

1<sup>st</sup> Quarter 2015  
Financial Results Presentation  
11 February 2015

**sappi**

## 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 cyclicity, 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.

## Regulation G disclosure

Certain non-GAAP financial information is contained in this presentation that management believe may be useful in comparing the company's operating results from period to period. Reconciliation's of certain of the non-GAAP measures to the corresponding GAAP measures can be found in the quarterly results booklet for the relevant period. These booklets are located in the 'Investor Info' section of [www.sappi.com](http://www.sappi.com).

The background of the slide is a grayscale photograph of several large rolls of paper stacked on top of each other. The rolls are curved, creating a sense of depth and repetition. The lighting is soft, highlighting the texture of the paper.

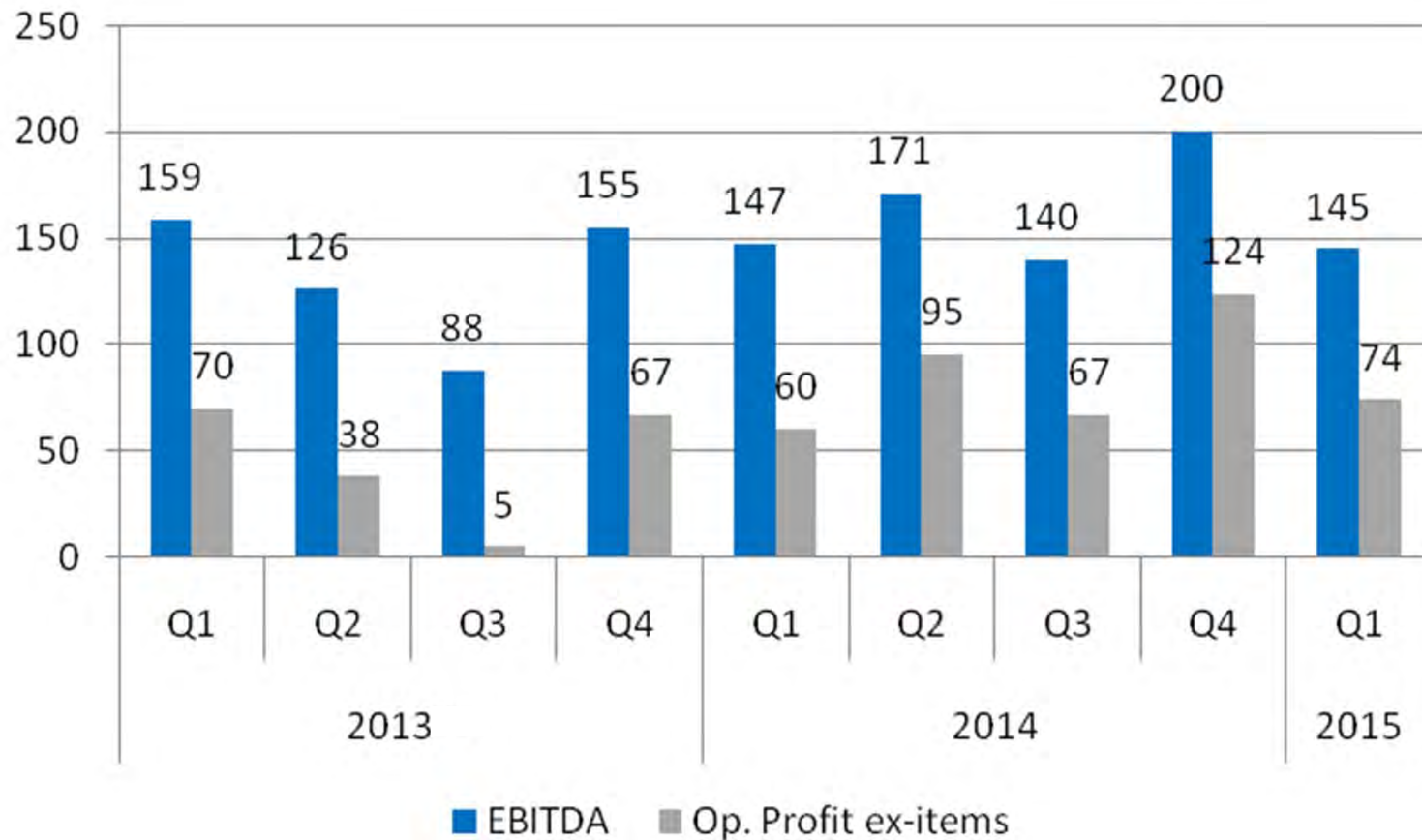
# Summary

## Q1 2015 Summary

- Profit for the period US\$24m (Q1 2014 US\$18m)
- EPS excluding special items 5 US cents (Q1 2014 2 US cents)
- EBITDA excluding special items US\$145m (Q1 2014 US\$147m)
- Net Debt US\$2,040m, down US\$340m year-on-year

