

4<sup>th</sup> Quarter and Full-Year 2014  
Financial Results Presentation  
10 November 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 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.

# Summary

## Q4 2014 Summary

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

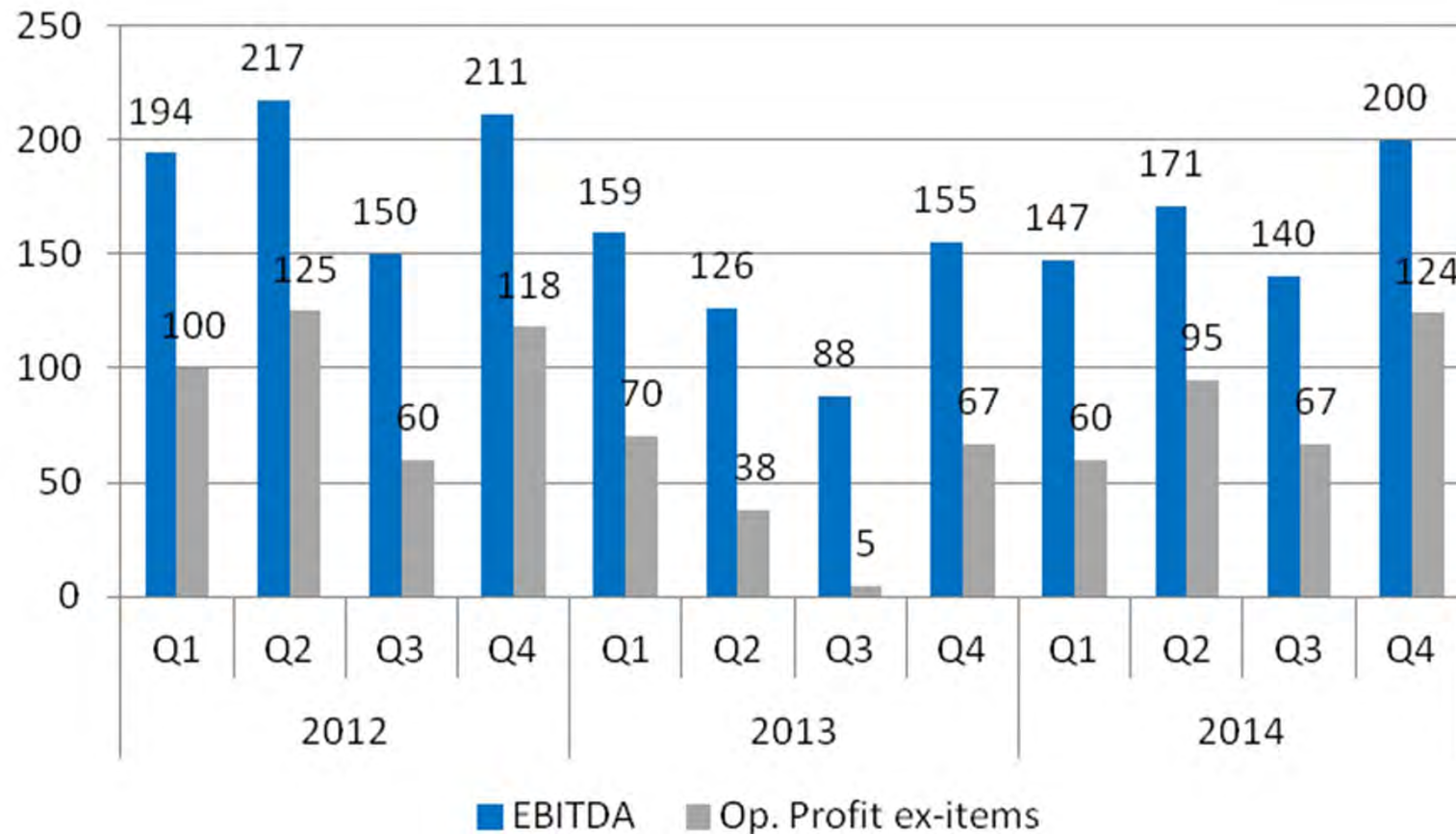
## FY 2014 Summary

- Strategy delivers strong earnings growth
- EBITDA excluding special items US\$658m (up 25% year-on-year)
- EPS excl. special items 22 US cents (restated FY13 loss per share 4 US cent)
- Net debt US\$1,946m, down US\$300 million year-on-year



## EBITDA & Operating Profit ex-items\*

USD million

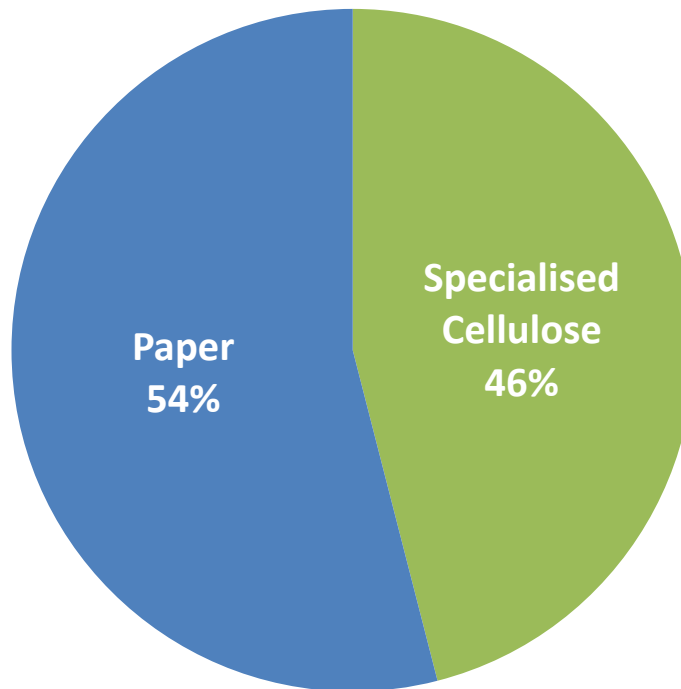


\*Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 20 in our Q4 2014 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

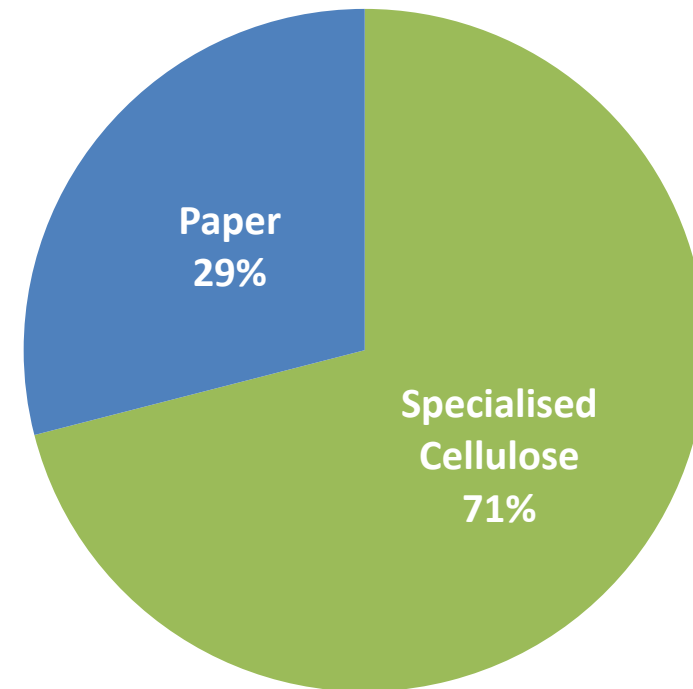
\*\*2013 figures restated for the adoption of IAS 19 (Revised) Employee Benefits

