

2<sup>nd</sup> Quarter 2014  
Financial Results Presentation  
12 May 2014

**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 together. The rolls are curved and create a sense of depth and texture. The word "Summary" is centered over this image in a large, black, sans-serif font.

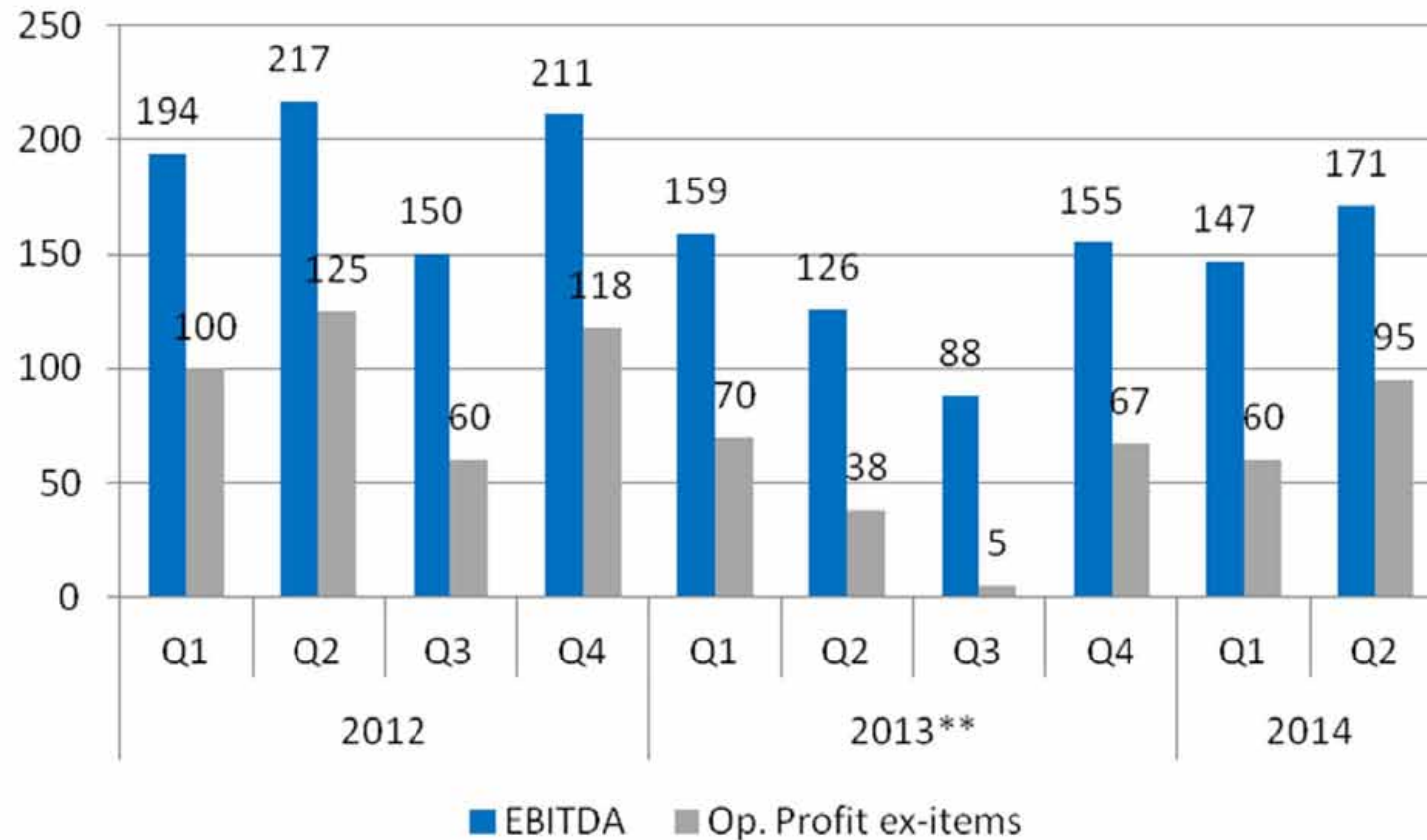
# Summary

## Q2 2014 Summary

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

## EBITDA & Operating Profit ex-items\*

USD million

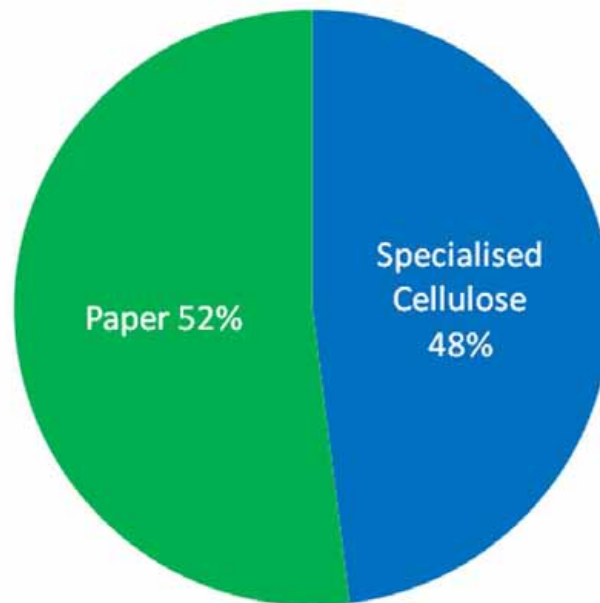


\*Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 19 in our Q2 2014 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

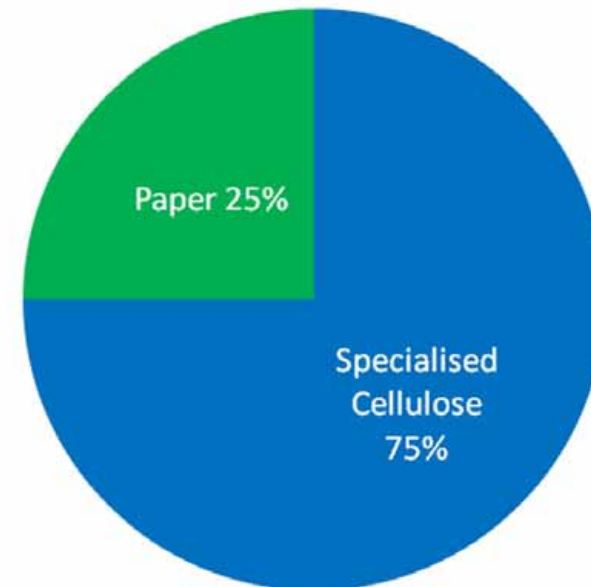
\*\*2013 figures restated for the adoption of IAS 19 (Revised) Employee Benefits

