Sappi Group
(Sappi Limited)
FOURTH QUARTER: FISCAL YEAR 2013
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED
29 SEPTEMBER 2013

07 November 2013

This report is being furnished to The Bank of New York Mellon as trustee of the Senior Secured Notes due 2018 and 2021 dated as of April 14, 2011 and the Senior Secured notes due 2017 and 2019 dated as of June 20, 2012 of Sappi Papier Holding GmbH pursuant to Section 4.03 of the indenture governing these 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’’ within the meaning of the United States Private Securities Litigation Reform Act of 1995.

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, which do not relate to historical matters, 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.

We urge you to read the information contained in the sections entitled “Item 3—Key Information—Selected Financial Data”, “Item 3—Key Information—Risk Factors”, “Item 4—Information on the Company”, “Item 5—Operating and Financial Review and Prospects”, “Item 10—Additional Information—Exchange Controls” included in the Form 20-F filed by Sappi Limited with the U.S. Securities and Exchange Commission on December 10, 2012 and note 29.2 to the group annual financial statements of Sappi Limited included in such Form 20-F. 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 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
Results for the
quarter and year ended
September 2013
sappi
Inspired by life

4th quarter results

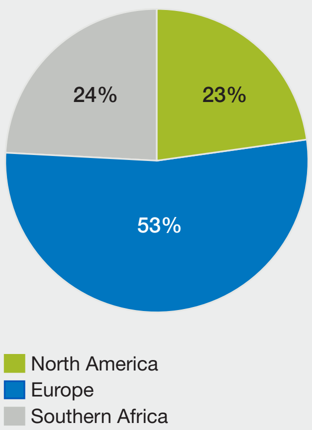
Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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.

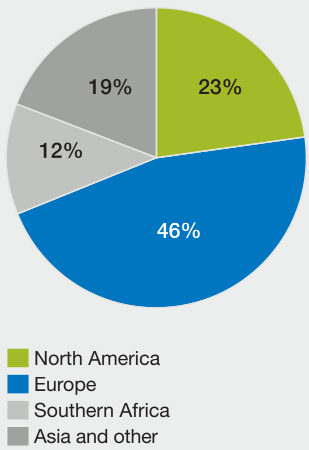
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

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.

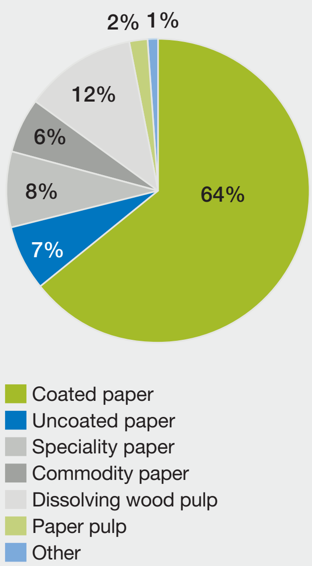
Sales by source*



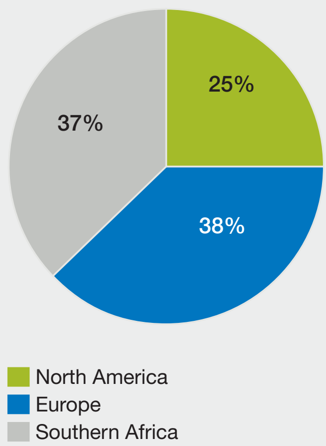
Sales by destination*



Sales by product*



Net operating assets**



* *for the period ended September 2013*

** *as at September 2013*

Cover picture – Shutterstock

The bulk of our dissolving wood pulp production is used to make viscose staple fibre, a biodegradable, natural, organic product with breathability and moisture absorbency properties. As the global population grows, particularly in Asia where most of our dissolving wood pulp production is currently exported, so too, will demand for comfortable clothing. We are a market leader in the VSF segment and are ideally positioned to take advantage of increased demand.

sappi

Inspired by life

sappi

Financial summary for the quarter

- Dissolving wood pulp and speciality paper conversions commissioned and running well
- Operating profit excluding special items US$70 million (Q4 2012 US$118 million)
- Net cash generated US$111 million (Q4 2012 US$203 million)
- Special items charges US$177 million of which US$94 million are non-cash
- Earnings per share excluding special items 2 US cents (Q4 2012 11 US cents)
- Net debt US$2,214 million (Q4 2012 US$1,979 million)

