Second Quarter results for the period ended March 2014

2nd quarter results

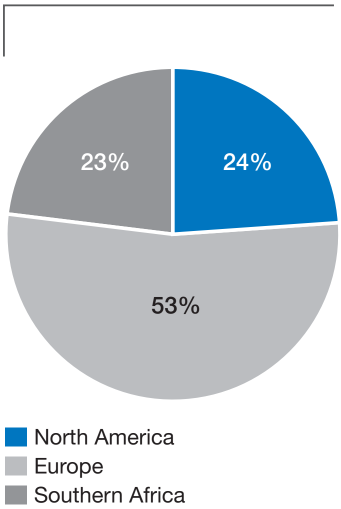
Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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.

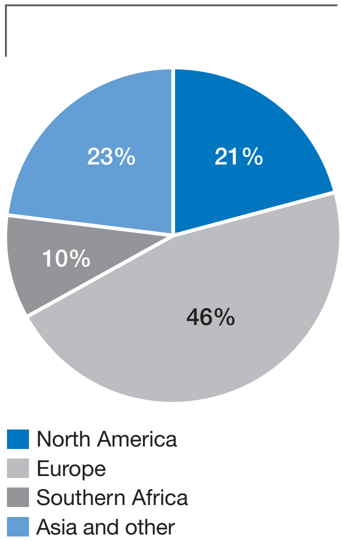
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

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.

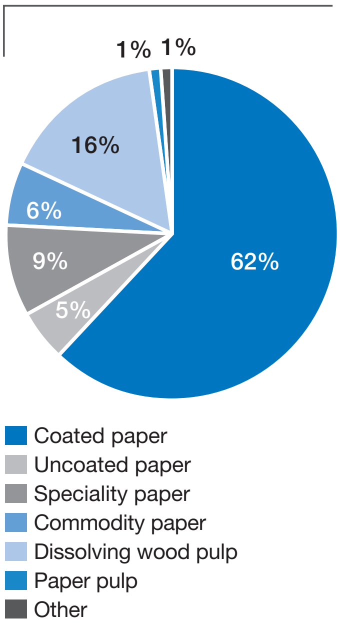
Sales by source*



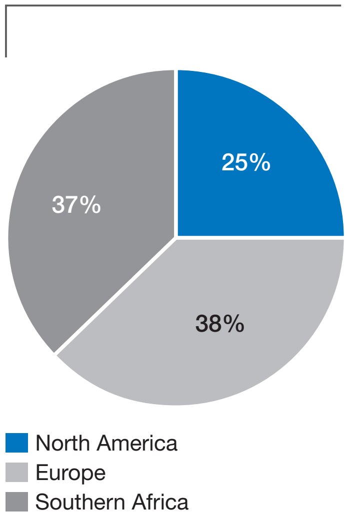
Sales by destination*



Sales by product*



Net operating assets**



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

- Strong cash flow generation
- Good performance from South African business
- Profit for the period US$32 million (Q2 2013 US$2 million)
- EPS 6 US cents (Q2 2013 0 US cents)
- EBITDA excluding special items US$171 million (Q2 2013 US$126 million)
- Net debt US$2,248 million (Q1 2014 US$2,380 million)

	Quarter ended			Half-year ended	
	Mar 2014	Restated[(1)] Mar 2013	Restated[(1)] Dec 2013	Mar 2014	Restated[(1)] Mar 2013
Key figures: (US$ million)					
Sales	**1,573**	1,503	1,499	**3,072**	2,978
Operating profit excluding special items[(2)]	**95**	38	60	**155**	108
Special items – gains[(3)]	**(4)**	(38)	(10)	**(14)**	(35)
EBITDA excluding special items[(2)]	**171**	126	147	**318**	285
Profit for the period	**32**	2	18	**50**	14
Basic earnings per share (US cents)	**6**	–	3	**10**	3
Net debt[(4)]	**2,248**	2,189	2,380	**2,248**	2,189
Key ratios: (%)					
Operating profit excluding special items to sales	**6.0**	2.5	4.0	**5.0**	3.6
Operating profit excluding special items to capital employed (ROCE)[(5)]	**11.0**	4.2	7.0	**9.1**	6.0
EBITDA excluding special items to sales	**10.9**	8.4	9.8	**10.4**	9.6
Return on average equity (ROE)[(5)]	**11.3**	0.5	6.4	**8.7**	1.9
Net debt to total capitalisation[(5)]	**66.2**	60.3	68.0	**66.2**	60.3
Net asset value per share (US cents)	**219**	277	215	**219**	277