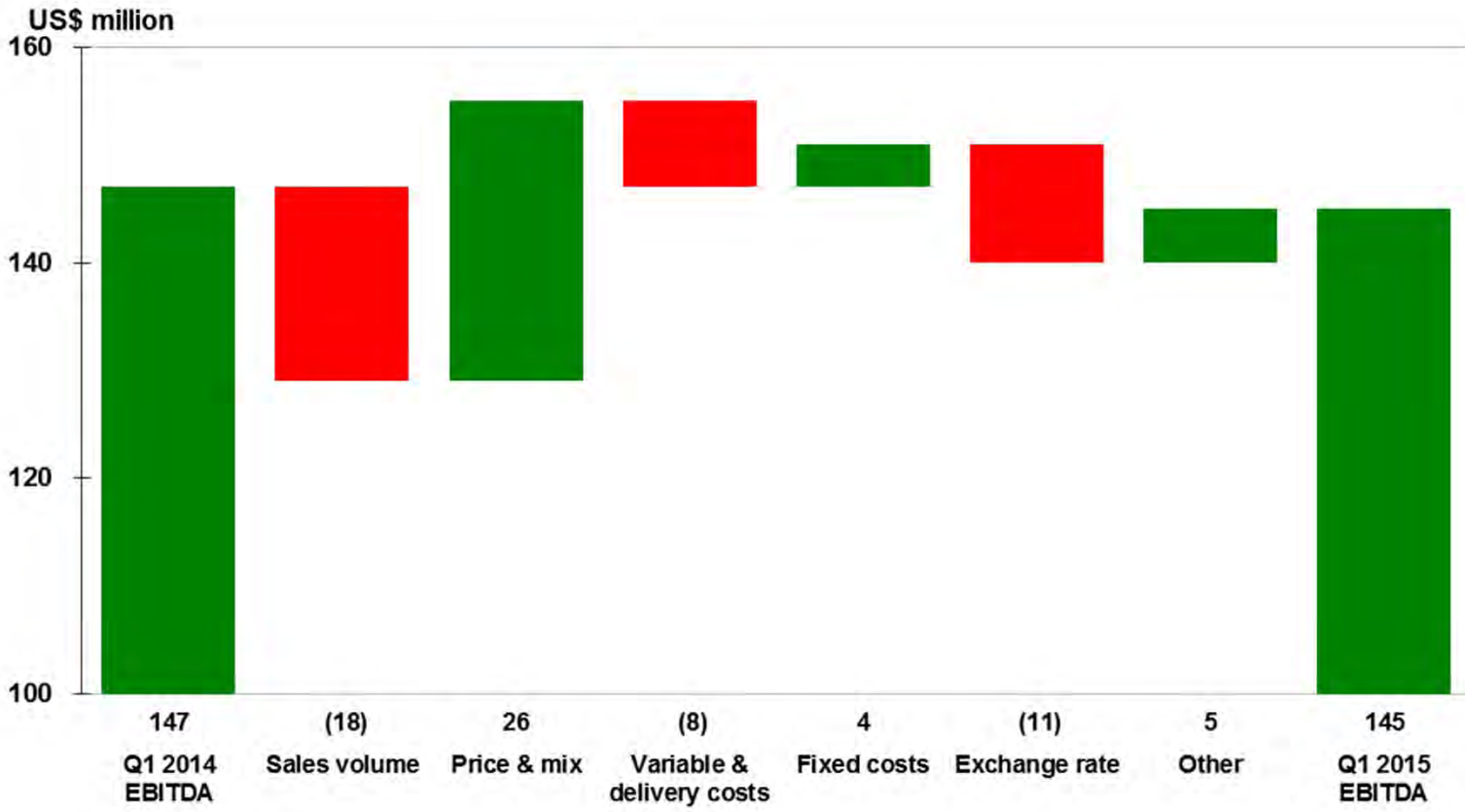
## EBITDA & Operating Profit ex-items\*

USD million



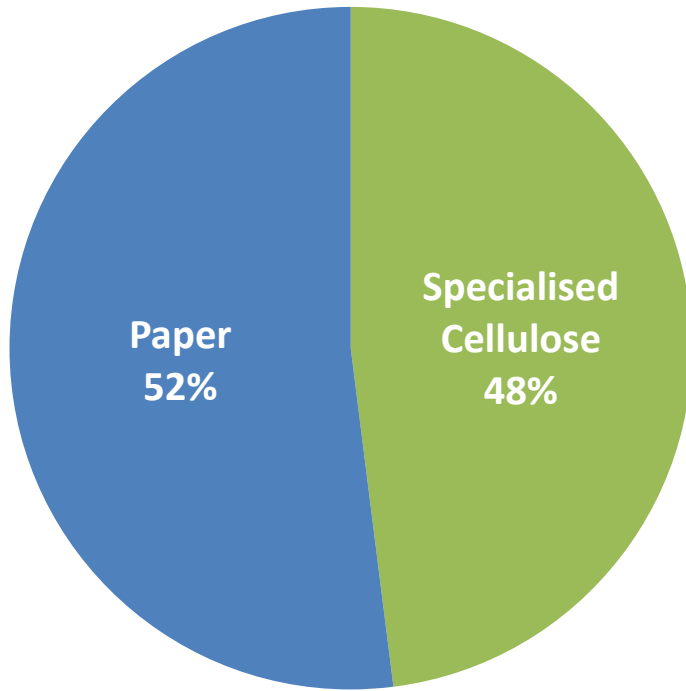
\*Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 20 in our Q1 2015 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# EBITDA in Q1 2015 vs Q1 2014