	Quarter ended			Year ended	
	Sept 2013	Sept 2012	Jun 2013	**Sept 2013**	Sept 2012
Key figures: (US$ million)					
Sales	**1,530**	1,585	1,417	**5,925**	6,347
Operating (loss) profit	**(107)**	160	(11)	**30**	421
Special items – losses (gains)(1)	**177**	(42)	19	**161**	(18)
Operating profit excluding special items(2)	**70**	118	8	**191**	403
EBITDA excluding special items(2)	**158**	211	91	**539**	772
(Loss) profit for the period	**(143)**	107	(42)	**(161)**	104
Basic (loss) earnings per share (US cents)	**(27)**	21	(8)	**(31)**	20
Net debt(3)	**2,214**	1,979	2,297	**2,214**	1,979
Key ratios: (%)					
Operating (loss) profit to sales	**(7.0)**	10.1	(0.8)	**0.5**	6.6
Operating profit excluding special items to sales	**4.6**	7.4	0.6	**3.2**	6.3
Operating profit excluding special items to capital employed (ROCE)	**8.0**	13.0	0.9	**5.6**	11.4
EBITDA excluding special items to sales	**10.3**	13.3	6.4	**9.1**	12.2
Return on average equity (ROE)(4)	**(46.1)**	27.8	(12.1)	**(12.1)**	6.9
Net debt to total capitalisation(4)	**65.9**	56.5	63.2	**65.9**	56.5
Net asset value per share (US cents)	**219**	293	257	**219**	293

(1) Refer to page 16 for details on special items.

(2) Refer to page 16, note 8 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating (loss) profit, and (loss) profit for the period.

(3) Refer to page 18, supplemental information for the reconciliation of net debt to interest-bearing borrowings.

(4) Refer to page 17, supplemental information for the definition of the term.

Commentary on the quarter

The group operating profit excluding special items improved compared to the prior quarter. As expected, market conditions were challenging with continued weakness in the graphic paper markets globally. Demand for graphic paper continues to decline in our major markets and the downward pricing pressure in both the US and Europe reflects overcapacity in most grades of paper. During the quarter, we announced that we intend to relocate paper production from our Nijmegen Mill to our other European paper mills. The consultation process regarding the future of this mill is ongoing.

The Specialised Cellulose business, which included sales from our newly converted Cloquet pulp mill for the first time, had a particularly good quarter. The Ngodwana Mill started up during the quarter, with its first sales of dissolving wood pulp occurring just after the quarter end. More detail on the Specialised Cellulose business is provided in the Southern African review later in this commentary.

Operating profit excluding special items was US$70 million for the quarter compared to US$118 million for the equivalent quarter last year, and US$8 million for the quarter ended June 2013.

Special items for the quarter were a charge of US$177 million. Included in these special items were impairment and restructuring charges following a strategic review of our operations, the implementation of a number of cost-saving and efficiency initiatives in South Africa and Europe and the announced consultation process regarding the future of the Nijmegen Mill. These restructuring charges amounted to US$190 million, of which US$109 million were non-cash. The charges were offset partially by a post-retirement medical plan amendment gain of US$24 million.

As a result of the impairment and restructuring charges in the quarter, the group incurred a net loss for the quarter. The loss per share for the quarter was 27 US cents (including a charge of 29 US cents in respect of special items) compared to earnings per share of 21 US cents (including a gain of 10 US cents in respect of special items) in the equivalent quarter last year.

During the quarter, we announced the voluntary delisting of Sappi's American depository shares from the New York Stock Exchange and our intention to terminate our registration and reporting obligations under the US Securities Exchange Act of 1934. Sappi shares are now traded in the US through a level 1 over-the-counter ADR programme.

Year ended September 2013 compared to year ended September 2012

2013 was an important transitional year for Sappi with the commissioning of major capital projects and further repositioning of the business. The group's operating profit excluding special items for the year was well below that of the previous year. Market conditions in the graphic paper business, particularly in Europe, were worse than expected, with significant demand declines in both the European local and export markets, and continued downward pressure on selling prices. The operating profit for the year was negatively affected by the once-off impact of the dissolving wood pulp conversions at both the Cloquet and Ngodwana pulp mills and the speciality packaging conversion of PM2 at Alfeld Mill.

Operating profit excluding special items for the year was US$191 million. Special items amounted to a charge of US$161 million, comprising mainly impairment and restructuring charges of US$252 million related to both our European and Southern African businesses. This was partially offset by plantation fair value pricing gains of US$87 million.

Net finance costs for the year were US$166 million, a significant reduction from the US$283 million in the prior year which included refinancing costs of US$89 million.

Cash flow and debt

Quarter

Net cash generated for the quarter was US$111 million, compared with US$203 million for the equivalent quarter last year. Capital expenditure was US$103 million for the quarter, comparable to the US$112 million in the equivalent quarter last year, and reflects the culmination of the capital expenditure related to the dissolving wood pulp conversion projects at the Ngodwana and Cloquet mills. During the quarter, we also renegotiated additional headroom for the net debt/EBITDA covenant and the removal of the net debt/total capitalisation covenant in our European revolving credit facility.

Year

Net cash utilised for the full financial year was US$247 million compared to generation of US$127 million last year. This increase in utilisation of cash was primarily due to the increase in capital expenditure related to the dissolving wood pulp conversions and the lower operating performance of our European operations in particular.

Net debt at financial year-end increased from US$1,979 million as at September 2012 to US$2,214 million as at the end of September 2013 as a result of the capital investments during the year.

During the year, we successfully refinanced ZAR1 billion of South African debt with a new South African bond of ZAR1,5 billion consisting of three tranches, and entered into a ZAR1 billion (US$99 million) revolving credit facility in South Africa.