## FY2014 Product Contribution Split

**EBITDA excluding special items\***

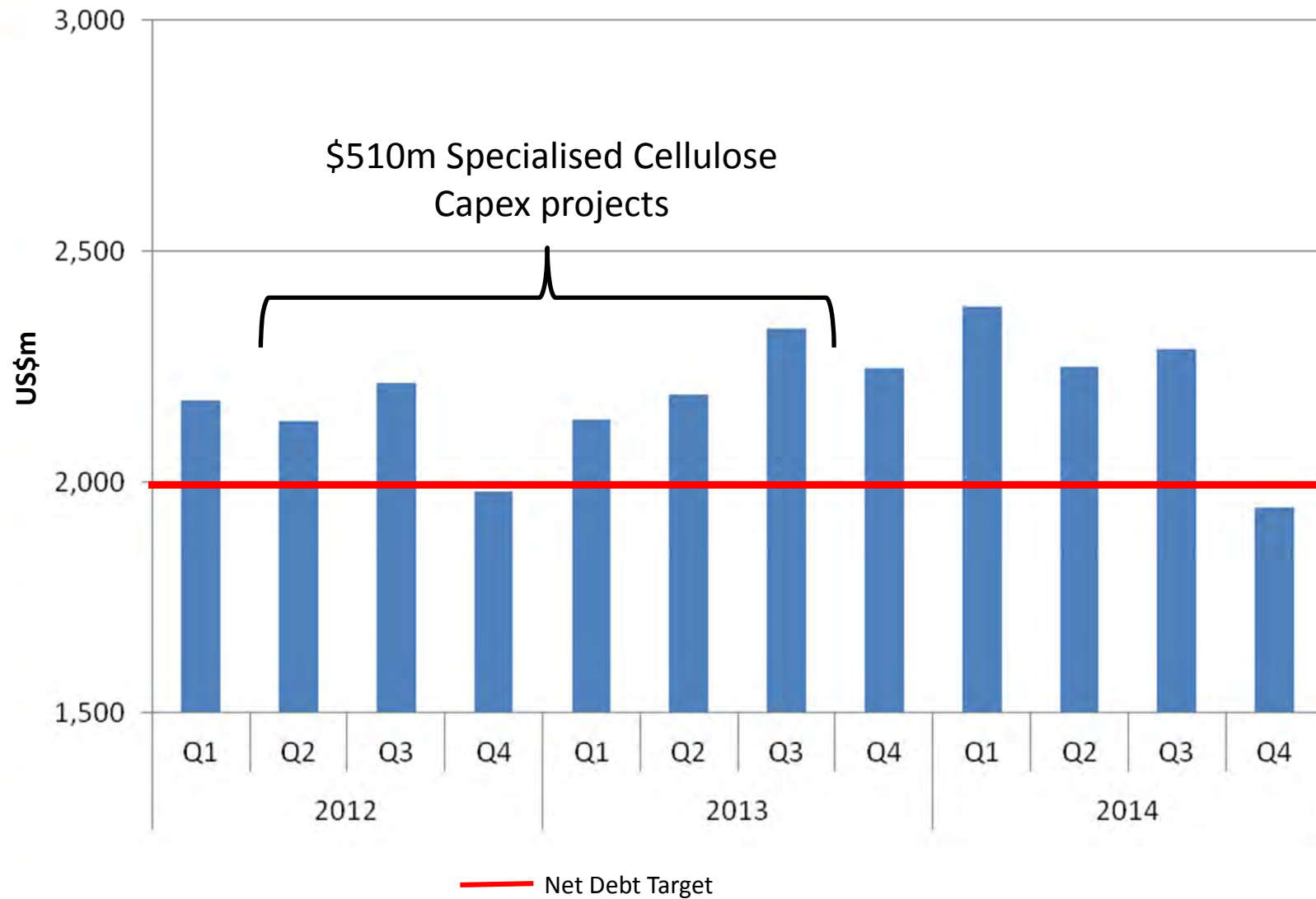


**Operating Profit excluding special items\***



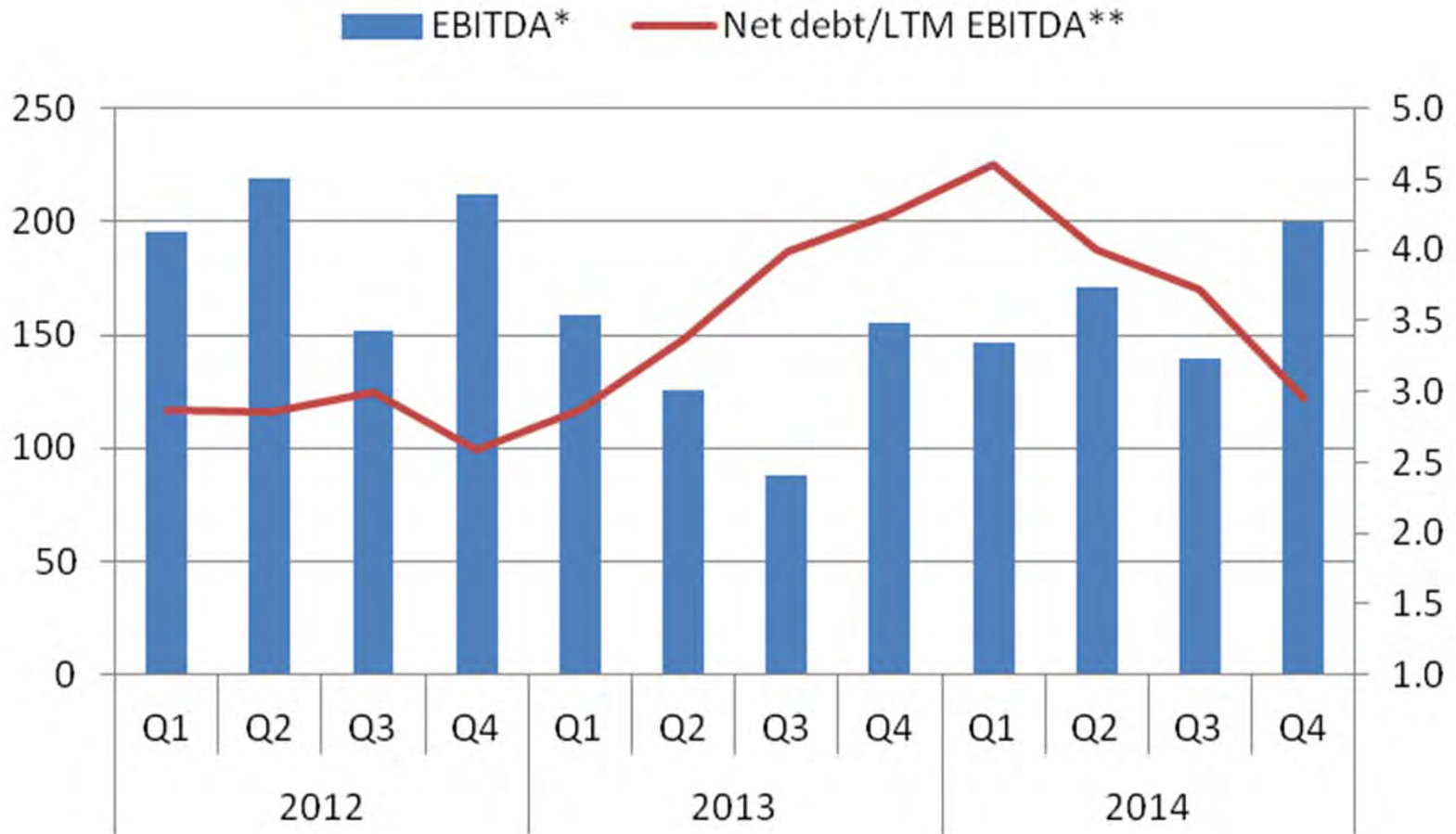
\*Refer to the supplementary information in this presentation for a reconciliation of EBITDA to reported Operating Profit and page 20 in our Q4 2014 Results booklet (available on [www.sappi.com](http://www.sappi.com)) for a definition of special items.

