Sappi Group
(Sappi Limited)
SECOND QUARTER: FISCAL YEAR 2015
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
29 MARCH 2015

14 May 2015

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 2014 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.

sappi

Inspired by life

living with sappi

SECOND QUARTER RESULTS

for the period ended March 2015

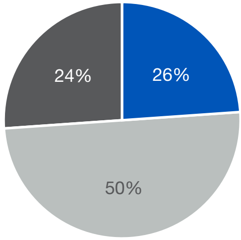
2nd quarter results

Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper pulp and dissolving wood pulp products and related services and innovations.

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 in our Southern African region, newsprint, uncoated graphic and business papers, premium-quality packaging papers, paper-grade pulp and dissolving wood pulp.

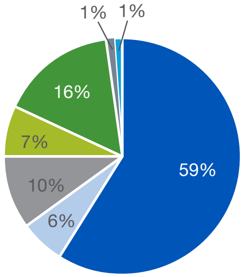
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

The 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.



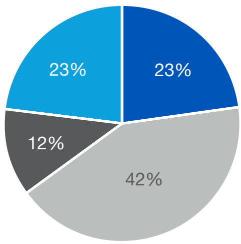
***Sales by source**

- North America
- Europe
- Southern Africa



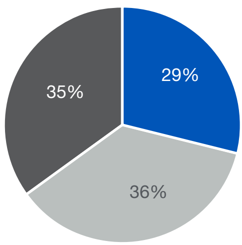
***Sales by product**

- Coated paper
- Uncoated paper
- Speciality paper
- Commodity paper
- Dissolving wood pulp
- Paper pulp
- Other



***Sales by destination**

- North America
- Europe
- Southern Africa
- Asia and other



****Net operating assets**

- North America
- Europe
- Southern Africa

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

Highlights for the quarter

- Profit for the period US$56 million (Q2 2014 US$32 million)
- EPS excluding special items 11 US cents (Q2 2014 5 US cents)
- EBITDA excluding special items US$170 million (Q2 2014 US$171 million)
- Net debt US$1,916 million (Q2 2014 US$2,248 million)
- Successful refinancing of 2018 and 2019 bonds

	Quarter ended			Half-year ended	
	Mar 2015	Mar 2014	Dec 2014	**Mar 2015**	Mar 2014
Key figures: (US$ million)					
Sales	**1,338**	1,573	1,377	**2,715**	3,072
Operating profit excluding special items(1)	**104**	95	74	**178**	155
Special items – (gains) losses(2)	**(68)**	(4)	5	**(63)**	(14)
EBITDA excluding special items(1)	**170**	171	145	**315**	318
Profit for the period	**56**	32	24	**80**	50
Basic earnings per share (US cents)	**11**	6	5	**15**	10
Net debt(3)	**1,916**	2,248	2,040	**1,916**	2,248
Key ratios: (%)					
Operating profit excluding special items to sales	**7.8**	6.0	5.4	**6.6**	5.0
Operating profit excluding special items to capital employed (ROCE)(4)	**13.5**	11.0	9.7	**11.8**	9.1
EBITDA excluding special items to sales	**12.7**	10.9	10.5	**11.6**	10.4
Return on average equity (ROE)(4)	**20.4**	11.3	9.1	**14.7**	8.7
Net debt to total capitalisation(4)	**62.8**	66.2	65.8	**62.8**	66.2
Net asset value per share (US cents)	**216**	219	202	**216**	219

(1) Refer to page 19, 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 19, note 10 to the group results for details on special items.
(3) Refer to page 22, supplemental information for the reconciliation of net debt to interest-bearing borrowings.
(4) Refer to page 21, supplemental information for the definition of the term.

Commentary on the quarter

Operating performance in the quarter was in line with our expectations and the equivalent quarter last year. The group generated EBITDA, excluding special items, of US$170 million, operating profit excluding special items of US$104 million and profit for the period of US$56 million.

The Specialised Cellulose business continued to generate solid returns during the quarter, with EBITDA, excluding special items, of US$65 million. US Dollar prices for dissolving wood pulp declined compared to the prior quarter due to excess market supply as well as low prices and margins in the viscose staple fibre sector. However, the weaker Rand/Dollar exchange rate enabled the South African mills to maintain Rand pricing and margins.