At the end of September 2013, we had liquidity comprising US$385 million of cash in addition to US$577 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

Operating Review for the Quarter

Europe

	Quarter ended Sept 2013 € million	Quarter ended Jun 2013 € million	Quarter ended Mar 2013 € million	Quarter ended Dec 2012 € million	Quarter ended Sept 2012 € million
Sales	**591**	574	624	616	659
Operating (loss) profit excluding special items	**(9)**	(13)	(1)	16	35
Operating (loss) profit excluding special items to sales (%)	**(1.5)**	(2.3)	(0.2)	2.6	5.3
EBITDA excluding special items	**27**	24	34	54	73
EBITDA excluding special items to sales (%)	**4.6**	4.2	5.4	8.8	11.1
RONOA pa (%)	**(2.8)**	(3.8)	(0.3)	4.6	9.8

Industry demand for coated paper was weak during the quarter, exacerbated particularly by export volume declines during September. The stronger Euro/Dollar exchange rate also led to lower margins on exports as well as downward pressure on local selling prices.

In response to the weak operating conditions, and in order to improve the performance of the business, a range of fixed and variable cost reduction actions have been taken, including the announcement during the quarter of the consultation process with employees regarding the transfer of production from our Nijmegen Mill to other existing Sappi mills in Europe. We have also implemented fixed cost reduction programmes across the business, leading to fixed costs being €3 million below that of last year.

Although our performance improved compared to the prior quarter, the business still made an operating loss excluding special items for the quarter as a result of lower paper prices, increased pulp costs and a continued decline in graphic paper demand.

Towards the end of the quarter, the conversion of PM2 at Alfeld Mill commenced. This project entails the conversion of 150,000 tons of coated woodfree paper capacity to 135,000 tons of speciality paper capacity, increasing our capacity in a higher margin specialised business and reducing our European graphic paper capacity by 4%. This conversion had a short term negative impact on operating profit for the quarter, and we expect that it will also impact the following quarter due to the extended downtime of the machine.

North America

	Quarter ended Sept 2013 US$ million	Quarter ended Jun 2013 US$ million	Quarter ended Mar 2013 US$ million	Quarter ended Dec 2012 US$ million	Quarter ended Sept 2012 US$ million
Sales	**366**	324	341	346	377
Operating profit excluding special items	**30**	2	21	18	42
Operating profit excluding special items to sales (%)	**8.2**	0.6	6.2	5.2	11.1
EBITDA excluding special items	**50**	20	42	37	63
EBITDA excluding special items to sales (%)	**13.7**	6.2	12.3	10.7	16.7
RONOA pa (%)	**11.6**	0.8	8.9	7.9	18.2

Operating profit excluding special items improved compared to the prior quarter, which was negatively impacted by the extended shut and subsequent ramp up of the Cloquet pulp mill. Operating profit excluding special items for the quarter was lower than for the equivalent quarter last year due to a weaker graphic paper market, particularly as regards pricing and dissolving wood pulp production and sales not yet at the full rate for the quarter. Strong paper production, along with seasonally good sales favourably contributed in a very competitive market.

The Cloquet pulp mill ramp up proceeded well during the quarter, with production currently at close to full capacity and of good quality.

The release paper business had another good quarter, with higher sales volumes and better product mix than in the equivalent quarter last year.

Variable costs per ton for paper were higher than in the equivalent quarter last year, with higher cost purchased fibre as a result of the Cloquet pulp mill conversion. Fixed costs were largely flat year-on-year.

Southern Africa

	Quarter ended Sept 2013 ZAR million	Quarter ended Jun 2013 ZAR million	Quarter ended Mar 2013 ZAR million	Quarter ended Dec 2012 ZAR million	Quarter ended Sept 2012 ZAR million
Sales	**3,779**	3,255	3,020	2,870	3,152
Operating profit excluding special items	**509**	183	180	270	276
Operating profit excluding special items to sales (%)	**13.5**	5.6	6.0	9.4	8.8
EBITDA excluding special items	**708**	355	359	452	473
EBITDA excluding special items to sales (%)	**18.7**	10.9	11.9	15.7	15.0
RONOA pa (%)	**13.0**	4.6	4.8	7.8	8.2

The Southern African Specialised Cellulose business benefited from higher pulp prices, a weaker Rand/Dollar exchange rate and increased production and shipments. The converted Ngodwana pulp mill began operating during the quarter and has made good progress, producing quality pulp ahead of targeted volumes by the end of the quarter. Orders are progressing well, with good customer acceptance. The Specialised Cellulose business, inclusive of the Cloquet pulp mill in North America, performed exceptionally well during the quarter and generated US$88 million of EBITDA excluding special items. The combination of increased shipments, favourable exchange rate and production efficiencies resulted in a margin of 39% which is well above the normalised margin for this business. Sales volumes for the quarter were 253,000 tons, an increase of 36% over the equivalent quarter in the prior year.

NBSK dollar pulp prices, to which the majority of our dissolving pulp prices are linked, were higher than both the equivalent quarter last year and the prior quarter, and for our South African business the weaker exchange rate also contributed to higher prices. However, both the dissolving wood pulp and viscose staple fibre (the major end use for dissolving wood pulp) markets remain highly competitive.