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

Commentary on the quarter

The group maintained the improving trend in operating performance for the quarter, with EBITDA excluding special items of US$171 million, operating profit excluding special items of US$95 million and profit for the period of US$32 million. There were no major special items for the quarter. The special items gain of US$4 million was mainly as a result of a positive plantation fair value price adjustment of US$5 million.

The past quarter saw an improvement in the operating performance of all three of our operating regions, despite tough market conditions overall.

The graphic paper markets in Europe and North America continue to experience demand declines for most major grades, and sales prices remained under pressure in both markets. These market dynamics were anticipated and we responded by implementing a number of cost cutting initiatives across the group. This, combined with the seasonally stronger second quarter, delivered an improved operating performance in both businesses.

The Southern African paper business continued the trend of improving performance, with increased sales prices offsetting cost pressures.

Against a backdrop of more challenging dissolving wood pulp markets, the Specialised Cellulose business had another good quarter with strong shipment volumes, generating US$82 million in EBITDA excluding special items at an EBITDA margin of 33%. Due to the competitive nature of the market and weak viscose staple fibre pricing, we experienced increased pressure on our prices, leading to a lower average dollar price for our dissolving wood pulp than achieved in the prior quarter.

Finance costs of US$48 million were in line with the restated equivalent quarter last year.

Earnings per share for the quarter was 6 US cents (including a gain of 1 US cent in respect of special items), compared to 0 US cents (including a gain of 2 US cents in respect of special items) in the restated equivalent quarter last year.

Cash flow and debt

As a result of the improved operational performance, lower capital expenditure post the completion of the three major conversion projects and stringent working capital management, net cash generated for the quarter was US$132 million compared to net cash utilisation of US$99 million in the equivalent quarter last year. Capital expenditure in the quarter declined to US$62 million compared to US$179 million a year ago, reflecting the completion of the expenditure on the dissolving wood pulp projects.

Net debt of US$2,248 million declined by US$132 million from the prior quarter, as a result of the cash generated from operations and the lower working capital.

Liquidity comprises cash on hand of US$307 million and US$576 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

Operating review for the quarter

Europe

	Quarter ended Mar 2014 € million	Quarter ended Dec 2013 € million	Restated[(1)] Quarter ended Sept 2013 € million	Restated[(1)] Quarter ended Jun 2013 € million	Restated[(1)] Quarter ended Mar 2013 € million
Sales	**603**	581	591	574	624
Operating profit (loss) excluding special items	**14**	3	(9)	(12)	(1)
Operating profit (loss) excluding special items to sales (%)	***2.3***	*0.5*	*(1.5)*	*(2.1)*	*(0.2)*
EBITDA excluding special items	**48**	38	27	24	35
EBITDA excluding special items to sales (%)	***8.0***	*6.5*	*4.6*	*4.2*	*5.6*
RONOA pa (%)	***4.6***	*1.0*	*(2.8)*	*(3.5)*	*(0.3)*

(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.

Graphic paper markets in Europe are still difficult, albeit volumes are declining at a slower rate than experienced in much of 2013. The operating result of our European business continued to improve during the quarter, with reductions in variable and fixed costs more than offsetting the declines in graphic paper sales volumes and prices compared to the equivalent quarter in the prior year.

Negotiations with interested stakeholders to relocate production from Nijmegen to other mills are ongoing.

The specialities business continues to grow post the completion of the conversion of Alfeld PM2, with volumes for the quarter up 26% compared to the equivalent quarter in the prior year.

