Sappi Group
(Sappi Limited)
FOURTH QUARTER: FISCAL YEAR 2014
FINANCIAL RESULTS AND OPERATIONAL DATA ENDED 28 SEPTEMBER 2014

10 November 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, 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.

Fourth Quarter results for the year ended September 2014

4th quarter results

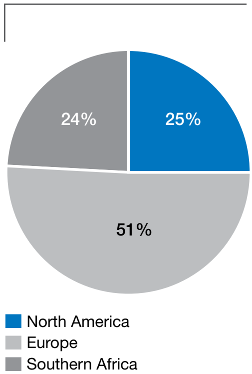
Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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.

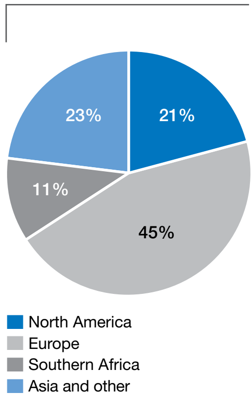
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

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.

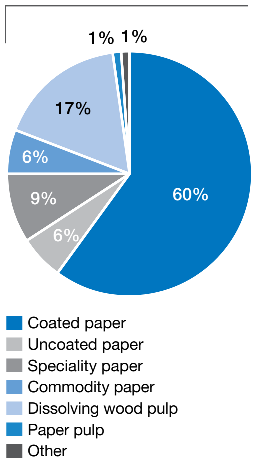
Sales by source*



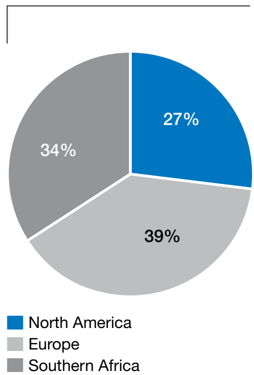
Sales by destination*



Sales by product*



Net operating assets**



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

- EBITDA excluding special items US$200 million (up 29% year-on-year)
- EPS excluding special items 12 US cents (restated Q4 2013 1 US cent)
- US$288 million cash generation in the quarter (restated Q4 2013 US$111 million)

Highlights for the year

- Strategy delivers strong earnings growth
- EBITDA excluding special items US$658 million (up 25% year-on-year)
- EPS excluding special items 22 US cents (restated 2013 loss per share 4 US cents)
- Net debt US$1,946 million, down US$300 million year-on-year

	Quarter ended			Year ended	
	Sept 2014	Restated(1) Sept 2013	Jun 2014	Sept 2014	Restated(1) Sept 2013
Key figures: (US$ million)					
Sales	**1,505**	1,530	1,484	**6,061**	5,925
Operating profit excluding special items(2)	**124**	67	67	**346**	180
Special items – losses (gains)(3)	**48**	177	(2)	**32**	161
EBITDA excluding special items(2)	**200**	155	140	**658**	528
Profit (loss) for the period	**68**	(149)	17	**135**	(182)
Basic earnings (loss) per share (US cents)	**13**	(29)	3	**26**	(35)
Net debt(4)	**1,946**	2,247	2,286	**1,946**	2,247
Key ratios: (%)					
Operating profit excluding special items to sales	**8.2**	4.4	4.5	**5.7**	3.0
Operating profit excluding special items to capital employed (ROCE)(5)	**15.4**	7.6	7.8	**10.8**	5.2
EBITDA excluding special items to sales	**13.3**	10.1	9.4	**10.9**	8.9
Return on average equity (ROE)(5)	**24.7**	(48.0)	5.9	**12.3**	(13.6)
Net debt to total capitalisation(5)	**65.1**	66.3	66.3	**65.1**	66.3
Net asset value per share (US cents)	**199**	219	222	**199**	219

(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 20, 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 20, note 11 to the group results for details on special items.
(4) Refer to page 22, supplemental information for the reconciliation of net debt to interest-bearing borrowings.
(5) Refer to page 21, supplemental information for the definition of the term.

Commentary on the quarter

The group continued the strong progress made throughout 2014 and delivered a 29% rise in EBITDA excluding special items compared with the equivalent quarter last year. It is pleasing to note that all three regions improved from the prior quarter. Cost reductions across the group and higher selling prices in some markets contributed to the growth. Volumes continued to decline in the graphic paper markets, but at a slower rate than experienced in recent years.