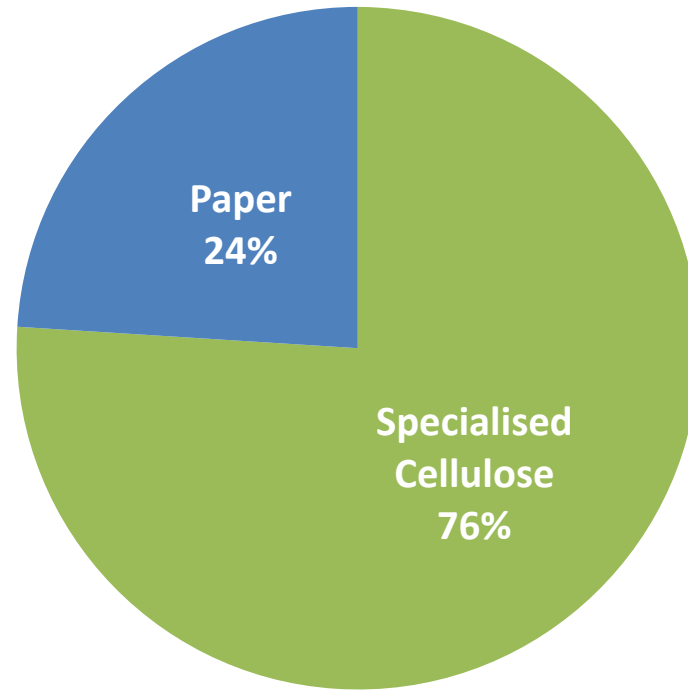


# Q1 2015 Product Contribution Split

**EBITDA excluding special items\***



**Operating Profit excluding special items\***

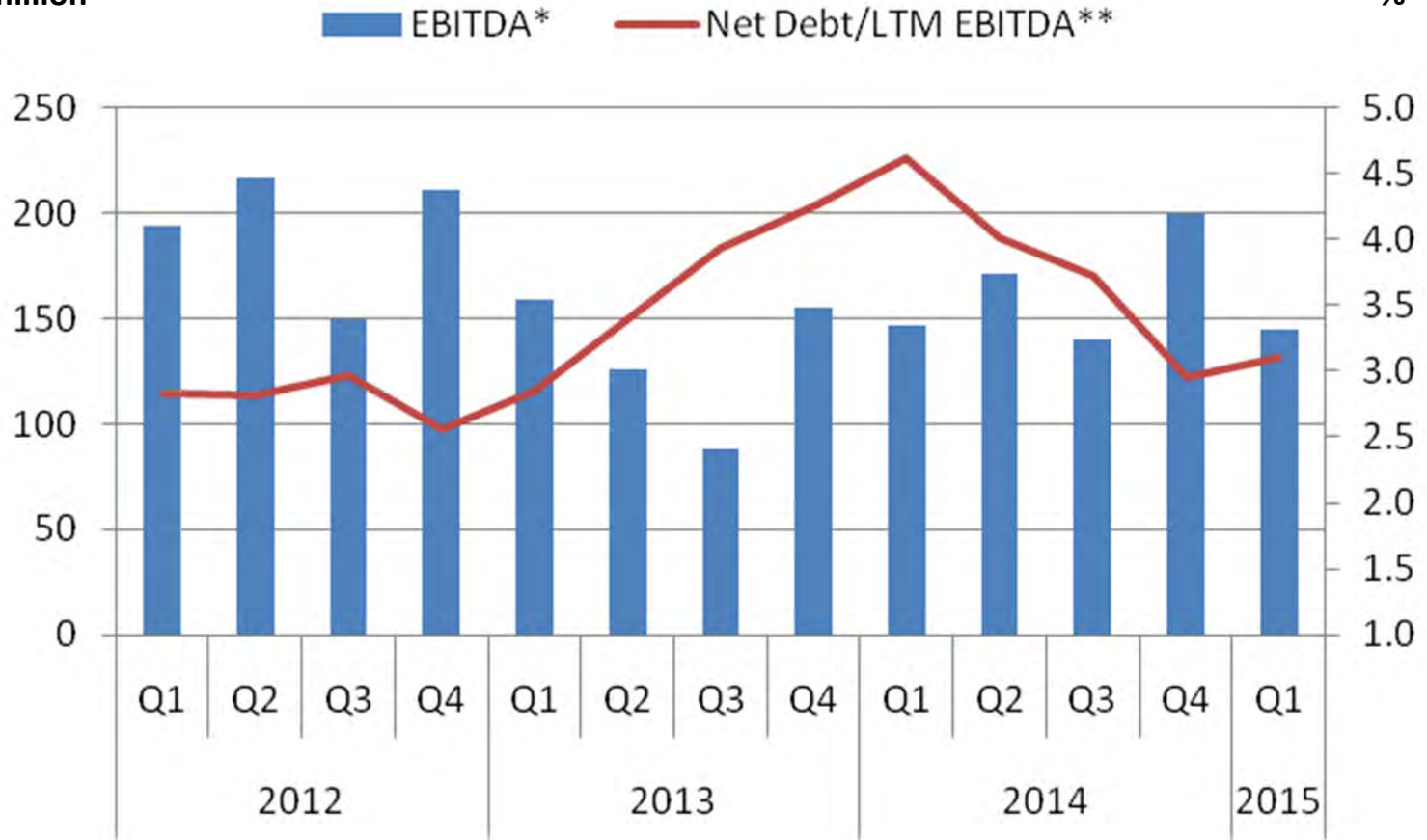


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# Net Debt / EBITDA development

USD million

%



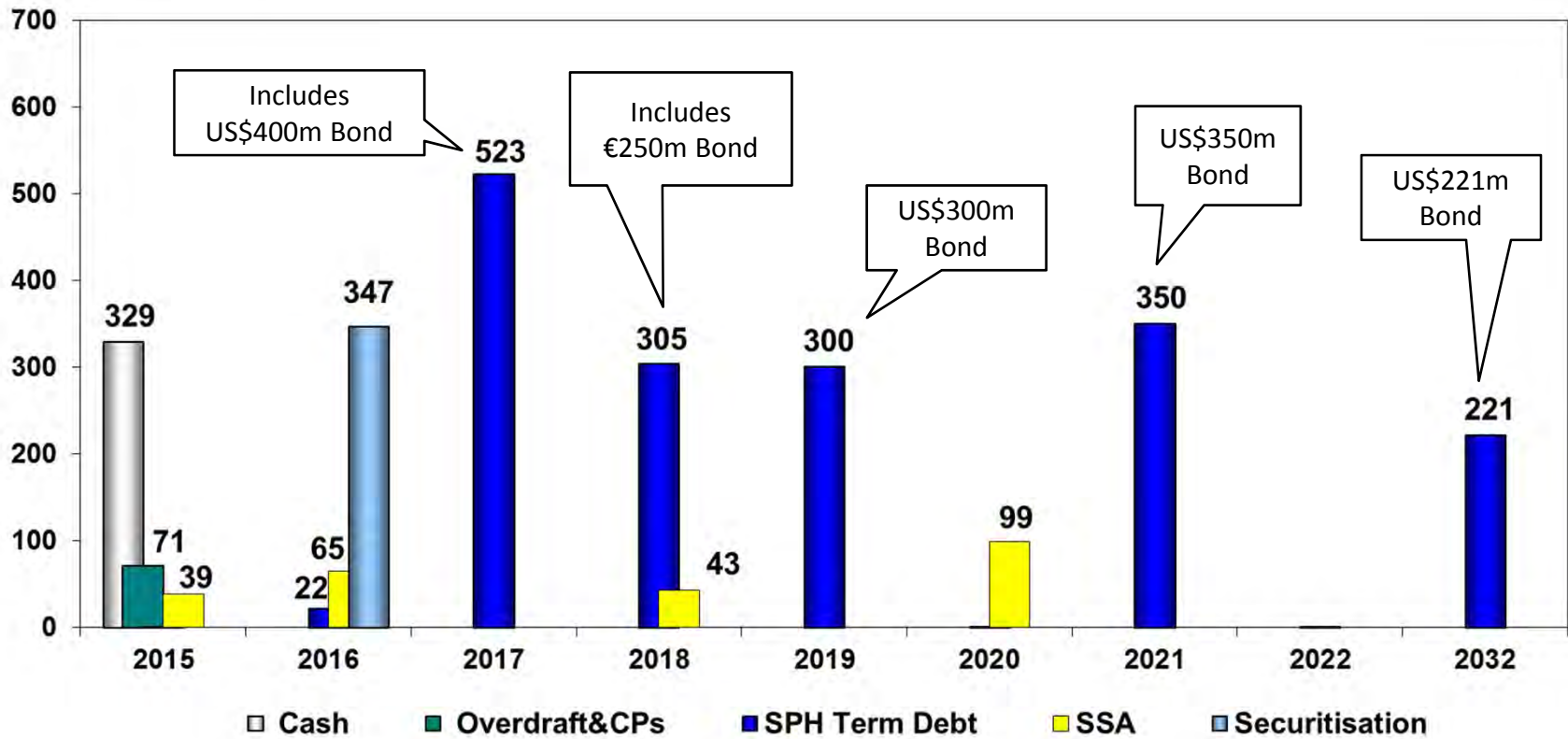
\* EBITDA ex special items

\*\* The covenant Net Debt/LTM EBITDA calculation has adjustments and therefore differs from that shown above