The local graphic paper market remains challenging, with higher paper pulp and other input prices as well as a competitive import market. The domestic paper packaging business is improving, with increased sales volumes and pricing during the quarter and improved operational performance as a result of the actions we have taken in this business.

Variable costs, particularly for purchased timber and pulp, continued to increase as a result of the weaker Rand/Dollar exchange rate. Energy costs declined as a result of a more efficient use of fuels. Fixed costs were higher as a result of the annual wage increase implemented in July, as well as overtime costs associated with the completion of the Ngodwana conversion project.

sappi

Outlook

Our strategy to reposition Sappi for growth, higher margins and improved profitability is on track. The major Specialised Cellulose conversion projects in South Africa and the United States were successfully completed during the year and both are delivering quality pulp to customers. The conversion of the Alfeld Mill PM2 was also successfully completed in October 2013. Consequently, our profitability in the 2014 financial year is expected to be better than that of 2013 as a result of a larger Specialised Cellulose business, the gradual improvement in performance of our European paper business, an improvement in the profitability of our Southern African paper business and the consistent performance of our North American paper businesses.

Markets will, however, remain challenging, particularly for the paper businesses where demand for graphic paper in our major markets of the United States and Europe is expected to continue to decline at approximately 3% and 6% per annum respectively. Improvements in the performance of these businesses will come from production efficiencies, lower costs and a focus on businesses that generate higher margins. In Europe, we expect a slow recovery in profitability, with the benefits of cost reduction programmes likely to be fully in place only in the second half of the financial year.

In the Specialised Cellulose business, where dissolving wood pulp demand is expected to grow at approximately 6 – 8% per annum, the increased competition from a number of new entrants and mill conversions as well as pressure on viscose staple fibre prices will put pressure on the margins of our Specialised Cellulose business. We believe that Sappi, as the global leader, particularly with its low cost base, increased production capacity and high levels of contracted volumes, is well positioned to continue to generate reasonable returns from this business despite a competitive market.

Currency movements affect margins in our various regions, having both transactional and translation impacts. Our Southern African businesses are particularly sensitive to the value of the Rand in relation to the US Dollar. The European paper business is also impacted by the strength of the Euro.

We continue to focus on reducing our input costs, particularly wood, paper pulp, chemicals and energy through more efficient procurement, product composition and increasing operational efficiencies.

We expect that 2014 will see significantly reduced capital expenditure post the completion of the dissolving wood pulp projects, and concomitantly a reduction in the operational impact that these large capital projects had in the past year. The Alfeld Mill PM2 project extended a month into our 2014 financial year and we expect that the start-up of that paper machine will have a negative impact on the European result in the first financial quarter.

The expected gradual improvement in the group's underlying operational performance and reduced capital expenditure will also enable us to generate positive cash flows. This will enable us to lower our net debt levels towards achieving our short term target of US$2 billion.

On behalf of the board

R J Boëttger	S R Binnie	
Director	Director	07 November 2013

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, which do not relate to historical matters, 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 Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
Sales		**1,530**	1,585	**5,925**	6,347
Cost of sales		**1,374**	1,363	**5,274**	5,552
Gross profit		**156**	222	**651**	795
Selling, general and administrative expenses		**94**	102	**384**	417
Other operating expenses (income)		**171**	(38)	**244**	(41)
Share of profit from associates and joint ventures		**(2)**	(2)	**(7)**	(2)
Operating (loss) profit	2	**(107)**	160	**30**	421
Net finance costs		**42**	37	**166**	283
Net interest expense		**44**	44	**168**	293
Net foreign exchange gain		**(2)**	(4)	**(1)**	(5)
Net fair value gain on financial instruments		**–**	(3)	**(1)**	(5)
(Loss) profit before taxation		**(149)**	123	**(136)**	138
Taxation		**(6)**	16	**25**	34
Current		**2**	16	**(4)**	28
Deferred		**(8)**	–	**29**	6
(Loss) profit for the period		**(143)**	107	**(161)**	104
Basic (loss) earnings per share (US cents)		**(27)**	21	**(31)**	20
Weighted average number of shares in issue (millions)		**521.5**	520.8	**521.3**	520.8
Diluted (loss) earnings per share (US cents)		**(27)**	20	**(31)**	20
Weighted average number of shares on fully diluted basis (millions)		**521.5**	522.3	**521.3**	522.2

Condensed group statement of comprehensive income

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
(Loss) profit for the period	**(143)**	107	**(161)**	104
Other comprehensive loss, net of tax				
Items that can subsequently be reclassified to the income statement	**(34)**	(73)	**(224)**	(103)
Exchange differences on translation of foreign operations	**(41)**	(50)	**(225)**	(60)
Movements in hedging reserves	**7**	(24)	**3**	(47)
Movement on available for sale financial assets	**–**	1	**–**	1
Tax effect on above items	**–**	–	**(2)**	3
Items that cannot subsequently be reclassified to the income statement	**(21)**	(67)	**(7)**	34
Actuarial (loss) gain on post-employment benefit funds	**–**	(88)	**20**	(88)
Tax effect on above items	**(21)**	21	**(27)**	122
Total comprehensive (loss) income for the period	**(198)**	(33)	**(392)**	35