The European business increased profitability but its performance was impacted adversely by higher costs of raw materials due to the weaker Euro/US Dollar exchange rate and particularly weak demand in January. Export paper prices benefited from the weaker Euro.

The North American business was boosted by higher coated paper prices and returned to an operating profit in the quarter. This improvement was achieved despite severe weather in the northeast of the United States, which impacted both logistics and production at the Somerset Mill.

The paper business in South Africa improved operating performance further in this quarter, with increased sales volumes and prices offsetting increased variable costs.

During the quarter we repaid our 2018 and 2019 bonds through the issue of a new €450 million seven-year bond, with a coupon of 3.375%, and through a drawing from the European revolving credit facility. That facility was also renewed and increased to €465 million (previously €350 million).

Earnings per share for the quarter were 11 US cents, compared with 6 US cents (including a gain of 1 US cent in respect of special items) in the equivalent quarter last year.

Special items for the quarter included a gain of US$57 million resulting from the transfer of the Sappi Dutch pension fund to a general fund and a positive plantation fair value pricing adjustment of US$18 million for the South African plantations. These benefits were offset by once-off finance charges of US$63 million relating to the refinancing of the 2018 and 2019 bonds. The finance charges included breakage fees, accelerated amortisation of costs and unwinding of an interest rate swap. The cash impact of the refinancing was a negative US$53 million.

Cash flow and debt

Net cash generation for the quarter of US$82 million was lower than the net cash generated of US$132 million in the equivalent quarter last year as a result of lower working capital inflows due to inventory increases during the period. Capital expenditure in the quarter was US$46 million and mainly related to maintenance and efficiency projects.

Net debt of US$1,916 million declined by US$124 million from the prior quarter, as a result of the cash generated from operations, lower working capital and favourable exchange rates on the translation of our debt.

Liquidity comprises cash on hand of US$399 million and US$480 million from the committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended **Mar 2015** **€ million**	Quarter ended Dec 2014 € million	Quarter ended Sept 2014 € million	Quarter ended Jun 2014 € million	Quarter ended Mar 2014 € million
Sales	**590**	547	561	543	603
Operating profit excluding special items	**24**	12	26	12	14
Operating profit excluding special items to sales (%)	***4.1***	*2.2*	*4.6*	*2.2*	*2.3*
EBITDA excluding special items	**54**	42	58	39	48
EBITDA excluding special items to sales (%)	***9.2***	*7.7*	*10.3*	*7.2*	*8.0*
RONOA pa (%)	***8.0***	*4.0*	*8.6*	*4.0*	*4.6*

Compared to the equivalent quarter last year, the European business benefited from higher average coated woodfree sales prices, lower fixed costs post the disposal of the Nijmegen Mill last year and the transfer of the Sappi Dutch pension fund. Demand was particularly weak in January and there were declines in domestic prices for graphic paper during the quarter.

Paper export prices and margins are benefiting from the weaker Euro/US Dollar exchange rate, which to date, has largely offset the associated increase in variable costs, particularly for paper pulp, arising from the currency move. Logistics costs increased due to increased export sales and increased freight rates.

The specialities business recorded price and volume gains compared to both the prior quarter and the equivalent quarter last year as we further optimise the business post the conversion at Alfeld. In addition, we recently launched a trial of a new folding boxboard product at our Maastricht Mill to expand our packaging offering further.

North America

	Quarter ended Mar 2015 US$ million	Quarter ended Dec 2014 US$ million	Quarter ended Sept 2014 US$ million	Quarter ended Jun 2014 US$ million	Quarter ended Mar 2014 US$ million
Sales	**342**	353	390	380	382
Operating profit (loss) excluding special items	**7**	(4)	25	(9)	5
Operating profit (loss) excluding special items to sales (%)	***2.0***	*(1.1)*	*6.4*	*(2.4)*	*1.3*
EBITDA excluding special items	**26**	15	43	10	22
EBITDA excluding special items to sales (%)	***7.6***	*4.2*	*11.0*	*2.6*	*5.8*
RONOA pa (%)	***2.7***	*(1.6)*	*9.8*	*(3.5)*	*1.9*

The North American business returned to profitability following the extended outage at the Somerset Mill in the prior quarter, benefiting from higher coated prices, improved coated sales mix and lower variable costs. The northeast United States experienced historically severe weather conditions during the quarter, negatively affecting productivity and the transport of goods.

