Sappi Group
(Sappi Limited)
FIRST QUARTER: FISCAL YEAR 2016
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED 27 DECEMBER 2015

10 February 2016

This report is being furnished to The Bank of New York Mellon as trustee for (i) the Senior Secured Notes of Sappi Papier Holding GmbH due 2021 issued pursuant to the indentures dated as of April 14, 2011; (ii) the Senior Secured Notes of Sappi Papier Holding GmbH due 2017 issued pursuant to the indentures dated as of July 05, 2012; and (iii) the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; in each case pursuant to Section 4.03 of the indentures governing such Senior Secured Notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this report may constitute ''forward-looking statements.'' 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, may be used to 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 cyclicality, 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 the global economic downturn;
- 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 restructuring or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

For a discussion of the above factors and certain additional factors, refer to the document entitled "Risk Report" attached to the 2015 Annual Integrated Report as disclosed in the "Bond Reporting Requirements" section of our webpage (www.sappi.com) under "Sappi Papier Holdings". These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this report or as of the date specified therein and are not intended to give any assurance as to future results. 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.

1936 2016

sappi

Inspired by life

First quarter results

for the period ended December 2015

1st quarter results

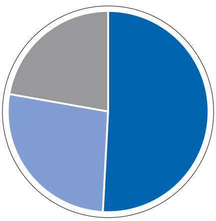
Sappi is a global company focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 160 countries.

Our dissolving wood pulp products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer and household products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products in the Southern Africa region.

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.

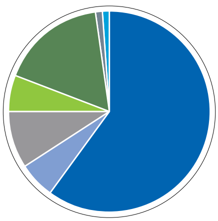
Highlights for the quarter

- Profit for the period US$75 million (Q1 2015 US$24 million)
- EPS excluding special items 13 US cents (Q1 2015 5 US cents)
- EBITDA excluding special items US$175 million (Q1 2015 US$145 million)
- Net debt US$1,734 million, down US$306 million year-on-year



Sales by source*

- Europe – 51%
- North America – 27%
- Southern Africa – 22%



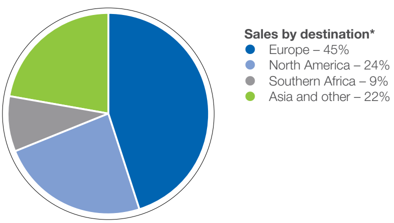
Sales by product*

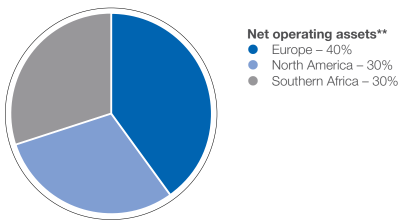
- Coated paper – 62%
- Uncoated paper – 5%
- Speciality paper – 10%
- Commodity paper – 5%
- Dissolving wood pulp – 16%
- Paper pulp – 1%
- Other – 1%

* *for the period ended December 2015*

	Quarter ended		
	Dec 2015	Dec 2014	Sept 2015
Key figures: (US$ million)			
Sales	**1,284**	1,377	1,403
Operating profit excluding special items[1]	**112**	74	136
Special items – (gains) losses[2]	**(11)**	5	1
EBITDA excluding special items[1]	**175**	145	201
Profit for the period	**75**	24	83
Basic earnings per share (US cents)	**14**	5	16
EPS excluding special items (US cents)[3]	**13**	5	16
Net debt[3]	**1,734**	2,040	1,771
Key ratios: (%)			
Operating profit excluding special items to sales	**8.7**	5.4	9.7
Operating profit excluding special items to capital employed (ROCE)[3]	**16.2**	9.7	18.7
EBITDA excluding special items to sales	**13.6**	10.5	14.3
Net debt to EBITDA excluding special items[3]	**2.6**	3.1	2.8
Interest cover[3]	**5.1**	3.8	4.4
Net asset value per share (US cents)	**192**	202	193

[1] *Refer to page 17, 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 17, note 10 to the group results for details on special items.*
[3] *Refer to page 18, supplemental information for the definition of the term.*