## Q2 Product Contribution Split

### EBITDA excluding special items\*

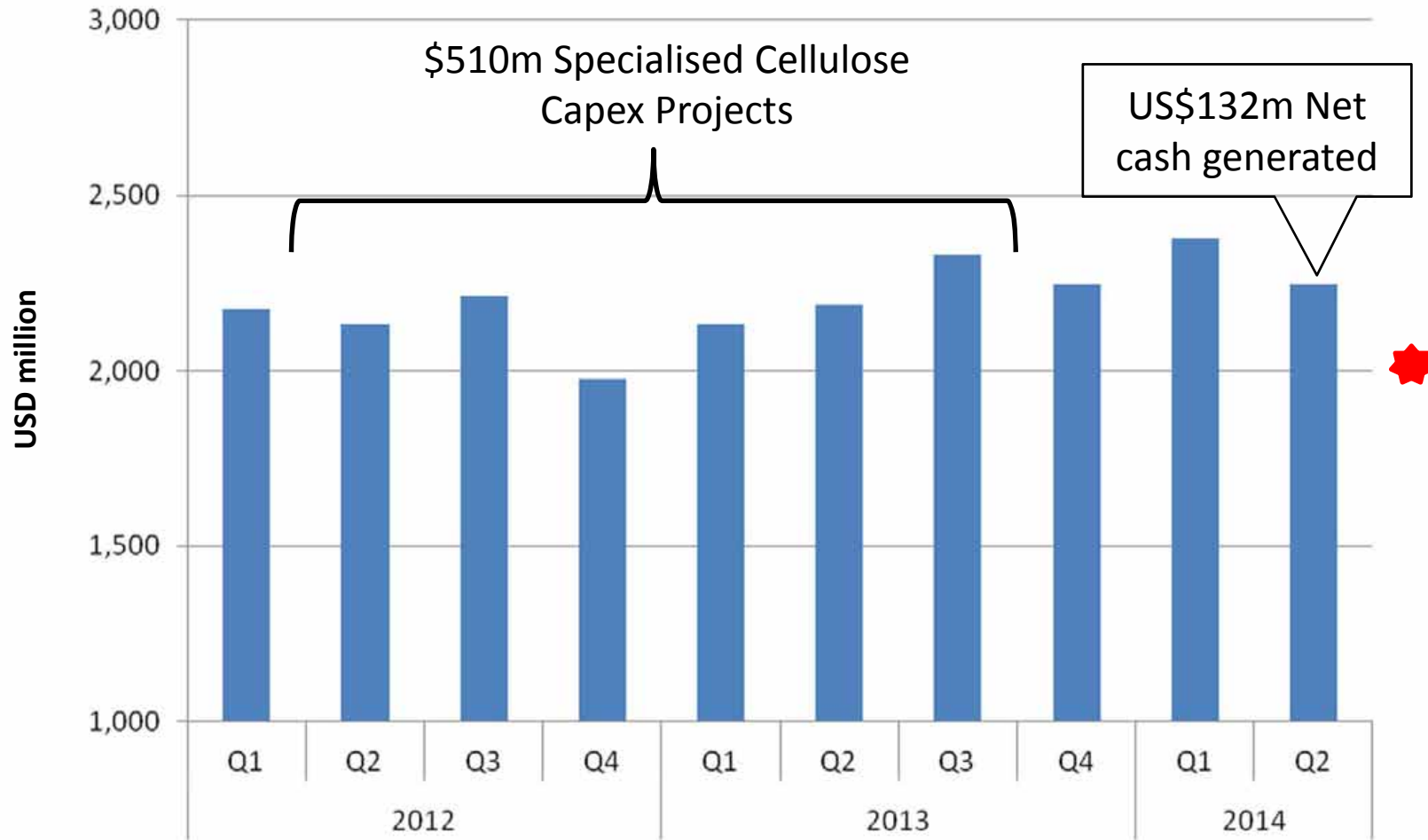


### Operating Profit excluding special items\*



\*Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 19 in our Q2 2014 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