North America

	Quarter ended Mar 2014 US$ million	Quarter ended Dec 2013 US$ million	Restated[1] Quarter ended Sept 2013 US$ million	Restated[1] Quarter ended Jun 2013 US$ million	Restated[1] Quarter ended Mar 2013 US$ million
Sales	**382**	365	366	324	341
Operating profit (loss) excluding special items	**5**	(3)	27	(2)	18
Operating profit (loss) excluding special items to sales (%)	***1.3***	*(0.8)*	*7.4*	*(0.6)*	*5.3*
EBITDA excluding special items	**22**	17	47	16	39
EBITDA excluding special items to sales (%)	***5.8***	*4.7*	*12.8*	*4.9*	*11.4*
RONOA pa (%)	***1.9***	*(1.2)*	*10.4*	*(0.8)*	*7.6*

(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.

Graphic paper markets have been more challenging than we expected throughout fiscal 2014; nevertheless, the North American business returned to profitability this quarter from the prior quarter loss, largely due to an improved performance from the specialities business, as well as lower fixed costs.

The coated paper markets remains under pressure. Continued declines in paper prices, high energy prices as a consequence of the extremely cold weather experienced in this region, as well as higher paper pulp prices have impacted margins.

Dissolving wood pulp sales volumes were negatively impacted by the extremely cold weather and a five week truckers' strike at the Vancouver port that we utilise for our exports, as well as overall mill optimisation undertaken during the quarter.

Southern Africa

	Quarter ended	Restated(1) Quarter ended	Restated(1) Quarter ended	Restated(1) Quarter ended	Restated(1) Quarter ended
	Mar 2014 ZAR million	Dec 2013 ZAR million	Sept 2013 ZAR million	Jun 2013 ZAR million	Mar 2013 ZAR million
Sales	**3,942**	3,488	3,779	3,255	3,020
Operating profit excluding special items	**765**	568	509	192	181
Operating profit excluding special items to sales (%)	***19.4***	*16.3*	*13.5*	*5.9*	*6.0*
EBITDA excluding special items	**897**	761	709	364	359
EBITDA excluding special items to sales (%)	***22.8***	*21.8*	*18.8*	*11.2*	*11.9*
RONOA pa (%)	***18.6***	*14.1*	*12.8*	*4.8*	*4.7*

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

The Southern African business had an improved performance compared to both the prior quarter and the equivalent quarter last year due to better pricing across all major product categories and improved sales volumes, notwithstanding the annual maintenance shut at the Ngodwana Mill.

The South African Specialised Cellulose business achieved another solid quarter, with the Ngodwana mill contributing to increased sales volumes. Higher NBSK reference prices and a weaker Rand/Dollar exchange rate led to higher Rand net sales prices compared to both the prior quarter and the equivalent quarter last year.

The South African paper business continued to generate profits, with higher sales prices offsetting slightly lower sales volumes and increased variable costs.

Directorate

On 15 January 2014 it was announced that Ralph Boëttger will relinquish his position as CEO and Director on 30 June 2014 due to a serious illness. On 10 February 2014, it was subsequently announced that Steve Binnie, currently the CFO, will succeed Ralph Boëttger as CEO on 01 July 2014. On 17 March 2014, it was announced that Glen Pearce, currently CFO of Sappi Europe, will succeed Steve Binnie as CFO and join the Sappi Limited board of directors as an Executive Director on 01 July 2014.

Outlook

Continued emphasis on lowering cost and optimising sales in both the coated paper and dissolving wood pulp markets have enabled us to compete effectively. We will continue to take actions in North America, Europe and Southern Africa to improve our competitiveness and enable us to reduce debt.

Demand in the Specialised Cellulose business remains firm, though pricing pressure continues to be evident. The Rand/Dollar exchange rate will continue to play a major role in the operating performance of the South African Specialised Cellulose business as well as the Southern African paper business.

Capital expenditure for the full year is expected to be below US$300 million, with positive cash generation for the remainder of the year. We anticipate net debt levels to end the year close to US$2 billion.