## Net Debt Target Reached



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

# Net Debt/EBITDA Development

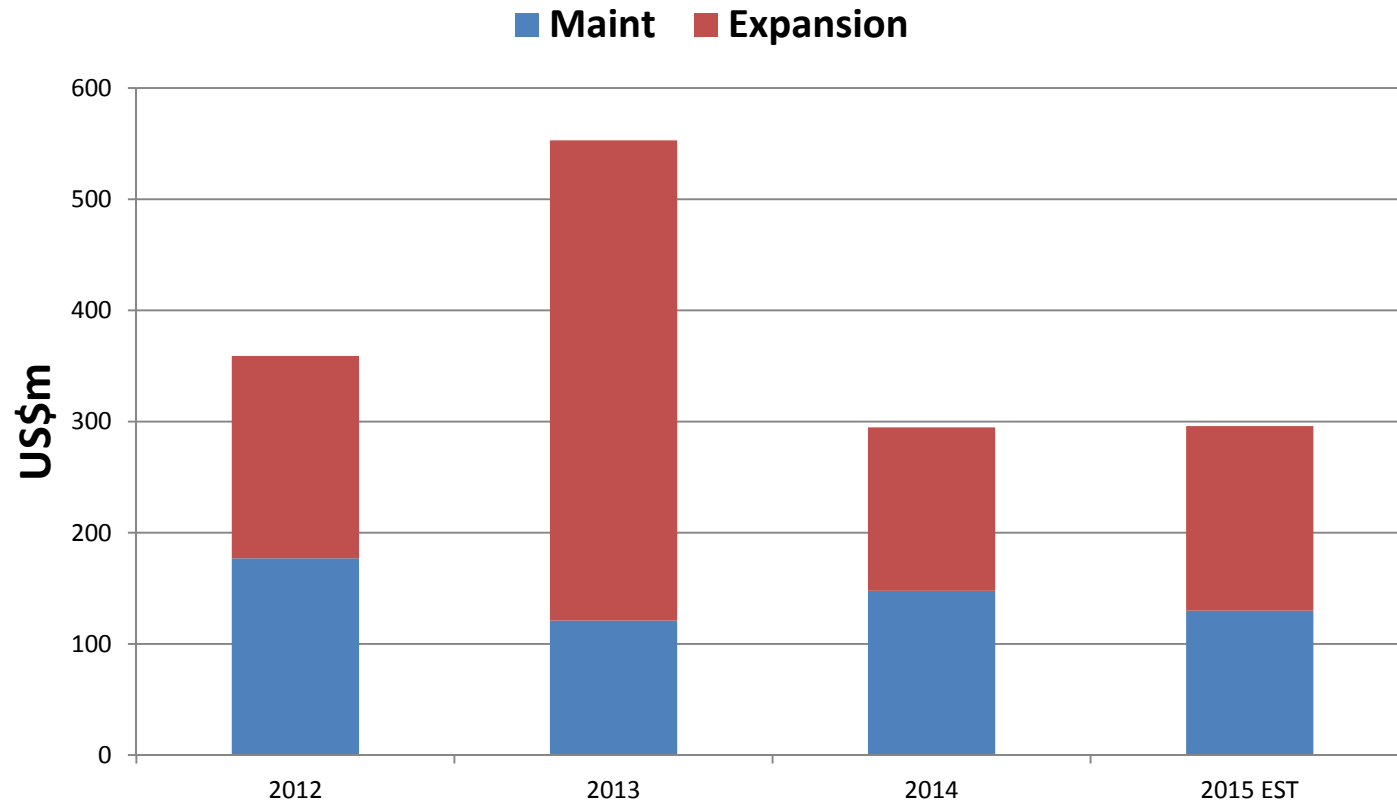


\* EBITDA ex special items

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

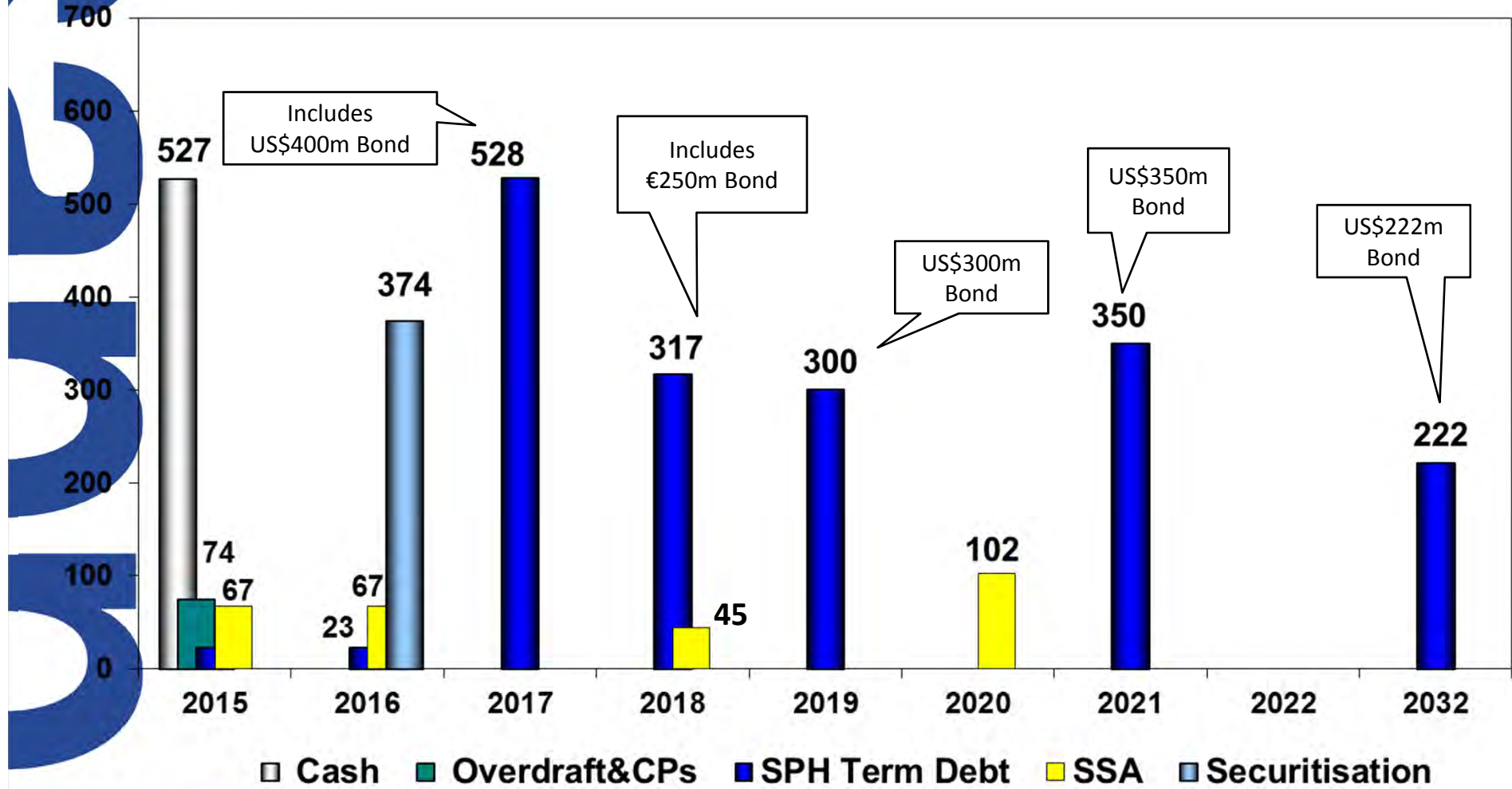


# Capex Development



# Maturity profile – Fiscal years

USD million

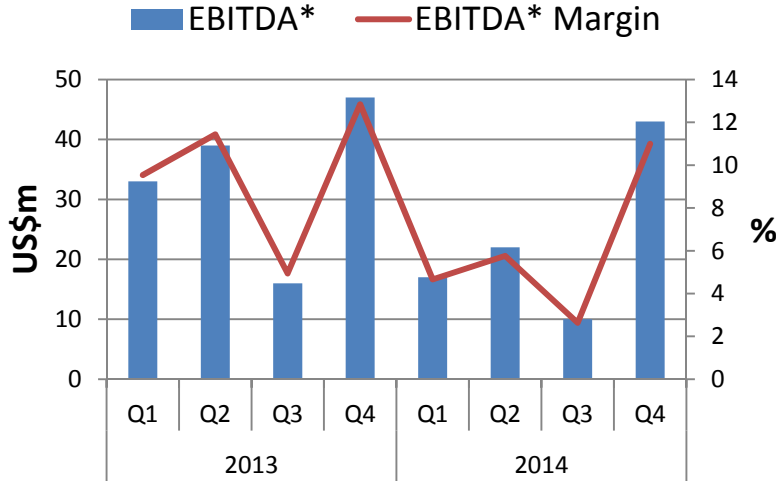


The background of the slide features a close-up, grayscale photograph of several large rolls of paper. The rolls are stacked and slightly offset, creating a sense of depth and texture. The lighting highlights the curved edges and the fine lines of the paper fibers.

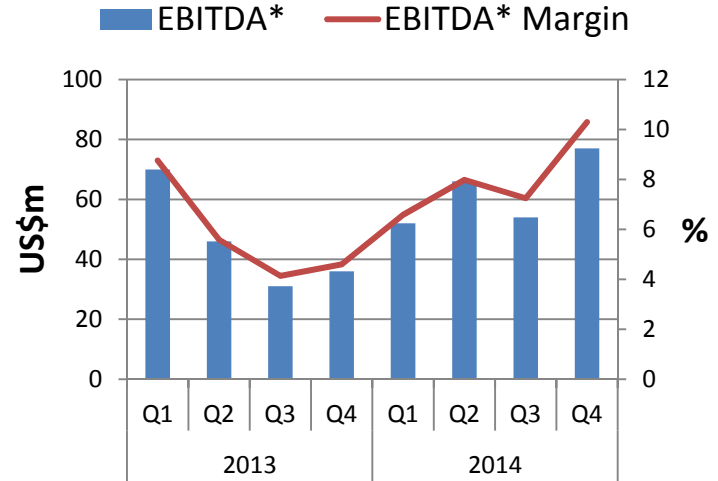
# Divisional Overviews

# Regional EBITDA Margin development

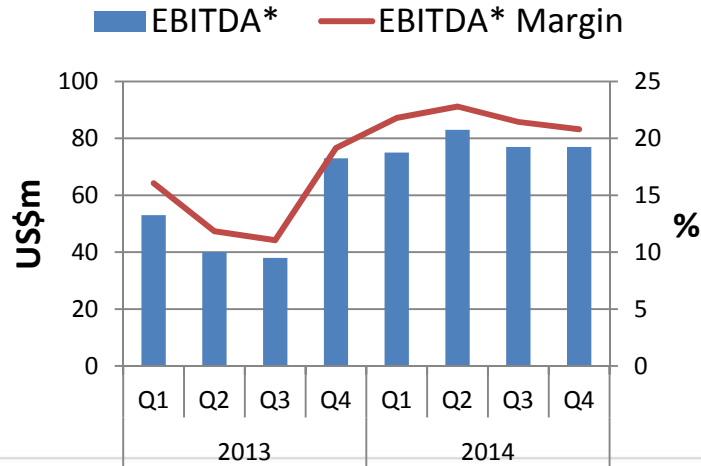
North America: 11.0%



Europe: 10.3%



South Africa: 20.8%





## Sappi Europe

- Encouraging improvements in margins in seasonally better quarter – 10% EBITDA ex-items margins – first time since 2012.
- CWF demand for the quarter was flat year-on-year. CM paper demand continued to decline. Weaker Euro relative to the US\$ led to improved pricing on export volumes, local sales prices were flat sequentially
- Nijmegen volume transition agreement was essentially completed in the 4<sup>th</sup> quarter.
- Variable costs for the quarter were 6% lower year-on-year on the implementation of procurement initiatives and generally lower commodity prices.
- The Specialities business progressed strongly through the quarter with improved volumes and lower costs.

## Sappi North America

- Competitive market conditions throughout the year put significant downward pressure on selling prices. During this seasonally stronger quarter, we implemented a price increase on our web products which helped return the business to an operating profit.
- Lower DWP sales prices impacted the Cloquet mill. Productivity exceeded target levels over the 2<sup>nd</sup> half of the year however, and recent changes to our transportation network have lowered costs.
- Release paper business impacted again 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 pulp prices declined. Higher wood costs resulting from supply shortages (weather impacts) continue to impact variable costs.