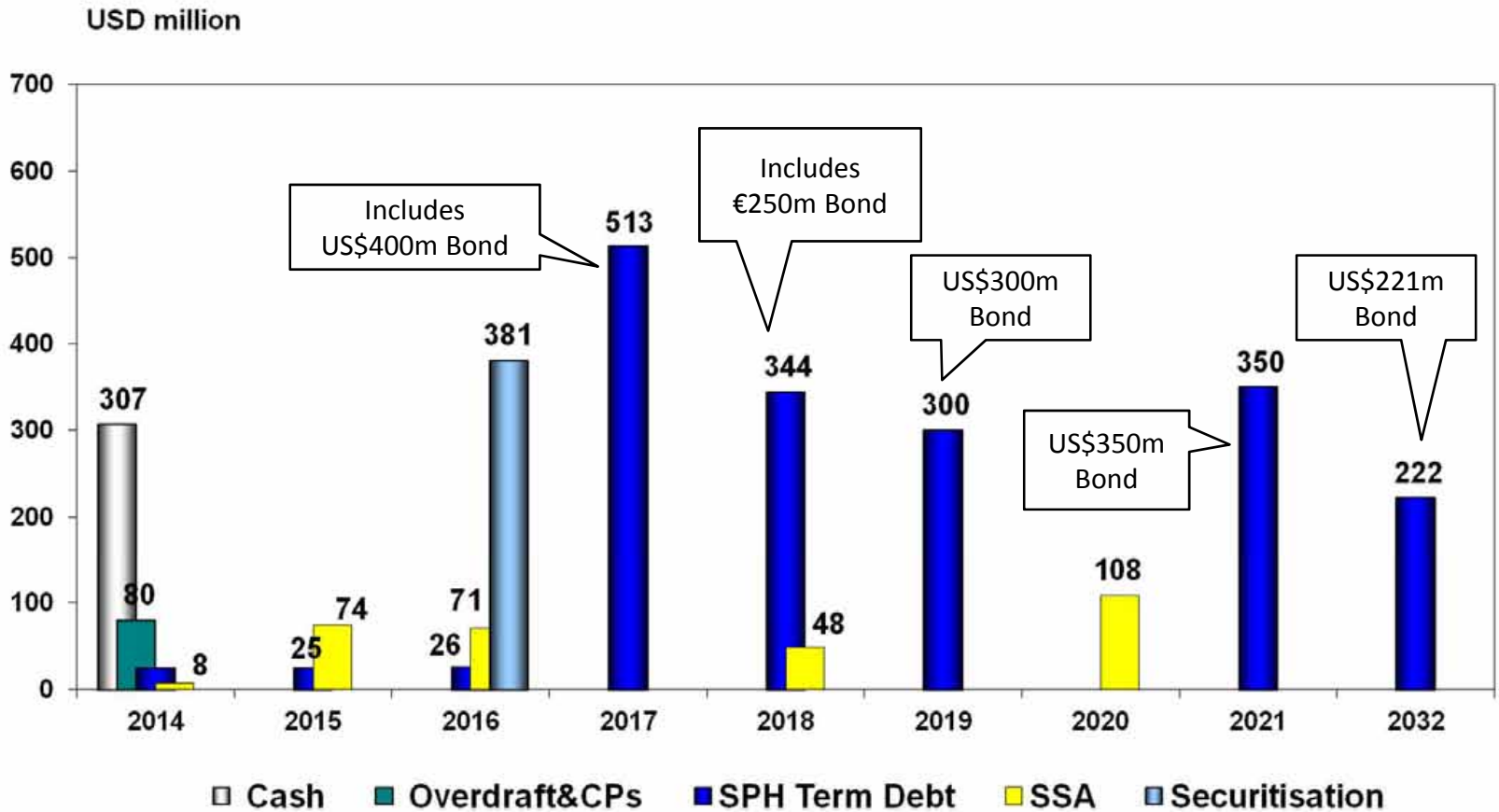
# Net Debt Development



★ - Targeted Net Debt Level

\*F2013 and Q1 14 figures restated per adoption of IFRS 10 - Consolidated Financial Statements

# Maturity profile – Fiscal years





# Divisional Overviews

## Sappi Europe

- Operating results continued to improve in the quarter reflecting strong cost control, with declines in both fixed and variable costs outpacing declines in volumes and prices.
- Graphic paper markets are still difficult, albeit volumes are declining at a slower rate than we experienced for much of 2013.
- Negotiations with interested stakeholders to relocate production from Nijmegen to other mills are on-going.
- Specialities business continues to grow post the conversion of Alfeld PM2 with volumes up 26% year-on-year.

## Sappi North America

- Graphic paper markets have been more challenging than we expected throughout fiscal 2014; nevertheless the NA business returned to profitability this quarter from the prior quarter loss, largely due to improved performance from the specialities paper businesses, and lower fixed costs.
- The coated paper market remains under pressure. Continued declines in paper prices, high energy prices as a consequence of the extremely cold weather and higher paper pulp prices impacted margins.
- DWP sales volumes were negatively impacted by the extremely cold weather and the 5-week truckers' strike at the Vancouver port which we utilize for exports as well as mill optimisation undertaken during the quarter.

## Sappi Southern Africa

- Excellent performance and an improvement to both the prior year and prior quarter on higher volumes and prices across all major product groups, and notwithstanding the annual maintenance shut at Ngodwana.
- SA Specialized Cellulose business achieved another solid quarter, with Ngodwana contributing to increased sales volumes. 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.
- SA paper business continued to generate profits with higher sales prices offsetting slightly lower sales volumes and increased variable costs.

## Global Paper Market Trends

### Supply & Demand

Paper is still an important part of media mix for advertisers  
Demand is mixed regionally, globally flat-to-down

### Costs & Prices

Internal cost control has been excellent – more to come  
Paper prices weak on overcapacity and declining demand

### Strategy

Continue to manage sales mix and channel  
Bring costs down further

## Global Specialised Cellulose Market Trends

### Supply & Demand

Supply (+16%) grew faster than demand (+14%) in 2013  
Capacity additions expected to slow or not materialize

### Costs & Prices

Prices under pressure on downstream pricing weakness  
Our 1.3 million tons are among the world's lowest-cost  
Rand gives support to margins

### Strategy

Continue to work with key customers – quality, customization and supporting common growth aspirations  
Keep costs low  
Investigate further opportunities

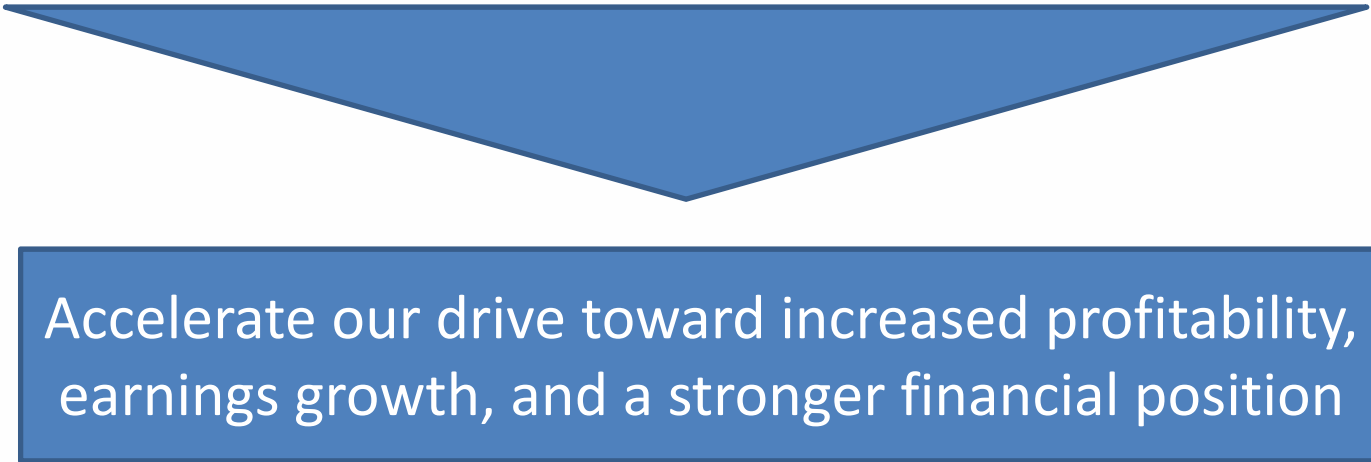
The background of the slide features a close-up, grayscale photograph of several large rolls of paper stacked together. The rolls are curved and layered, creating a sense of depth and texture. The lighting highlights the edges and the fine details of the paper's surface.