The third quarter is seasonally weaker in both North America and Europe, and scheduled annual maintenance shuts during the quarter in all three regions will also impact the results in the third quarter, leading to a weaker operating performance than the past quarter, though we expect the result to be substantially better than the equivalent quarter in the prior year.

Our outlook for the year is one of significantly improved performance for the 2014 financial year when compared to 2013.

On behalf of the board

R J Boëttger
Director

S R Binnie
Director

12 May 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, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of the global economic downturn;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring or strategic initiatives (including our announced dissolving wood pulp conversion projects), and achieving expected savings and synergies; and
- currency fluctuations.

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

Condensed group income statement

	Note	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Sales		1,573	1,503	3,072	2,978
Cost of sales		1,380	1,274	2,719	2,578
Gross profit		193	229	353	400
Selling, general and administrative expenses		95	100	189	195
Other operating expenses (income)		1	55	(1)	65
Share of profit from equity investments		(2)	(2)	(4)	(3)
Operating profit	3	99	76	169	143
Net finance costs		48	45	96	92
Net interest expense		49	46	97	92
Net foreign exchange gain		(2)	(1)	(3)	–
Net fair value loss on financial instruments		1	–	2	–
Profit before taxation		51	31	73	51
Taxation		19	29	23	37
Profit for the period		32	2	50	14
Basic earnings per share (US cents)		6	–	10	3
Weighted average number of shares in issue (millions)		522.5	521.5	522.1	521.2
Diluted earnings per share (US cents)		6	–	10	3
Weighted average number of shares on fully diluted basis (millions)		525.6	523.8	524.8	523.2

Condensed group statement of comprehensive income

	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Profit for the period	32	2	50	14
Other comprehensive loss, net of tax				
Items that will not be reclassified subsequently to profit or loss	–	5	–	10
Actuarial gains on post-employment benefit funds	–	7	–	15
Tax effect of above item	–	(2)	–	(5)
Items that must be reclassified subsequently to profit or loss	(10)	(79)	(52)	(112)
Exchange differences on translation of foreign operations	(5)	(84)	(59)	(108)
Movements in hedging reserves	(6)	4	7	(5)
Movement on available for sale financial assets	1	–	–	–
Tax effect of above items	–	1	–	1
Total comprehensive income (loss) for the period	22	(72)	(2)	(88)

Condensed group balance sheet

	Reviewed Mar 2014 US$ million	Reviewed Restated Sept 2013 US$ million
ASSETS		
Non-current assets	3,674	3,787
Property, plant and equipment	2,978	3,078
Plantations	454	464
Deferred tax assets	94	92
Other non-current assets	148	153
Current assets	1,933	1,940
Inventories	756	728
Trade and other receivables	764	748
Taxation receivable	13	18
Cash and cash equivalents	307	352
Assets held for sale	93	94
Total assets	5,607	5,727
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,146	1,144
Non-current liabilities	3,340	3,371
Interest-bearing borrowings	2,443	2,499
Deferred tax liabilities	284	267
Other non-current liabilities	613	605
Current liabilities	1,121	1,212
Interest-bearing borrowings	112	99
Overdrafts	–	1
Other current liabilities	998	1,094
Taxation payable	8	12
Liabilities associated with assets held for sale	3	6
Total equity and liabilities	5,607	5,727
Number of shares in issue at balance sheet date (millions)	522.6	521.5

