Sappi Group
(Sappi Limited)
THIRD QUARTER: FISCAL YEAR 2014
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED 29 JUNE 2014

31 July 2014

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 2018 and 2021 issued pursuant to the indentures dated as of April 14, 2011 and (ii) the Senior Secured Notes of Sappi Papier Holding GmbH due 2017 and 2019 issued pursuant to the indentures dated as of July 05, 2012, 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 (including our announced dissolving wood pulp conversion projects), 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 2013 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.

Third Quarter results for the period ended June 2014

3rd quarter results

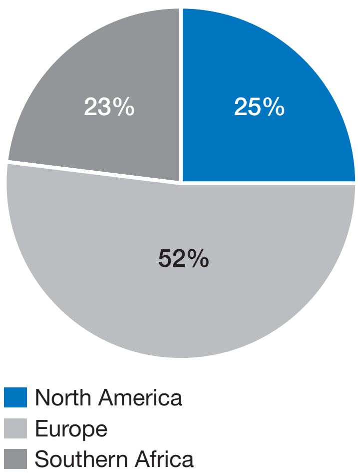
Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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.

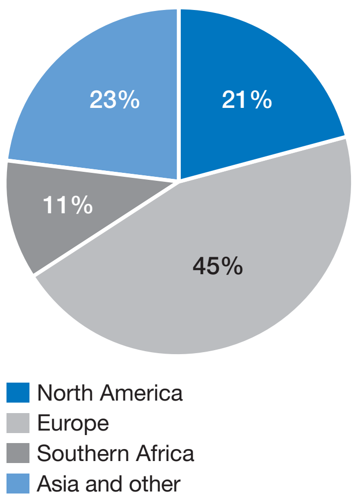
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

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.

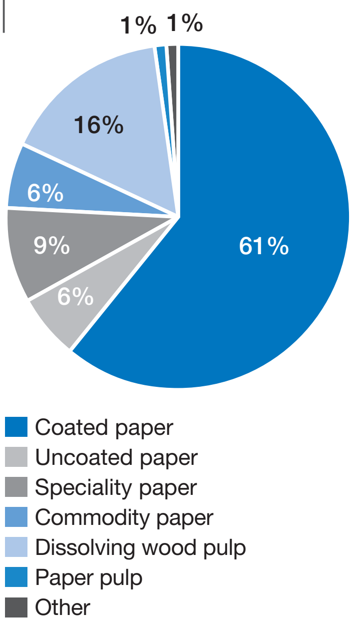
Sales by source*



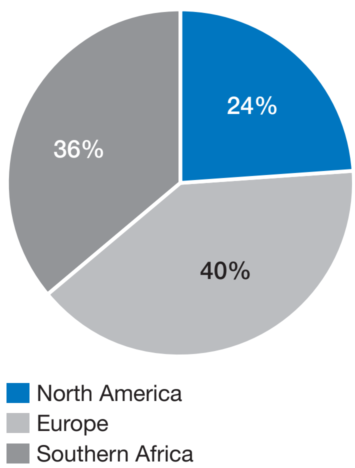
Sales by destination*



Sales by product*



Net operating assets**



* *for the period ended June 2014*
** *as at June 2014*

Cover picture – Shutterstock

We are the market leader in specialised cellulose used widely in the Viscose Staple Fibre (VSF) segment. We are ideally positioned to take advantage of increased demand.

Highlights for the quarter

- Continued year-on-year improvement in quarterly performance
- Usutu and Nijmegen Mill transactions completed
- Specialised Cellulose business remains sold out
- EPS 3 US cents (Q3 2013 loss of 9 US cents)
- EBITDA excluding special items US$140 million (Q3 2013 US$88 million)
- Net debt US$2,286 million (Q3 2013 US$2,331 million)

	Quarter ended			Nine months ended	
	Jun 2014	Restated[(1)] Jun 2013	Mar 2014	Jun 2014	Restated[(1)] Jun 2013
Key figures: (US$ million)					
Sales	**1,484**	1,417	1,573	**4,556**	4,395
Operating profit excluding special items[(2)]	**67**	5	95	**222**	113
Special items – (gains) losses[(3)]	**(2)**	19	(4)	**(16)**	(16)
EBITDA excluding special items[(2)]	**140**	88	171	**458**	373
Profit (loss) for the period	**17**	(47)	32	**67**	(33)
Basic earnings (loss) per share (US cents)	**3**	(9)	6	**13**	(6)
Net debt[(4)]	**2,286**	2,331	2,248	**2,286**	2,331
Key ratios: (%)					
Operating profit excluding special items to sales	**4.5**	0.4	6.0	**4.9**	2.6
Operating profit excluding special items to capital employed (ROCE)[(5)]	**7.8**	0.5	11.0	**8.7**	4.2
EBITDA excluding special items to sales	**9.4**	6.2	10.9	**10.1**	8.5
Return on average equity (ROE)[(5)]	**5.9**	(13.5)	11.3	**7.8**	(3.1)
Net debt to total capitalisation[(5)]	**66.3**	63.5	66.2	**66.3**	63.5
Net asset value per share (US cents)	**222**	257	219	**222**	257