## Sappi Southern Africa

- Overall, a good year for the South African business, with the expanded Specialised Cellulose business and the restructured paper business consistently delivering enhanced margins. Better quarterly performance year-on-year driven by higher volumes of DWP, as well as higher average prices for paper, and paper packaging
- Compared to the prior quarter, lower average Rand pricing for DWP and higher fixed costs as a result of 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.

## Specialised Cellulose

- Dissolving wood pulp prices declining on weaker viscose staple fibre prices, and excess DWP capacity
- Demand growth for DWP expected to normalize due to falling prices for competing fibers
- All three mills running full, potential to optimise margins with kraft pulp runs at Cloquet



## Global Paper Market Trends

### Supply & Demand

Volumes continue to be stronger than expected  
Coated paper capacity closures in Europe & NA

### Costs & Prices

Fixed costs well controlled, commodity prices lower  
Price increases in the US on web products  
Price increases announced on coated paper in Europe – list price up €20/ton in September

### Strategy

Continue to manage sales mix and channels  
Bring costs down further  
Actively manage capacity according to demand

## Global Specialised Cellulose Market Trends

### Supply & Demand

Supply (+16%) growing faster than demand (+5%) YTD '14 v '13  
Demand growth impacted by lower textile fibre prices

### Costs & Prices

DP prices expected to remain under pressure in the medium-term  
Our entire capacity is among the world's lowest-cost  
Weaker Rand supports margins

### Strategy

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

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# Strategic Focus

## Strategic Focus

**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**





## Focus Areas

### Achieve cost advantages

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

#### North America

- Workforce reduction
- Gas conversion of Somerset boiler and lime kiln

#### Europe

- Investment in Kirkniemi power plant
- Variable and fixed cost saving projects

#### South Africa

- Product optimisation
- Fixed cost savings projects

#### Group

- Identify opportunities with procurement, supply chain and shared services



## Focus Areas

### **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.

#### **Europe**

- Self-help approach to managing volume declines
- Investment in Gratkorn paper machine and pulp plant