# Strategic Focus

## Strategic Focus

### 3 themes:

- Focused, low cost paper businesses with reasonable margins and strong cash flows
- Growth in profitable specialised cellulose based solutions and other high margin businesses
- Healthy balance sheet



Accelerate our drive toward increased profitability, earnings growth, and a stronger financial position



## Focus Areas

### Focused, low cost paper businesses

- North America – paper business maintains firm market share  
– industry dynamics disruptive
- Europe – industry dynamics won't improve without intervention
  - Continues gradual improvement
  - Significantly reduce graphic paper exposure with lower cost – investments at Kirkniemi and Gratkorn announced previously
  - Alfeld conversion continues to ramp up
  - Similar business to US
- South Africa – cost pressure, and variable local markets  
– paper business performance improving

More  
to be  
done

## Focus Areas

### **Growth in Specialised Cellulose and higher margin businesses**

- Demand for commodity DWP remains very strong
- All three DWP mills running full
- Alfeld conversion completed & product mix improving

On  
track

### **Healthy Balance Sheet**

- Net debt level has peaked, target US\$2bn net debt level
- Usutu sale would further improve our liquidity position
- Further cash generation opportunities being pursued

Debt  
reduction

The background of the slide features a close-up, slightly blurred view of several large rolls of paper stacked together. The rolls are arranged in a way that creates a sense of depth and repetition, with the edges of the paper sheets visible, showing a fine, fibrous texture. The lighting is soft, highlighting the curves and ridges of the rolls.

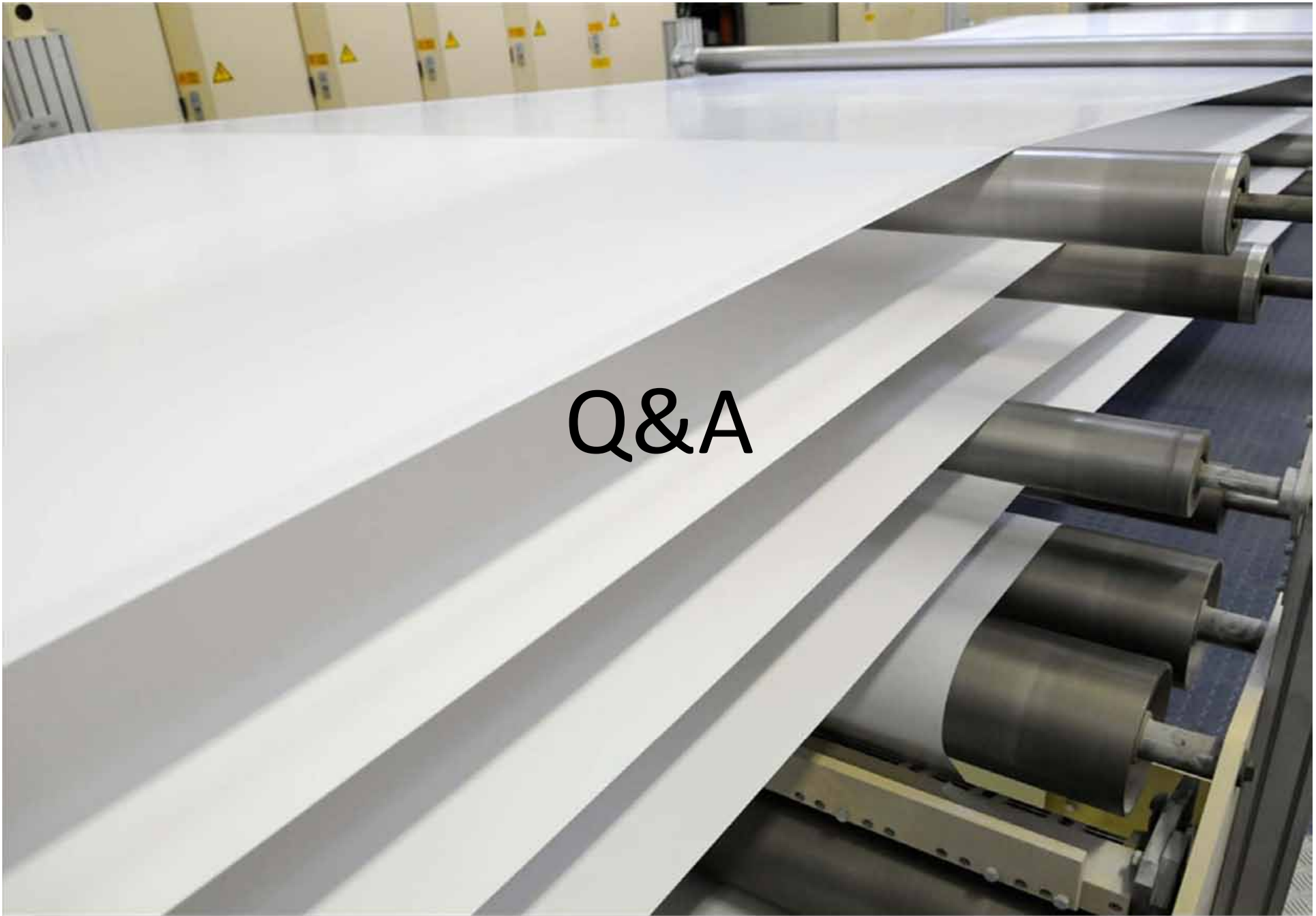
# Outlook

## Outlook

- Continued emphasis on lowering cost and optimizing sales in both coated paper and dissolving wood pulp markets have enabled us to compete effectively – these actions will continue in all regions to improve our competitiveness and enable us to reduce debt.
- Demand in the Specialized Cellulose business remains firm, though pricing pressure continues to be evident. The Rand/Dollar exchange rate will continue to play a major role.
- Capital expenditure for the full year is expected to be below US\$300m with positive cash generation for the remainder of the year. We anticipate net debt levels to end the year close to US\$2bn.