(1) Restated for the adoption of IAS 19 (Revised) Employee Benefits and IFRS 10 Consolidated Financial Statements. Refer to page 12, note 2 to the group results for more detail.
(2) Refer to page 19, note 11 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit (loss), and profit (loss) for the period.
(3) Refer to page 19, note 11 to the group results for details on special items.
(4) Refer to page 21, supplemental information for the reconciliation of net debt to interest-bearing borrowings.
(5) Refer to page 20, supplemental information for the definition of the term.

Commentary on the quarter

The group continued the trend of improving year-on-year performance, with EBITDA excluding special items of US$140 million, operating profit excluding special items of US$67 million and profit for the period of US$17 million.

The European business had a solid quarter in a seasonally slow period, with lower variable and fixed costs arising from cost cutting initiatives offsetting weaker graphic paper prices. Demand for coated woodfree paper was stable, but coated mechanical paper continues to be weak.

The North American business was impacted by a number of planned and unplanned outages at the pulp mills, as well as a continuation of the weak pricing in the coated paper markets. Price increases for coated woodfree web paper were announced during the quarter and this will bring some relief to a difficult market in the fourth financial quarter.

The Southern African paper business improved on the prior quarter performance due to lower fixed costs whilst variable costs were negatively impacted by the weaker Rand.

The Specialised Cellulose business had a reasonable quarter, impacted by the planned annual maintenance shut at the Cloquet Mill. As expected, dissolving wood pulp prices experienced increased downward pressure due to weaker viscose staple fibre prices. Strong shipment volumes contributed towards an EBITDA excluding special items of US$70 million.

Finance costs of US$42 million were slightly below those of the restated equivalent period last year.

Earnings per share for the quarter were 3 US cents (including a gain of 1 US cent in respect of special items), compared to a loss of 9 US cents (including a charge of 3 US cents in respect of special items) in the restated equivalent quarter last year.

Cash flow and debt

Net cash utilised in the quarter was US$44 million, compared to net cash utilised of US$157 million in the equivalent quarter last year. The decrease in cash utilisation was mainly as a result of reduced capital expenditure and an improved operating performance. Capital expenditure in the quarter declined to US$57 million compared to US$174 million a year ago, reflecting the completion of the expenditure on the dissolving wood pulp projects.

Net debt of US$2,286 million increased by US$38 million compared to the prior quarter, mainly as a result of increased working capital. Proceeds from the sale of the Usutu assets for ZAR1 billion were received after quarter-end and will be utilised to reduce debt.

Liquidity comprises cash on hand of US$248 million and US$572 million available from the undrawn committed credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended Jun 2014 € million	Quarter ended Mar 2014 € million	Quarter ended Dec 2013 € million	Restated[(1)] Quarter ended Sept 2013 € million	Restated[(1)] Quarter ended Jun 2013 € million
Sales	**543**	603	581	591	574
Operating profit (loss) excluding special items	**12**	14	3	(9)	(12)
Operating profit (loss) excluding special items to sales (%)	***2.2***	*2.3*	*0.5*	*(1.5)*	*(2.1)*
EBITDA excluding special items	**39**	48	38	27	24
EBITDA excluding special items to sales (%)	***7.2***	*8.0*	*6.5*	*4.6*	*4.2*
RONOA pa (%)	***4.0***	*4.6*	*1.0*	*(2.8)*	*(3.5)*

(1) The group adopted IAS 19 (Revised) Employee Benefits for the year ended September 2014. Refer to note 2 to the group results for more detail.

During this seasonally slow quarter, albeit stronger than expected, overall sales volumes were approximately 2% lower year-on-year, with growth in speciality paper volumes and stable coated woodfree volumes. The coated mechanical market remains weak, both domestically and globally.

