

March 14, 2016

Today Sappi Limited is making publicly available the following information:

USE OF TERMS AND CONVENTIONS

Unless otherwise specified or the context requires otherwise in this document:

- References to “Sappi”, “Sappi Group”, “Sappi group”, “Group”, “we”, “us” and “our” are to Sappi Limited together with its subsidiaries;
- References to the “Refinancing” are to the issuance of certain debt securities and the use of proceeds therefrom to redeem US\$350 million in aggregate principal amount of our 2021 Notes;
- References to the “2011 Refinancing” are to the refinancing that we implemented in April 2011, which comprised the following transactions: (a) the issuance of the 2018 Notes and 2021 Notes, (b) the redemption of the remaining US\$350 million of our US\$500 million 6.75% unsecured guaranteed notes due 2012, (c) the repayment of €200 million of the outstanding borrowings under a €400 million term loan facility and (d) the increase of our revolving credit facility from €209 million to €350 million and extension of maturity from 2012 to 2016;
- References to the “2012 Refinancing” are to the refinancing that we implemented in July 2012, which comprised the following transactions: (a) the issuance of the 2017 Notes and 2019 Notes, (b) the redemption of US\$700 million equivalent in aggregate principal amount of our US\$300 million 12.00% senior secured notes due 2014 and our €350 million 11.75% senior secured notes due 2014 and (c) entry into the OeKB Term Loan Facility;
- References to the “2015 Refinancing” are to the refinancing that we implemented in March 2015, which comprised the following transactions: (a) the issuance of the 2022 Notes, (b) the redemption of the 2018 Notes and 2019 Notes, (c) the increase of our revolving credit facility from €350 million to €465 million and extension of its maturity from 2016 to 2020 and (d) the amendment and restatement of the OeKB Term Loan Facility;
- References to the “2017 Notes” are to our US\$400 million 7.75% senior secured notes due 2017, issued in connection with the 2012 Refinancing;
- References to the “2018 Notes” are to our €250 million 6.625% senior secured notes due 2018, issued in connection with the 2011 Refinancing and redeemed in connection with the 2015 Refinancing;
- References to the “2019 Notes” are to our US\$300 million 8.375% senior secured notes due 2019, issued in connection with the 2012 Refinancing and redeemed in connection with the 2015 Refinancing;
- References to the “2021 Notes” are to our US\$350 million 6.625% senior secured notes due 2021, issued in connection with the 2011 Refinancing;
- References to the “2022 Notes” are to our €450 million 3.375% Senior Secured Notes due 2022, issued in connection with the 2015 Refinancing;
- References to the “2032 Notes” are to our US\$250 million 7.50% unsecured guaranteed notes due 2032;
- References to the “Revolving Credit Facility” and “Intercreditor Agreement” are to the facility and agreement described in the section entitled “Description of Other Financing Arrangements” included elsewhere herein;
- References to the “OeKB Term Loan Facility” are to the €136 million term loan facility entered into with Oesterreichische Kontrollbank Aktiengesellschaft (“OeKB”) in connection with the 2012 Refinancing, as amended and restated on September 18, 2013 and further amended and restated on March 16, 2015 in connection with the 2015 Refinancing;

- References to “B-BBEE” are to Broad-Based Black Economic Empowerment, or Black Economic Empowerment, which arises as a result of the following South African legislation: the Employment Equity Act (No. 55 of 1998); the Skills Development Act (No. 97 of 1998); the Preferential Procurement Policy Framework Act (No. 5 of 2000); and the Broad Based Black Economic Empowerment Act (No. 53 of 2003);
- References to “IFRS” are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”), when used in relation to the Group financial statements of Sappi Limited, or to the International Financial Reporting Standards, as issued by the IASB and as adopted by the European Union, when used in relation to the consolidated financial statements of Sappi Papier Holding GmbH;
- References to “southern Africa” are to the Republic of South Africa, the Kingdom of Swaziland, the Kingdom of Lesotho, the Republic of Namibia and the Republic of Botswana;
- References to “North America” are to the United States, Canada and the Caribbean;
- References to “Latin America” are to the countries located on the continent of South America and Mexico;
- References to “Rand”, “ZAR” and “R” are to South African Rand, the currency of South Africa, and references to “SA cents” are to South African cents;
- References to “US dollar(s)”, “dollar(s)”, “US\$”, “\$” and “US cents” are to United States dollars and cents, the currency of the United States;
- References to “euro”, “EUR” and “€” are to the currency of those countries in the European Union that form part of the common currency of the euro;
- References to “UK pounds sterling”, “GBP” and “£” are to United Kingdom pounds sterling, the currency of the United Kingdom;
- References to “m²” are to square meters and references to “hectares” or “ha” are to a land area of 10,000 square meters or approximately 2.47 acres;
- References to “tons” are to metric tons (approximately 2,204.6 pounds or 1.1 short tons);
- References to “market share” are based on sales volumes in a specified geographic region during the fiscal year ended September 27, 2015;
- References to “NBSK” are to northern bleached softwood kraft pulp frequently used as a pricing benchmark for pulp;
- References to “market pulp” are to pulp produced for sale on the open market, as opposed to pulp produced for own consumption in an integrated mill;
- References to “groundwood” or to “mechanical” are to pulp manufactured using a mechanical process, or, where applicable to paper, made using a high proportion of such pulp;
- References to “woodfree paper” are to paper made from chemical pulp, which is pulp made from wood fiber that has been produced in a chemical process; and
- References to “PM” are to individual paper machines.