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 business continued to be impacted by weaker than expected sales in the coated fabrics segment in China, and the weaker Euro/US Dollar exchange rate negatively impacted US Dollar pricing for sales into Europe.

Variable costs compared to both the prior quarter and prior year were lower, with lower chemical and energy prices offsetting high wood costs. Lower fibre costs, from own-make Cloquet pulp production, have also contributed favourably to the result.

Southern Africa

	Quarter ended **Mar 2015 ZAR million**	Quarter ended Dec 2014 ZAR million	Quarter ended Sept 2014 ZAR million	Quarter ended Jun 2014 ZAR million	Quarter ended Mar 2014 ZAR million
Sales	**3,817**	3,812	3,972	3,781	3,942
Operating profit excluding special items	**772**	706	634	653	765
Operating profit excluding special items to sales (%)	***20.2***	*18.5*	*16.0*	*17.3*	*19.4*
EBITDA excluding special items	**947**	863	827	810	897
EBITDA excluding special items to sales (%)	***24.8***	*22.6*	*20.8*	*21.4*	*22.8*
RONOA pa (%)	***20.4***	*19.1*	*16.7*	*16.2*	*18.6*

The Southern African business continued to deliver strong earnings. The exchange rate gains on export sales and fixed cost savings contributed positively to the improvement.

Dissolving wood pulp sales volumes were impacted negatively by 7,000 tons for the quarter as a result of the boiler tube leak at the Ngodwana Mill in December. Dissolving wood pulp pricing was supported by the weaker exchange rate, with pricing in Rand higher than the prior quarter and the corresponding quarter last year, despite lower US Dollar prices.

The South African paper business continued to progress with increased volumes, pricing and lower logistics and fixed costs more than offsetting increased variable costs. Strong fruit export sales which have benefited from the weaker Rand are boosting demand for our virgin fibre packaging grades.

Outlook

Graphic paper markets, particularly for coated mechanical, remain difficult and continued cost pressure from higher paper pulp and wood prices are placing margins under pressure. Lower oil and energy costs are providing some relief. Coated woodfree paper price increases in the US market have widened the gap with European pricing levels; however, no significant increase in imports into the US market has been experienced to date.

Textile prices, particularly for those of cotton and viscose, appear to have stabilised over the past few months, after a long period of decline. Dissolving wood pulp prices have followed a similar trend. We remain well positioned to meet the changing market needs. The weaker Rand/US Dollar exchange rate will support the profitability of this business.

Capital expenditure in 2015 is expected to be approximately US$280 million and is focused largely on maintenance projects and efficiency improvement investments at our Kirkniemi and Gratkorn mills.

We estimate that, post the refinancing of our 2018 and 2019 bonds, reduction in debt and movements in currencies, net finance costs will be approximately US$110 million per annum. At current exchange rates, we expect to reduce net debt levels further by year-end.

The third quarter is seasonally weaker in both North America and Europe. The pulp mill upgrade at Gratkorn and regular annual maintenance shuts in all three regions will negatively impact the results of the third quarter by approximately US$21 million when compared to the equivalent quarter last year.

We expect 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 may have an impact on group results. Nevertheless, earnings per share excluding special items are expected to be substantially better than that of the prior year.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

14 May 2015

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 Mar 2015 US$ million	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended Mar 2015 US$ million	Reviewed Half-year ended Mar 2014 US$ million
Sales		**1,338**	1,573	**2,715**	3,072
Cost of sales		**1,138**	1,380	**2,362**	2,719
Gross profit		**200**	193	**353**	353
Selling, general and administrative expenses		**84**	95	**168**	189
Other operating (income) expenses		**(53)**	1	**(51)**	(1)
Share of profit from equity investments		**(3)**	(2)	**(5)**	(4)
Operating profit	2	**172**	99	**241**	169
Net finance costs		**97**	48	**134**	96
Net interest expense		**86**	49	**126**	97
Net foreign exchange gain		**(4)**	(2)	**(6)**	(3)
Net fair value loss on financial instruments		**15**	1	**14**	2
Profit before taxation		**75**	51	**107**	73
Taxation		**19**	19	**27**	23
Profit for the period		**56**	32	**80**	50
Basic earnings per share (US cents)		**11**	6	**15**	10
Weighted average number of shares in issue (millions)		**525.7**	522.5	**525.1**	522.1
Diluted earnings per share (US cents)		**11**	6	**15**	10
Weighted average number of shares on fully diluted basis (millions)		**531.5**	525.6	**530.4**	524.8