Average net sales prices in Euro were lower across all products compared to the equivalent quarter in the prior year, but were flat compared to the prior quarter. Savings in variable, fixed and logistics costs enabled the business to improve the year-on-year performance despite the lower sales prices. The weaker profitability compared to the prior quarter is largely due to seasonally lower sales volumes.

An agreement was reached to dispose of the Nijmegen Mill to an affiliate of the American Industrial Acquisition Corporation (AIAC) on 16 June 2014. The mill will now manufacture packaging paper and will no longer be engaged in the coated graphic paper business beyond a six-month transition arrangement for 52,000 tonnes.

North America

	Quarter ended Jun 2014 US$ million	Quarter ended Mar 2014 US$ million	Quarter ended Dec 2013 US$ million	Restated(1) Quarter ended Sept 2013 US$ million	Restated(1) Quarter ended Jun 2013 US$ million
Sales	380	382	365	366	324
Operating (loss) profit excluding special items	(9)	5	(3)	27	(2)
Operating (loss) profit excluding special items to sales (%)	*(2.4)*	*1.3*	*(0.8)*	*7.4*	*(0.6)*
EBITDA excluding special items	10	22	17	47	16
EBITDA excluding special items to sales (%)	*2.6*	*5.8*	*4.7*	*12.8*	*4.9*
RONOA pa (%)	*(3.5)*	*1.9*	*(1.2)*	*10.4*	*(0.8)*

(1) The group adopted IAS 19 (Revised) Employee Benefits for the year ended September 2014. Refer to note 2 to the group results for more detail.

The graphic paper markets continued to be characterised by weak pricing during the quarter, whilst our volumes were flat year-on-year. Price increases for web products were announced during the quarter and should improve our results going forward.

Dissolving wood pulp profitability was negatively impacted by the planned annual maintenance shut at Cloquet as well as higher logistics costs incurred during the quarter.

The specialities business is experiencing improved sales to Europe, which is offsetting weaker Chinese markets.

Variable costs were higher than those of the equivalent quarter a year ago as a result of higher wood and paper pulp costs, but also as a result of some unscheduled outages at both the Cloquet and Somerset pulp mills.

During the quarter, a reorganisation plan was announced that has resulted in the reduction of approximately 50 salaried positions and 60 hourly paid positions across the region.

Southern Africa

	Quarter ended Jun 2014 ZAR million	Quarter ended Mar 2014 ZAR million	Restated[(1)] Quarter ended Dec 2013 ZAR million	Restated[(1)] Quarter ended Sept 2013 ZAR million	Restated[(1)] Quarter ended Jun 2013 ZAR million
Sales	**3,781**	3,942	3,488	3,779	3,255
Operating profit excluding special items	**653**	765	568	509	192
Operating profit excluding special items to sales (%)	***17.3***	*19.4*	*16.3*	*13.5*	*5.9*
EBITDA excluding special items	**810**	897	761	709	364
EBITDA excluding special items to sales (%)	***21.4***	*22.8*	*21.8*	*18.8*	*11.2*
RONOA pa (%)	***16.2***	*18.6*	*14.1*	*12.8*	*4.8*

(1) The group adopted IAS 19 (Revised) Employee Benefits and IFRS 10 Consolidated Financial Statements for the year ended September 2014. Refer to note 2 to the group results for more detail.

The performance of the Southern African business improved compared to the equivalent quarter last year; a quarter impacted by the conversion to dissolving wood pulp at Ngodwana. The increased dissolving wood pulp sales from Ngodwana, higher average Rand pricing for dissolving wood pulp and improved profitability from the paper packaging business all contributed to the improvement.

Compared to the prior quarter, lower average Rand pricing as well as increased variable costs were responsible for the reduction in profitability.

Variable costs, particularly for wood and pulp, were negatively impacted by the weaker Rand while fixed costs were in line with last year following cost containment actions.

Directorate

As previously announced on 30 June 2014, Ralph Boëttger relinquished his position as CEO and Director due to a serious illness. As of 01 July 2014, Steve Binnie, previously the CFO, has succeeded Mr Boëttger as CEO. Glen Pearce, previously CFO of Sappi Europe, has succeeded Mr Binnie as CFO and has joined the Sappi Limited board of directors as an Executive Director.

Outlook

The stronger than expected coated woodfree paper market, coupled with excellent ongoing cost control and focus, has led to steady progress in the European business, an important cash contributor to the group. Two important capital projects at Gratkorn and Kirkniemi are underway, allowing us to make further headway in improving the financial performance of this business.