Except as otherwise indicated, in this document the amounts of “capacity” or “production capacity” of our facilities or machines are based upon our best estimates of production capacity at the date of this document. Actual production by machines may differ from production capacity as a result of products produced, variations in product mix and other factors.

Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflects our best estimates. We have based these estimates on information obtained from our customers, trade and business organizations and associations and other contacts in our industries.

Unless otherwise provided in this document, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries.

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this document may constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995.

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, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. 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 adverse changes in global economic conditions;
- 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 restructurings or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

These factors are fully discussed elsewhere herein. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this document and are not intended to give any assurance as to future results. 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.

PRESENTATION OF FINANCIAL INFORMATION

With regard to Sappi, unless otherwise specified, all references in this document to a “fiscal year” and “year ended” of Sappi Limited refer to a twelve-month financial period. All references in this document to fiscal 2015, fiscal 2014, fiscal 2013, fiscal 2012 or fiscal 2011, or the years ended September 2015, 2014, 2013, 2012 or 2011 refer to Sappi Limited’s twelve-month financial periods ended on September 27, 2015, September 28, 2014, September 29, 2013, September 30, 2012 and October 2, 2011, respectively. References to September 2015, September 2014, September 2013, September 2012 or September 2011 represent amounts as at, respectively, September 27, 2015, September 28, 2014, September 29, 2013, September 30, 2012 and October 2, 2011. References to the three months ended December 2015 and 2014 refer to the periods from September 28, 2015 to December 27, 2015, September 29, 2014 to December 28, 2014, respectively. References to December 2015 and December 2014 represent amounts as at, respectively, December 27, 2015 and December 28, 2014.

Certain numerical figures set out in this document, including financial data presented in millions or thousands, have been subject to rounding adjustments and, as a result, the totals of the data in this document may vary slightly from the actual arithmetic totals of such information.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group annual financial statements and present all financial data in this document in US dollars on a nominal (non-inflation adjusted) basis. The following table sets forth the average and closing exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements:

Exchange rates	Average rates					Closing rates				
	Three months ended	Three months ended				December	December			
	December 2015	December 2014	2015	2014	2013	2015	2014	2015	2014	2013
ZAR to one US\$.....	14.1577	11.2122	11.9641	10.5655	9.2779	15.2865	11.6001	13.9135	11.2285	10.0930
EUR to one US\$.....	0.9117	0.7997	0.8694	0.7365	0.7621	0.9110	0.8212	0.8933	0.7883	0.7395
US\$ to one EUR.....	1.0968	1.2504	1.1501	1.3577	1.3121	1.0977	1.2177	1.1195	1.2685	1.3522

The Bloomberg Composite Rate (New York) of the Rand against the US dollar on March 11, 2016 was US\$1.00 = ZAR15.2234. The Bloomberg Composite Rate (New York) of the US dollar against the euro on March 11, 2016 was €1.00 = US\$1.1151. The Bloomberg Composite Rate is a “best market” calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications. The ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

For further information regarding the conversion to US dollars, see note 2 to our Group annual financial statements for the year ended September 2015 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Impacting on Group Results—Currency Fluctuations”.

RISK FACTORS

Risks Related to Our Industry

We operate in a cyclical industry, which has in the past resulted in substantial fluctuations in our results.