Condensed group balance sheet

	Reviewed Sept 2013 US$ million	Reviewed Sept 2012 US$ million
ASSETS		
Non-current assets	**3,754**	3,990
Property, plant and equipment	3,078	3,157
Plantations	464	555
Deferred taxation	92	154
Other non-current assets	120	124
Current assets	**1,973**	2,178
Inventories	728	726
Trade and other receivables	748	800
Prepaid income taxes	18	7
Cash and cash equivalents	385	645
Assets held for sale	94	–
Total assets	**5,727**	6,168
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,144	1,525
Non-current liabilities	**3,371**	3,328
Interest-bearing borrowings	2,499	2,358
Deferred taxation	267	319
Other non-current liabilities	605	651
Current liabilities	**1,212**	1,315
Interest-bearing borrowings	99	261
Bank overdraft	1	5
Other current liabilities	1,094	1,023
Taxation payable	12	26
Liabilities associated with assets held for sale	6	–
Total equity and liabilities	**5,727**	6,168
Number of shares in issue at balance sheet date (millions)	521.5	520.8

sappi

Condensed group statement of cash flows

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
(Loss) profit for the period	**(143)**	107	**(161)**	104
Adjustment for:				
Depreciation, fellings and amortisation	**104**	109	**414**	442
Taxation	**(6)**	16	**25**	34
Net finance costs	**42**	37	**166**	283
Defined post-employment benefits paid	**(20)**	(23)	**(74)**	(62)
Plantation fair value adjustments	**(15)**	(28)	**(166)**	(68)
Asset impairments	**109**	13	**155**	10
Net restructuring provisions	**81**	(3)	**97**	(2)
Profit on disposal of investment	**–**	(11)	**–**	(11)
Profit on disposal of non-current assets held for sale	**–**	(48)	**–**	(48)
Other non-cash items	**(31)**	13	**(9)**	46
Cash generated from operations	**121**	182	**447**	728
Movement in working capital	**108**	115	**(20)**	(102)
Net finance costs paid	**(20)**	(38)	**(164)**	(195)
Taxation paid	**(2)**	(8)	**(17)**	(20)
Cash generated from operating activities	**207**	251	**246**	411
Cash utilised in investing activities	**(96)**	(48)	**(493)**	(284)
Capital expenditure	**(103)**	(112)	**(552)**	(358)
Proceeds on disposal of non-current assets	**3**	60	**53**	71
Other movements	**4**	4	**6**	3
Net cash generated (utilised)	**111**	203	**(247)**	127
Cash effects of financing activities	**34**	39	**(8)**	(103)
Net movement in cash and cash equivalents	**145**	242	**(255)**	24

Condensed group statement of changes in equity

	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
Balance – beginning of period	**1,525**	1,478
Total comprehensive (loss) income for the period	**(392)**	35
Transfers from the share purchase trust	**3**	2
Transfers of vested share options	**(3)**	(2)
Share-based payment reserve	**11**	12
Balance – end of period	**1,144**	1,525

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated preliminary financial statements are 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 preliminary financial statements are consistent with those applied in the previous annual financial statements, other than for the adoption of the amendments to IAS 1, *Presentation of Financial Statements,* relating to other comprehensive income and Circular 2/2013, *Headline Earnings.*

The preparation of this condensed consolidated preliminary financial information was supervised by the Chief Financial Officer, S R Binnie CA(SA).

The preliminary results for the year ended September 2013 as set out on pages 9 to 16 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. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	**Reviewed Year ended Sept 2013 US$ million**	Reviewed Year ended Sept 2012 US$ million
2. Operating (loss) profit				
Included in operating (loss) profit are the following non-cash items:				
Depreciation and amortisation	**88**	93	**348**	369
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	**16**	16	**66**	73
Growth	**(21)**	(19)	**(79)**	(83)
	(5)	(3)	**(13)**	(10)
Plantation price fair value adjustment	**6**	(9)	**(87)**	15
	1	(12)	**(100)**	5
Included in other operating expenses (income) are the following:				
Net restructuring provisions	**81**	(3)	**97**	(2)
Loss (profit) on disposal of property, plant and equipment	**3**	3	**2**	(4)
Profit on disposal of investment	**–**	(11)	**–**	(11)
Profit on disposal of non-current assets held for sale	**–**	(48)	**–**	(48)
Asset impairments	**109**	13	**155**	10
Post-retirement plan amendment	**(24)**	–	**(24)**	–
Black Economic Empowerment charge	**–**	–	**3**	3