## Outlook (cont'd)

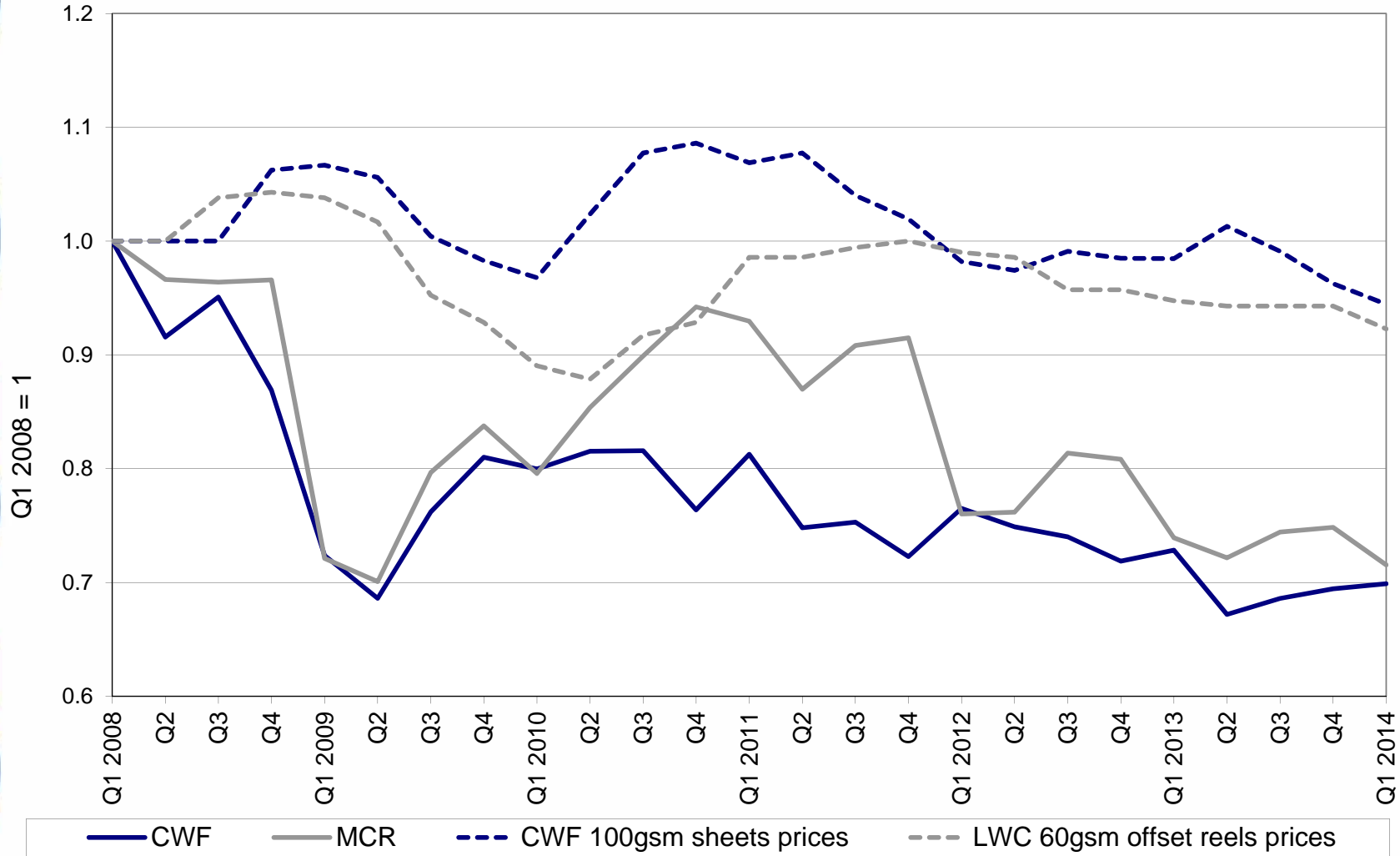
- The 3<sup>rd</sup> quarter is seasonally weaker in both NA and Europe, and scheduled maintenance shuts during the quarter in all three regions will also impact the results in the 3<sup>rd</sup> quarter, leading to a weaker operating performance than the past quarter. We expect the result to be substantially better than the equivalent quarter a year ago however.
- Our outlook for the full year is one of significantly improved performance for the 2014 financial year when compared to 2013.



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 signs on the wall.

# Supplementary Information

# W. Europe Coated Paper Deliveries & Prices



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



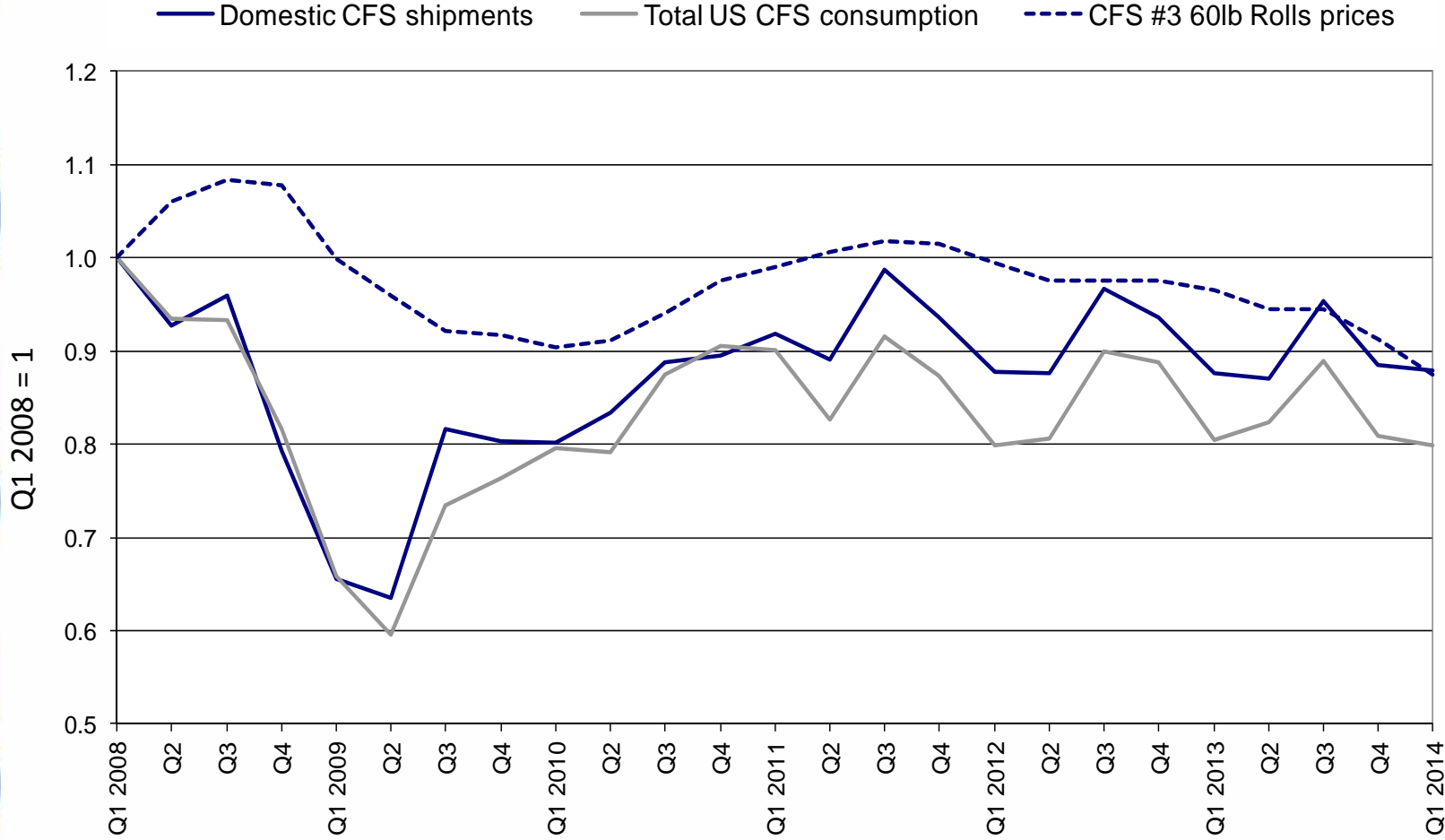
## Sappi Fine Paper Europe

	Q2 14	Q2 13	1H 14	1H 13
Tons Sold ('000)	873	882	1,709	1,731
Sales (€)	603	624	1,184	1,240
Price / Ton (€)	691	707	693	716
Cost / Ton* (€)	675	709	683	708
<b>Operating profit ex items (€m) **</b>	<b>14</b>	<b>(1)</b>	<b>17</b>	<b>15</b>