#### **South Africa**

- Optimising the product offering – more packaging, less graphic paper



## 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.

#### Europe

- Opportunity to take advantage of under-utilised capacity on paper machines for opportunities in speciality packaging grades

#### South Africa

- South African packaging



## Focus Areas

### 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.

#### South Africa

- Potential Mpumalanga forestry assets - ~ R700m

#### Group

- Working capital optimisation
- Contain capex to below US\$300m/annum through FY2016
- Debt refinancing



# Outlook



## Outlook

- We made significant strides in our strategy this past year:
  - reduced debt below our target level
  - improved performance from our EU and SA paper business
  - delivery of substantially increased DWP volumes into a growing and high-margin market.
  - divestiture of Nijmegen
  - Usutu forests sale
  - performance enhancement underway in US business.
- Markets remain challenging, both for graphic paper, and for DWP
  - Continued focus on costs, efficiency and production optimisation

## Outlook (cont'd)

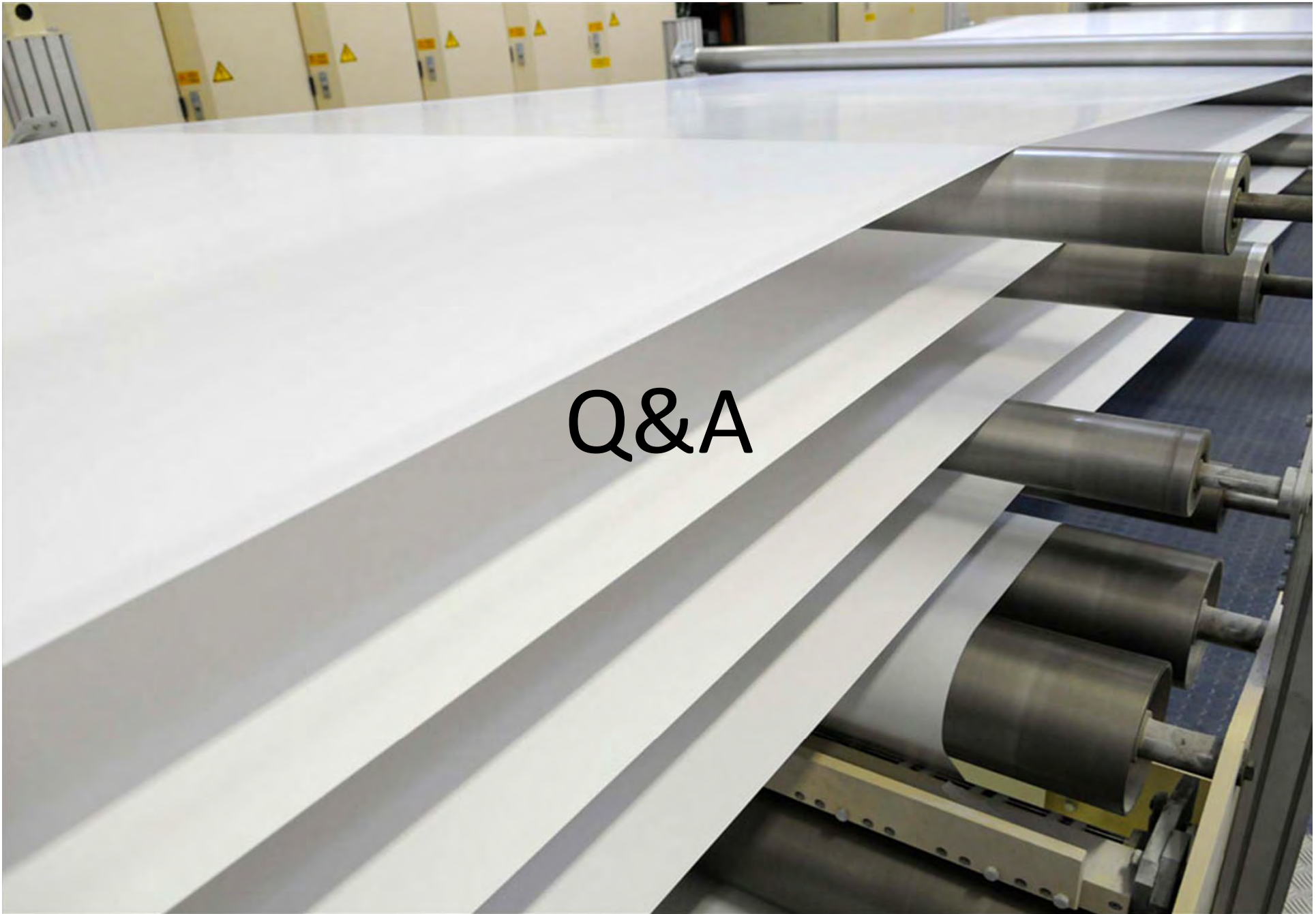
- DWP demand remains strong, dollar prices have however weakened due to pressure on our customers from lower viscose and cotton prices.
- Cloquet will likely take advantage of its built-in ability to swing pulp production between NBHK and DWP to optimise margins for the US business. Volumes with key customers will not be impacted by any such optimisation.
- We will continue to focus on costs to maintain current margins for the overall Specialised Cellulose business

## Outlook (cont'd)

- Currency movements affect margins in both our European and South African business.
- Capital expenditure in F2015 ~US\$300m and contained largely to the investments at our Gratkorn and Kirkniemi mills.
- 1<sup>st</sup> quarter result will be negatively impacted by a 3-week shut at Gratkorn (~US\$11m impact), and an extended annual maintenance outage and the finalisation of the natural gas conversion project at Somerset mill in the US (~US\$11m impact).
- We expect group EBITDA ex-items to be similar to that of the equivalent quarter last year, despite the improved underlying performance of the business.

## Outlook (cont'd)

- 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 due to the once off impact of various projects as well as lower DWP prices offsetting improved performance in paper businesses.
- We will consider 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 at the end of December 2014. We expect to reduce our net debt further over the course of the year and to reduce our financial leverage towards our target of 2X net debt to EBITDA.