Lower variable costs, stable prices and seasonally stronger volumes in the European business helped improve margins to their best levels in two years.

The North American business had an encouraging recovery in margins, with the impact from the July price increase on coated woodfree reels and seasonally stronger paper volumes resulting in a return to an operating profit excluding special items.

The continued improvement of the Southern African paper business together with stronger packaging paper prices and volumes offset the weaker office paper demand and input cost increases.

The Specialised Cellulose business had another solid quarter, with increased sales volumes and a weaker Rand/Dollar exchange rate offsetting the lower average US Dollar dissolving wood pulp prices compared to both the prior quarter and prior year. Strong shipment volumes contributed towards an EBITDA excluding special items of US$77 million.

Net finance costs for the quarter were US$39 million, a reduction from the US$47 million in the equivalent quarter last year.

Earnings per share for the quarter were 13 US cents (including a gain of 1 US cent in respect of special items), compared with a loss of 29 US cents (including a charge of 30 US cents in respect of special items) in the restated equivalent quarter last year.

Special items for the quarter were a net charge of US$48 million. Included in the special items was a provision for retrenchments and restructuring costs in our European paper business. These charges were offset by a deferred tax asset of US$53 million in North America which was recognised due to the non-taxability of bio-fuel tax credits received in fiscal 2009 and 2010.

Year ended September 2014 compared to year ended September 2013

We made significant strides in the execution of our strategy this past year. Notable achievements were reduction of net debt, improved performance of our European and Southern African paper businesses and delivery of substantially increased dissolving wood pulp volumes into a growing and high margin market. Additionally, we disposed of Nijmegen Mill in order to reduce costs, and sold our Usutu forests which were surplus to requirements, to assist with reducing net debt. The North American business had a challenging year; however we can already see advancement in that business and expect further improvement in the year ahead.

The group's EBITDA excluding special items increased by 25% over the prior year. Operating profit excluding special items for the year was US$346 million compared to US$180 million in the prior year. Special items amounted to a charge of US$32 million, comprised mainly of net restructuring charges and loss on disposal of assets across our businesses. This was partially offset by plantation fair value pricing gains of US$18 million.

Net finance costs for the year were US$177 million, a slight reduction from the US$186 million in the prior year.

Cash flow and debt

Net cash generated for the quarter was US$288 million, compared with US$111 million in the equivalent quarter last year. The increase was largely as a result of higher profitability and the cash received from the sale of the Usutu forests. Capital expenditure in the quarter was US$105 million compared to US$103 million a year ago and was mainly related to the projects at the Kirkniemi and Gratkorn mills.

Net cash generated for the full financial year was US$243 million compared to utilisation of US$247 million last year. This significant turnaround was due to the improved operating cash generation, excellent working capital management, reduced capital expenditure and the receipt of proceeds of ZAR1 billion from the sale of the Usutu forests.

Net debt at financial year-end decreased to US$1,946 million as a result of the increased cash generated, and was within our target to end the year below US$2 billion.

At the end of September 2014, we had liquidity comprising US$528 million of cash in addition to undrawn committed revolving credit facilities of €350 million and ZAR1 billion in Europe and South Africa respectively.

In October 2014, we utilised cash resources to redeem US$27 million (ZAR300 million) of our US$67 million (ZAR750 million) public bonds due April 2015.

Operating review for the quarter

Europe

	Quarter ended Sept 2014 € million	Quarter ended Jun 2014 € million	Quarter ended Mar 2014 € million	Quarter ended Dec 2013 € million	Restated[1] Quarter ended Sept 2013 € million
Sales	**561**	543	603	581	591
Operating profit (loss) excluding special items	**26**	12	14	3	(9)
Operating profit (loss) excluding special items to sales (%)	***4.6***	*2.2*	*2.3*	*0.5*	*(1.5)*
EBITDA excluding special items	**58**	39	48	38	27
EBITDA excluding special items to sales (%)	***10.3***	*7.2*	*8.0*	*6.5*	*4.6*
RONOA pa (%)	***8.6***	*4.0*	*4.6*	*1.0*	*(2.8)*

(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 European business saw an encouraging improvement in margin in this seasonally better quarter, achieving an EBITDA excluding special items margin of more than 10% for the first time since 2012.