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

\*\* Operating profit excluding special items for F2013 restated per adoption of IAS 19 (Revised) Employee Benefits. Refer to the supplementary information in this presentation for a reconciliation to reported operating profit and page 19 in our Q2 2014 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

# US Coated Paper Prices and Shipments



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

## Sappi Fine Paper North America

	Q2 14	Q2 13	1H 14	1H 13
Tons Sold ('000)	369	332	717	666
Sales (\$'m)	382	341	747	687
Price / Ton (\$)	1,035	1,027	1,042	1,032
Cost / Ton* (\$)	1,022	973	1,039	983
<b>Operating profit ex items** (\$'m)</b>	<b>5</b>	<b>18</b>	<b>2</b>	<b>32</b>

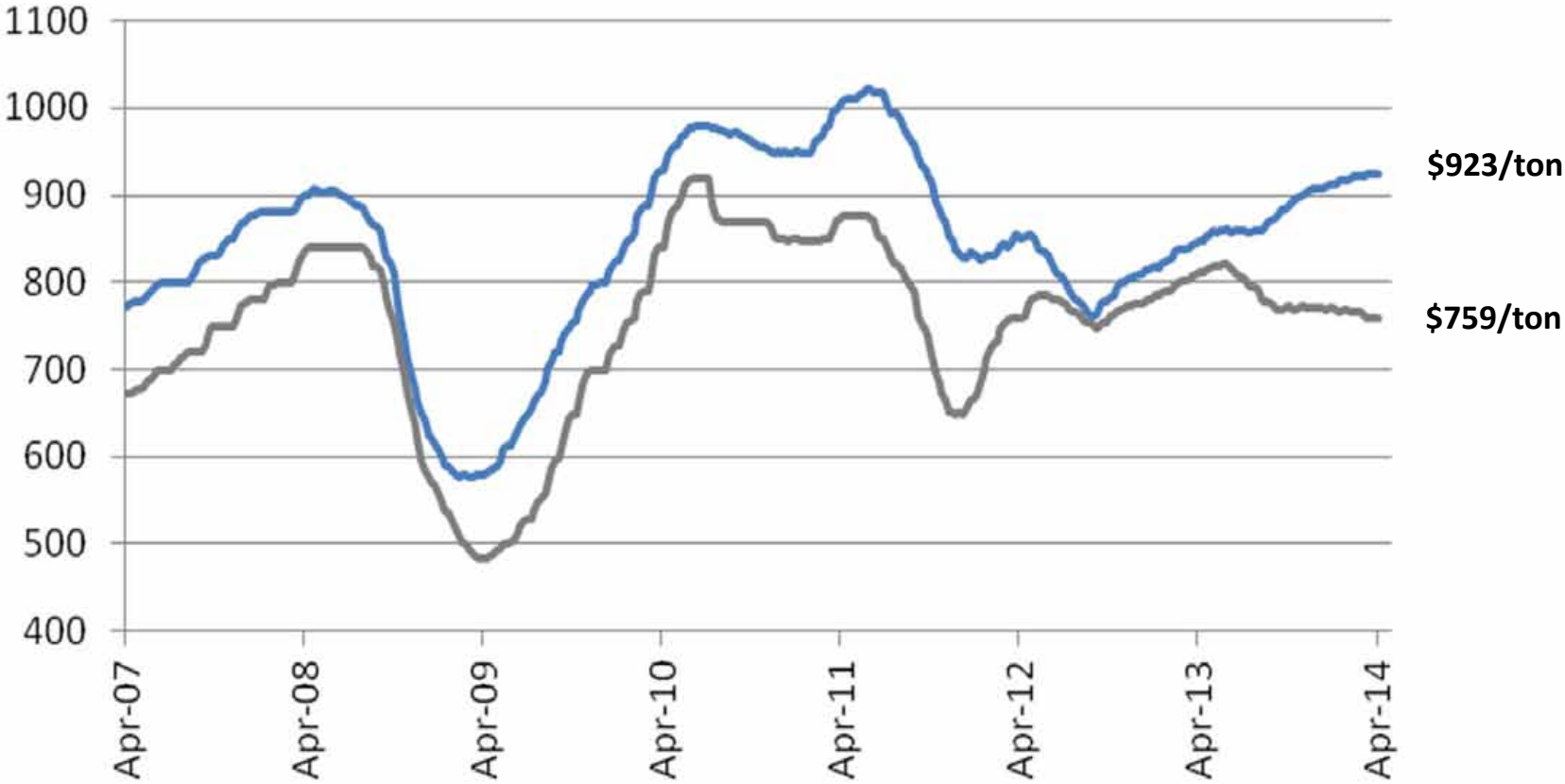
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# Pulp Prices\* - spread widening

US\$/ton

NBSK Europe (USD)    BHKP Europe (USD)



\* Source: Average weekly FOEX delivered European prices

## Sappi Southern Africa (ex-forestry)

	Q2 14	Q2 13	1H 14	1H 13
Tons Sold ('000)	427	387	830	767
Sales (ZAR'm)	3,746	2,850	7,062	5,546
Price / Ton (ZAR)	8,773	7,364	8,509	7,231
Cost / Ton* (ZAR)	6,981	6,897	6,903	6,633
<b>Operating profit ex items** (ZAR'm)</b>	<b>765</b>	<b>181</b>	<b>1,333</b>	<b>459</b>