* *for the period ended December 2015*
** *as at December 2015*

Commentary on the quarter

Operating performance in the quarter was strong and substantially above the equivalent quarter last year. The group generated EBITDA excluding special items of US$175 million, an increase of 21%. Operating profit excluding special items was up 51% to US$112 million. Profit for the period increased from US$24 million to US$75 million. The successful result was attributable to higher graphic paper volumes, improved pricing for dissolving wood pulp and cost containment initiatives. The results are confirmation that the strategy to reposition Sappi into a profitable and cash-generative diversified woodfibre group is well on track.

The Specialised Cellulose business continued to generate good returns during the quarter, with EBITDA excluding special items of US$74 million, despite the impact of a severe drought in South Africa which had a negative impact of US$6 million on these results. US Dollar spot prices for dissolving wood pulp increased for most of the quarter. However, as the quarter ended, lower textile prices and the weaker Chinese RMB placed pressure on our viscose staple fibre customers. The weaker Rand/Dollar exchange rate led to increased Rand prices.

The European business delivered a satisfactory performance, close to the targeted EBITDA excluding special items margin. Price increases in the past year, excellent variable and fixed cost control and the transfer of volumes from Metsä's Husum Mill all contributed positively to the result.

A recovery in our coated paper sales volumes, the stabilisation of selling prices and lower variable costs enabled the North American business to deliver higher profits than in the comparable quarter last year. The first quarter of fiscal 2015 was impacted by an extended annual maintenance shut.

Profitability for the paper business in South Africa progressed further in this quarter, notwithstanding the sale of the Cape Kraft and Enstra Mills. Higher selling prices for packaging grades offset raw material cost pressures from the weaker Rand.

Net finance costs for the quarter were US$25 million, a reduction from the US$37 million in the equivalent quarter last year as a result of the refinancing of debt at lower rates in the past year and reduced debt levels.

Earnings per share excluding special items for the quarter were 13 US cents, a substantial improvement over the 5 US cents generated in the equivalent quarter last year. Special items for the quarter resulted in a gain of US$11 million and relates principally to a profit on the sale of the Cape Kraft Mill.

Cash flow and debt

Net cash generated for the quarter was US$19 million, compared to net cash utilised of US$121 million in the equivalent quarter last year. The increase in cash generation was as a result of the improved operating performance and the proceeds from the sale of our Cape Kraft and Enstra Mills. Capital expenditure in the quarter of US$40 million was less than the US$68 million spent in the equivalent quarter last year.

Net debt of US$1,734 million is down substantially from US$2,040 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.

Liquidity comprises cash on hand of US$383 million and US$576 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended				
	Dec 2015 € million	Sept 2015 € million	Jun 2015 € million	Mar 2015 € million	Dec 2014 € million
Sales	**601**	609	567	590	547
Operating profit excluding special items	**29**	23	5	24	12
Operating profit excluding special items to sales (%)	***4.8***	*3.8*	*0.9*	*4.1*	*2.2*
EBITDA excluding special items	**59**	51	35	54	42
EBITDA excluding special items to sales (%)	***9.8***	*8.4*	*6.2*	*9.2*	*7.7*
RONOA pa (%)	***9.7***	*7.8*	*1.7*	*8.0*	*4.0*

The performance of the European business improved compared to both the prior quarter as well as that of the equivalent period last year, a quarter which was negatively impacted by €12 million due to the upgrade of the paper machine at Gratkorn.

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. In addition, 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.

North America

	Quarter ended				
	Dec 2015 US$ million	Sept 2015 US$ million	Jun 2015 US$ million	Mar 2015 US$ million	Dec 2014 US$ million
Sales	**343**	369	313	342	353
Operating profit (loss) excluding special items	**13**	31	(7)	7	(4)
Operating profit (loss) excluding special items to sales (%)	***3.8***	*8.4*	*(2.2)*	*2.0*	*(1.1)*
EBITDA excluding special items	**31**	50	11	26	15
EBITDA excluding special items to sales (%)	***9.0***	*13.6*	*3.5*	*7.6*	*4.2*
RONOA pa (%)	***5.2***	*12.2*	*(2.7)*	*2.7*	*(1.6)*

Following a difficult 2015, the business made a stronger start to the current year. Profits were significantly above the equivalent quarter last year due to higher coated paper sales volumes and lower variable costs. In addition, the comparative quarter was negatively impacted by US$10 million for an extended annual maintenance shut at the Somerset Mill.