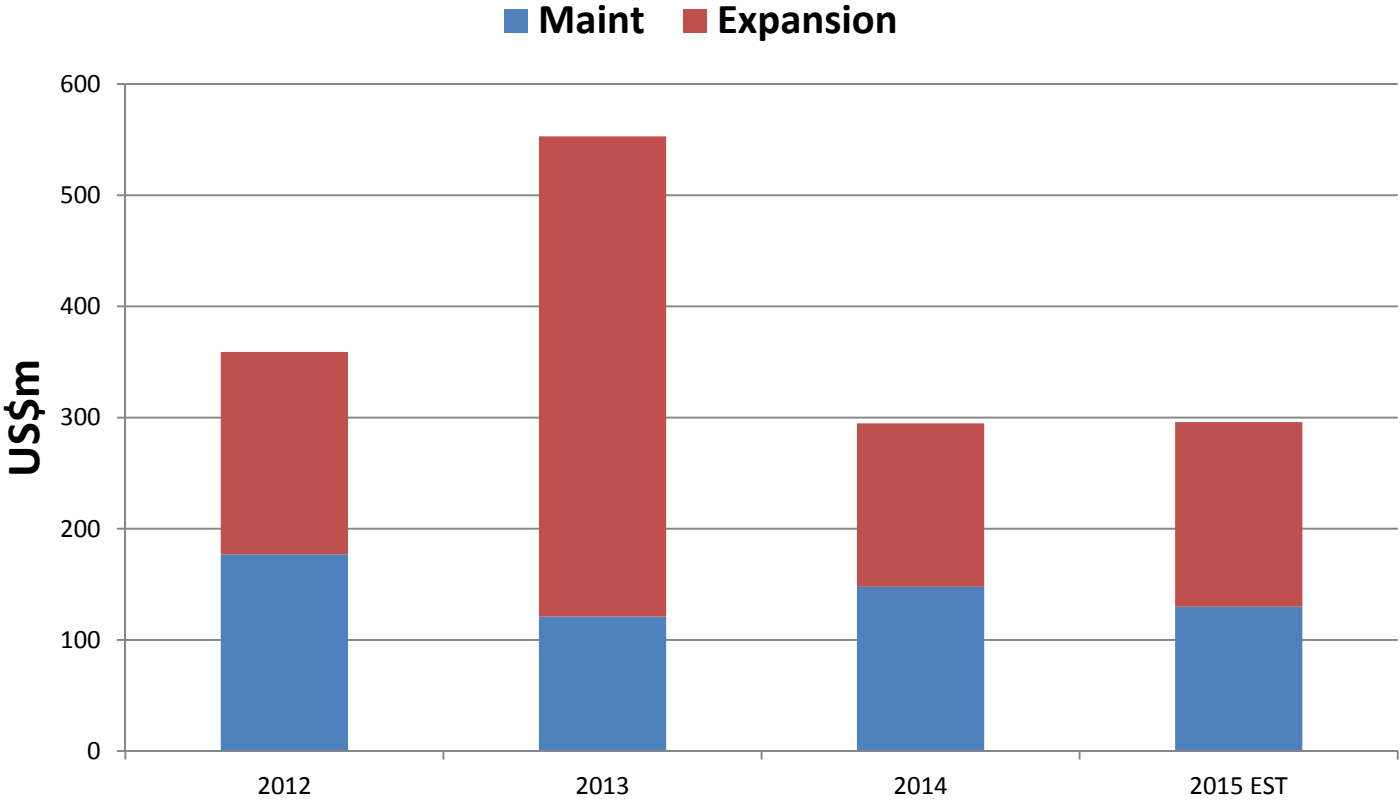


# Maturity Profile – Fiscal Years

USD million



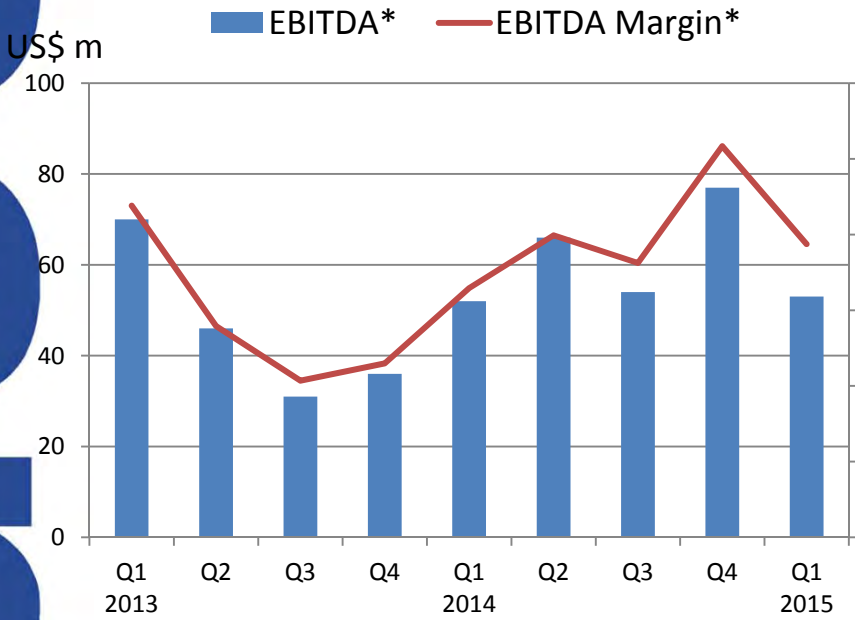
# Capex Development



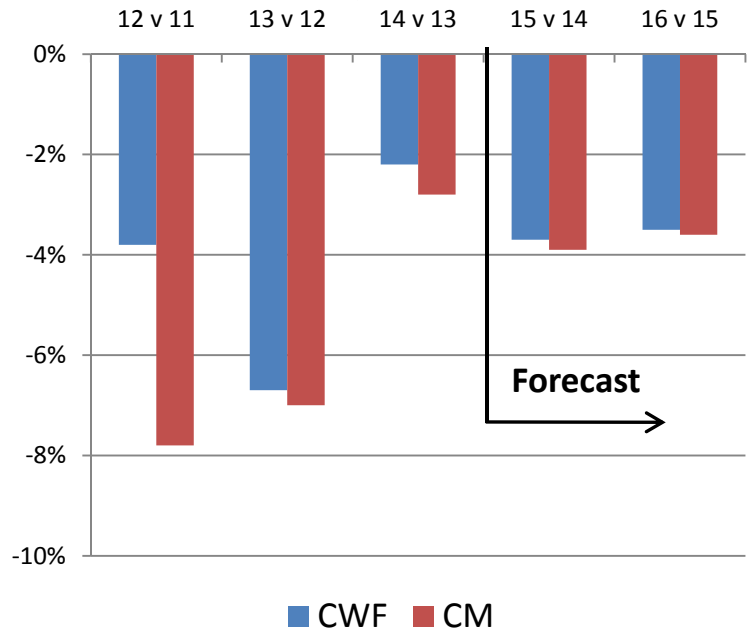
The background of the slide is a grayscale photograph of several large rolls of paper, stacked and slightly offset from each other, creating a sense of depth and texture. The lighting highlights the curved edges and the fine lines of the paper.

# Divisional Overviews

# Sappi Europe



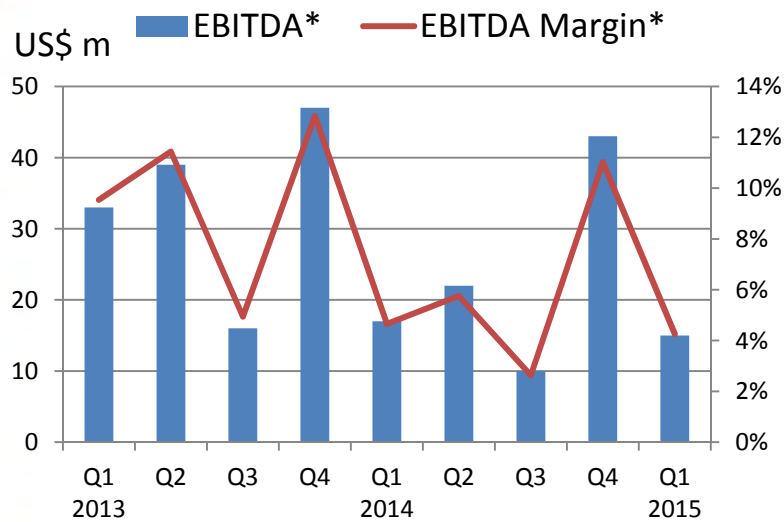
## Demand Development\*\*



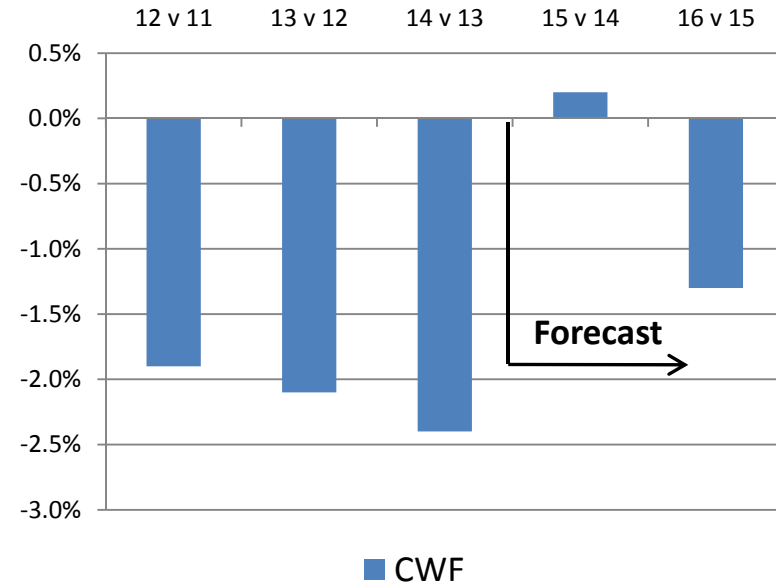
- Better sales prices and strong fixed cost control helped to improve performance.
- Weaker Euro negatively affected US Dollar denominated variable costs – pulp
- Export margin benefit of weaker Euro
- Alfeld speciality mill has better mix and higher average pricing
- CM prices and volumes remain under pressure globally
- €12 million impact from Gratkorn outage