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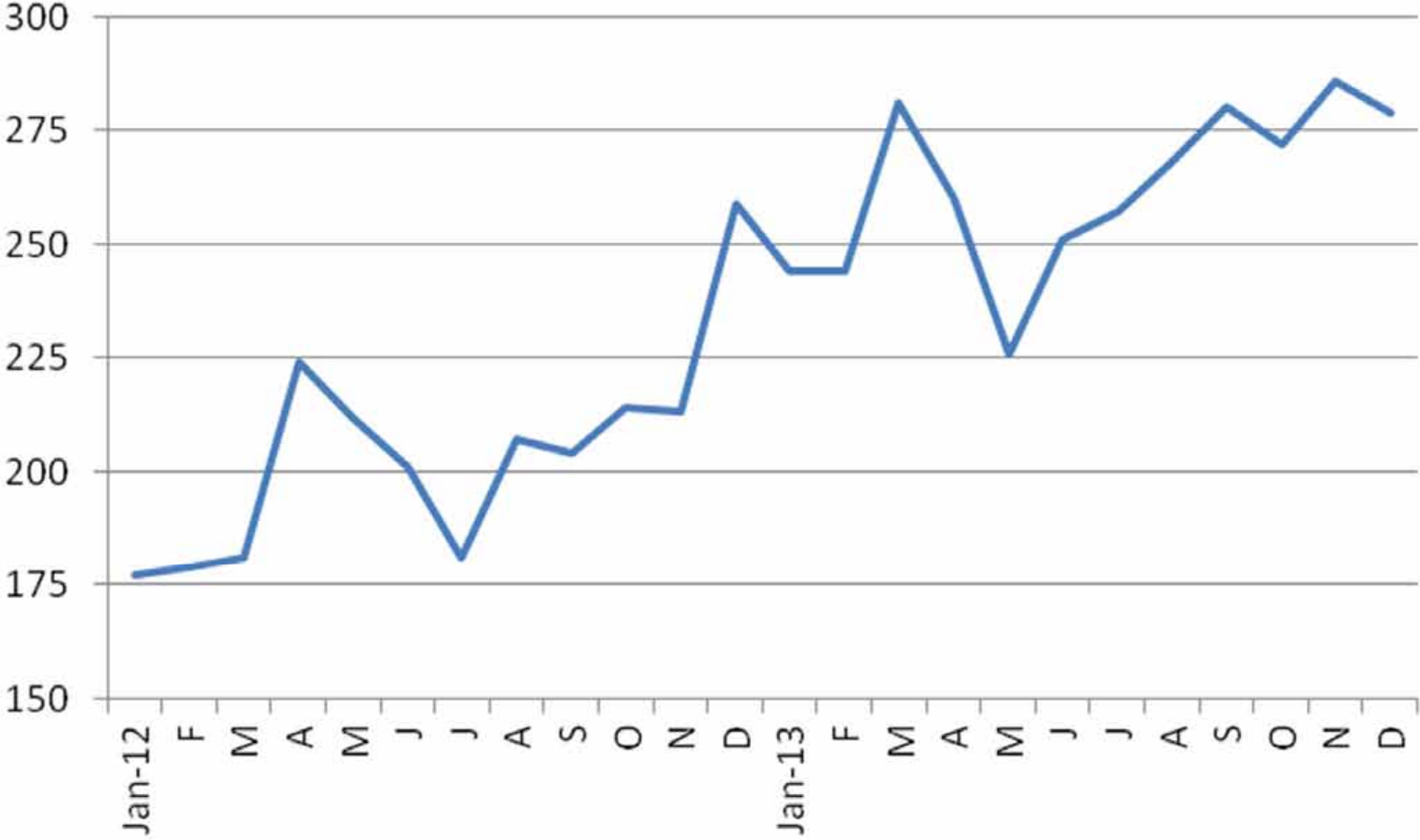
## Cash Flow - US\$m

	Q2 14	Q2 13	1H 14	1H 13
<b>Cash generated from operations</b>	<b>152</b>	<b>115</b>	<b>288</b>	<b>265</b>
- Movement in working capital	59	(6)	(90)	(136)
- Net finance costs paid	(30)	(28)	(86)	(87)
- Taxation paid	4	(3)	3	(13)
<b>Cash generated from operating activities</b>	<b>185</b>	<b>78</b>	<b>115</b>	<b>29</b>
<b>Cash utilised in investing activities</b>	<b>(53)</b>	<b>(177)</b>	<b>(116)</b>	<b>(230)</b>
- Capital expenditure	(62)	(179)	(133)	(275)
- Proceeds on disposal of non-current assets	6	1	12	43
- Other movements	3	1	5	2
<b>Net Cash (utilized) generated</b>	<b>132</b>	<b>(99)</b>	<b>(1)</b>	<b>(201)</b>

## EBITDA recon to reported operating profit\*

	Q2 14	Q2 13	1H 14	1H 13
<b>EBITDA ex-items</b>	<b>171</b>	<b>126</b>	<b>318</b>	<b>285</b>
Depreciation and Amortisation	(76)	(88)	(163)	(177)
<b>Operating Profit ex-items</b>	<b>95</b>	<b>38</b>	<b>155</b>	<b>108</b>
<b>Special Items - gains (losses)</b>	<b>4</b>	<b>38</b>	<b>14</b>	<b>35</b>
Plantation price fair value adj.	5	96	13	104
Net restructuring provisions	(2)	(7)	(3)	(14)
Profit on disposal of PP&E	-	1	1	1
Profit on disposal of assets held for sale	1	-	1	-
Asset impairment reversals (impairments)	1	(47)	3	(47)
BEE charge	(1)	(1)	(1)	(2)
Fire, flood, storm and related events	-	(4)	-	(7)
<b>Segment Operating Profit</b>	<b>99</b>	<b>76</b>	<b>169</b>	<b>143</b>