The US coated paper market remained under pressure as a result of the strong US Dollar. This led to an increase in coated paper imports and, more importantly, a large decline in exports. However, our market share gains from other domestic producers led to sales volumes that were higher than in the equivalent quarter last year. Sales prices held, quarter-on-quarter, but were 3% below those of the equivalent quarter last year.

Dissolving wood pulp sales volumes were flat compared to the prior quarter, with higher average sales prices compared to both the equivalent quarter last year and the prior quarter. Sales volume was 22% below the equivalent quarter last year as the Cloquet Mill took advantage of the pulp mill's swing-capability to make kraft pulp for the paper machines in order to enhance margins.

The casting release paper business continues to be adversely affected by a weak patterned textile market in China. Sales prices improved compared to the equivalent quarter last year due to price increases implemented during 2015.

Variable costs were lower than the equivalent quarter last year driven mainly by lower fibre and energy prices. Fixed costs were well controlled and were flat year-on-year.

Southern Africa

	Quarter ended				
	Dec 2015 ZAR million	Sept 2015 ZAR million	Jun 2015 ZAR million	Mar 2015 ZAR million	Dec 2014 ZAR million
Sales	**3,993**	4,556	4,002	3,817	3,812
Operating profit excluding special items	**949**	1,047	538	772	706
Operating profit excluding special items to sales (%)	***23.8***	*23.0*	*13.4*	*20.2*	*18.5*
EBITDA excluding special items	**1,119**	1,228	707	947	863
EBITDA excluding special items to sales (%)	***28.0***	*27.0*	*17.7*	*24.8*	*22.6*
RONOA pa (%)	***25.2***	*28.1*	*14.3*	*20.4*	*19.1*

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

Dissolving wood pulp sales volumes were lower than both the prior quarter and the equivalent quarter last year as a result of the severe drought experienced in South Africa as well as 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 Dollar prices and a weaker Rand/Dollar 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. During the quarter the sale of the Cape Kraft and Enstra Mills was completed.

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

Directorate

During the quarter we announced the retirement of Dr Danie Cronjé as independent Chairman of the board at the end of February 2016. Sir Nigel Rudd, currently the lead independent director, will succeed Dr Cronjé as independent Chairman of the company with effect from 01 March 2016. The board thanks Dr Cronjé for his significant contribution and leadership shown over the past eight years. We further announced the appointment of Mr Rob Jan Renders as independent non-executive director to the board of directors of Sappi Limited with effect from 01 October 2015.

Outlook

The Specialised Cellulose business is benefiting from higher average US Dollar prices for dissolving wood pulp and, for our South African mills, the added benefit of a weaker Rand/Dollar exchange rate. US Dollar spot prices for dissolving wood pulp have come under pressure since December 2015 due to lower textile prices and 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, which is being impacted by the strength of the US Dollar. Variable costs are reducing and sales volumes have improved after a particularly difficult third fiscal quarter in 2015. 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 the second quarter EBITDA to be in line with the first quarter and slightly ahead of the equivalent quarter last year. The quarter will be impacted by an extended annual maintenance shut at our Ngodwana Mill in South Africa and the annual maintenance stoppage at Saiccor which traditionally occurs 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.

Based on current market conditions, and assuming current exchange rates, we expect that EBITDA excluding special items in the 2016 financial year will be higher than 2015. As a result of improved operating profits and lower expected finance costs, offset somewhat by increased tax charges, we expect strong growth in our earnings.