Condensed group statement of comprehensive income

	Reviewed Quarter ended **Mar 2015 US$ million**	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended **Mar 2015 US$ million**	Reviewed Half-year ended Mar 2014 US$ million
Profit for the period	**56**	32	**80**	50
Other comprehensive (loss) income, net of tax				
Items that will not be reclassified subsequently to profit or loss	**(10)**	–	**(10)**	–
Actuarial losses on post-employment benefit funds	**(10)**	–	**(10)**	–
Tax effect of above item	**–**	–	**–**	–
Items that must be reclassified subsequently to profit or loss	**26**	(10)	**14**	(52)
Exchange differences on translation of foreign operations	**28**	(5)	**20**	(59)
Movements in hedging reserves	**(3)**	(6)	**(7)**	7
Movement on available for sale financial assets	**–**	1	**–**	–
Tax effect of above items	**1**	–	**1**	–
Total comprehensive income (loss) for the period	**72**	22	**84**	(2)

Condensed group balance sheet

	Reviewed Mar 2015 US$ million	Reviewed Sept 2014 US$ million
ASSETS		
Non-current assets	**3,286**	3,505
Property, plant and equipment	**2,591**	2,841
Plantations	**422**	430
Deferred tax assets	**138**	138
Other non-current assets	**135**	96
Current assets	**1,705**	1,960
Inventories	**682**	687
Trade and other receivables	**614**	731
Taxation receivable	**10**	14
Cash and cash equivalents	**399**	528
Total assets	**4,991**	5,465
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	**1,135**	1,044
Non-current liabilities	**2,795**	3,198
Interest-bearing borrowings	**2,086**	2,311
Deferred tax liabilities	**265**	272
Other non-current liabilities	**444**	615
Current liabilities	**1,061**	1,223
Interest-bearing borrowings	**229**	163
Other current liabilities	**801**	1,035
Taxation payable	**31**	25
Total equity and liabilities	**4,991**	5,465
Number of shares in issue at balance sheet date (millions)	**525.9**	524.2

Condensed group statement of cash flows

	Reviewed Quarter ended **Mar 2015** **US$ million**	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended **Mar 2015** **US$ million**	Reviewed Half-year ended Mar 2014 US$ million
Profit for the period	**56**	32	**80**	50
Adjustment for:				
Depreciation, fellings and amortisation	**80**	90	**165**	192
Taxation	**19**	19	**27**	23
Net finance costs	**97**	48	**134**	96
Defined post-employment benefits paid	**(17)**	(21)	**(31)**	(38)
Plantation fair value adjustments	**(34)**	(23)	**(52)**	(49)
Net restructuring provisions	**2**	2	**3**	3
Non-cash employee benefit liability settlement	**(70)**	–	**(70)**	–
Other non-cash items	**3**	5	**17**	11
Cash generated from operations	**136**	152	**273**	288
Movement in working capital	**23**	59	**(113)**	(90)
Net finance costs paid	**(38)**	(30)	**(90)**	(86)
Taxation (paid) refunded	**(1)**	4	**(4)**	3
Cash generated from operating activities	**120**	185	**66**	115
Cash utilised in investing activities	**(38)**	(53)	**(105)**	(116)
Capital expenditure	**(46)**	(62)	**(114)**	(133)
Net proceeds on disposal of assets and businesses	**–**	6	**–**	12
Other movements	**8**	3	**9**	5
Net cash generated (utilised)	**82**	132	**(39)**	(1)
Cash effects of financing activities	**28**	(4)	**(33)**	(47)
Net movement in cash and cash equivalents	**110**	128	**(72)**	(48)
Cash and cash equivalents at beginning of period	**329**	178	**528**	352
Translation effects	**(40)**	1	**(57)**	3
Cash and cash equivalents at end of period	**399**	307	**399**	307

Condensed group statement of changes in equity

	Reviewed Half-year ended **Mar 2015** **US$ million**	Reviewed Half-year ended Mar 2014 US$ million
Balance – beginning of period	**1,044**	1,144
Total comprehensive income (loss) for the period	**84**	(2)
Transfers from the share purchase trust	**9**	5
Transfers of vested share options	**(6)**	(5)
Share-based payment reserve	**4**	4
Balance – end of period	**1,135**	1,146

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter and half-year ended March 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 this condensed consolidated interim financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA).