The markets for our pulp and paper products are commodity markets to a significant extent and are affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply and demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices.

In recent years, turmoil in the capital and credit markets, coupled with uncertainty created by the European sovereign debt crises, has led to the decreased availability of credit, which continues to have an adverse effect on the world economy and consequently has already affected, and may continue to adversely affect, the markets for our products through either a decrease in demand and/or a decrease in achievable selling prices. The timing and magnitude of demand and price increases or decreases in the pulp and paper market have generally varied by region and by type of pulp and paper.

A significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased costs. Other input cost increases including (but not limited to) energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently.

The majority of our woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed 6 to 12 months. In Southern Africa, we have entered into longer-term fixed-price agreements of between 6 to 12 months duration primarily for packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 6% of consolidated Group sales during fiscal 2015.

Most of our dissolving wood pulp sales contracts are multi-year contracts. The pricing is generally based on a formula linked to market prices for dissolving wood pulp and is adjusted based on negotiations with the applicable customers. These prices are mostly reset on a quarterly basis.

As a result of the short-term duration of paper and dissolving wood pulp pricing arrangements, we are subject to cyclical decreases in market prices for these products, such as that recently affecting dissolving wood pulp prices. A downturn in paper or dissolving wood pulp prices or a prolonged period of depressed market prices for these products could have a material adverse effect on our business, results of operations and financial condition.

The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.

We compete against a large number of pulp and paper producers located around the world. A trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that produce pulp and paper products at a lower cost than our mills, or are government subsidized. Some of our competitors have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including as a result of a decrease in import duties in accordance with the terms of free trade agreements or any potential revocation or non-renewal of the imposition of anti-dumping duties on Chinese and Indonesian coated paper imports into the United States by the U.S. International Trade Commission, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs, which could lead to a loss in market share and aggressive pricing by competitors and may force us to decrease prices in an attempt to maintain market share.

Developments in alternative media and changes in consumer preferences may affect the demand for our products.

Consumer preferences may change as a result of the availability of alternative products or services, including less expensive product grades, or as a result of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage, mobile devices and the internet could have adverse effects on

traditional print media and other paper applications, including our products and those of our customers. Over the last ten to 15 years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines have been declining, accessibility to, and use of, the internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications, including print publishing and advertising and the storage, duplication, transmission and consumption of written information more generally, are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising on the internet, mobile phones and other electronic devices, which tend to be less expensive. While neither the exact timing nor the extent of these trends can be predicted with certainty, competition from electronic media, for example, has led and may continue to lead to weaker demand for certain of our products, including coated woodfree and mechanical paper historically used in print publishing and advertising, as well as graphic paper more generally. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and, consequently, could have a material and adverse impact on our results of operations.

Global economic conditions could adversely affect our business, results of operations and financial condition.

During the latter half of fiscal 2008 and during fiscal 2009, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. Despite the aggressive measures taken by governments and central banks thus far, the economic recovery in certain of our markets remains slow. Certain countries have fallen back into recession and a significant risk remains that the measures taken may not prevent the global economy from falling back into recession. The turmoil in the sovereign debt markets as a result of the European debt crisis further resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

We are still negatively impacted by the slow recovery of various economies in the regions in which we operate. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing, duration or effect of any other downturn in the economy that may occur in the future.

The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in us paying higher premiums and periodically being unable to maintain appropriate levels or types of insurance.

The insurance market remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and unavailability of coverage due to reasons totally unconnected with our business. In addition, volatility in the global financial markets can adversely affect the insurance market and could result in some of the insurers in our insurance portfolio failing and being unable to pay their share of claims.

We have renewed our 2016 asset and business interruption insurance cover at more favorable rates to those of 2015. The maximum self-insured retention for any one property damage occurrence is €20.5 million, with an annual aggregate of €33 million. We are unable to predict whether past or future events will result in more or less favorable terms for 2017. For property damage and business interruption insurance cost effective cover is not generally available to full replacement value.

Since fiscal 2011, our property damage insurance policy has been euro-denominated as most of our assets are based in euro-denominated jurisdictions.

We place the insurance for our plantations on a stand-alone basis into international insurance markets. While the impact of fires on our plantations during fiscal 2013 to 2015 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

While we believe our insurance policies provide adequate coverage for reasonably foreseeable losses, we are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

New technologies may affect our ability to compete successfully.