The North American business has experienced an extremely difficult year with cost and price pressures in graphic paper, inclement weather and some operational challenges. There are early signs that the graphic paper business will see improved returns with good volumes and higher pricing going forward. Management focus on cost and operations will aid further improvement.

The South African paper packaging business continues to benefit from healthy demand due to a good fruit export season.

Due to the competitive nature of the dissolving wood pulp market and weak viscose staple fibre pricing, we are experiencing continued pressure on our prices. However, demand remains strong and our mills are essentially sold out for the remainder of the year.

Capital expenditure for the full year is expected to remain below US$300 million and with the proceeds of the Usutu sale and positive cash generation expected in the fourth quarter, we anticipate net debt to end the year close to US$2 billion.

The fourth quarter is a seasonally stronger quarter and we believe that the results for the quarter will continue the trend of improved year-on-year quarterly performance which we have experienced throughout 2014.

On behalf of the board

S R Binnie
Director

G Pearce
Director

31 July 2014

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 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 strategic initiatives (including our announced dissolving wood pulp conversion projects), 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	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Sales		1,484	1,417	4,556	4,395
Cost of sales		1,325	1,330	4,044	3,908
Gross profit		159	87	512	487
Selling, general and administrative expenses		94	95	283	290
Other operating (income) expenses		(2)	8	(3)	73
Share of profit from equity investments		(2)	(2)	(6)	(5)
Operating profit (loss)	3	69	(14)	238	129
Net finance costs		42	47	138	139
Net interest expense		43	47	140	139
Net foreign exchange (gain) loss		(1)	1	(4)	1
Net fair value (gain) loss on financial instruments		–	(1)	2	(1)
Profit (loss) before taxation		27	(61)	100	(10)
Taxation		10	(14)	33	23
Profit (loss) for the period		17	(47)	67	(33)
Basic earnings (loss) per share (US cents)		3	(9)	13	(6)
Weighted average number of shares in issue (millions)		522.6	521.5	522.3	521.3
Diluted earnings (loss) per share (US cents)		3	(9)	13	(6)
Weighted average number of shares on fully diluted basis (millions)		526.7	521.5	525.6	521.3

Condensed group statement of comprehensive income

	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months Jun 2014 US$ million	Restated Nine months Jun 2013 US$ million
Profit (loss) for the period	17	(47)	67	(33)
Other comprehensive income loss, net of tax				
Items that will not be reclassified subsequently to profit or loss	–	19	–	29
Actuarial gains on post-employment benefit funds	–	28	–	43
Tax effect of above item	–	(9)	–	(14)
Items that must be reclassified subsequently to profit or loss	(4)	(78)	(56)	(190)
Exchange differences on translation of foreign operations	2	(76)	(57)	(184)
Movements in hedging reserves	(4)	1	3	(4)
Movement on available for sale financial assets	(2)	–	(2)	–
Tax effect of above items	–	(3)	–	(2)
Total comprehensive income (loss) for the period	13	(106)	11	(194)

Condensed group balance sheet

	Jun 2014 US$ million	Reviewed Restated Sept 2013 US$ million
ASSETS		
Non-current assets	3,625	3,787
Property, plant and equipment	2,960	3,078
Plantations	455	464
Deferred tax assets	98	92
Other non-current assets	112	153
Current assets	1,868	1,940
Inventories	735	728
Trade and other receivables	870	748
Taxation receivable	15	18
Cash and cash equivalents	248	352
Assets held for sale	–	94
Total assets	5,493	5,727
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,160	1,144
Non-current liabilities	3,205	3,371
Interest-bearing borrowings	2,354	2,499
Deferred tax liabilities	288	267
Other non-current liabilities	563	605
Current liabilities	1,128	1,212
Interest-bearing borrowings	180	99
Overdrafts	–	1
Other current liabilities	931	1,094
Taxation payable	17	12
Liabilities associated with assets held for sale	–	6
Total equity and liabilities	5,493	5,727
Number of shares in issue at balance sheet date (millions)	522.7	521.5