Industry demand for coated woodfree papers was flat for the quarter compared to the prior year, whilst coated mechanical paper demand continued to decline. The weaker Euro/Dollar exchange rate led to improved pricing on export volumes during September, with local selling prices broadly flat compared to the prior quarter.

The disposal of Nijmegen Mill, which was completed in the third fiscal quarter, negatively impacted volumes as the 52,000 ton transition agreement in place with the acquirer was largely completed in the fourth quarter. Since year-end the majority of these volumes have transitioned to our remaining mills in Europe.

Variable costs were 6% below those of the equivalent quarter last year as procurement initiatives and lower commodity prices ensured that all major cost components, except softwood pulp, decreased over the past year.

The Specialities business progressed strongly through the quarter with improved volumes and lower costs compared to the prior quarter.

North America

	Quarter ended Sept 2014 US$ million	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
Sales	**390**	380	382	365	366
Operating profit (loss) excluding special items	**25**	(9)	5	(3)	27
Operating profit (loss) excluding special items to sales (%)	***6.4***	*(2.4)*	*1.3*	*(0.8)*	*7.4*
EBITDA excluding special items	**43**	10	22	17	47
EBITDA excluding special items to sales (%)	***11.0***	*2.6*	*5.8*	*4.7*	*12.8*
RONOA pa (%)	***9.8***	*(3.5)*	*1.9*	*(1.2)*	*10.4*

(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.

Market conditions were extremely competitive throughout the year and we experienced significant downward pressure on pricing. During this seasonally stronger quarter, operating profit excluding special items recovered compared with the prior quarter which included the impact of outages. The result was slightly below that of the equivalent quarter last year due to lower paper prices and higher input costs, particularly for wood. Prices for coated woodfree web increased during the quarter, but have yet to match prior year price levels.

Lower dissolving wood pulp sales prices impacted Cloquet Mill. Productivity exceeded target levels over the second half of the year however, and recent changes to our transportation network have improved costs.

The release paper business was once again impacted by weak Chinese demand, only partially offset by stronger sales to the rest of the world.

A number of cost reduction initiatives reduced energy and chemical costs in the quarter, whilst purchased hardwood paper pulp prices declined. Higher wood costs resulting from short-term supply shortages caused by the past winter and spring weather, continue to impact variable costs negatively.

Southern Africa

	Quarter ended Sept 2014 ZAR million	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
Sales	**3,972**	3,781	3,942	3,488	3,779
Operating profit excluding special items	**634**	653	765	568	509
Operating profit excluding special items to sales (%)	***16.0***	*17.3*	*19.4*	*16.3*	*13.5*
EBITDA excluding special items	**827**	810	897	761	709
EBITDA excluding special items to sales (%)	***20.8***	*21.4*	*22.8*	*21.8*	*18.8*
RONOA pa (%)	***16.7***	*16.2*	*18.6*	*14.1*	*12.8*

(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.

Overall, this has been a good year for the Southern African business, with an expanded Specialised Cellulose business and the restructured paper business consistently delivering enhanced margins. The performance of the Southern African business improved compared to the equivalent quarter last year due to increased sales volumes for dissolving wood pulp, as well as higher average prices for paper and paper packaging.

Compared to the prior quarter, lower average Rand pricing for dissolving wood pulp and higher fixed costs as a result of a planned maintenance shut at Saiccor contributed to the reduction in profitability.

Variable costs were 1% lower than the prior quarter and approximately 3% higher than the equivalent quarter last year, mainly due to higher energy, wood and paper pulp costs.

Outlook

Markets will remain challenging, both for graphic paper, where demand is expected to continue to decline, and for dissolving wood pulp due to current pricing pressures. In the dissolving wood pulp market demand remains robust. US Dollar prices have weakened post the financial year due to pressure from lower cotton prices and the continued oversupply of dissolving wood pulp and viscose staple fibre production capacity. Cloquet will likely take advantage of its ability to swing between dissolving wood pulp and hardwood paper pulp production to optimise margins for the US business. Volumes with key dissolving wood pulp customers will not be impacted by any such optimisation. We will continue to focus on cost management in order to maintain our current margins for the overall Specialised Cellulose business.