\*EBITDA and EBITDA margin shown excluding special items. Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 20 in our Q1 2015 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.  
 \*\* Source: RISI

# Sappi North America



## Demand Development\*\*

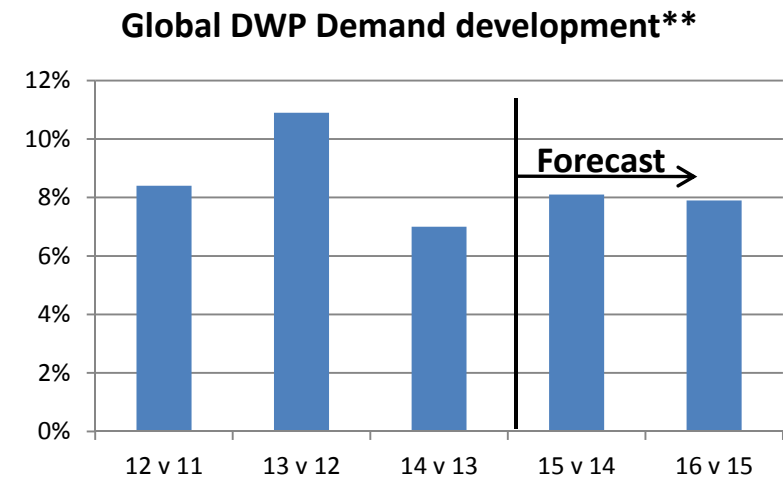
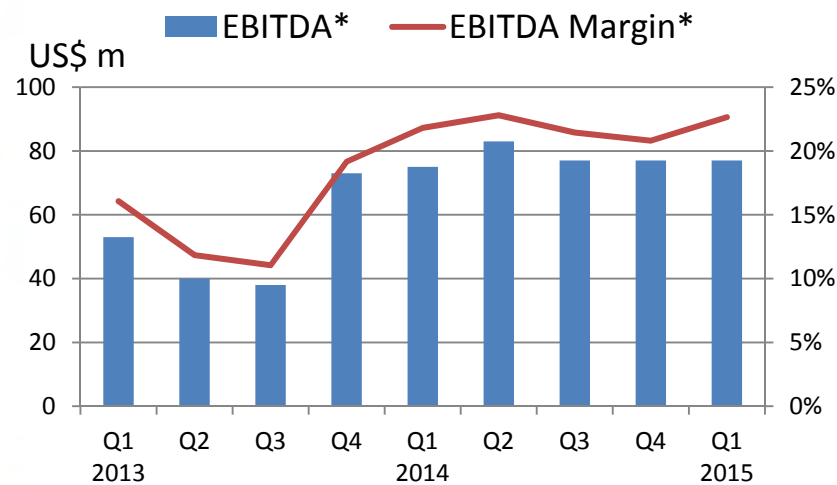


- \$10m impact from finalisation of capital projects at Somerset Mill
- Paper sales prices and mix improved sequentially
- DWP sales volumes from Cloquet lower on switch to paper pulp
- Fixed and variable costs flat-to-down on last year despite extended Somerset shut
- Release business affected by weak demand in China and lower European sales prices due to currency

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\*\* Source: RISI

# Sappi South Africa



- Improved performance due to exchange rate gains on export sales, improved pricing for packaging grades and variable cost savings
- DWP volumes and Rand pricing improved year-on-year, flat sequentially
- Ngodwana production impacted by boiler tube leak in Dec.

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\*\* Source: RISI

## Global Paper Market Trends

### Supply & Demand

- Closures broadly offsetting demand declines
- CWF demand decline appears to be moderating
- CM declines worrisome

### Costs & Prices

- CWF sales prices have moved up in NA/Europe
- US\$ and oil-based input costs falling

### Strategy

- Implement price increases when/where market allows
- Reducing fixed and variable costs
- Reduce capacity in line with demand declines

## Global Specialised Cellulose Market Trends

### Supply & Demand

Capacity additions slowed in 2014 (200kt) v 2013 (1Mt)  
100k tons expected online in 2015  
Demand growth normalizing as competing fiber prices decline – long term prospects still strong

### Costs & Prices

Dollar prices continue to decline  
Input costs declining – particularly for producers with non-US\$ cost base

### Strategy

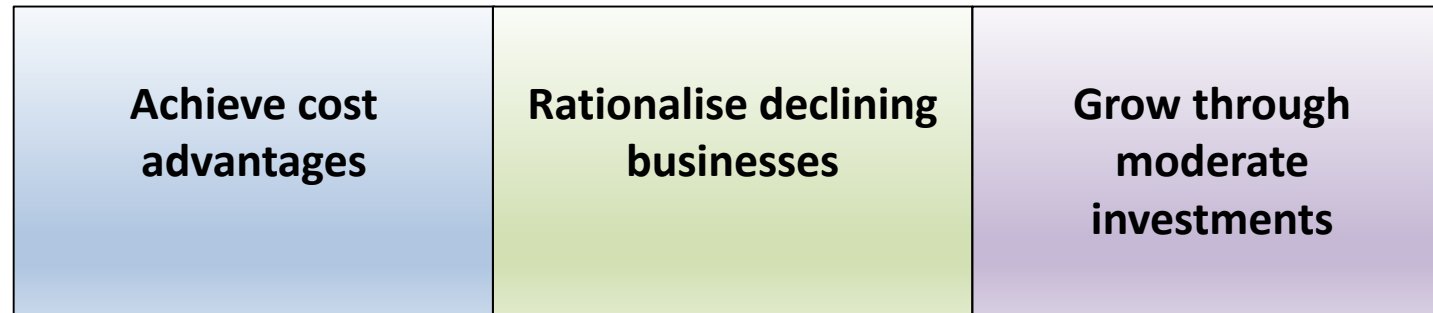
Manage capacity  
Continue working with customers supporting common growth  
Investigate adjacent end-uses



The background of the slide features a grayscale image of several large rolls of paper, stacked and slightly offset from each other, creating a sense of depth and texture. The rolls are the primary visual element, filling most of the frame.