Condensed group statement of cash flows

	Quarter ended Jan 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Profit (loss) for the period	17	(47)	67	(33)
Adjustment for:				
Depreciation, fellings and amortisation	89	100	281	310
Taxation	10	(14)	33	23
Net finance costs	42	47	138	139
Defined post-employment benefits paid	(19)	(22)	(57)	(54)
Plantation fair value adjustments	(21)	(10)	(70)	(151)
Asset (impairment reversals) impairments	–	(1)	(3)	46
Net restructuring provisions and loss on disposal of assets and businesses	(4)	2	(3)	15
Other non-cash items	4	6	20	31
Cash generated from operations	118	61	406	326
Movement in working capital	(29)	8	(119)	(128)
Net finance costs paid	(50)	(57)	(136)	(144)
Taxation paid	(4)	(2)	(1)	(15)
Cash generated from operating activities	35	10	150	39
Cash utilised in investing activities	(79)	(167)	(195)	(397)
Capital expenditure	(57)	(174)	(190)	(449)
Cash flows on disposal of assets and businesses	(22)	7	(10)	50
Other movements	–	–	5	2
Net cash utilised	(44)	(157)	(45)	(358)
Cash effects of financing activities	(13)	(7)	(60)	(42)
Net movement in cash and cash equivalents	(57)	(164)	(105)	(400)
Cash and cash equivalents at beginning of period	307	361	352	604
Translation effects	(2)	5	1	(2)
Cash and cash equivalents at end of period	248	202	248	202

Condensed group statement of changes in equity

	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Balance – beginning of period	1,144	1,525
Total comprehensive income (loss) for the period	11	(194)
Share-based payment reserve	5	9
Balance – end of period	1,160	1,340

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated interim financial results for the nine months ended June 2014 have been prepared in accordance with the Listings Requirements of the JSE Limited, the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and must contain the information required by IAS 34, *Interim Financial Reporting*. The accounting policies applied in the preparation of these interim financial statements are consistent with those applied in the previous annual financial statements, other than for the adoption of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IAS 19 (Revised) *Employee Benefits*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures* and various other improvements. The adoption of these accounting standards did not have a material impact on the group results other than as described in note 2 below.

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

The results are unaudited.

2. Restatement

Adoption of IAS 19 (Revised) *Employee Benefits*

This standard, which is required to be applied retrospectively, was adopted by the group for the year ended September 2014. As a result of the change, the group now determines the net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability (asset). Previously, the group determined interest income on plan assets based on the assets long-term rate of expected return. The group also reclassified the net interest expense (income) from operating profit (loss) to finance costs as an accounting policy choice.

The impact on profit or loss and other comprehensive loss for the quarter ended June 2013 is as follows:

	As previously reported	Adjustment	Restated
	US$ million	US$ million	US$ million
Condensed group income statement			
Cost of sales	1,327	3	1,330
Net finance costs	42	5	47
Taxation	(11)	(3)	(14)
Loss for the period	(42)	(5)	(47)
Earnings per share			
Basic loss per share (US cents)	(8)	(1)	(9)
Diluted loss per share (US cents)	(8)	(1)	(9)
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	14	5	19
Actuarial gains on post-employment benefit funds	20	8	28
Tax effect of above item	(6)	(3)	(9)

The impact on profit or loss and other comprehensive loss for the reviewed nine months ended June 2013 is as follows:

	As previously reported US$ million	Adjustment US$ million	Restated US$ million
Condensed group income statement			
Cost of sales	3,900	8	3,908
Net finance costs	124	15	139
Taxation	31	(8)	23
Loss for the period	(18)	(15)	(33)
Earnings per share			
Basic loss per share (US cents)	(3)	(3)	(6)
Diluted loss per share (US cents)	(3)	(3)	(6)
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	14	15	29
Actuarial gains on post-employment benefit funds	20	23	43
Tax effect of above item	(6)	(8)	(14)

Adoption of IFRS 10 *Consolidated Financial Statements*

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. An investor controls an investee when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Additionally, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that, although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation), the group consequently deconsolidated its assets with its South African insurer.

The impact of this change on the reviewed 2013 financial results is as follows:

	As previously reported US$ million	Adjustment US$ million	Restated US$ million
Condensed group balance sheet			
Other non-current assets	120	33	153
Cash and cash equivalents	385	(33)	352
Net debt	2,214	33	2,247

There is no impact on profit or loss and cash flows for the quarter and nine months ended June 2013.