Condensed group statement of cash flows

	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Profit for the period	32	2	50	14
Adjustment for:				
Depreciation, fellings and amortisation	90	104	192	210
Taxation	19	29	23	37
Net finance costs	48	45	96	92
Defined post-employment benefits paid	(21)	(17)	(38)	(32)
Plantation fair value adjustments	(23)	(115)	(49)	(141)
Asset (impairment reversals) impairments	(1)	47	(3)	47
Net restructuring provisions	2	7	3	14
Other non-cash items	6	13	14	24
Cash generated from operations	152	115	288	265
Movement in working capital	59	(6)	(90)	(136)
Net finance costs paid	(30)	(28)	(86)	(87)
Taxation received (paid)	4	(3)	3	(13)
Cash generated from operating activities	185	78	115	29
Cash utilised in investing activities	(53)	(177)	(116)	(230)
Capital expenditure	(62)	(179)	(133)	(275)
Proceeds on disposal of assets and assets held for sale	6	1	12	43
Other movements	3	1	5	2
Net cash generated (utilised)	132	(99)	(1)	(201)
Cash effects of financing activities	(4)	11	(47)	(35)
Net movement in cash and cash equivalents	128	(88)	(48)	(236)
Cash and cash equivalents at beginning of period	178	464	352	604
Translation effects	1	(15)	3	(7)
Cash and cash equivalents at end of period	307	361	307	361

Condensed group statement of changes in equity

	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Balance – beginning of period	1,144	1,525
Total comprehensive loss for the period	(2)	(88)
Share-based payment reserve	4	6
Balance – end of period	1,146	1,443

Notes to the condensed group results

1. Basis of preparation

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

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

The interim results for the half-year ended March 2014 as set out on pages 8 to 19 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.

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 March 2013 is as follows:

	As previously reported	Adjustment	Restated
	US$ million	US$ million	US$ million
Condensed group income statement			
Cost of sales	1,272	2	1,274
Net finance costs	40	5	45
Taxation	31	(2)	29
Profit for the period	7	(5)	2
Earnings per share			
Basic earnings per share (US cents)	1	(1)	–
Diluted earnings per share (US cents)	1	(1)	–
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	–	5	5
Actuarial gains on post-employment benefit funds	–	7	7
Tax effect of above item	–	(2)	(2)

The impact on profit or loss and other comprehensive loss for the reviewed half-year ended March 2013 is as follows:

	As previously reported US$ million	Adjustment US$ million	Restated US$ million
Condensed group income statement			
Cost of sales	2,573	5	2,578
Net finance costs	82	10	92
Taxation	42	(5)	37
Profit for the period	24	(10)	14
Earnings per share			
Basic earnings per share (US cents)	5	(2)	3
Diluted earnings per share (US cents)	5	(2)	3
Condensed group statement of comprehensive income			
Items that will not be reclassified subsequently to profit or loss	–	10	10
Actuarial gains on post-employment benefit funds	–	15	15
Tax effect of above item	–	(5)	(5)

Adoption of IFRS 10 *Consolidated Financial Statements*

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

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

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

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

There is no impact on the profit and cash flows for the quarter and half-year ended March 2013 as the opening balance of cash and cash equivalents was restated by the same amount as the closing balance.

3. Operating profit

	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Included in operating profit are the following non-cash items:				
Depreciation and amortisation	76	88	163	177
Fair value adjustment on plantations (included in cost of sales)				
Changes in volume				
Fellings	14	16	29	33
Growth	(18)	(19)	(36)	(37)
	(4)	(3)	(7)	(4)
Plantation price fair value adjustment	(5)	(96)	(13)	(104)
	(9)	(99)	(20)	(108)
Included in other operating expenses (income) are the following:				
Net restructuring provisions	2	7	3	14
Profit on disposal of property, plant and equipment	–	(1)	(1)	(1)
Profit on disposal of assets held for sale	(1)	–	(1)	–
Asset (impairment reversals) impairments	(1)	47	(3)	47
Black Economic Empowerment charge	1	1	1	2

4. Headline earnings per share

	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Headline earnings per share (US cents)	6	6	9	8
Weighted average number of shares in issue (millions)	522.5	521.5	522.1	521.2
Diluted headline earnings per share (US cents)	6	6	9	8
Weighted average number of shares on fully diluted basis (millions)	525.6	523.8	524.8	523.2
Calculation of headline earnings				
Profit for the period	32	2	50	14
Asset (impairment reversals) impairments	(1)	47	(3)	47
Profit on disposal of property, plant and equipment	–	(1)	(1)	(1)
Profit on disposal of assets held for sale	(1)	–	(1)	–
Tax effect of above items	–	(16)	–	(16)
Headline earnings	30	32	45	44