The interim financial statements for the quarter and half-year ended March 2015 as set out on pages 8 to 20 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 **Mar 2015** **US$ million**	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended **Mar 2015** **US$ million**	Reviewed Half-year ended Mar 2014 US$ million
2. Operating profit				
Included in operating profit are the following items:				
Depreciation and amortisation	**66**	76	**137**	163
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**14**	14	**28**	29
Growth	**(16)**	(18)	**(33)**	(36)
	(2)	(4)	**(5)**	(7)
Plantation price fair value adjustment	**(18)**	(5)	**(19)**	(13)
	(20)	(9)	**(24)**	(20)
Net restructuring provisions raised	**2**	2	**3**	3
Profit on disposal of property, plant and equipment	**–**	–	**–**	(1)
Profit on disposal of assets held for sale	**–**	(1)	**–**	(1)
Asset impairment reversals	**–**	(1)	**–**	(3)
Employee benefit liability settlement	**(70)**	–	**(70)**	–
Black Economic Empowerment charge	**1**	1	**1**	1
3. Headline earnings per share				
Headline earnings per share (US cents)	**11**	6	**15**	9
Weighted average number of shares in issue (millions)	**525.7**	522.5	**525.1**	522.1
Diluted headline earnings per share (US cents)	**11**	6	**15**	9
Weighted average number of shares on fully diluted basis (millions)	**531.5**	525.6	**530.4**	524.8
Calculation of headline earnings				
Profit for the period	**56**	32	**80**	50
Asset impairment reversals	**–**	(1)	**–**	(3)
Profit on disposal of property, plant and equipment	**–**	–	**–**	(1)
Profit on disposal of assets held for sale	**–**	(1)	**–**	(1)
Tax effect of above items	**–**	–	**–**	–
Headline earnings	**56**	30	**80**	45

	Reviewed Mar 2015 US$ million	Reviewed Sept 2014 US$ million
4. Capital commitments		
Contracted	**93**	104
Approved but not contracted	**107**	126
	200	230
5. Contingent liabilities		
Guarantees and suretyships	**12**	23
Other contingent liabilities	**16**	26
	28	49

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 Half-year ended Mar 2015 US$ million	Reviewed Year ended Sept 2014 US$ million
Fair value of plantations at beginning of year	**430**	464
Gains arising from growth	**33**	65
In-field inventory	**(2)**	(1)
Gain arising from fair value price changes	**19**	7
Harvesting – agriculture produce (fellings)	**(28)**	(57)
Translation difference	**(30)**	(48)
Fair value of plantations at end of period	**422**	430

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 instuments 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 hierarchy	Fair value[1] Reviewed **Mar 2015 US$ million**	Fair value[1] Reviewed Sept 2014 US$ million
Available for sale assets	Level 1	**9**	10
Derivative financial assets	Level 2	**59**	13
Derivative financial liabilities	Level 2	**6**	59

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

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 of 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 2014 financial year-end, the ZAR and Euro have weakened by approximately 7% and 14% respectively to the US Dollar, the group's presentation currency, resulting in a similar decrease of the group's assets and liabilities held in the aforementioned functional currencies on translation to the presentation currency.

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

The decrease in cash and cash equivalents is largely attributable to working capital movements.

Interest-bearing borrowings

In March 2015, the group placed an aggregate principal amount of US$490 million (€450 million) senior secured notes due 2022 at a coupon of 3.375% per annum. In addition, the group increased its US$381 million (€350 million) to revolving credit facility to US$506 million (€465 million) and extended the maturity date to March 2020. The proceeds of the new notes together with cash on hand and drawings of US$109 million (€100 million) under the US$506 million (€465 million) revolving credit facility were used to early redeem Sappi's US$272 million (€250 million) senior secured notes due 2018 and the US$300 million senior secured notes due 2019. As a result of the early redemption, once-off charges of US$63 million were recorded in net finance costs (of which US$10 million was non-cash) which includes the pre-arranged call premiums on early redemption of the notes and the unwinding of an interest rate currency swap.

Other non-current liabilities

During the quarter the group transferred one of its European defined pension funds to an industry-wide pension fund which resulted in a net liability derecognition of US$64 million (€59 million).