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
3. Headline (loss) earnings per share				
Headline (loss) earnings per share (US cents)	**(8)**	12	**(6)**	9
Weighted average number of shares in issue (millions)	**521.5**	520.8	**521.3**	520.8
Diluted headline (loss) earnings per share (US cents)	**(8)**	12	**(6)**	9
Weighted average number of shares on fully diluted basis (millions)	**521.5**	522.3	**521.3**	522.2
Calculation of headline (loss) earnings				
(Loss) profit for the period	**(143)**	107	**(161)**	104
Asset impairments	**109**	13	**155**	10
Loss (profit) on disposal of property, plant and equipment	**3**	3	**2**	(4)
Profit on disposal of investment	**–**	(11)	**–**	(11)
Profit on disposal of non-current assets held for sale	**–**	(48)	**–**	(48)
Tax effect of above items	**(12)**	(3)	**(27)**	(2)
Headline (loss) earnings	**(43)**	61	**(31)**	49

	Reviewed Sept 2013 US$ million	Reviewed Sept 2012 US$ million
4. Capital commitments		
Contracted	**62**	267
Approved but not contracted	**195**	244
	257	511
5. Contingent liabilities		
Guarantees and suretyships	**33**	31
Other contingent liabilities	**11**	10
	44	41

6. Material balance sheet movements

Since the 2012 financial year-end, the period end ZAR rate has weakened by approximately 21% to the US Dollar, the group's presentation currency, resulting in a similar decrease on translation of the group's ZAR functional currency assets and liabilities to US Dollar.

Property, plant and equipment

Following the recent announcement in Europe to relocate production from Nijmegen Mill to other Sappi European mills, the group has impaired Nijmegen Mill together with other assets in the region to the value of US$63 million (€48 million). In South Africa, the negative outlook for certain paper and packaging segments has resulted in impairment charges of US$92 million (ZAR854 million) related largely to our Tugela, Enstra and Stanger mills.

Capital expenditure of US$575 million was incurred in the year largely due to the dissolving wood pulp conversion projects at the Cloquet and Ngodwana mills and a conversion project at Alfeld Mill to produce specialty products.

Plantations

Due to the Ngodwana mill dissolving wood pulp conversion project and the closure of the Kraft Continuous Digester at Tugela Mill, a certain portion of Southern Africa's softwood plantations that were previously utilised in the paper pulp production will now be sold to the local saw log markets. Consequently, Southern Africa's plantations were revalued resulting in a once-off favourable price fair value adjustment of US$93 million (ZAR863 million) which is included in cost of sales.

Deferred taxation assets

Deferred tax assets of US$24 million (€18 million) were reversed within Europe as they were no longer deemed recoverable.

Trade and other receivables

The decrease in trade and other receivables is primarily due to the receipt of US$42 million on the sale of the previously equity accounted 34% shareholding in Jiangxi Chenming Paper Company.

Interest-bearing borrowings and cash and cash equivalents

During the year, the group repaid the remaining senior secured notes due 2014 of US$41 million (€31 million), the US$108 million (ZAR1 billion) public bond maturing in June 2013, the private placement bonds of US$41 million (ZAR382 million) and incurred cash capital expenditure of US$552 million. These outflows were partially funded by the placement of a public bond offering of US$162 million (ZAR1.5 billion) and a seven-year bullet loan from GroCapital of US$43 million (ZAR400 million).

Other non-current liabilities

The group transferred its South African medical aid scheme to an independent medical aid scheme which resulted in reduction in the liability of US$24 million (ZAR222 million).

Other current liabilities

The increase in other current liabilities relates largely to restructuring provisions raised following the implementation of a number of cost saving and efficiency initiatives in South Africa and Europe.

7. Assets held for sale

During the year, Sappi announced that it had entered into an agreement to sell its shares in Usutu Forest Products Company Limited ('Usutu') as well as a shareholder loan claim against Usutu, to Montigny Investments Limited for US$99 million (ZAR1 billion) subject to the fulfilment of certain conditions precedent. The disposal group, consisting mainly of plantations, has been reclassified as held for sale.

8. Segment information

		Quarter ended Sept 2013 Metric tons (000's)	Quarter ended Sept 2012 Metric tons (000's)	Year ended Sept 2013 Metric tons (000's)	Year ended Sept 2012 Metric tons (000's)
Sales volume					
North America		335	369	1,298	1,400
Europe		840	896	3,367	3,507
Southern Africa –	Pulp and paper	447	423	1,619	1,676
	Forestry	294	292	1,182	1,122
Total		1,916	1,980	7,466	7,705

		Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
Sales					
North America		366	377	1,377	1,438
Europe		783	826	3,155	3,350
Southern Africa –	Pulp and paper	363	361	1,316	1,475
	Forestry	18	21	77	84
Total		1,530	1,585	5,925	6,347
Operating profit (loss) excluding special items					
North America		30	42	71	94
Europe		(12)	45	(9)	133
Southern Africa		53	33	123	178
Unallocated and eliminations[1]		(1)	(2)	6	(2)
Total		70	118	191	403
Special items – losses (gains)					
North America		(2)	2	(6)	7
Europe		135	(42)	142	(45)
Southern Africa		38	3	8	25
Unallocated and eliminations[1]		6	(5)	17	(5)
Total		177	(42)	161	(18)
Segment operating (loss) profit					
North America		32	40	77	87
Europe		(147)	87	(151)	178
Southern Africa		15	30	115	153
Unallocated and eliminations[1]		(7)	3	(11)	3
Total		(107)	160	30	421
EBITDA excluding special items					
North America		50	63	149	173
Europe		36	92	182	329
Southern Africa		73	57	202	271
Unallocated and eliminations[1]		(1)	(1)	6	(1)
Total		158	211	539	772

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
Segment assets				
North America	**1,046**	919	**1,046**	919
Europe	**1,594**	1,776	**1,594**	1,776
Southern Africa	**1,523**	1,605	**1,523**	1,605
Unallocated and eliminations(1)	**(25)**	20	**(25)**	20
Total	**4,138**	4,320	**4,138**	4,320

(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 (loss) profit and (loss) 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.