# Strategic Focus

## Strategic Focus



- |  |  |  |
|--|--|--|
| <ul style="list-style-type: none"> <li>• Continuously improving operational performance</li> <li>• Optimising energy usage in mills</li> <li>• Maximising global procurement efficiencies</li> </ul> | <ul style="list-style-type: none"> <li>• Continuously balance graphic paper supply and demand in all regions</li> <li>• Convert paper machines where possible to higher margin paper business</li> </ul> | <ul style="list-style-type: none"> <li>• Growing paper packaging grades</li> <li>• Growing specialised cellulose product portfolio</li> <li>• Extracting value from waste</li> </ul> |
|--|--|--|

**Generate cash to strengthen balance sheet**

- Restructuring debt
- Optimising working capital
- Selling non-core assets

**Accelerate growth in adjacent businesses from a strong base**

- Evaluating opportunities in specialised cellulose, packaging and complementary industrial products

## Focus Areas

### Achieve cost advantages

We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.

- Somerset lime kiln and boiler gas conversion
- Gratkorn paper machine and pulp mill upgrade
- Kirkniemi power plant
- Group procurement initiatives

### Optimise and rationalise declining businesses

Recognising the decreasing demand for graphic paper, we manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.

- Cessation of coated paper production in South Africa
- Monitoring decreasing demand in Europe

## Focus Areas

### Growth through moderate investment

We will make smaller investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers.

- Investment in lightweight recycled packaging paper at Enstra
- Upgrades to Tugela and Ngodwana pulp mills

### Strengthen the balance sheet

Over the next two years, we will continue our focus on having a cleaner, stronger balance sheet so that we can then accelerate our growth in adjacent businesses.

- Continue to pursue Twello sale
- 2018 and 2019 bonds callable this year
- SSA02 bond matures April 2015 – R450m outstanding to be repaid



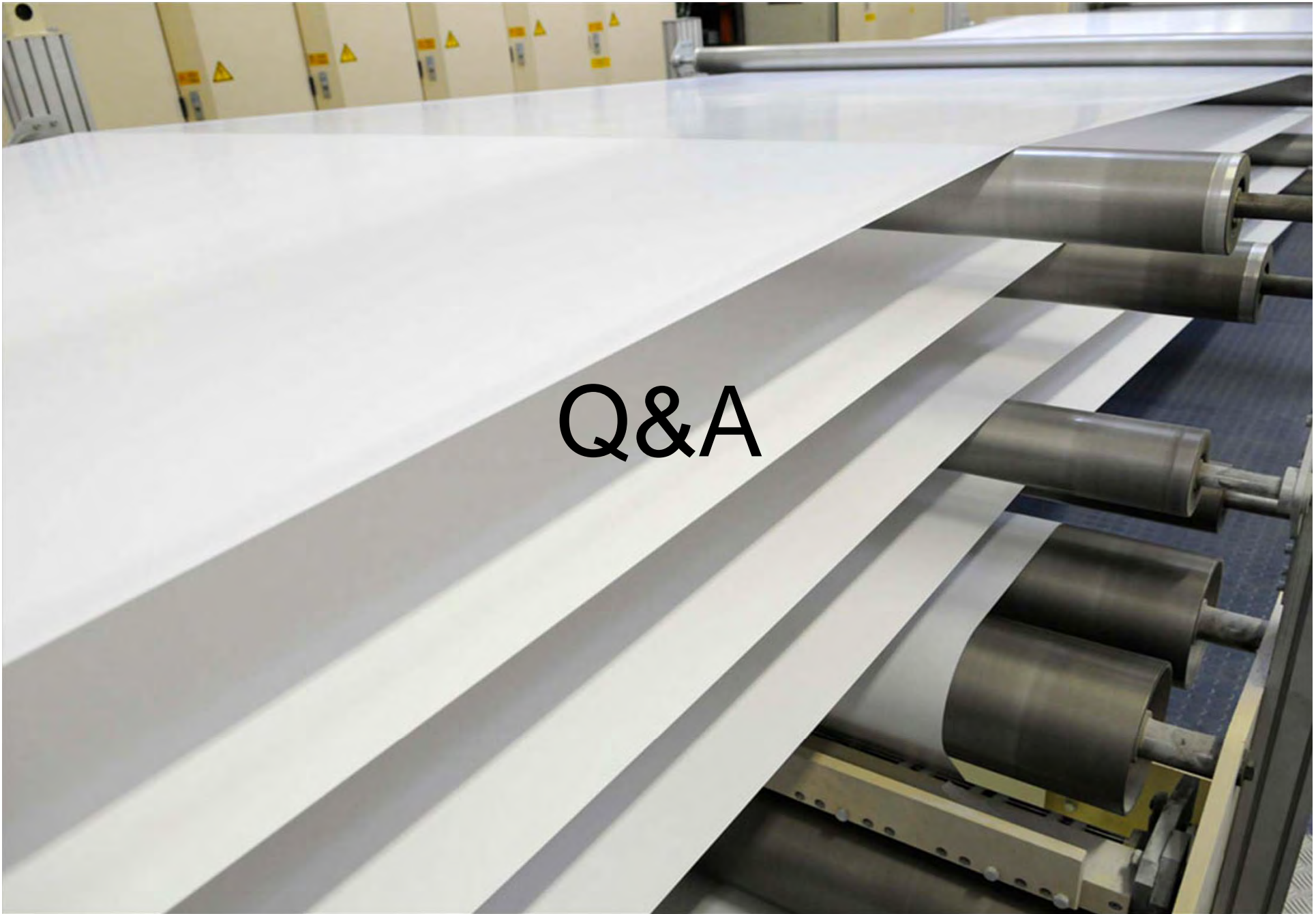
# Outlook

## Outlook

- Graphic paper markets remain challenging, but appear to be marginally better than our expectations in EU and NA. Demand has declined at a lower rate and pricing expectations have been met. Exchange rate volatility may affect selling prices, particularly in Europe.
- DWP market under further pressure, alongside viscose, polyester and cotton. Prices in USD terms have declined further than expected. These lower prices are likely to be substantially offset by a weaker Rand/Dollar exchange rate and our ability to swing Cloquet between DWP and paper pulp
- Currency movements affect margins in EU and SA businesses having both transactional and translational effects – a weaker Euro and Rand relative to the US dollar support local and export pricing, historically offsetting input cost increases

## Outlook (cont'd)

- As discussed last quarter, 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 that of 2014.
- 2015 performance will be largely in-line with 2014. Improvement in the paper business is expected to offset lower US Dollar DWP sales prices and the efficiency improvement projects at Gratkorn and Somerset.
- At current exchange rates the translation of Euro and Rand results into Dollars may be negatively impacted compared to the prior year.

