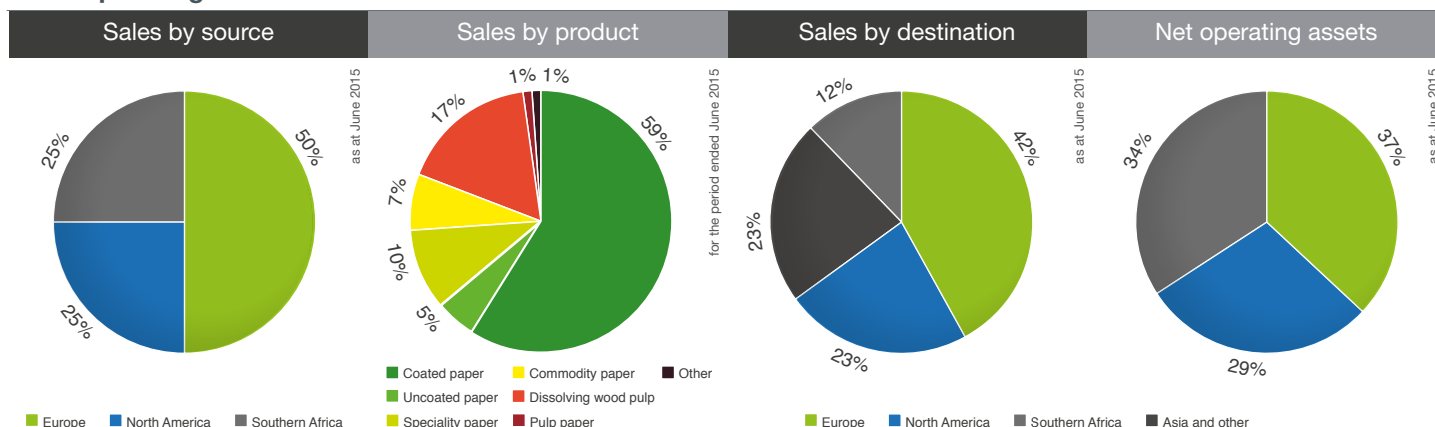
In the South African paper business **virgin fibre packaging grades** continue to show **good demand-growth**. However, newsprint and recycled packaging paper demand were flat.

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.



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Net operating assets and sales distribution



Graphic paper markets remain challenging and currency movements are having a significant impact on trade flows.

These negatively affected our North American business while improving export margins for our European coated paper business.

The **European business** continues to **face pressure** from **higher pulp prices**.

Dissolving wood pulp prices in **China** have **risen steadily** over the past four months and this should translate into higher short term fixed prices with our major customers.

The weaker ZAR/US\$ exchange rate will support the profitability of this business in South Africa.

Capital expenditure in the last quarter of fiscal 2015 is expected to be approximately US\$80 million (US\$245 million for the full year) and is focused largely on maintenance projects and **efficiency improvement investments**.

We expect to **reduce net debt** levels during the fourth quarter.

Any proceeds received from the sale of Cape Kraft, Enstra and/or the Twello forestry assets before year-end would **further reduce net debt**.

We expect that the **regional operating performance for the year** will be **broadly similar** to 2014 despite a number of significant once-off impacts from various capital projects.

At current exchange rates, the **translation** of Euro and Rand results to US Dollar will **adversely impact** the **group results**.

Nevertheless, due to lower interest costs, **earnings per share** excluding special items for the full year are expected to be **substantially better** than that of the **prior year**.

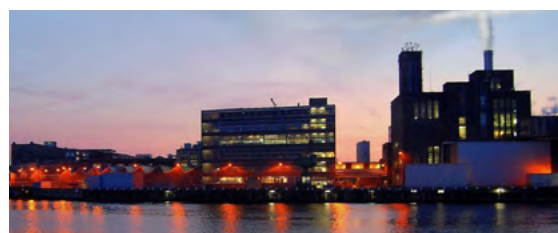


An upgrade to Gratkorn Mill's pulp production facilities and improvements to its papermaking capabilities will secure a significantly lower cost base.

The investment increases PM11's weight range and ensures long-term emission limits compliance.



A new power plant, at Kirkniemi Mill, expected to be operational early in 2016, will significantly improve 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.



The Specialities business continued to grow sales volumes, compared to both the prior quarter and the equivalent quarter last year.

We are pursuing further growth opportunities in this market at our Maastricht and Eningen mills.

Europe



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

During this seasonally slow quarter, graphic paper sales volumes were 5% below those of the prior quarter and stable year-on-year.

Overall sales volumes were 1% up on the equivalent quarter last year as a result of the continued growth in speciality packaging paper sales.

The upgrade of the recovery boiler at Gratkorn had a once-off €10 million impact on operating profit during the quarter.

Average net sales prices in Euro were flat compared to the prior quarter and up 3% compared to the equivalent quarter last year, primarily due to the impact of the weaker Euro/US\$ exchange rate on export sales pricing.

Variable costs were impacted by the upgrade to the recovery boiler at Gratkorn and higher raw material costs due to the weaker Euro exchange rate.

The speciality paper business continued to grow sales volumes, compared to both the prior quarter and the equivalent quarter last year, and we are pursuing further growth opportunities in this market at our Maastricht and Ehingen Mills.

North America



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

The North American graphic paper markets were impacted negatively by the strong US\$ in the quarter. A combination of increased imports of coated paper, particularly from Asia, and a decline in exports resulted in lower than expected sales volumes. Apparent consumption in the local market was also weaker.

Dissolving wood pulp sales volumes were lower than both the prior quarter and the equivalent quarter last year as we maximised own-make fibre production for the paper machines at Cloquet in order to improve profitability.

The release paper business continued to be impacted by weaker than expected sales volume in the coated fabrics segment in Asia and by European pricing which was negatively affected by a stronger US\$/Euro exchange rate.

Variable costs were lower than the equivalent quarter last year as lower chemicals, fibre and energy prices more than offset higher wood prices. We also realised the benefit of our variable usage improvement programs. Raw materials costs remained flat and variable usage improved following difficult operating conditions in the prior quarter as a result of the extreme weather conditions experienced in the Northeast US.

Southern Africa



- 4** Paper mills
- 1** Paper and specialised cellulose mill
- 1** Specialised cellulose mill
- 1** Sawmill
- 4** Sales offices
- 495,000ha** Forests

The Southern African business achieved higher average prices and volumes compared to both the equivalent quarter last year and the prior quarter.

Operating profit for the quarter was impacted by ZAR204 million as a result of the planned annual maintenance shuts at Ngodwana and Saiccor.

The weaker ZAR/US\$ exchange rate has improved demand for our virgin fibre paper packaging, while slow domestic growth and an oversupplied recycled based packaging paper market has placed pressure on sales for recycled containerboard.

Dissolving wood pulp pricing continued to be supported by the weaker ZAR/US\$ exchange rate as well as higher US\$ pricing in China. Demand remained strong, and sales volumes were up both on the prior quarter as well as the equivalent quarter last year.

Post quarter-end we announced the sales of our Enstra Mill's recycled packaging paper business and Cape Kraft paper mill. This is in line with our strategic focus on the virgin fibre packaging business in South Africa.



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