3. Operating profit (loss)

	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Included in operating profit (loss) are the following non-cash items:				
Depreciation and amortisation	**73**	83	**236**	260
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**16**	17	**45**	50
Growth	**(16)**	(21)	**(52)**	(58)
	–	(4)	**(7)**	(8)
Plantation price fair value adjustment	**(5)**	11	**(18)**	(93)
	(5)	7	**(25)**	(101)
Included in other operating (income) expenses are the following:				
Net restructuring provisions and loss on disposal of assets and businesses	**(4)**	2	**(3)**	15
Asset (impairment reversals) impairments	**–**	(1)	**(3)**	46
Black Economic Empowerment charge	**1**	1	**2**	3

4. Headline earnings (loss) per share

	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Headline earnings (loss) per share (US cents)	**9**	(9)	**17**	(1)
Weighted average number of shares in issue (millions)	**522.6**	521.5	**522.3**	521.3
Diluted headline earnings (loss) per share (US cents)	**9**	(9)	**17**	(1)
Weighted average number of shares on fully diluted basis (millions)	**526.7**	521.5	**525.6**	521.3
Calculation of headline earnings (loss)				
Profit (loss) for the period	**17**	(47)	**67**	(33)
Asset (impairment reversals) impairments	**–**	(1)	**(3)**	46
Loss (profit) on disposal of assets and businesses	**27**	–	**25**	(1)
Tax effect of above items	**1**	1	**1**	(15)
Headline earnings (loss)	**45**	(47)	**90**	(3)

5. Capital commitments

	Jun 2014 US$ million	Reviewed Sept 2013 US$ million
Contracted	146	62
Approved but not contracted	142	195
	288	257

6. Contingent liabilities

Guarantees and suretyships	30	33
Other contingent liabilities	19	11
	49	44

7. 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*.

	Jun 2014 US$ million	Reviewed Sept 2013 US$ million
Fair value of plantations at beginning of year	464	555
Additions	–	4
Gains arising from growth	50	79
Fire, flood, storms and related events	–	(4)
In-field inventory	(1)	1
Gain arising from fair value price changes	6	87
Harvesting – agriculture produce (fellings)	(43)	(66)
Transferred to assets held for sale	–	(93)
Translation difference	(21)	(99)
Fair value of plantations at end of the period	455	464

At September 2013, plantations amounting to US$86 million were disclosed as assets held for sale. In accordance with IAS 41 *Agriculture*, these plantations were carried at fair value. Before the disposal of the plantations in the current period, gains arising from growth amounted to US$2 million, the price fair value adjustment amounted to US$12 million and timber worth US$2 million was felled in these plantations.

8. 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[1]	
	Fair value hierarchy	Jun 2014 US$ million	Restated Sept 2013 US$ million
Available for sale assets	Level 1	**10**	11
Available for sale assets	Level 2	**–**	40
Derivative financial assets	Level 2	**17**	21
Derivative financial liabilities	Level 2	**110**	101

(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 value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

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

9. Material balance sheet movements

Property, plant and equipment

The estimated useful life of the group's pulp mill equipment was extended from 20 to 30 years and, as such, the depreciation charge decreased by approximately US$15 million on a comparative basis for the nine months ended June 2014.

Other non-current assets and other non-current liabilities

A qualifying insurance asset was purchased in respect of the South African post-retirement medical aid liability using available non-current assets.

Cash and cash equivalents, and other current liabilities

Cash and cash equivalents decreased due to the payment of trade creditors, capital accruals related to our dissolving wood pulp projects and the utilisation of restructuring provisions. Restructuring provisions no longer required related to our Nijmegen mill was released following its disposal.

Interest-bearing borrowings

Interest-bearing borrowings decreased due to the repayment of certain loans in South Africa and a reduction in the usage of the group's offshore securitisation programme. Additionally, US$100 million was reclassified to short-term as it falls due within the next 12 months.

10. Sale of subsidiary Usutu Forests Products Company Limited

The conditions precedent related to the group's announced sale in July 2013 of its' shares in Usutu Forest Products Company Limited as well as the shareholder loan claim against Usutu to Montigny Investments Limited were completed in June 2014. The total proceeds of US$98 million (ZAR1 billion) include a vendor loan note of US$9 million (ZAR90 million) which is repayable over 6 years at prime plus 2%. Proceeds of US$89 million were received in July 2014. The disposal group, which consisted mainly of plantations, was held within the group's South African operations. These assets were classified as held for sale. The vendor receivable is included in trade and other receivables.