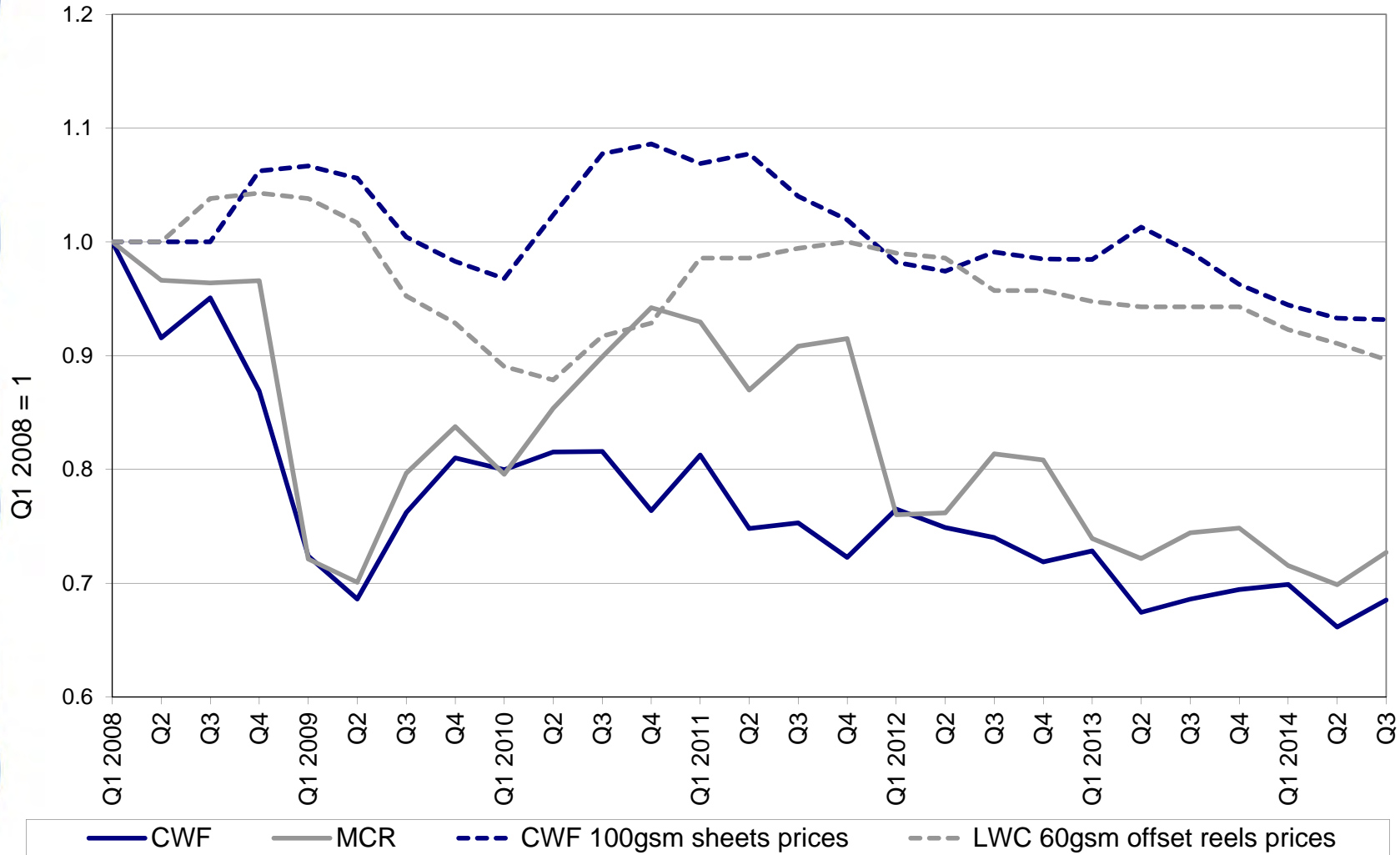




A photograph of a paper mill. A large roll of white paper is being processed by machinery. The machinery consists of several large, dark metal rollers and a conveyor belt. The paper is moving from the top left towards the bottom right. The background shows a factory setting with yellow safety triangles 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

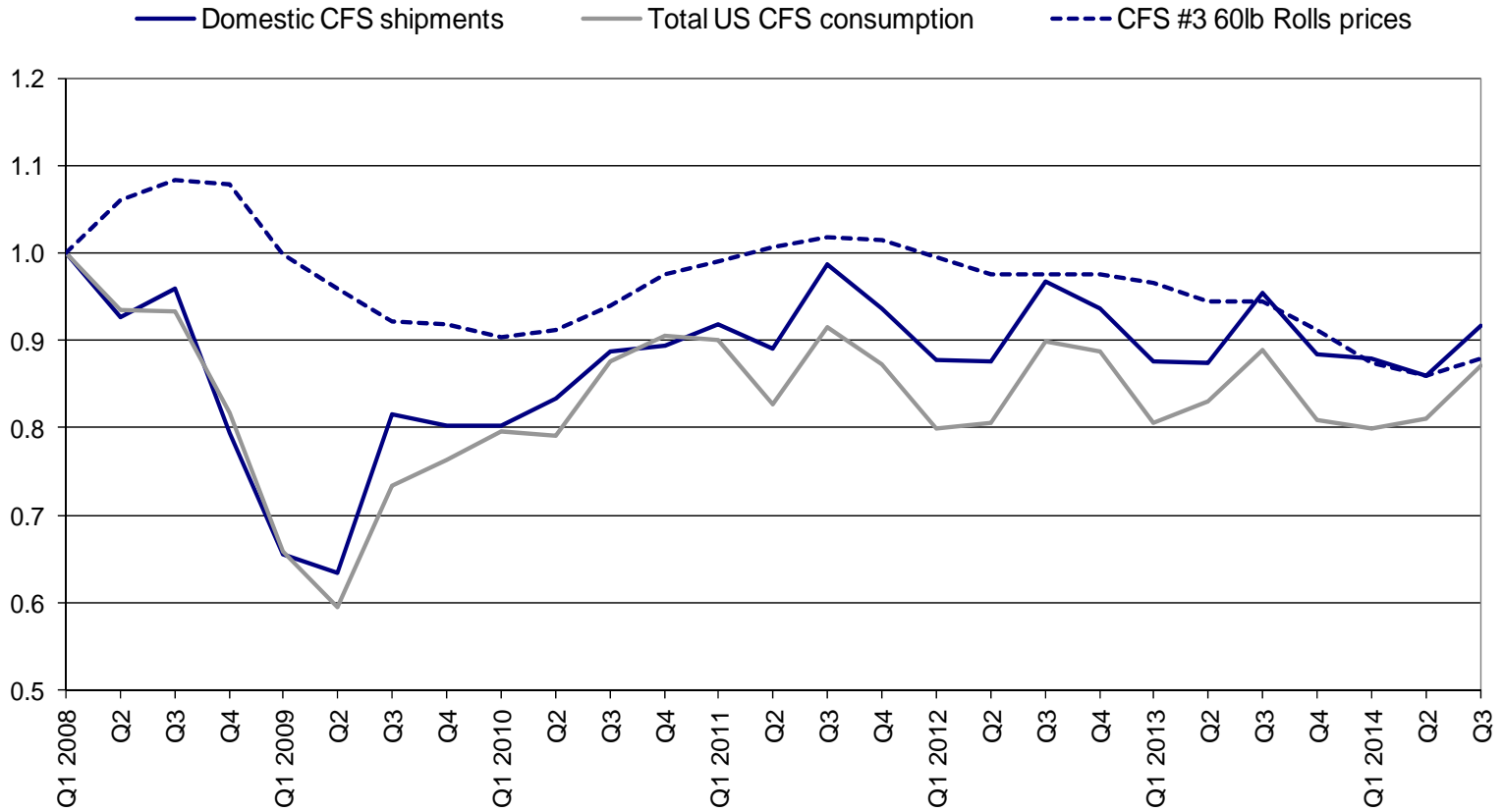
## Sappi Fine Paper Europe

	Q4 14	Q4 13	YTD 14	YTD 13
Tons Sold ('000)	811	840	3,303	3,367
Sales (€)	561	591	2,288	2,405
Price / Ton (€)	692	704	693	714
Cost / Ton* (€)	660	714	676	716
<b>Operating profit ex items (€m) **</b>	<b>26</b>	<b>(9)</b>	<b>55</b>	<b>(6)</b>

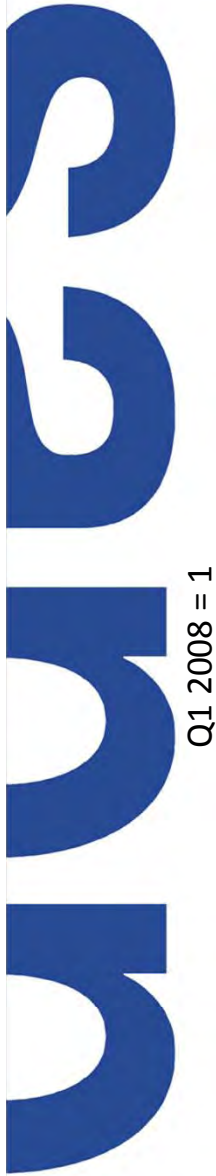
\* Sales less operating profit excluding special items divided by tons sold.