# Chinese VSF Production ('000 tons)



Source: RISI

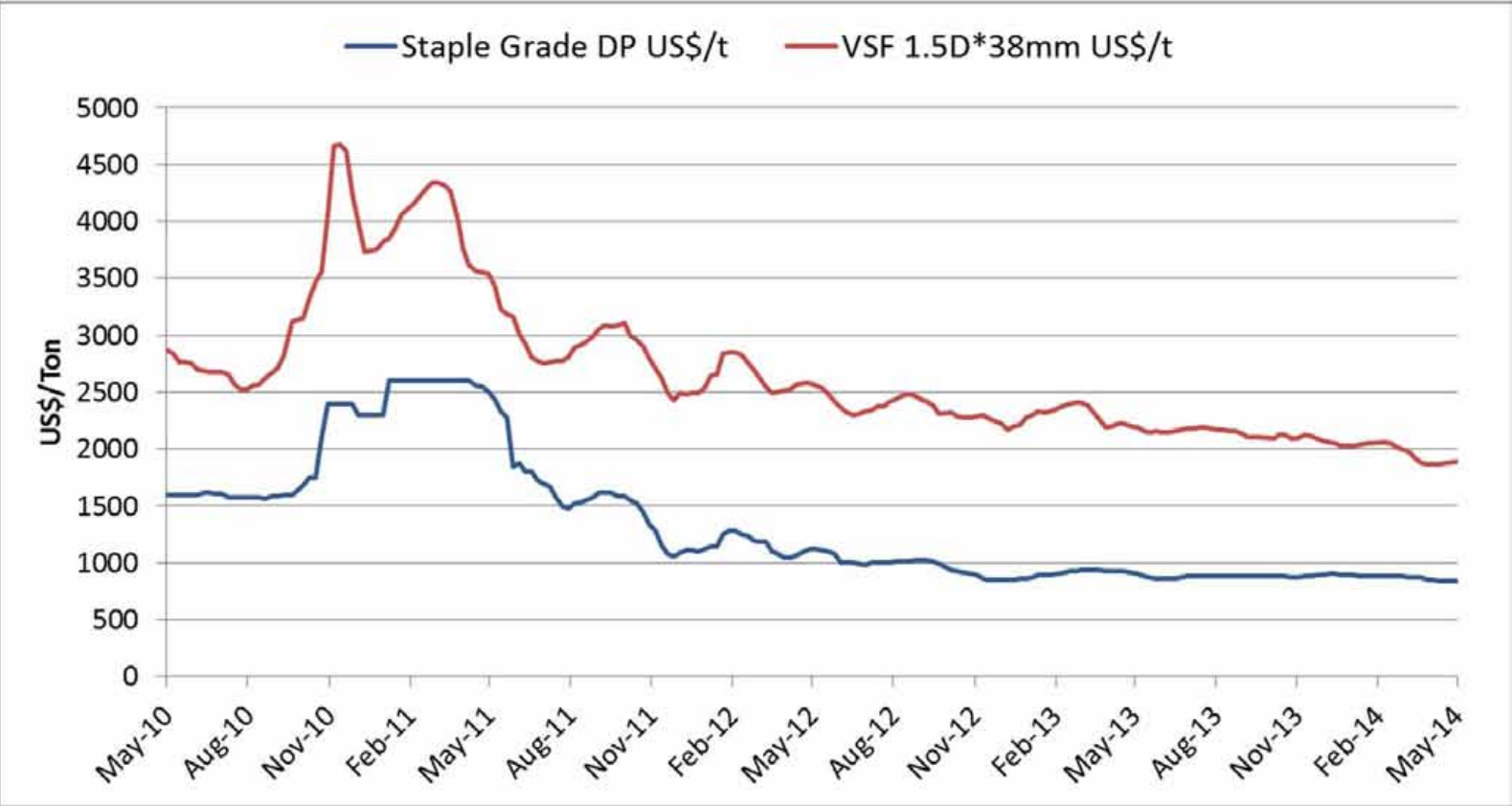


# DWP supply (+16%) growing faster than demand (+14%)

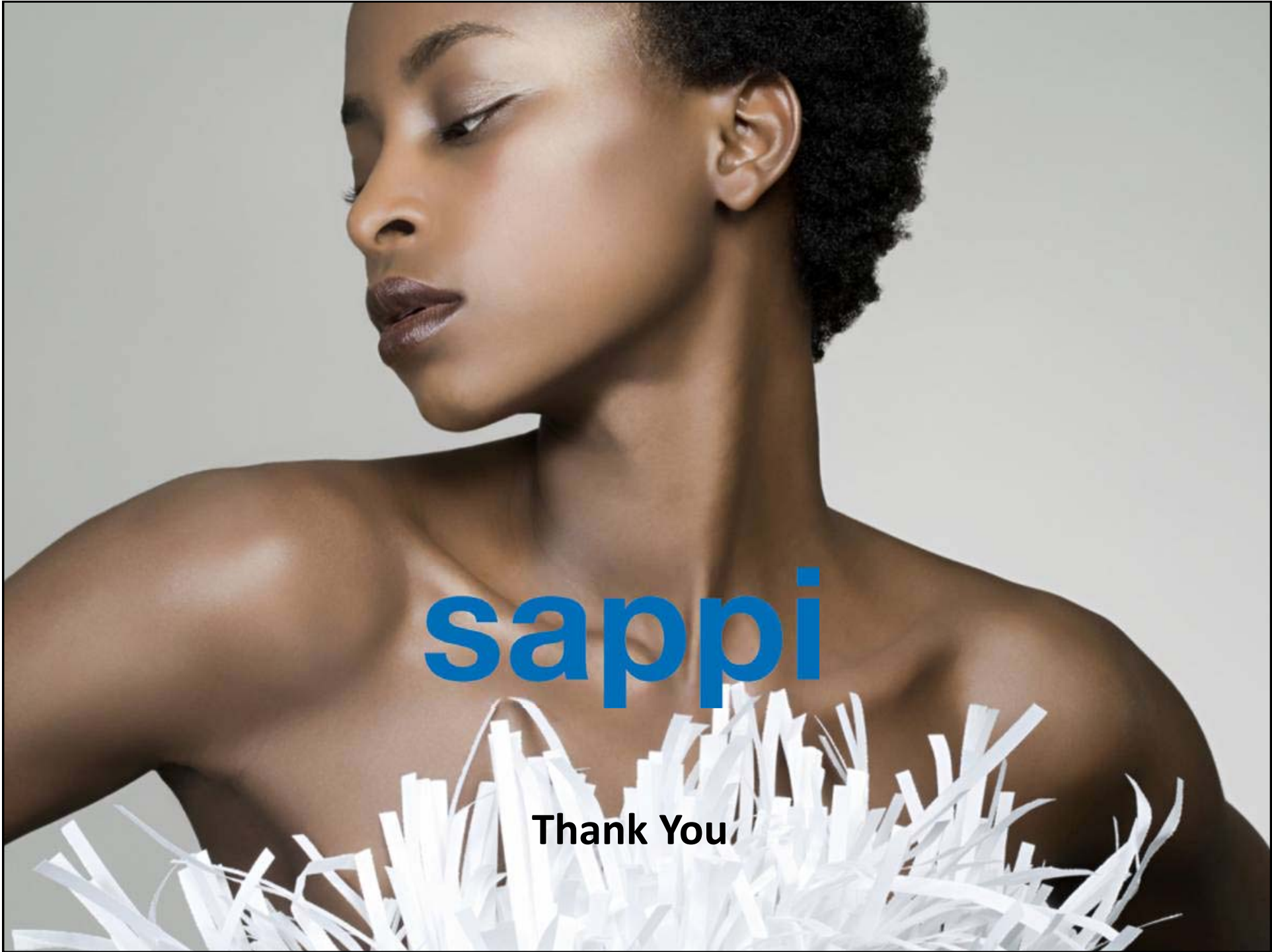


Source: PPPC

# Market Prices in China (US\$/ton)



Source: CCF



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Thank You