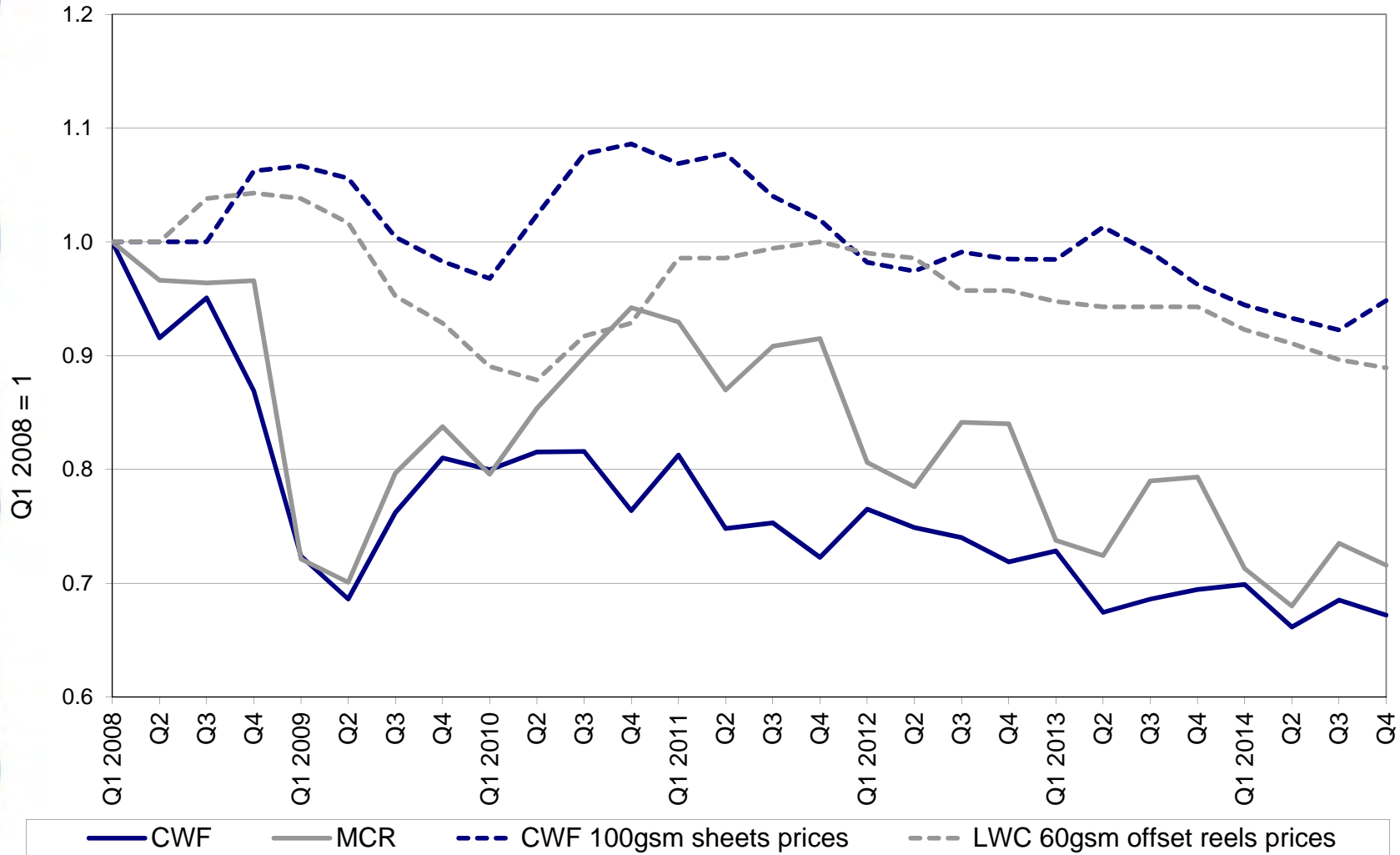




A photograph of a paper mill's machinery. A large, white sheet of paper is being processed by a series of rollers. The rollers are arranged in a line, and the paper is being fed through them. The background shows a factory setting with yellow safety triangles on the walls.

# Supplementary Information

# W. Europe Coated Paper Deliveries & Prices



Western Europe Shipments Incl. Export – Source Cepifine, Cepiprint and RISI indexed to Calendar Q1 2008

## Sappi Fine Paper Europe

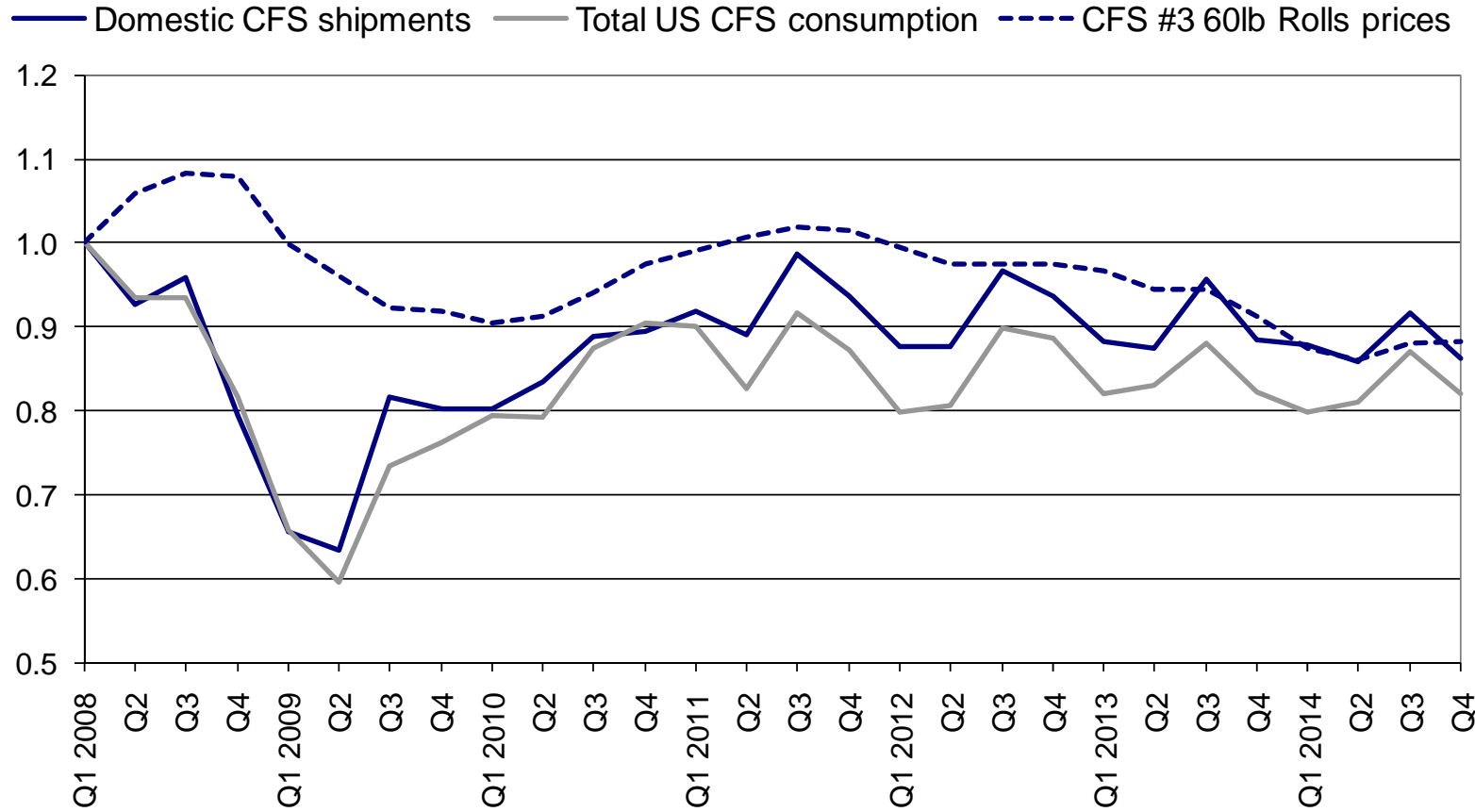
	Q1 15	Q4 14	Q1 14
Tons Sold ('000)	775	811	836
Sales (€)	547	561	581
Price / Ton (€)	706	692	695
Cost / Ton* (€)	690	660	691
<b>Operating profit ex items (€m) **</b>	<b>12</b>	<b>26</b>	<b>3</b>

\* Sales less operating profit excluding special items divided by tons sold.