Currency movements affect margins in our European and Southern African businesses, having both transactional and translational impacts. A weaker Rand and Euro in relation to the US Dollar both support local and export pricing for these businesses, historically offsetting any input cost impact of the weaker currency.

Capital expenditure in 2015 is expected to be in line with that of 2014, and focussed largely on the investments at our Kirkniemi and Gratkorn mills.

The first quarter result will be negatively impacted by the Gratkorn PM11 upgrade project, resulting in three weeks of downtime for the paper machine. The result will be further impacted by the extended annual maintenance outage and the finalisation of the natural gas conversion project at Somerset Mill in the US. We therefore expect the group EBITDA excluding special items in the first quarter to be similar to that achieved in the equivalent quarter last year, despite the improved underlying performance of the overall business.

Based on current market conditions, we believe that EBITDA excluding special items in the 2015 financial year will be broadly similar to that of 2014. The expected improvement in the underlying operational performance of the paper businesses will be offset by lower US Dollar dissolving wood pulp pricing and the impact of the projects at Gratkorn and Somerset.

We are considering utilising our increased cash reserves to repay and refinance a portion of our debt in order to lower future costs. We typically experience a cash outflow in our first fiscal quarter and this will lead to an increase in net debt as at the end of December 2014. Nevertheless, we expect to reduce our net debt further over the course of the year and to reduce our financial leverage towards our target of two times net debt to EBITDA.

On behalf of the board

S R Binnie *Director*	**G Pearce** *Director*	10 November 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 a global economic downturn;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies; and
- currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Condensed group income statement

	Note	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Sales		1,505	1,530	6,061	5,925
Cost of sales		1,326	1,377	5,370	5,285
Gross profit		179	153	691	640
Selling, general and administrative expenses		69	94	352	384
Other operating expenses		36	171	33	244
Share of profit from equity investments		(2)	(2)	(8)	(7)
Operating profit (loss)	3	76	(110)	314	19
Net finance costs		39	47	177	186
Net interest expense		45	49	185	188
Net foreign exchange gain		(3)	(2)	(7)	(1)
Net fair value gain on financial instruments		(3)	–	(1)	(1)
Profit (loss) before taxation		37	(157)	137	(167)
Taxation		(31)	(8)	2	15
Profit (loss) for the period		68	(149)	135	(182)
Basic earnings (loss) per share (US cents)		13	(29)	26	(35)
Weighted average number of shares in issue (millions)		523.3	521.5	522.5	521.3
Diluted earnings (loss) per share (US cents)		13	(29)	26	(35)
Weighted average number of shares on fully diluted basis (millions)		529.1	521.5	526.6	521.3

Condensed group statement of comprehensive income

	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Profit (loss) for the period	68	(149)	135	(182)
Other comprehensive (loss) income, net of tax				
Items that will not be reclassified subsequently to profit or loss	(152)	(15)	(152)	14
Actuarial (losses) gains on post-employment benefit funds	(152)	8	(152)	51
Tax effect of above item	–	(23)	–	(37)
Items that must be reclassified subsequently to profit or loss	(39)	(34)	(95)	(224)
Exchange differences on translation of foreign operations	(14)	(41)	(71)	(225)
Movements in hedging reserves	(26)	7	(23)	3
Movement on available for sale financial assets	–	–	(2)	–
Tax effect of above items	1	–	1	(2)
Total comprehensive loss for the period	(123)	(198)	(112)	(392)

Condensed group balance sheet

	Reviewed Sept 2014 US$ million	Reviewed Restated Sept 2013 US$ million
ASSETS		
Non-current assets	3,505	3,787
Property, plant and equipment	2,841	3,078
Plantations	430	464
Deferred tax assets	138	92
Other non-current assets	96	153
Current assets	1,960	1,940
Inventories	687	728
Trade and other receivables	731	748
Taxation receivable	14	18
Cash and cash equivalents	528	352
Assets held for sale	–	94
Total assets	5,465	5,727
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,044	1,144
Non-current liabilities	3,198	3,371
Interest-bearing borrowings	2,311	2,499
Deferred tax liabilities	272	267
Other non-current liabilities	615	605
Current liabilities	1,223	1,212
Interest-bearing borrowings	163	99
Overdrafts	–	1
Other current liabilities	1,035	1,094
Taxation payable	25	12
Liabilities associated with assets held for sale	–	6
Total equity and liabilities	5,465	5,727
Number of shares in issue at balance sheet date (millions)	524.2	521.5