9. Post-balance sheet event

The remaining US$37 million (ZAR450 million) of our US$62 million (ZAR750 million) public bond due April 2015 were redeemed on maturity from existing cash resources.

The outstanding US$7 million (ZAR90 million) vendor loan note arising on the disposal of Usutu Forest Products Company Limited to Montigny Investments Limited in June 2014 was received.

10. Segment information

		Quarter ended	Quarter ended	Half-year ended	Half-year ended
		Mar 2015	Mar 2014	**Mar 2015**	Mar 2014
		Metric tons (000's)	Metric tons (000's)	**Metric tons (000's)**	Metric tons (000's)
Sales volume					
North America		**321**	369	**654**	717
Europe		**828**	873	**1,603**	1,709
Southern Africa –	Pulp and paper	**424**	427	**850**	830
	Forestry	**233**	317	**461**	574
Total		**1,806**	1,986	**3,568**	3,830
Which consists of:					
Specialised cellulose		**267**	295	**567**	581
Paper		**1,306**	1,374	**2,540**	2,675
Forestry		**233**	317	**461**	574

		Reviewed Quarter ended **Mar 2015** **US$ million**	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended **Mar 2015** **US$ million**	Reviewed Half-year ended Mar 2014 US$ million
Sales					
North America		**342**	382	**695**	747
Europe		**670**	827	**1,354**	1,617
Southern Africa –	Pulp and paper	**312**	346	**637**	673
	Forestry	**14**	18	**29**	35
Total		**1,338**	1,573	**2,715**	3,072
Which consists of:					
Specialised cellulose		**205**	250	**448**	497
Paper		**1,119**	1,305	**2,238**	2,540
Forestry		**14**	18	**29**	35
Operating profit excluding special items					
North America		**7**	5	**3**	2
Europe		**28**	19	**43**	23
Southern Africa		**66**	71	**129**	127
Unallocated and eliminations[1]		**3**	–	**3**	3
Total		**104**	95	**178**	155
Which consists of:					
Specialised cellulose		**53**	71	**109**	126
Paper		**48**	24	**66**	26
Unallocated and eliminations[1]		**3**	–	**3**	3
Special items – (gains) losses					
North America		**–**	–	**–**	(1)
Europe		**(56)**	1	**(55)**	1
Southern Africa		**(19)**	(4)	**(15)**	(14)
Unallocated and eliminations[1]		**7**	(1)	**7**	–
Total		**(68)**	(4)	**(63)**	(14)
Segment operating profit (loss)					
North America		**7**	5	**3**	3
Europe		**84**	18	**98**	22
Southern Africa		**85**	75	**144**	141
Unallocated and eliminations[1]		**(4)**	1	**(4)**	3
Total		**172**	99	**241**	169

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

	Reviewed Quarter ended **Mar 2015** **US$ million**	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended **Mar 2015** **US$ million**	Reviewed Half-year ended Mar 2014 US$ million
EBITDA excluding special items				
North America	**26**	22	**41**	39
Europe	**61**	66	**114**	118
Southern Africa	**81**	83	**158**	158
Unallocated and eliminations(1)	**2**	–	**2**	3
Total	**170**	171	**315**	318
Which consists of:				
Specialised cellulose	**65**	82	**135**	156
Paper	**103**	89	**178**	159
Unallocated and eliminations(1)	**2**	–	**2**	3

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

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 Mar 2015 US$ million	Reviewed Quarter ended Mar 2014 US$ million	Reviewed Half-year ended Mar 2015 US$ million	Reviewed Half-year ended Mar 2014 US$ million
EBITDA excluding special items	**170**	171	**315**	318
Depreciation and amortisation	**(66)**	(76)	**(137)**	(163)
Operating profit excluding special items	**104**	95	**178**	155
Special items – gains (losses)	**68**	4	**63**	14
Plantation price fair value adjustment	**18**	5	**19**	13
Net restructuring provisions raised	**(2)**	(2)	**(3)**	(3)
Profit on disposal of property, plant and equipment	**–**	–	**–**	1
Profit on disposal of assets held for sale	**–**	1	**–**	1
Asset impairment reversals	**–**	1	**–**	3
Employee benefit liability settlement	**57**	–	**57**	–
Black Economic Empowerment charge	**(1)**	(1)	**(1)**	(1)
Fire, flood, storm and other events	**(4)**	–	**(9)**	–
Segment operating profit	**172**	99	**241**	169
Net finance costs	**(97)**	(48)	**(134)**	(96)
Profit before taxation	**75**	51	**107**	73
Taxation	**(19)**	(19)	**(27)**	(23)
Profit for the period	**56**	32	**80**	50