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

Depending on market conditions, we are considering utilising some of our cash reserves to repay and refinance a portion of our debt in order 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.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

10 February 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, and may be used to identify forward-looking statements. 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 cyclicality, 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 a global economic downturn;*
- *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 restructuring and 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

	Note	Reviewed Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Sales		**1,284**	1,377
Cost of sales		**1,090**	1,224
Gross profit		**194**	153
Selling, general and administrative expenses		**82**	84
Other operating (income) expenses		**(9)**	2
Share of profit from equity investments		**(2)**	(2)
Operating profit	2	**123**	69
Net finance costs		**25**	37
Net interest expense		**27**	40
Net foreign exchange gain		**(2)**	(2)
Net fair value gain on financial instruments		**–**	(1)
Profit before taxation		**98**	32
Taxation		**23**	8
Profit for the period		**75**	24
Basic earnings per share (US cents)		**14**	5
Weighted average number of shares in issue (millions)		**527.4**	524.5
Diluted earnings per share (US cents)		**14**	5
Weighted average number of shares on fully diluted basis (millions)		**535.4**	529.1

Condensed group statement of comprehensive income

	Reviewed Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Profit for the period	**75**	24
Other comprehensive (loss) income, net of tax		
Items that must be reclassified subsequently to profit or loss	**(79)**	(12)
Exchange differences on translation of foreign operations	**(71)**	(8)
Movements in hedging reserves	**(9)**	(4)
Tax effect of above items	**1**	–
Total comprehensive (loss) income for the period	**(4)**	12

Condensed group balance sheet

	Reviewed Dec 2015 US$ million	Sept 2015 US$ million
ASSETS		
Non-current assets	**3,026**	3,174
Property, plant and equipment	**2,396**	2,508
Plantations	**348**	383
Deferred tax assets	**158**	162
Other non-current assets	**124**	121
Current assets	**1,634**	1,711
Inventories	**636**	595
Trade and other receivables	**605**	650
Taxation receivable	**10**	10
Cash and cash equivalents	**383**	456
Assets held for sale	**–**	28
Total assets	**4,660**	4,913
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	**1,015**	1,015
Non-current liabilities	**2,733**	2,806
Interest-bearing borrowings	**1,983**	2,031
Deferred tax liabilities	**229**	245
Other non-current liabilities	**521**	530
Current liabilities	**912**	1,091
Interest-bearing borrowings	**134**	196
Other current liabilities	**753**	865
Taxation payable	**25**	30
Liabilities associated with assets held for sale	**–**	1
Total equity and liabilities	**4,660**	4,913
Number of shares in issue at balance sheet date (millions)	**529.6**	526.4

Condensed group statement of cash flows

	Reviewed Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Profit for the period	**75**	24
Adjustment for:		
Depreciation, fellings and amortisation	**77**	85
Taxation	**23**	8
Net finance costs	**25**	37
Defined post-employment benefits paid	**(11)**	(14)
Plantation fair value adjustments	**(16)**	(18)
Net restructuring provisions	**3**	1
Profit on disposal of assets held for sale	**(15)**	–
Other non-cash items	**10**	14
Cash generated from operations	**171**	137
Movement in working capital	**(100)**	(136)
Net finance costs paid	**(36)**	(52)
Taxation paid	**(18)**	(3)
Cash generated from (utilised in) operating activities	**17**	(54)
Cash generated from (utilised in) investing activities	**2**	(67)
Capital expenditure	**(40)**	(68)
Net proceeds on disposal of assets	**41**	–
Other movements	**1**	1
Net cash generated (utilised)	**19**	(121)
Cash effects of financing activities	**(72)**	(61)
Net movement in cash and cash equivalents	**(53)**	(182)
Cash and cash equivalents at beginning of period	**456**	528
Translation effects	**(20)**	(17)
Cash and cash equivalents at end of period	**383**	329

Condensed group statement of changes in equity

	Reviewed Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Balance – beginning of period	**1,015**	1,044
Total comprehensive (loss) income for the period	**(4)**	12
Transfers from the share purchase trust	**11**	5
Transfers of vested share options	**(8)**	(4)
Share-based payment reserve	**1**	2
Balance – end of period	**1,015**	1,059

