

1st Quarter results for the quarter ended December 2014

**Profit for the period US\$24 million (Q1 2014 US\$18 million)**

**EPS excluding special items 5 US cents (Q1 2014 2 US cents)**

**EBITDA excluding special items US\$145 million (Q1 2014 US\$147 million)**

**Net debt US\$2,040 million, down US\$340 million year-on-year**

# highlights

## outlook

Graphic paper markets remain challenging, but appear to be marginally better than originally anticipated, in both Europe and North America. Paper demand has in general declined at a lower rate and price expectations have been met. Exchange rate volatility may affect selling prices, particularly in Europe.

The dissolving wood pulp market is under further pressure, consistent with pressure on viscose, polyester and cotton. Prices in US Dollars have declined further than expected. The lower prices are likely to be substantially offset by a weaker Rand/Dollar exchange rate and our ability to swing the Cloquet pulp mill between dissolving wood pulp and paper pulp.

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

Capital expenditure in 2015 is expected to be below US\$300 million and will focus largely on the efficiency improvement investments at our Kirkniemi and Gratkorn mills.

As discussed when reporting last quarter's results, we are evaluating opportunities to utilise our cash resources to refinance a portion of our debt in order to lower future interest costs. We expect to reduce net debt levels by year end to below those of the prior year.

Our outlook for the year based on current market conditions is for the operating performance to be broadly similar to 2014. The expected improvement in the paper businesses will be offset by lower US Dollar dissolving wood pulp pricing and the projects at Gratkorn and Somerset mills. In addition, at current exchange rates the translation of Euro and Rand results in Dollars may be negatively impacted compared to the prior year.

## Strategy <sup>20</sup>/<sub>15</sub>

No radical change in direction in the next two years while preparing for renewed growth

Achieve cost advantages

Rationalise declining businesses

Grow through moderate investments

Generate cash to strengthen balance sheet

Accelerate growth in adjacent businesses from a strong base

“ To actively transform Sappi into a growing and profitable diversified woodfibre group, focused on specialised cellulose, cash generative and profitable paper businesses, and other high margin industrial products which will provide value to our customers and wealth to our shareholders and people. ”

## strategic goal

Key figures	Quarter ended		
	Dec 2014	Restated <sup>1</sup> Dec 2013	Sept 2014
US\$ million			
Sales	1,377	1,499	1,505
Operating profit <sup>2</sup> excluding special items <sup>2</sup>	74	60	124
Special items – losses (gains) <sup>2</sup>	5	(10)	48
EBITDA <sup>2</sup> excluding special items <sup>2</sup>	145	147	200
Profit for the period	24	18	68
Basic earnings per share (US cents)	5	3	13
Net debt <sup>2</sup>	2,040	2,380	1,946

Key ratios (%)			
Operating profit <sup>2</sup> excl special items <sup>2</sup> to sales	5.4	4.0	8.2
Operating profit <sup>2</sup> excluding special items <sup>2</sup> to capital employed (ROCE) <sup>2</sup>	9.7	7.0	15.4
EBITDA <sup>2</sup> excluding special items <sup>2</sup> to sales	10.5	9.8	13.3
Return on average equity (ROE) <sup>2</sup>	9.1	6.4	24.7
Net debt to total capitalisation <sup>2</sup>	65.8	68.0	65.1
Net asset value per share (US cents)	202	215	199

1 Restated for the adoption of IFRS 10 Consolidated Financial Statements. Refer to the group results for more detail.

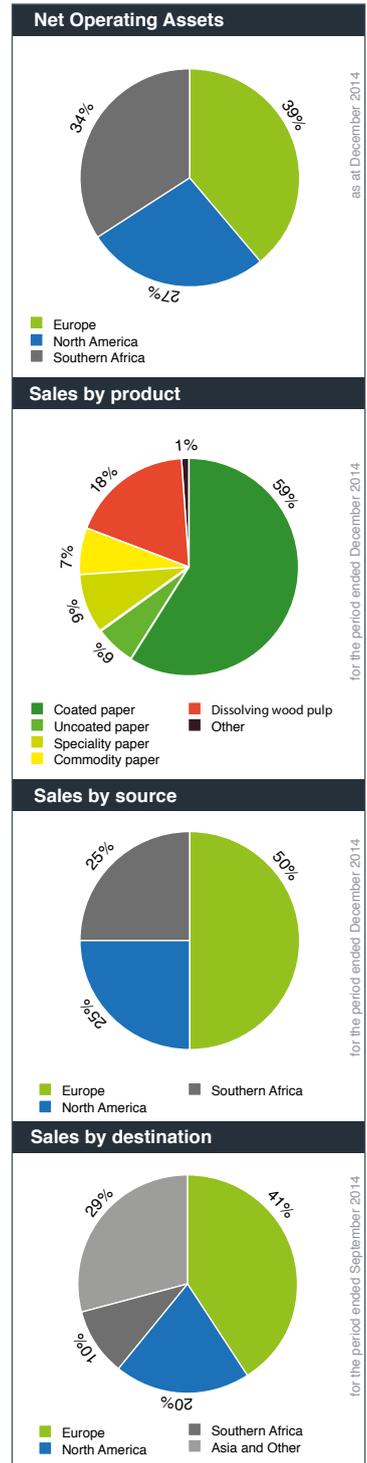
2 Refer to the published results for details on special items, the definition of the terms and the reconciliation of EBITDA excluding special items to profit/loss for the period.