Condensed group statement of cash flows

	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Profit (loss) for the period	68	(149)	135	(182)
Adjustment for:				
Depreciation, fellings and amortisation	90	104	371	414
Taxation	(31)	(8)	2	15
Net finance costs	39	47	177	186
Defined post-employment benefits paid	(13)	(20)	(70)	(74)
Plantation fair value adjustments	(16)	(15)	(86)	(166)
Asset impairments	3	109	–	155
Net restructuring provisions and loss on disposal of assets and businesses	26	84	23	99
Other non-cash items	(6)	(31)	14	–
Cash generated from operations	160	121	566	447
Movement in working capital	153	108	34	(20)
Net finance costs paid	(26)	(20)	(162)	(164)
Taxation paid	–	(2)	(1)	(17)
Cash generated from operating activities	287	207	437	246
Cash generated from (utilised in) investing activities	1	(96)	(194)	(493)
Capital expenditure	(105)	(103)	(295)	(552)
Net proceeds on disposal of assets and businesses	97	3	87	53
Other movements	9	4	14	6
Net cash generated (utilised)	288	111	243	(247)
Cash effects of financing activities	24	34	(36)	(8)
Net movement in cash and cash equivalents	312	145	207	(255)
Cash and cash equivalents at beginning of period	248	202	352	604
Translation effects	(32)	5	(31)	3
Cash and cash equivalents at end of period	528	352	528	352

Condensed group statement of changes in equity

	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Balance – beginning of period	1,144	1,525
Total comprehensive loss for the period	(112)	(392)
Transfers from the share purchase trust	12	3
Transfers of vested share options	(7)	(3)
Share-based payment reserve	7	11
Balance – end of period	1,044	1,144

Notes to the condensed group results

1. Basis of preparation

The condensed consolidated preliminary financial results for the year ended September 2014 have been prepared in accordance with the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these condensed consolidated preliminary financial statements are in terms of IFRS and 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 preliminary financial information was supervised by the Chief Financial Officer, G Pearce CA(SA).

The preliminary results for the year ended September 2014 as set out on pages 8 to 20 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group's auditors, Deloitte & Touche. Their unmodified review report is available for inspection at the company's registered office. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

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 September 2013 is as follows:

	As previously reported US$ million	Adjustment US$ million	Restated US$ million
Condensed group income statement			
Cost of sales	1,374	3	1,377
Net finance costs	42	5	47
Taxation	(6)	(2)	(8)
Loss for the period	(143)	(6)	(149)
Earnings per share			
Basic loss per share (US cents)	(27)	(2)	(29)
Diluted loss per share (US cents)	(27)	(2)	(29)
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	(21)	6	(15)
Actuarial gains on post-employment benefit funds	–	8	8
Tax effect of above item	(21)	(2)	(23)

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

	As previously reported US$ million	Adjustment US$ million	Restated US$ million
Condensed group income statement			
Cost of sales	5,274	11	5,285
Net finance costs	166	20	186
Taxation	25	(10)	15
Loss for the period	(161)	(21)	(182)
Earnings per share			
Basic loss per share (US cents)	(31)	(4)	(35)
Diluted loss per share (US cents)	(31)	(4)	(35)
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	(7)	21	14
Actuarial gains on post-employment benefit funds	20	31	51
Tax effect of above item	(27)	(10)	(37)

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 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 year ended September 2013.

3. Operating profit (loss)

	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Included in operating profit (loss) are the following items:				
Depreciation and amortisation	76	88	312	348
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	14	16	59	66
Growth	(16)	(21)	(68)	(79)
	(2)	(5)	(9)	(13)
Plantation price fair value adjustment	–	6	(18)	(87)
	(2)	1	(27)	(100)
Net restructuring provisions and loss on disposal of assets and businesses	26	84	23	99
Impairment of goodwill	1	–	1	–
Asset impairments	3	109	–	155
Post-retirement plan amendment	(21)	(24)	(21)	(24)
Black Economic Empowerment charge	–	–	2	3