5. Capital commitments

	Reviewed Mar 2014 US$ million	Reviewed Sept 2013 US$ million
Contracted	129	62
Approved but not contracted	217	195
	346	257

6. Contingent liabilities

Guarantees and suretyships	32	33
Other contingent liabilities	18	11
	50	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 Mar 2014 US$ million	Reviewed Sept 2013 US$ million
Fair value of plantations at beginning of year	464	555
Additions	–	4
Gains arising from growth	34	79
Fire, flood, storms and related events	–	(4)
In-field inventory	(2)	1
Gain arising from fair value price changes	6	87
Harvesting – agriculture produce (fellings)	(27)	(66)
Transferred to assets held for sale	–	(93)
Translation difference	(21)	(99)
Fair value of plantations at end of year	454	464

Included in assets held for sale are plantations carried at fair value amounting to US$85 million (September 2013: US$86 million). During the current period, gains arising from growth amounted to US$2 million, the price fair value adjustment amounted to US$7 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 instruments 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 hierarchy	Fair value[(1)] Mar 2014 US$ million	Fair value[(1)] Restated Sept 2013 US$ million
Available for sale assets	Level 1	10	11
Available for sale assets	Level 2	39	40
Derivative financial assets	Level 2	21	21
Derivative financial liabilities	Level 2	113	101

(1) The fair value of the financial instruments are equal to their carrying value.

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

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

9. Material balance sheet movements

Other current liabilities, inventories and cash and cash equivalents

The decrease in cash and cash equivalents is largely due to seasonal working capital movements which include an increase in inventory levels and the payment of creditors which included capital accruals related to our dissolving wood pulp projects.

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$9 million on a comparative basis for the half-year ended March 2014.

10. Post balance sheet events

The group has entered into an agreement, subject to the fulfilment of certain conditions precedent, to sell a portion of its South African softwood plantations for US$66 million (ZAR700 million).

11. Segment information

		Quarter ended Mar 2014 Metric tons (000's)	Quarter ended Mar 2013 Metric tons (000's)	Half-year ended Mar 2014 Metric tons (000's)	Half-year ended Mar 2013 Metric tons (000's)
Sales volume					
North America		369	332	717	666
Europe		873	882	1,709	1,731
Southern Africa –	Pulp and paper	427	387	830	767
	Forestry	317	295	574	579
Total		1,986	1,896	3,830	3,743
Which consists of:					
Specialised cellulose		295	184	581	359
Paper		1,374	1,417	2,675	2,805
Forestry		317	295	574	579

		Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Sales					
North America		382	341	747	687
Europe		827	824	1,617	1,623
Southern Africa –	Pulp and paper	346	319	673	629
	Forestry	18	19	35	39
Total		1,573	1,503	3,072	2,978
Which consists of:					
Specialised cellulose		250	155	497	301
Paper		1,305	1,329	2,540	2,638
Forestry		18	19	35	39
Operating profit (loss) excluding special items					
North America		5	18	2	32
Europe		19	(1)	23	20
Southern Africa		71	20	127	52
Unallocated and eliminations(1)		–	1	3	4
Total		95	38	155	108
Which consists of:					
Specialised cellulose		71	43	126	71
Paper		24	(6)	26	33
Unallocated and eliminations(1)		–	1	3	4

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

	Quarter ended Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
Special items – (gains) losses				
North America	–	(5)	(1)	(3)
Europe	1	1	1	4
Southern Africa	(4)	(42)	(14)	(44)
Unallocated and eliminations[(1)]	(1)	8	–	8
Total	(4)	(38)	(14)	(35)
Segment operating profit (loss)				
North America	5	23	3	35
Europe	18	(2)	22	16
Southern Africa	75	62	141	96
Unallocated and eliminations[(1)]	1	(7)	3	(4)
Total	99	76	169	143
EBITDA excluding special items				
North America	22	39	39	72
Europe	66	46	118	116
Southern Africa	83	40	158	93
Unallocated and eliminations[(1)]	–	1	3	4
Total	171	126	318	285
Which consists of:				
Specialised cellulose	82	50	156	88
Paper	89	75	159	193
Unallocated and eliminations[(1)]	–	1	3	4
Segment assets				
North America	1,063	980	1,063	980
Europe	1,620	1,750	1,620	1,750
Southern Africa	1,546	1,733	1,546	1,733
Unallocated and eliminations[(1)]	(32)	(22)	(32)	(22)
Total	4,197	4,441	4,197	4,441