\*\* Operating profit excluding special items for FY2013 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 20 in our Q4 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

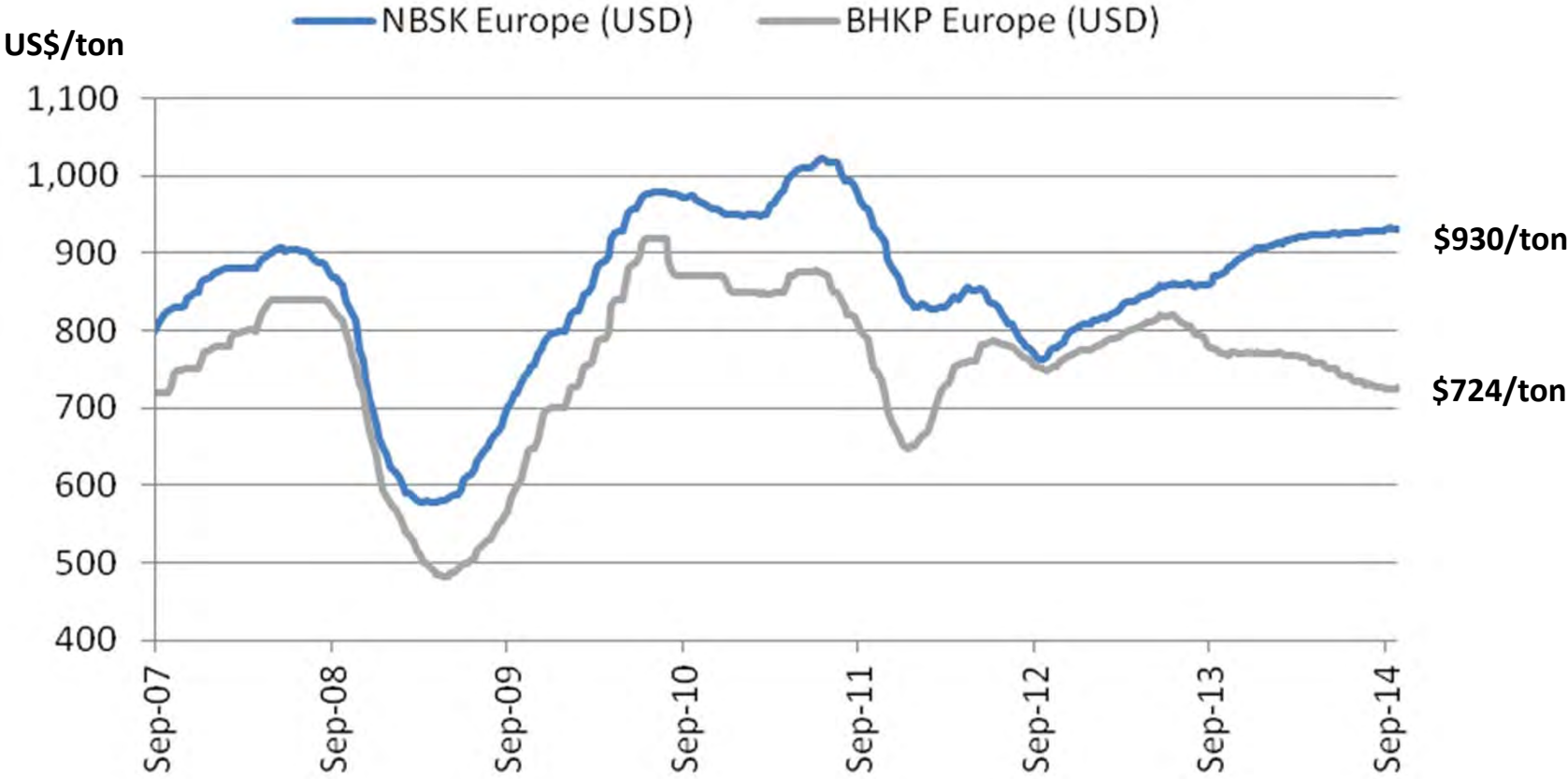
	Q4 14	Q4 13	YTD 14	YTD 13
Tons Sold ('000)	375	335	1,454	1,298
Sales (\$'m)	390	366	1,517	1,377
Price / Ton (\$)	1,040	1,093	1,043	1,061
Cost / Ton* (\$)	973	1,012	1,031	1,017
<b>Operating profit ex items** (\$'m)</b>	<b>25</b>	<b>27</b>	<b>18</b>	<b>57</b>

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

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# Pulp Prices\* - spread widening



\* Source: Average weekly FOEX delivered European prices

## Sappi Southern Africa ex Forestry

	Q4 14	Q4 13	YTD 14	YTD 13
Tons Sold ('000)	453	447	1,706	1,619
Sales (ZAR'm)	3,799	3,598	14,454	12,210
Price / Ton (ZAR)	8,386	8,049	8,472	7,542
Cost / Ton* (ZAR)	6,987	6,911	6,936	6,825
<b>Operating profit ex items** (ZAR'm)</b>	<b>634</b>	<b>509</b>	<b>2,620</b>	<b>1,160</b>

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

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## Cash Flow - US\$m

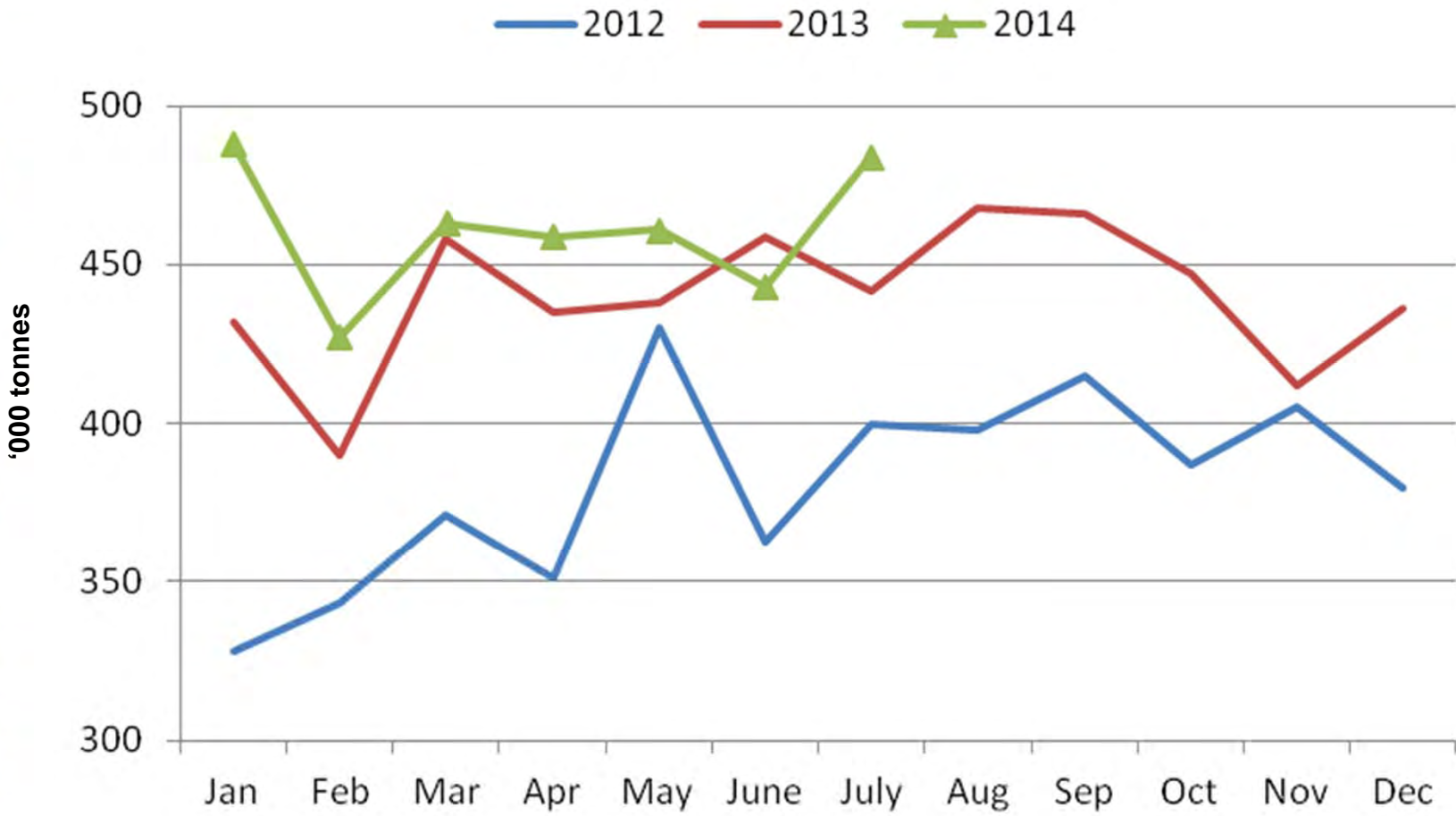
	Q4 14	Q4 13	YTD 14	YTD 13
<b>Cash generated from operations</b>	<b>160</b>	<b>121</b>	<b>566</b>	<b>447</b>
- Movement in working capital	153	108	34	(20)
- Net finance costs paid	(26)	(20)	(162)	(164)
- Taxation paid	-	(2)	(1)	(17)
<b>Cash generated from operating activities</b>	<b>287</b>	<b>207</b>	<b>437</b>	<b>246</b>
<b>Cash utilised in investing activities</b>	<b>1</b>	<b>(96)</b>	<b>(194)</b>	<b>(493)</b>
- Capital expenditure	(105)	(103)	(295)	(552)
- Proceeds on disposal of non-current assets	97	3	87	53
- Other movements	9	4	14	6
<b>Net Cash (utilised) generated</b>	<b>288</b>	<b>111</b>	<b>243</b>	<b>(247)</b>