4. Headline earnings (loss) per share

	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Headline earnings (loss) per share (US cents)	14	(10)	31	(10)
Weighted average number of shares in issue (millions)	523.3	521.5	522.5	521.3
Diluted headline earnings (loss) per share (US cents)	14	(10)	31	(10)
Weighted average number of shares on fully diluted basis (millions)	529.1	521.5	526.6	521.3
Calculation of headline earnings (loss)				
Profit (loss) for the period	68	(149)	135	(182)
Asset impairments	3	109	–	155
Loss on disposal of assets and businesses	4	1	29	–
Impairment of goodwill	1	–	1	–
Tax effect of above items	(2)	(12)	(1)	(27)
Headline earnings (loss)	74	(51)	164	(54)

5. Capital commitments

	Reviewed Sept 2014 US$ million	Reviewed Sept 2013 US$ million
Contracted	104	62
Approved but not contracted	126	195
	230	257

6. Contingent liabilities

Guarantees and suretyships	23	33
Other contingent liabilities	26	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.*

	Reviewed Sept 2014 US$ million	Reviewed Sept 2013 US$ million
Fair value of plantations at beginning of year	464	555
Additions	–	4
Gains arising from growth	65	79
Fire, flood, storms and related events	–	(4)
In-field inventory	(1)	1
Gain arising from fair value price changes	7	87
Harvesting – agriculture produce (fellings)	(57)	(66)
Transferred to assets held for sale	–	(93)
Translation difference	(48)	(99)
Fair value of plantations at end of year	430	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$3 million, the price fair value adjustment amounted to US$11 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 hierachy	Reviewed Sept 2014 US$ million	Reviewed 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	13	21
Derivative financial liabilities	Level 2	59	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 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

Since the 2013 financial year-end, the ZAR and Euro has weakened just over 11% and 6% respectively to the US Dollar, the group's presentation currency, resulting in a similar decrease of the group's assets and liabilities held in the aforementioned functional currencies on translation to the presentation currency.

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$18 million on a comparative basis for the year ended September 2014.

Deferred tax assets

During the quarter, the group received a final examination report from the US Internal Revenue Service regarding tax years under audit of the North American entity confirming that the Alternative Fuel Mixture Credit received in prior years was non-taxable. This credit was previously treated as taxable by the group. As a result, the group raised an additional deferred tax asset of US$53 million in North America.

Cash and cash equivalents and assets held for sale

The group disposed of its subsidiary, Usutu Forests Products Company Limited, for an amount of US$97 million (ZAR1 billion) which includes a vendor loan note of US$8 million (ZAR90 million) which is repayable over six years at prime plus 2%. The disposal group, which consisted mainly of plantations, was held within the group's South African operations. The proceeds on sale together with an improved operating performance resulted in an increase in cash and cash equivalents.

Interest-bearing borrowings

Interest-bearing borrowings decreased due to the repayment of certain loans in South Africa. Additionally, US$100 million was reclassified to short-term as it falls due within the next 12 months.

Other non-current liabilities and other non-current assets

The net increase in other non-current liabilities is due to actuarial losses incurred as a result of the effect of lower discount rates applied in valuing post-retirement benefit liabilities and the net effect of a once-off adjustment to a plan in Europe. This increase was offset by contributions paid, the effect of a purchase of a qualifying insurance asset, using available non-current assets, in respect of the South African post-retirement medical aid liability and, a reduction in derivative financial liabilities arising from the weakening of the Euro against the US Dollar.

Other current liabilities

Other current liabilities decreased due to the payment of capital accruals related to our dissolving wood pulp projects and the utilisation of restructuring provisions. Restructuring provisions no longer required mainly related to Nijmegen Mill and were released following its sale.

10. Post balance sheet event

In October 2014, the group utilised its existing cash resources to redeem US$27 million (ZAR300 million) of its US$67 million (ZAR750 million) public bonds due April 2015.