11. Segment information

		Quarter ended Jun 2014 Metric tons (000's)	Quarter ended Jun 2013 Metric tons (000's)	Nine months ended Jun 2014 Metric tons (000's)	Nine months ended Jun 2013 Metric tons (000's)
Sales volume					
North America		362	297	1,079	963
Europe		783	796	2,492	2,527
Southern Africa –	Pulp and paper	423	405	1,253	1,172
	Forestry	275	309	849	888
Total		1,843	1,807	5,673	5,550
Which consists of:					
Specialised cellulose		305	183	886	542
Paper		1,263	1,315	3,938	4,120
Forestry		275	309	849	888

		Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Sales					
North America		380	324	1,127	1,011
Europe		745	749	2,362	2,372
Southern Africa –	Pulp and paper	341	324	1,014	953
	Forestry	18	20	53	59
Total		1,484	1,417	4,556	4,395
Which consists of:					
Specialised cellulose		258	157	755	458
Paper		1,208	1,240	3,748	3,878
Forestry		18	20	53	59
Operating profit (loss) excluding special items					
North America		(9)	(2)	(7)	30
Europe		16	(16)	39	4
Southern Africa		62	20	189	72
Unallocated and eliminations[1]		(2)	3	1	7
Total		67	5	222	113
Which consists of:					
Specialised cellulose		55	39	181	110
Paper		14	(37)	40	(4)
Unallocated and eliminations[1]		(2)	3	1	7

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

	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
Special items – (gains) losses				
North America	3	(1)	2	(4)
Europe	(5)	3	(4)	7
Southern Africa	–	14	(14)	(30)
Unallocated and eliminations[1]	–	3	–	11
Total	(2)	19	(16)	(16)
Segment operating profit (loss)				
North America	(12)	(1)	(9)	34
Europe	21	(19)	43	(3)
Southern Africa	62	6	203	102
Unallocated and eliminations[1]	(2)	–	1	(4)
Total	69	(14)	238	129
EBITDA excluding special items				
North America	10	16	49	88
Europe	54	31	172	147
Southern Africa	77	38	235	131
Unallocated and eliminations[1]	(1)	3	2	7
Total	140	88	458	373
Which consists of:				
Specialised cellulose	70	51	226	139
Paper	71	34	230	227
Unallocated and eliminations[1]	(1)	3	2	7
Segment assets				
North America	1,022	1,027	1,022	1,027
Europe	1,703	1,793	1,703	1,793
Southern Africa	1,505	1,641	1,505	1,641
Unallocated and eliminations[1]	(31)	(12)	(31)	(12)
Total	4,199	4,449	4,199	4,449

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

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit (loss) and profit (loss) 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.

	Quarter ended Jun 2014 US$ million	Restated Quarter ended Jun 2013 US$ million	Nine months ended Jun 2014 US$ million	Restated Nine months ended Jun 2013 US$ million
EBITDA excluding special items	140	88	458	373
Depreciation and amortisation	(73)	(83)	(236)	(260)
Operating profit excluding special items	67	5	222	113
Special items – gains (losses)	2	(19)	16	16
Plantation price fair value adjustment	5	(11)	18	93
Net restructuring provisions and loss on disposal of assets and businesses	4	(2)	(3)	(15)
Asset impairment reversals (impairments)	–	1	3	(46)
Black Economic Empowerment charge	(1)	(1)	(2)	(3)
Fire, flood, storm and related events	(6)	(6)	(6)	(13)
Segment operating profit (loss)	69	(14)	238	129
Net finance costs	(42)	(47)	(138)	(139)
Profit (loss) before taxation	27	(61)	100	(10)
Taxation	(10)	14	(33)	(23)
Profit (loss) for the period	17	(47)	67	(33)

Reconciliation of segment assets to total assets				
Segment assets	4,199	4,449	4,199	4,449
Deferred taxation	98	120	98	120
Cash and cash equivalents(1)	248	202	248	202
Other current liabilities	931	883	931	883
Taxation payable	17	13	17	13
Liabilities associated with assets held for sale	–	5	–	5
Total assets	5,493	5,672	5,493	5,672

(1) The comparative period has been restated for the adoption of IFRS 10 Consolidated Financial Statements by an amount of US$34 million. Refer to note 2 for more detail.

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 – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

Black Economic Empowerment charge – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in fiscal 2010

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

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 re-measurements. 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 overdraft (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 taxation 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 Jun 2014	Restated Quarter ended Jun 2013	Nine months ended Jun 2014	Restated Nine months ended Jun 2013
Key figures: (ZAR million)				
Sales	15,632	13,427	47,871	39,715
Operating profit excluding special items[1]	706	47	2,333	1,021
Special items – (gains) losses[1]	(21)	180	(168)	(145)
EBITDA excluding special items[1]	1,475	834	4,812	3,371
Profit (loss) for the period	179	(445)	704	(298)
Basic earnings (loss) per share (SA cents)	34	(85)	135	(57)
Net debt[1]	24,206	23,030	24,206	23,030
Key ratios: (%)				
Operating profit excluding special items to sales	4.5	0.4	4.9	2.6
Operating profit excluding special items to capital employed (ROCE)[1]	7.8	0.5	8.8	4.1
EBITDA excluding special items to sales	9.4	6.2	10.1	8.5
Return on average equity (ROE)[1]	5.9	(13.4)	7.9	(3.1)
Net debt to total capitalisation[1]	66.3	63.5	66.3	63.5