	Reviewed **Mar 2015** **US$ million**	Reviewed Mar 2014 US$ million
Segment assets		
North America	**1,049**	1,063
Europe	**1,278**	1,620
Southern Africa	**1,262**	1,546
Unallocated and eliminations[1]	**33**	(32)
Total	**3,622**	4,197
Reconciliation of segment assets to total assets		
Segment assets	**3,622**	4,197
Deferred taxation	**138**	94
Cash and cash equivalents	**399**	307
Other current liabilities	**801**	998
Taxation payable	**31**	8
Liabilities associated with assets held for sale	**–**	3
Total assets	**4,991**	5,607

(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

Black Economic Empowerment charge – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in fiscal 2010 in terms of Black Economic Empowerment (BEE) legislation in South Africa

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

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

SG&A – selling, general and administrative expenses

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

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

Headline earnings – as defined in circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, 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

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, and bank overdrafts (net of cash, cash equivalents and short-term deposits)

Net debt to total capitalisation – net debt divided by capital employed

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**

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

ROE – annualised return on average equity. Profit for the period divided by average shareholders' equity

RONOA – return on average net operating assets. Operating profit excluding special items divided by average segment 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 Mar 2015	Quarter ended Mar 2014	Half-year ended Mar 2015	Half-year ended Mar 2014
Key figures: (ZAR million)				
Sales	**15,686**	17,058	**31,101**	32,237
Operating profit excluding special items[1]	**1,219**	1,030	**2,039**	1,627
Special items – gains[1]	**(797)**	(43)	**(722)**	(147)
EBITDA excluding special items[1]	**1,993**	1,854	**3,608**	3,337
Profit for the period	**657**	347	**916**	525
Basic earnings per share (SA cents)	**125**	66	**174**	101
Net debt[1]	**23,078**	23,775	**23,078**	23,775
Key ratios: (%)				
Operating profit excluding special items to sales	**7.8**	6.0	**6.6**	5.0
Operating profit excluding special items to capital employed (ROCE)[1]	**13.4**	11.3	**11.6**	9.3
EBITDA excluding special items to sales	**12.7**	10.9	**11.6**	10.4
Return on average equity (ROE)[1]	**20.3**	11.6	**14.4**	8.9
Net debt to total capitalisation[1]	**62.8**	66.2	**62.8**	66.2

(1) Refer to page 21, 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.*

Reconciliation of net debt to interest-bearing borrowings

	Mar 2015 US$ million	Sept 2014 US$ million
Interest-bearing borrowings	**2,315**	2,474
Non-current interest-bearing borrowings	**2,086**	2,311
Current interest-bearing borrowings	**229**	163
Cash and cash equivalents	**(399)**	(528)
Net debt	**1,916**	1,946

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

Exchange rates

	Mar 2015	Dec 2014	Sept 2014	Jun 2014	Mar 2014
Exchange rates:					
Period end rate: US$1 = ZAR	**12.0450**	11.6001	11.2285	10.5890	10.5760
Average rate for the Quarter: US$1 = ZAR	**11.7236**	11.2122	10.7456	10.5340	10.8443
Average rate for the YTD: US$1 = ZAR	**11.4552**	11.2122	10.5655	10.5072	10.4938
Period end rate: €1 = US$	**1.0889**	1.2177	1.2685	1.3649	1.3753
Average rate for the Quarter: €1 = US$	**1.1316**	1.2504	1.3280	1.3717	1.3705
Average rate for the YTD: €1 = US$	**1.1910**	1.2504	1.3577	1.3676	1.3656

Sappi ordinary shares (JSE:SAP)

Notes

(Registration number 1936/008963/06)
Issuer Code: SAVVI
JSE Code: SAP
ISIN: ZAE000006284

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 Proprietary Limited
70 Marshall Street
Johannesburg 2001

PO Box 61051
Marshalltown 2107

Tel +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

This report is available on the Sappi website: www.sappi.com

sappi

Inspired by life

ince

www.sappi.com

Tel +27 (0)11 407 8111

48 Ameshoff Street
Braamfontein
Johannesburg
SOUTH AFRICA