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the three months ended December 2015 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 three months ended December 2015 as set out on pages 8 to 17 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	
	Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
2. Operating profit		
Included in operating profit are the following items:		
Depreciation and amortisation	**63**	71
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**14**	14
Growth	**(14)**	(17)
	–	(3)
Plantation price fair value adjustment	**(2)**	(1)
	(2)	(4)
Net restructuring provisions	**3**	1
Profit on disposal of assets held for sale	**(15)**	–

Notes to the condensed group results continued

		Reviewed Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
3.	**Earnings per share**		
	Basic earnings per share (US cents)	**14**	5
	Headline earnings per share (US cents)	**12**	5
	EPS excluding special items (US cents)	**13**	5
	Weighted average number of shares in issue (millions)	**527.4**	524.5
	Diluted earnings per share (US cents)	**14**	5
	Diluted headline earnings per share (US cents)	**12**	5
	Weighted average number of shares on fully diluted basis (millions)	**535.4**	529.1
	Calculation of headline earnings		
	Profit for the period	**75**	24
	Profit on disposal of assets held for sale	**(15)**	–
	Tax effect of above items	**4**	–
	Headline earnings	**64**	24
	Calculation of earnings excluding special items		
	Profit for the period	**75**	24
	Special items after tax	**(7)**	4
	Special items	**(11)**	5
	Tax effect	**4**	(1)
	Earnings excluding special items	**68**	28

		Reviewed Dec 2015 US$ million	Sept 2015 US$ million
4.	**Capital commitments**		
	Contracted	**59**	60
	Approved but not contracted	**101**	73
		160	133
5.	**Contingent liabilities**		
	Guarantees and suretyships	**19**	13
	Other contingent liabilities	**12**	11
		31	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 is 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	
	Dec 2015 US$ million	Sept 2015 US$ million
Fair value of plantations at beginning of year	**383**	430
Gains arising from growth	**14**	65
Fire, flood, storm and related events	**(2)**	(7)
In-field inventory	**–**	(1)
Gain arising from fair value price changes	**2**	41
Harvesting – agriculture produce (fellings)	**(14)**	(57)
Translation difference	**(35)**	(88)
Fair value of plantations at end of period	**348**	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	**Dec 2015 US$ million**	Sept 2015 US$ million
Available for sale assets	Level 1	**8**	8
Derivative financial assets	Level 2	**52**	46
Derivative financial liabilities	Level 2	**7**	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 10% 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.

Trade and other receivables, cash and cash equivalents and other current liabilities

The decrease in trade and other receivables, cash and cash equivalents and other current liabilities is largely attributable to seasonal working capital movements.

Assets held for sale

During the quarter, the conditions precedent related to the sale of the group's Enstra and Cape Kraft mills were fulfilled. Proceeds of US$40 million were received and a combined profit on disposal of US$15 million was recorded.

8. Material balance sheet movements continued

Interest-bearing borrowings

During the quarter, the group repaid the amount owing under the partially drawn US$510 million (€465 million) revolving credit facility of US$55 million (€50 million) as well as US$20 million (€18 million) under the OekB term loan from existing cash resources.

9. Events after balance sheet date

There have been no reportable events that occurred between the balance sheet date and the date of authorisation for issue of these financial statements.

10. Segment information

	Quarter ended	
	Dec 2015 Metric tons (000's)	Dec 2014 Metric tons (000's)
Sales volume		
North America	**330**	333
Europe	**836**	775
Southern Africa – Pulp and paper	**386**	426
Forestry	**259**	228
Total	**1,811**	1,762
Which consists of:		
Specialised cellulose	**255**	300
Paper	**1,297**	1,234
Forestry	**259**	228

	Reviewed	
	Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Sales		
North America	**343**	353
Europe	**659**	684
Southern Africa – Pulp and paper	**268**	325
Forestry	**14**	15
Total	**1,284**	1,377
Which consists of:		
Specialised cellulose	**209**	243
Paper	**1,061**	1,119
Forestry	**14**	15