(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 and 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 Mar 2014 US$ million	Restated Quarter ended Mar 2013 US$ million	Reviewed Half-year ended Mar 2014 US$ million	Reviewed Restated Half-year ended Mar 2013 US$ million
EBITDA excluding special items	171	126	318	285
Depreciation and amortisation	(76)	(88)	(163)	(177)
Operating profit excluding special items	95	38	155	108
Special items – gains (losses)	4	38	14	35
Plantation price fair value adjustment	5	96	13	104
Net restructuring provisions	(2)	(7)	(3)	(14)
Profit on disposal of property, plant and equipment	–	1	1	1
Profit on disposal of assets held for sale	1	–	1	–
Asset impairment reversals (impairments)	1	(47)	3	(47)
Black Economic Empowerment charge	(1)	(1)	(1)	(2)
Fire, flood, storm and related events	–	(4)	–	(7)
Segment operating profit	99	76	169	143
Net finance costs	(48)	(45)	(96)	(92)
Profit before taxation	51	31	73	51
Taxation	(19)	(29)	(23)	(37)
Profit for the period	32	2	50	14
Reconciliation of segment assets to total assets				
Segment assets	4,197	4,441	4,197	4,441
Deferred taxation	94	118	94	118
Cash and cash equivalents[1]	307	361	307	361
Other current liabilities	998	919	998	919
Taxation payable	8	14	8	14
Liabilities associated with assets held for sale	3	–	3	–
Total assets	5,607	5,853	5,607	5,853

(1) The comparative period has been restated for the adoption of IFRS 10 Consolidated Financial Statements by an amount of US$37 million. Refer to note 2 for more detail.

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

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

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

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

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

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

SG&A – selling, general and administrative expenses

Non-GAAP measures

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

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

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

Capital employed – shareholders' equity plus net debt

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

Headline earnings – as defined in circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

Net assets – total assets less total liabilities

Net asset value per share – net assets divided by the number of shares in issue at balance sheet date

Net debt – current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits)

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

Net operating assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to **segment assets**

ROCE – annualised return on average capital employed. Operating profit excluding special items divided by average capital employed

ROE – annualised return on average equity. Profit for the period divided by average shareholders' equity

RONOA – return on average net operating assets. Operating profit excluding special items divided by average segment assets

Special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry

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

Summary Rand convenience translation

	Quarter ended Mar 2014	Restated Quarter ended Mar 2013	Half-year ended Mar 2014	Restated Half-year ended Mar 2013
Key figures: (ZAR million)				
Sales	**17,058**	13,429	**32,237**	26,258
Operating profit excluding special items[1]	**1,030**	340	**1,627**	952
Special items – gains[1]	**(43)**	(340)	**(147)**	(309)
EBITDA excluding special items[1]	**1,854**	1,126	**3,337**	2,513
Profit for the period	**347**	18	**525**	123
Basic earnings per share (SA cents)	**66**	3	**101**	24
Net debt[1]	**23,775**	20,218	**23,775**	20,218
Key ratios: (%)				
Operating profit excluding special items to sales	**6.0**	2.5	**5.0**	3.6
Operating profit excluding special items to capital employed (ROCE)[1]	**11.3**	4.2	**9.3**	6.0
EBITDA excluding special items to sales	**10.9**	8.4	**10.4**	9.6
Return on average equity (ROE)	**11.6**	0.6	**8.9**	1.9
Net debt to total capitalisation[1]	**66.2**	60.3	**66.2**	60.3