## EBITDA recon to reported operating profit\*

	Q4 14	Q4 13	YTD 14	YTD 13
<b>EBITDA ex-items</b>	<b>200</b>	<b>155</b>	<b>658</b>	<b>528</b>
Depreciation and Amortisation	(76)	(88)	(312)	(348)
<b>Operating Profit ex-items</b>	<b>124</b>	<b>67</b>	<b>346</b>	<b>180</b>
<b>Special Items - gains (losses)</b>	<b>(48)</b>	<b>(177)</b>	<b>(32)</b>	<b>(161)</b>
Plantation price fair value adj.	-	(6)	18	87
Net restructuring provisions and loss on disposal of assets and businesses	(26)	(84)	(23)	(99)
Impairment of goodwill	(1)	-	(1)	-
Asset impairment reversals (impairments)	(3)	(109)	-	(155)
Post-retirement plan amendment	-	24	-	24
BEE charge	-	-	(2)	(3)
Fire, flood, storm and other events	(18)	(2)	(24)	(15)
<b>Segment Operating Profit</b>	<b>76</b>	<b>(110)</b>	<b>314</b>	<b>19</b>

# YTD Global Demand for DWP

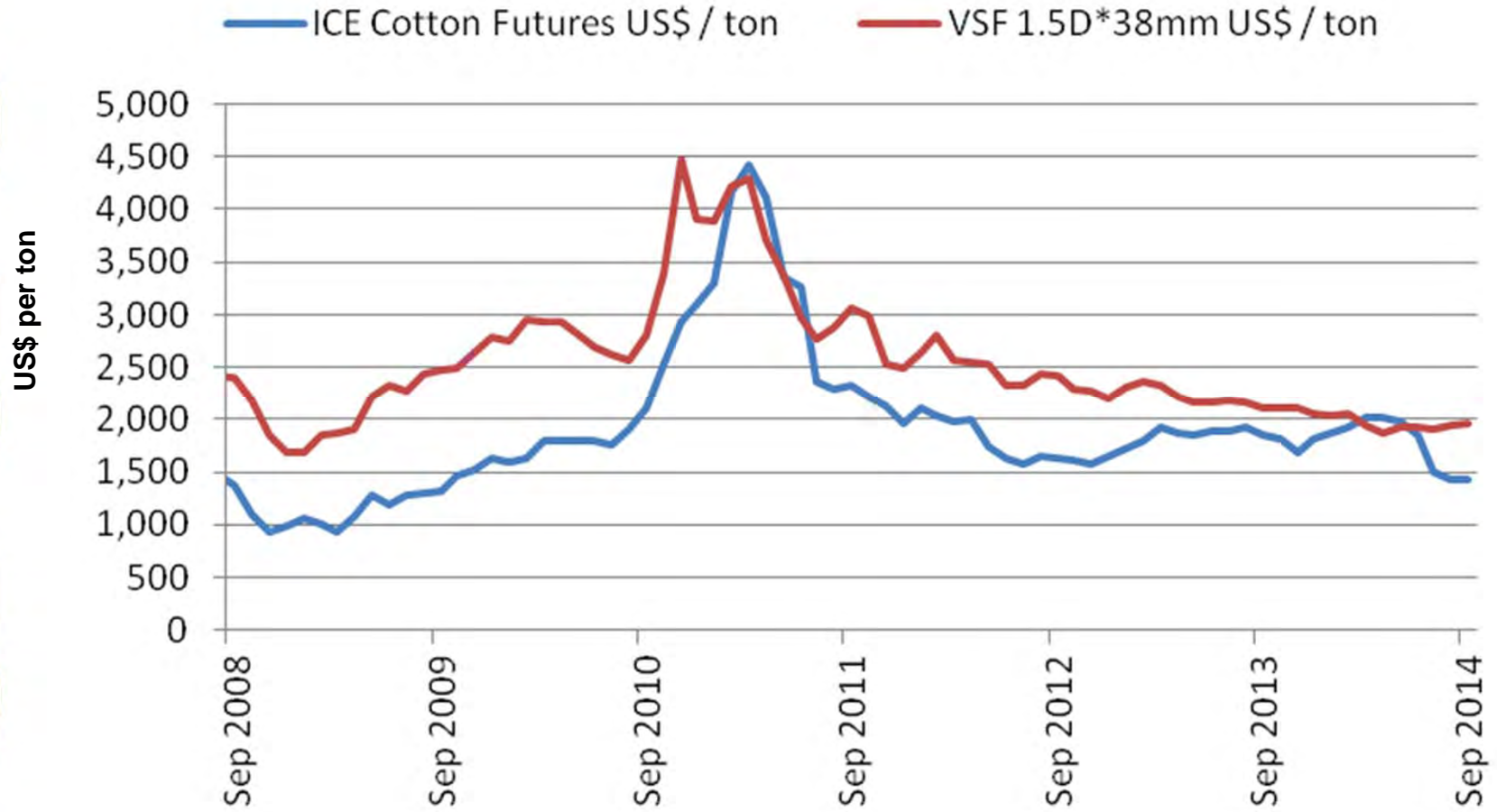
+5% v 2013 +25% v 2012



Source: PPCC



# Further weakness in cotton prices could undermine demand for viscose



Source: RISI



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Thank You