Notes to the condensed group results continued

10. Segment information continued

	Reviewed	
	Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
Operating profit (loss) excluding special items		
North America	**13**	(4)
Europe	**32**	15
Southern Africa	**67**	63
Total	**112**	74
Which consists of:		
Specialised cellulose	**62**	56
Paper	**50**	18
Special items – (gains) losses		
North America	**–**	–
Europe	**4**	1
Southern Africa	**(15)**	4
Total	**(11)**	5
Segment operating profit (loss)		
North America	**13**	(4)
Europe	**28**	14
Southern Africa	**82**	59
Total	**123**	69
EBITDA excluding special items		
North America	**31**	15
Europe	**65**	53
Southern Africa	**79**	77
Total	**175**	145
Which consists of:		
Specialised cellulose	**74**	70
Paper	**101**	75

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 Quarter ended Dec 2015 US$ million	Quarter ended Dec 2014 US$ million
EBITDA excluding special items	**175**	145
Depreciation and amortisation	**(63)**	(71)
Operating profit excluding special items	**112**	74
Special items – gains (losses)	**11**	(5)
Plantation price fair value adjustment	**2**	1
Net restructuring provisions	**(3)**	(1)
Profit on disposal of assets held for sale	**15**	–
Fire, flood, storm and other events	**(3)**	(5)
Segment operating profit	**123**	69
Net finance costs	**(25)**	(37)
Profit before taxation	**98**	32
Taxation	**(23)**	(8)
Profit for the period	**75**	24

	Reviewed Dec 2015 US$ million	Dec 2014 US$ million
Segment assets		
North America	**983**	1,004
Europe	**1,325**	1,495
Southern Africa	**1,004**	1,305
Unallocated and eliminations[1]	**29**	(15)
Total	**3,341**	3,789
Reconciliation of segment assets to total assets		
Segment assets	**3,341**	3,789
Deferred taxation	**158**	141
Cash and cash equivalents	**383**	329
Other current liabilities	**753**	865
Taxation payable	**25**	21
Total assets	**4,660**	5,145

[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 believes 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	
	Dec 2015	Dec 2014
Key figures: (ZAR million)		
Sales	**18,178**	15,439
Operating profit excluding special items[1]	**1,586**	830
Special items – (gains) losses[1]	**(156)**	56
EBITDA excluding special items[1]	**2,478**	1,626
Profit for the period	**1,062**	269
Basic earnings per share (SA cents)	**201**	51
Net debt[1]	**26,507**	23,664
Key ratios: (%)		
Operating profit excluding special items to sales	**8.7**	5.4
Operating profit excluding special items to capital employed (ROCE)[1]	**15.7**	9.6
EBITDA excluding special items to sales	**13.6**	10.5

[1] *Refer to page 18, supplemental information for the definition of the term.*

The above financial results have been translated into Rand from US Dollar 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

	Dec 2015	Sept 2015	Jun 2015	Mar 2015	Dec 2014
Exchange rates:					
Period end rate: US$1 = ZAR	**15.2865**	13.9135	12.2025	12.0450	11.6001
Average rate for the Quarter: US$1 = ZAR	**14.1577**	12.9364	12.0820	11.7236	11.2122
Average rate for the year to date: US$1 = ZAR	**14.1577**	11.9641	11.6540	11.4552	11.2122
Period end rate: €1 = US$	**1.0977**	1.1195	1.1166	1.0889	1.2177
Average rate for the Quarter: €1 = US$	**1.0968**	1.1125	1.1060	1.1316	1.2504
Average rate for the year to date: €1 = US$	**1.0968**	1.1501	1.1627	1.1910	1.2504

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

South Africa

Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
PO Box 61051, Marshalltown 2107
Telephone +27 (0)11 370 5000

United States ADR Depositary

The Bank of New York Mellon
Investor Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258
Tel +1 610 382 7836

JSE Sponsor:
UBS South Africa (Pty) Ltd

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www.sappi.com
48 Ameshoff Street, Braamfontein, Johannesburg, South Africa
Tel +27 (0)11 407 8111