(1) Refer to page 20, supplemental information for the definition of the term.
The above financial results have been translated into Rands from US Dollars as follows:
– *assets and liabilities at rates of exchange ruling at period end; and*
– *income, expenditure and cash flow items at average exchange rates.*

Reconciliation of net debt to interest-bearing borrowings

	Mar 2014 US$ million	Restated[1] Sept 2013 US$ million
Interest-bearing borrowings	**2,555**	2,599
Non-current interest-bearing borrowings	**2,443**	2,499
Current interest-bearing borrowings	**112**	99
Overdrafts	**–**	1
Cash and cash equivalents	**(307)**	(352)
Net debt	**2,248**	2,247

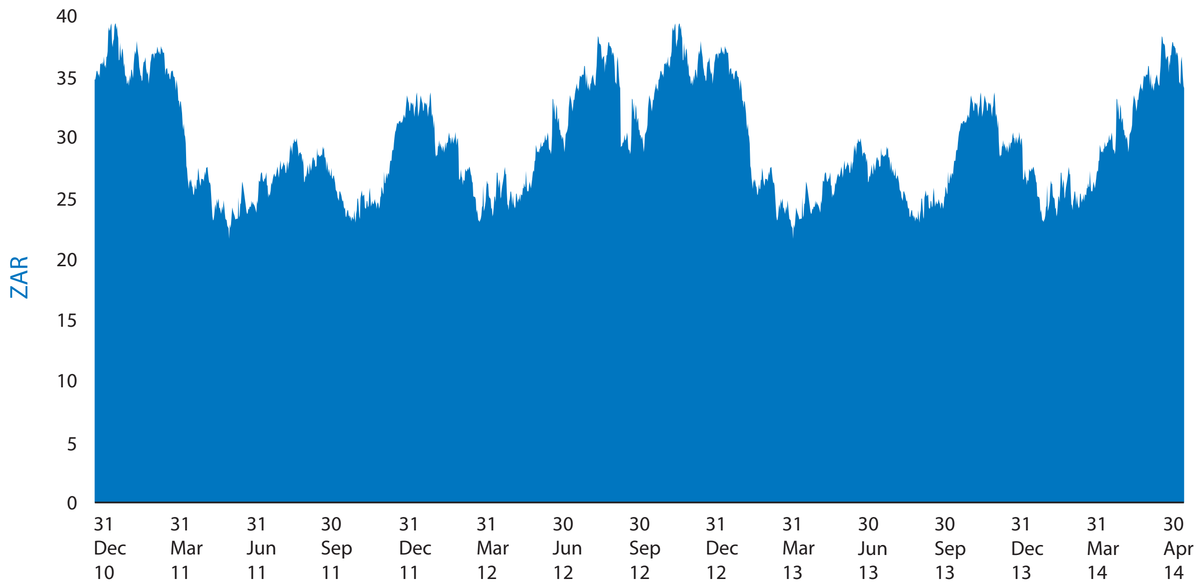
(1) Restated for the adoption of IFRS 10 Consolidated Financial Statements. Refer to note 2 for more detail.

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

Exchange rates

	Mar 2014	Dec 2013	Sept 2013	Jun 2013	Mar 2013
Exchange rates:					
Period end rate: US$1 = ZAR	**10.5760**	10.5300	10.0930	9.8800	9.2363
Average rate for the Quarter: US$1 = ZAR	**10.8443**	10.1406	9.9931	9.4756	8.9349
Average rate for the YTD: US$1 = ZAR	**10.4938**	10.1406	9.2779	9.0364	8.8173
Period end rate: €1 = US$	**1.3753**	1.3742	1.3522	1.3010	1.2821
Average rate for the Quarter: €1 = US$	**1.3705**	1.3607	1.3248	1.3060	1.3206
Average rate for the YTD: €1 = US$	**1.3656**	1.3607	1.3121	1.3078	1.3088

Sappi ordinary shares (JSE:SAP)



Notes:

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

JSE Sponsor:
UBS South Africa (Pty) Ltd

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

sappi
Inspired by life

ince

sappi

www.sappi.com