\*\* Refer to the supplementary information in this presentation for a reconciliation to reported operating profit and page 20 in our Q1 2015 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# US Coated Paper Prices and Shipments

Q1 2008 = 1



US Industry Shipments and total US consumption – Source AF&PA and RISI indexed to Q1 2008

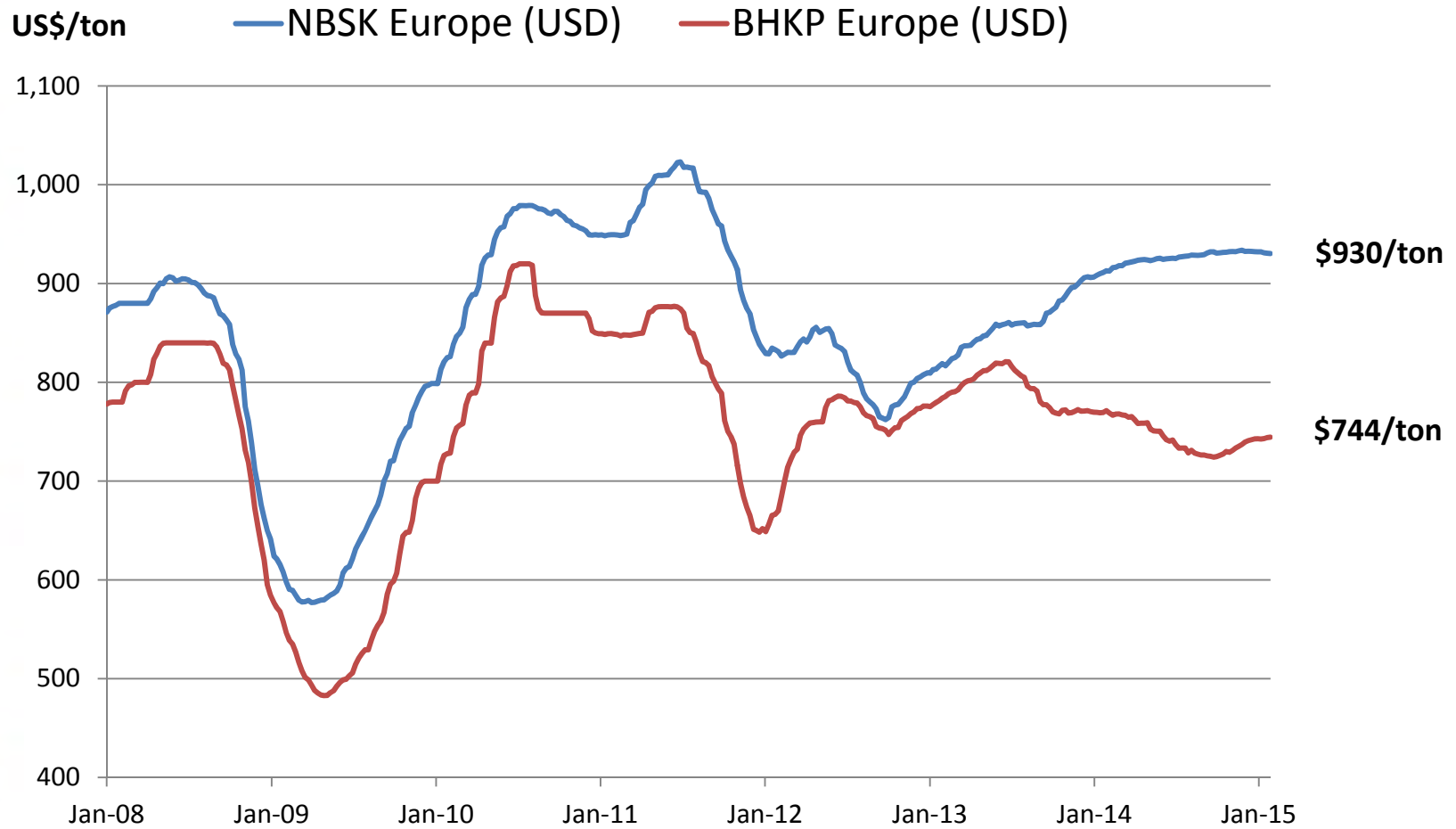
## Sappi Fine Paper North America

	Q1 15	Q4 14	Q1 14
Tons Sold ('000)	333	375	348
Sales (\$'m)	353	390	365
Price / Ton (\$)	1,060	1,040	1,049
Cost / Ton* (\$)	1,072	973	1,057
<b>Operating profit ex items** (\$'m)</b>	<b>(4)</b>	<b>25</b>	<b>(3)</b>

\* Sales less operating profit excluding special items divided by tons sold.

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# Pulp Prices\* - historically wide spread



\* Source: Average weekly FOEX delivered European prices

## Sappi Southern Africa ex Forestry

	Q1 15	Q4 14	Q1 14
Tons Sold ('000)	426	453	403
Sales (ZAR'm)	3,644	3,799	3,316
Price / Ton (ZAR)	8,554	8,386	8,228
Cost / Ton* (ZAR)	6,897	6,987	6,818
<b>Operating profit ex items** (ZAR'm)</b>	<b>706</b>	<b>634</b>	<b>568</b>

\* Sales less operating profit excluding special items divided by tons sold.

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## Cash Flow - US\$m

	Q1 15	Q4 14	Q1 14
<b>Cash generated from operations</b>	<b>137</b>	<b>160</b>	<b>136</b>
- Movement in working capital	(136)	153	(149)
- Net finance costs paid	(52)	(26)	(56)
- Taxation paid	(3)	-	(1)
<b>Cash generated from operating activities</b>	<b>(54)</b>	<b>287</b>	<b>(70)</b>
<b>Cash utilised in investing activities</b>	<b>(67)</b>	<b>1</b>	<b>(63)</b>
- Capital expenditure	(68)	(105)	(71)
- Proceeds on disposal of non-current assets	-	97	6
- Other movements	1	9	2
<b>Net Cash (utilised) generated</b>	<b>(121)</b>	<b>288</b>	<b>(133)</b>



## EBITDA & operating profit excluding special items recon to reported operating profit

	Q1 15	Q4 14	Q1 14
<b>EBITDA ex-items</b>	<b>145</b>	<b>200</b>	<b>147</b>
Depreciation and Amortisation	(71)	(76)	(87)
<b>Operating Profit ex-items*</b>	<b>74</b>	<b>124</b>	<b>60</b>
<b>Special Items - gains (losses)</b>	<b>(5)</b>	<b>(48)</b>	<b>10</b>
Plantation price fair value adj.	1	-	8
Net restructuring provisions and loss on disposal of assets and businesses	(1)	(26)	-
Impairment of goodwill	-	(1)	-
Asset impairment reversals (impairments)	-	(3)	2
Fire, flood, storm and other events	(5)	(18)	-
<b>Segment Operating Profit</b>	<b>69</b>	<b>76</b>	<b>70</b>

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Thank You