	Quarter ended Sept 2013 US$ million	Quarter ended Sept 2012 US$ million	Reviewed Year ended Sept 2013 US$ million	Reviewed Year ended Sept 2012 US$ million
EBITDA excluding special items	**158**	211	**539**	772
Depreciation and amortisation	**(88)**	(93)	**(348)**	(369)
Operating profit excluding special items	**70**	118	**191**	403
Special items – (losses) gains	**(177)**	42	**(161)**	18
Plantation price fair value adjustment	**(6)**	9	**87**	(15)
Net restructuring provisions	**(81)**	3	**(97)**	2
(Loss) profit on disposal of property, plant and equipment	**(3)**	(3)	**(2)**	4
Profit on disposal of investment	**–**	11	**–**	11
Profit on disposal of non-current assets held for sale	**–**	48	**–**	48
Asset impairments	**(109)**	(13)	**(155)**	(10)
Post-retirement plan amendment	**24**	–	**24**	–
Black Economic Empowerment charge	**–**	–	**(3)**	(3)
Fire, flood, storm and related events	**(2)**	(13)	**(15)**	(19)
Segment operating (loss) profit	**(107)**	160	**30**	421
Net finance costs	**(42)**	(37)	**(166)**	(283)
(Loss) profit before taxation	**(149)**	123	**(136)**	138
Taxation	**6**	(16)	**(25)**	(34)
(Loss) profit for the period	**(143)**	107	**(161)**	104
Reconciliation of segment assets to total assets				
Segment assets	**4,138**	4,320	**4,138**	4,320
Deferred taxation	**92**	154	**92**	154
Cash and cash equivalents	**385**	645	**385**	645
Other current liabilities	**1,094**	1,023	**1,094**	1,023
Taxation payable	**12**	26	**12**	26
Liabilities associated with assets held for sale	**6**	–	**6**	–
Total assets	**5,727**	6,168	**5,727**	6,168

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 issued by the South African Institute of Chartered Accountants, 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 Sept 2013	Quarter ended Sept 2012	**Year ended Sept 2013**	Year ended Sept 2012
Key figures: (ZAR million)				
Sales	**15,289**	13,087	**54,972**	51,113
Operating (loss) profit	**(1,069)**	1,321	**278**	3,390
Special items – losses (gains)[1]	**1,769**	(347)	**1,494**	(145)
Operating profit excluding special items[1]	**700**	974	**1,772**	3,245
EBITDA excluding special items[1]	**1,579**	1,742	**5,001**	6,217
(Loss) profit for the period	**(1,429)**	883	**(1,494)**	838
Basic (loss) earnings per share (SA cents)	**(270)**	170	**(288)**	161
Net debt[1]	**22,346**	16,445	**22,346**	16,445
Key ratios: (%)				
Operating (loss) profit to sales	**(7.0)**	10.1	**0.5**	6.6
Operating profit excluding special items to sales	**4.6**	7.4	**3.2**	6.3
Operating profit excluding special items to capital employed (ROCE)[1]	**8.0**	13.0	**5.6**	11.2
EBITDA excluding special items to sales	**10.3**	13.3	**9.1**	12.2
Return on average equity (ROE)	**(46.1)**	27.8	**(12.3)**	6.8
Net debt to total capitalisation[1]	**65.9**	56.5	**65.9**	56.5

(1) Refer to page 17, 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.