An upgrade to Gratkorn Mill's pulp production facilities and improvements to its papermaking capabilities, expected to be completed mid 2015, will secure a significantly lower cost base. The investment increases PM11's weight range and ensures long-term emission limits compliance.



A new power plant, at Kirkniemi Mill, expected to be operational early 2016, will significantly improve cost competitiveness and profitability by reducing energy costs and securing energy supply. The plant can potentially use 100% solid biomass such as bark from the mill's debarking process.



## Regional summary of 1st quarter results

### Europe



**Berry Wiersum**  
Chief Executive Officer  
Sappi Europe

In this seasonally slower quarter, the performance of the European business improved compared to the equivalent quarter last year, despite the €12 million cost and margin impact of the paper machine upgrade at the Gratkorn mill.

The improvement was largely as a result of higher average sales prices for coated woodfree paper and lower fixed costs; variable costs were flat year-on-year. Coated mechanical paper prices and volumes remain under pressure.

The weaker Euro negatively affected US Dollar denominated variable costs, particularly for paper pulp, compared to the prior quarter. Conversely, paper exports from Europe benefited from the weaker Euro and largely offset the effect of increased pulp costs.

The disposal of the Nijmegen Mill in the previous financial year contributed in reducing fixed costs for the business.

The quarter saw a further improvement in the operating and sales performance of the Alfeld speciality mill with a better product mix and average pricing level.



7 Paper mills  
16 Sales offices

Produces  
**50%**  
of group sales

### North America



**Mark Gardner**  
President and Chief  
Executive Officer  
Sappi North America

Profitability was similar to the equivalent FY14 quarter, despite a planned extended annual maintenance shut at Somerset Mill and completed capital projects which negatively impacted the quarter by approximately US\$10 million in additional expenses and lost margin.

Coated paper sales in this seasonally slower quarter were only marginally below those of the prior year, despite the extended Somerset Mill shut. However, prices and the selling mix improved.

Dissolving wood pulp sales volumes were lower as the Cloquet Mill commenced periodic hardwood paper pulp production runs to eliminate most paper pulp purchases.

The release business continues to be adversely affected by weak demand in China. Pricing in European markets was negatively impacted by the weaker Euro.

Variable costs were generally flat compared with the prior quarter and lower than last year. Lower cost fibre, using own-made Cloquet pulp, and lower starch and latex costs have offset higher wood costs.

Fixed costs were well controlled and lower than the equivalent quarter last year, despite additional costs related to the extended cold outage at the Somerset Mill.



1 Paper mill  
1 Speciality paper mill  
1 Paper and specialised cellulose mill  
4 Sales offices

Produces  
**25%**  
of group sales

### Southern Africa



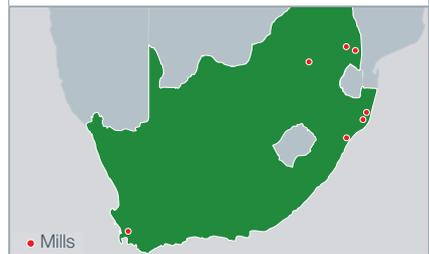
**Alex Thiel**  
Chief Executive Officer  
Sappi Southern Africa

The Southern African business had an improved performance this past quarter, with exchange rate gains on export sales and variable cost savings contributing positively.

Dissolving wood pulp volumes and Rand pricing increased compared to the equivalent quarter last year but were flat compared to the prior quarter. The weaker Rand/Dollar exchange rate offset dollar based declines in prices during the quarter.

The South African paper business delivered an improved performance due to the effective control of fixed and variable costs as well as improved pricing for packaging grades. Sales volumes were flat year-on-year, but lower than the prior quarter due to weaker specialities and office paper markets.

Production in the quarter at the Ngodwana Mill was impacted by a boiler tube leak during December. Sales for the quarter were not affected by this incident.



4 Paper mills  
1 Paper and specialised cellulose mill  
1 Specialised cellulose mill  
1 Sawmill  
4 Sales offices  
495,000ha Forests

Produces  
**25%**  
of group sales