11. Segment information

		Quarter ended Sept 2014 Metric tons (000's)	Quarter ended Sept 2013 Metric tons (000's)	Year ended Sept 2014 Metric tons (000's)	Year ended Sept 2013 Metric tons (000's)
Sales volume					
North America		375	335	1,454	1,298
Europe		811	840	3,303	3,367
Southern Africa –	Pulp and paper	453	447	1,706	1,619
	Forestry	212	294	1,061	1,182
Total		1,851	1,916	7,524	7,466
Which consists of:					
Specialised cellulose		313	252	1,199	794
Paper		1,326	1,370	5,264	5,490
Forestry		212	294	1,061	1,182

		Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Sales					
North America		390	366	1,517	1,377
Europe		745	783	3,107	3,155
Southern Africa –	Pulp and paper	354	363	1,368	1,316
	Forestry	16	18	69	77
Total		1,505	1,530	6,061	5,925
Which consists of:					
Specialised cellulose		258	225	1,013	683
Paper		1,231	1,287	4,979	5,165
Forestry		16	18	69	77
Operating profit (loss) excluding special items					
North America		25	27	18	57
Europe		36	(12)	75	(8)
Southern Africa		59	53	248	125
Unallocated and eliminations(1)		4	(1)	5	6
Total		124	67	346	180
Which consists of:					
Specialised cellulose		62	72	243	182
Paper		58	(4)	98	(8)
Unallocated and eliminations(1)		4	(1)	5	6

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

	Quarter ended Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
Special items – losses (gains)				
North America	–	(2)	2	(6)
Europe	37	135	33	142
Southern Africa	2	38	(12)	8
Unallocated and eliminations[1]	9	6	9	17
Total	48	177	32	161
Segment operating profit (loss)				
North America	25	29	16	63
Europe	(1)	(147)	42	(150)
Southern Africa	57	15	260	117
Unallocated and eliminations[1]	(5)	(7)	(4)	(11)
Total	76	(110)	314	19
EBITDA excluding special items				
North America	43	47	92	135
Europe	77	36	249	183
Southern Africa	77	73	312	204
Unallocated and eliminations[1]	3	(1)	5	6
Total	200	155	658	528
Which consists of:				
Specialised cellulose	77	87	303	226
Paper	120	69	350	296
Unallocated and eliminations[1]	3	(1)	5	6
Segment assets				
North America	1,013	1,046	1,013	1,046
Europe	1,472	1,594	1,472	1,594
Southern Africa	1,289	1,556	1,289	1,556
Unallocated and eliminations[1]	(35)	(25)	(35)	(25)
Total	3,739	4,171	3,739	4,171

(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 Sept 2014 US$ million	Restated Quarter ended Sept 2013 US$ million	Reviewed Year ended Sept 2014 US$ million	Reviewed Restated Year ended Sept 2013 US$ million
EBITDA excluding special items	200	155	658	528
Depreciation and amortisation	(76)	(88)	(312)	(348)
Operating profit excluding special items	124	67	346	180
Special items – (losses) gains	(48)	(177)	(32)	(161)
Plantation price fair value adjustment	–	(6)	18	87
Net restructuring provisions and loss on disposal of assets and businesses	(26)	(84)	(23)	(99)
Impairment of goodwill	(1)	–	(1)	–
Asset impairments	(3)	(109)	–	(155)
Post-retirement plan amendment	–	24	–	24
Black Economic Empowerment charge	–	–	(2)	(3)
Fire, flood, storm and other events	(18)	(2)	(24)	(15)
Segment operating profit (loss)	76	(110)	314	19
Net finance costs	(39)	(47)	(177)	(186)
Profit (loss) before taxation	37	(157)	137	(167)
Taxation	31	8	(2)	(15)
Profit (loss) for the period	68	(149)	135	(182)
Reconciliation of segment assets to total assets				
Segment assets	3,739	4,171	3,739	4,171
Deferred taxation	138	92	138	92
Cash and cash equivalents[1]	528	352	528	352
Other current liabilities	1,035	1,094	1,035	1,094
Taxation payable	25	12	25	12
Liabilities associated with assets held for sale	–	6	–	6
Total assets	5,465	5,727	5,465	5,727

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

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

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

SG&A – selling, general and administrative expenses

Non-GAAP measures

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

– these measures are used by the group for internal performance analysis;
– the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
– it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

Capital employed – shareholders' equity plus net debt

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items – earnings per share excluding special items and certain once-off finance and tax items

Headline earnings – as defined in circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable 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 overdrafts (net of cash, cash equivalents and short-term deposits)