(1) Refer to page 20, 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

	Jun 2014 US$ million	Restated[1] Sept 2013 US$ million
Interest-bearing borrowings	2,534	2,599
Non-current interest-bearing borrowings	2,354	2,499
Current interest-bearing borrowings	180	99
Overdrafts	–	1
Cash and cash equivalents	(248)	(352)
Net debt	2,286	2,247

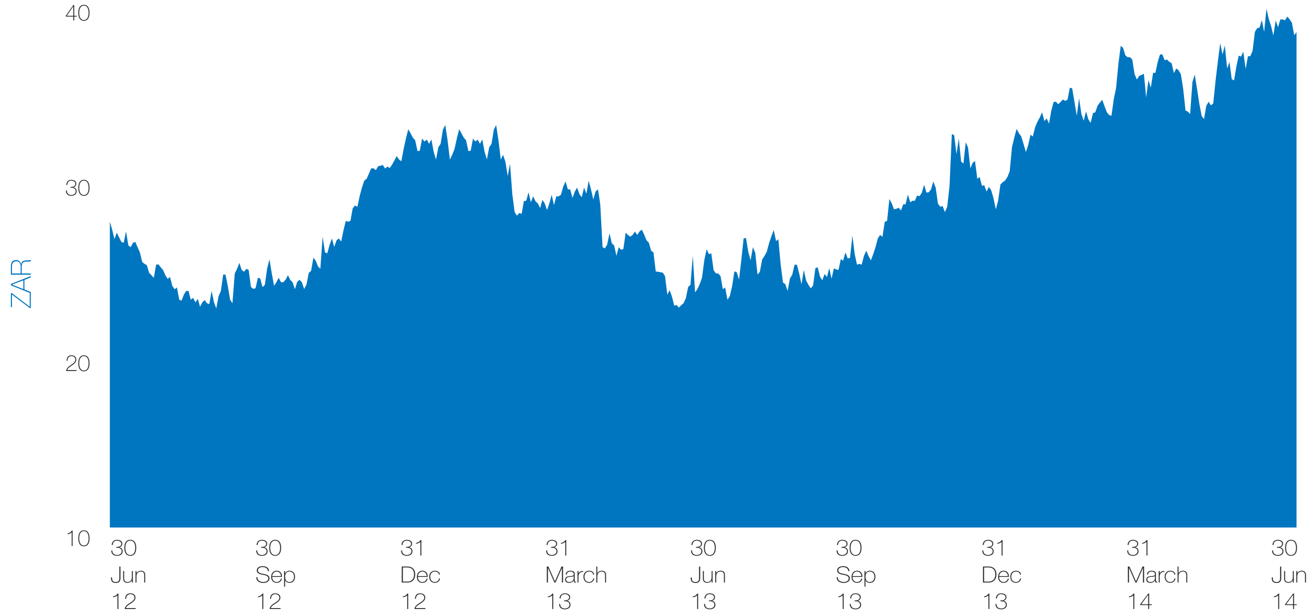
(1) Restated for the adoption of IFRS 10 Consolidated Financial Statements. Refer to note 2 for more detail.

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

Exchange rates

	Jun 2014	Mar 2014	Dec 2013	Sept 2013	Jun 2013
Exchange rates:					
Period end rate: US$1 = ZAR	**10.5890**	10.5760	10.5300	10.0930	9.8800
Average rate for the Quarter: US$1 = ZAR	**10.5340**	10.8443	10.1406	9.9931	9.4756
Average rate for the YTD: US$1 = ZAR	**10.5072**	10.4938	10.1406	9.2779	9.0364
Period end rate: €1 = US$	**1.3649**	1.3753	1.3742	1.3522	1.3010
Average rate for the Quarter: €1 = US$	**1.3717**	1.3705	1.3607	1.3248	1.3060
Average rate for the YTD: €1 = US$	**1.3676**	1.3656	1.3607	1.3121	1.3078

Sappi ordinary shares (JSE:SAP)



Notes:

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