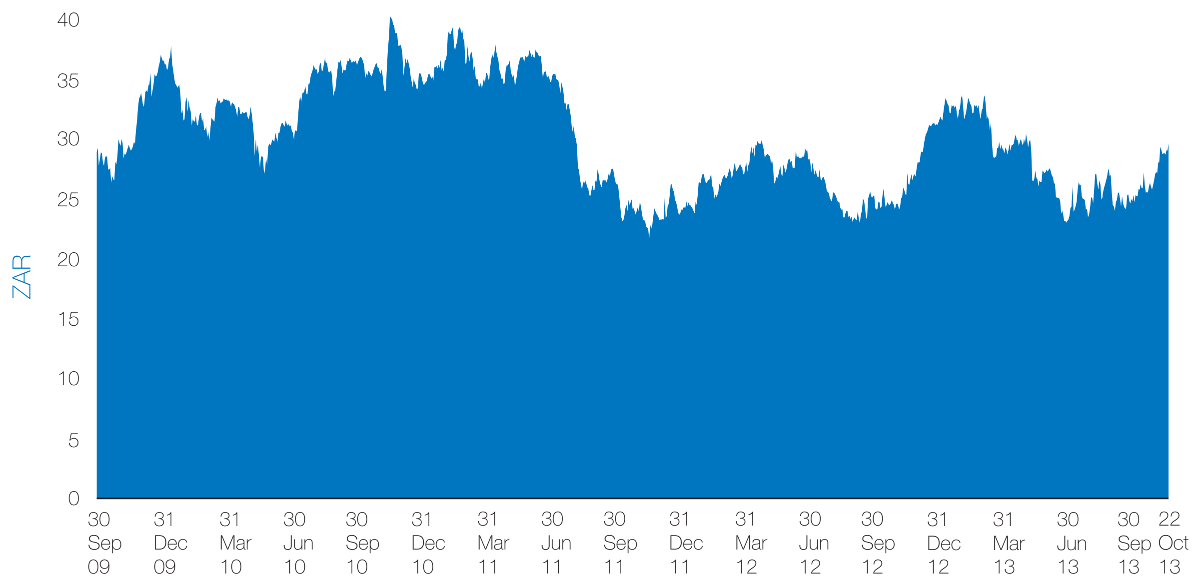
Reconciliation of net debt to interest-bearing borrowings

	Sept 2013 US$ million	Sept 2012 US$ million
Interest-bearing borrowings	**2,599**	2,624
Non-current interest-bearing borrowings	**2,499**	2,358
Current interest-bearing borrowings	**99**	261
Bank overdraft	**1**	5
Cash and cash equivalents	**(385)**	(645)
Net debt	**2,214**	1,979

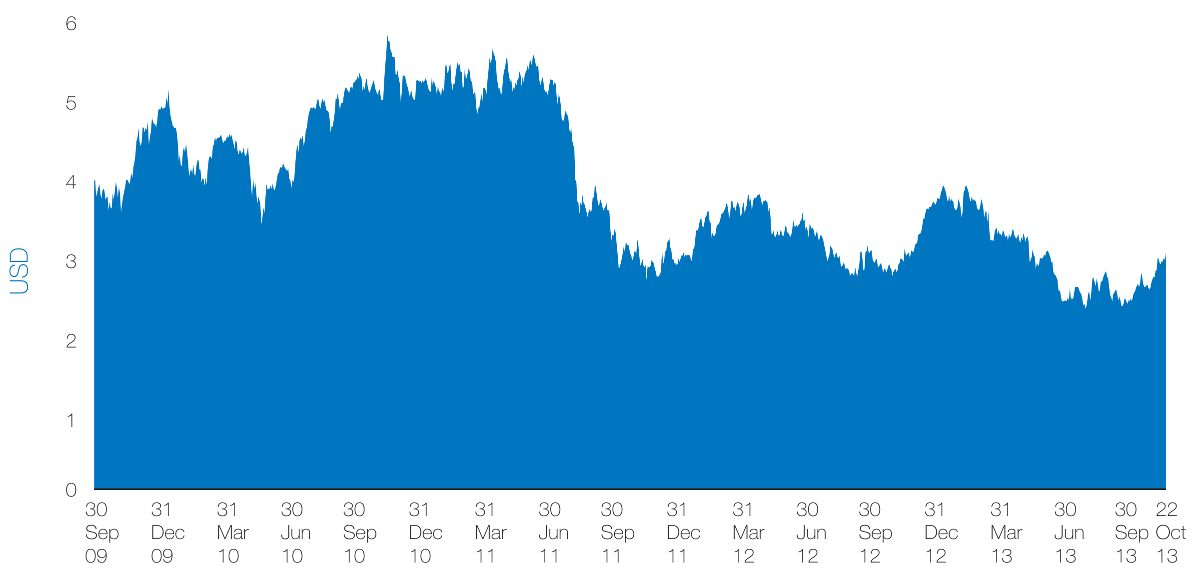
Exchange rates

	Sept 2013	Jun 2013	Mar 2013	Dec 2012	Sept 2012
Exchange rates:					
Period end rate: US$1 = ZAR	**10.0930**	9.8800	9.2363	8.4851	8.3096
Average rate for the Quarter: US$1 = ZAR	**9.9931**	9.4756	8.9349	8.6975	8.2567
Average rate for the YTD: US$1 = ZAR	**9.2779**	9.0364	8.8173	8.6975	8.0531
Period end rate: €1 = US$	**1.3522**	1.3010	1.2821	1.3217	1.2859
Average rate for the Quarter: €1 = US$	**1.3248**	1.3060	1.3206	1.2970	1.2514
Average rate for the YTD: €1 = US$	**1.3121**	1.3078	1.3088	1.2970	1.2988

Sappi ordinary shares (JSE:SAP)



US Dollar share price conversion



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

this report is available on the Sappi website
www.sappi.com

ince

sappi
Inspired by life

www.sappi.com

Paperstock

Cover: Printed on
Magno Matt Satin 250g/m^2

Internal pages: Printed on
Magno Matt Satin 150g/m^2

sappi

Inspired by life