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

Net operating assets – total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdrafts). 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 2014	Restated Quarter ended Sept 2013	Year ended Sept 2014	Restated Year ended Sept 2013
Key figures: (ZAR million)				
Sales	**16,172**	15,289	**64,037**	54,972
Operating profit excluding special items[1]	**1,332**	670	**3,656**	1,670
Special items – losses[1]	**516**	1,769	**338**	1,494
EBITDA excluding special items[1]	**2,149**	1,549	**6,952**	4,899
Profit (loss) for the period	**731**	(1,489)	**1,426**	(1,689)
Basic earnings (loss) per share (SA cents)	**140**	(286)	**273**	(324)
Net debt[1]	**21,851**	22,679	**21,851**	22,679
Key ratios: (%)				
Operating profit excluding special items to sales	**8.2**	4.4	**5.7**	3.0
Operating profit excluding special items to capital employed (ROCE)[1]	**15.2**	7.6	**10.8**	5.2
EBITDA excluding special items to sales	**13.3**	10.1	**10.9**	8.9
Return on average equity (ROE)[1]	**24.4**	(48.1)	**12.3**	(13.9)
Net debt to total capitalisation[1]	**65.1**	66.3	**65.1**	66.3

(1) Refer to page 21, supplemental information for the definition of the term.
The above financial results have been translated into Rands from US Dollars as follows:
- *assets and liabilities at rates of exchange ruling at period end; and*
- *income, expenditure and cash flow items at average exchange rates.*

Reconciliation of net debt to interest-bearing borrowings

	Sept 2014 US$ million	Restated[1] Sept 2013 US$ million
Interest-bearing borrowings	**2,474**	2,599
Non-current interest-bearing borrowings	**2,311**	2,499
Current interest-bearing borrowings	**163**	99
Overdrafts	**–**	1
Cash and cash equivalents	**(528)**	(352)
Net debt	**1,946**	2,247

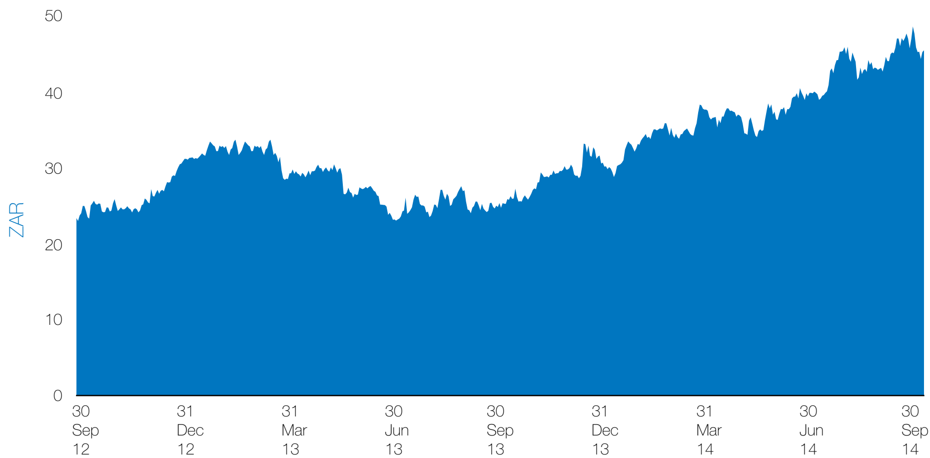
(1) Restated for the adoption of IFRS 10 Consolidated Financial Statements. Refer to note 2 for more detail.

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

Exchange rates

	Sept 2014	Jun 2014	Mar 2014	Dec 2013	Sept 2013
Exchange rates:					
Period end rate: US$1 = ZAR	**11.2285**	10.5890	10.5760	10.5300	10.0930
Average rate for the Quarter: US$1 = ZAR	**10.7456**	10.5340	10.8443	10.1406	9.9931
Average rate for the YTD: US$1 = ZAR	**10.5655**	10.5072	10.4938	10.1406	9.2779
Period end rate: €1 = US$	**1.2685**	1.3649	1.3753	1.3742	1.3522
Average rate for the Quarter: €1 = US$	**1.3280**	1.3717	1.3705	1.3607	1.3248
Average rate for the YTD: €1 = US$	**1.3577**	1.3676	1.3656	1.3607	1.3121

Sappi ordinary shares (JSE:SAP)



Notes:

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

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States

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