We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of

novel processes that affect our operations and product range could render the technologies we utilize or the products we produce obsolete or less competitive in the future. Difficulties in assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely impact our results of operations.

The cost of complying with or addressing liabilities under environmental, health and safety laws may be significant to our business.

Our operations are subject to a wide range of environmental, health and safety laws in the various jurisdictions in which we operate. Such laws govern, among other things, water supply, the use of renewable and other fuels, the control of emissions and discharges, the management and disposal of hazardous substances and wastes, the clean-up of contamination, the purchase and use of safety equipment, workplace safety training and the monitoring of workplace hazards.

Although we strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental requirements. Impacts from historical operations, including the land disposal of waste materials, or our ongoing operations may require costly investigation and clean-up. In addition, we could become subject to environmental liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental requirements and the costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade pollution control equipment at our mills and to meet new regulatory requirements, including those related to stricter air emissions standards in the United States, southern Africa and Europe.

Risks Related to Our Business

Our significant indebtedness may impair our financial and operating flexibility.

Our significant level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of December 2015, on a pro forma basis after giving effect to the Refinancing, our net interest-bearing debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) would have been US\$1,757 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt may have significant consequences for our business, including:

- limiting our ability to obtain additional financing, which could restrict, among other things, our ability to exploit growth opportunities;
- diverting a substantial portion of our cash flow from operations to meet debt service obligations;
- exposing us to increases in interest rates because a portion of our debt bears interest at variable rates;
- placing us at a competitive disadvantage to certain of our competitors with lower levels of indebtedness;
- increasing our vulnerability to economic downturns and adverse changes in our business;
- limiting our ability to withstand competitive pressure; and
- restricting the activities of certain Group companies under the covenants and conditions contained in certain of our financing arrangements.

Our ability to refinance our debt or incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments, including as a result of renewed turmoil in the European sovereign debt markets, which could result in tight credit restrictions and credit being available only at premium.

Since 2006, the Group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) and Moody's. Adverse developments in our credit rating and financial markets, including as a result of renewed

turmoil in the European sovereign debt markets, any further downgrades in South African government bonds or deterioration of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—South African Economic and Political Environment”.

Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favorable than the terms of the debt being refinanced. We may also need to agree to stricter covenants that place additional restrictions on our business.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—South African Exchange Controls”. We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on debt will depend on financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realized from any such disposition would depend upon the circumstances at the time.

We require a significant amount of financing to fund our business and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to fund our working capital, capital expenditure and research and development requirements, to engage in future acquisitions, to make payments on our debt, to fund post-retirement benefit programs and to pay dividends depends upon our future operating performance. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions, which would result in a decline in global demand for our products, such as the current decline in demand in Europe, and a softening of prices for some of our products.

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness or reduce or delay our capital expenditures and research and development. We may not be able to accomplish these alternatives on a timely basis or on satisfactory terms. The failure to do so could have an adverse effect on our business, results of operations and financial condition.

We may not be successful in implementing, or may not realize all the expected benefits from, our strategic initiatives.

As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including high-cost capacity reductions and other cost saving projects, measures to enhance productivity and investment in our higher margin speciality business. For example, in the three months ended December 2015, we disposed of the Enstra and Cape Kraft Mills as part of our exit from the waste-based packaging paper business in order to reduce debt and refocus our product portfolio in Southern Africa. In the third quarter of 2014, we disposed of the Nijmegen Mill to reduce capacity and fixed costs in response to declining demand and over-capacity in the European market, and converted Paper Machine 2 at the Alfeld Mill to higher margin speciality paper. Any future growth, cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates, or we may not be able to successfully implement part or all of our initiatives. The benefit of cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for our products may decline. With respect to our recent investments in additional dissolving wood pulp capacity, a number of our competitors have also announced additional production capacities, and total announced supply capacity currently significantly outstrips announced demand capacity for dissolving wood pulp, which may adversely affect the price of dissolving wood pulp. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

Continued volatility in equity markets and declining yields or defaults in the bond markets could adversely affect the funded status and funding needs of our post-employment defined benefit funds.

Several global economic factors currently make the general outlook for the forthcoming fiscal years uncertain. The equity and bond markets (including sovereign debt markets) may remain volatile and move in uncertain and unusual ways in the forthcoming fiscal years leading to significant swings in the value of the assets and liabilities of our funded and unfunded defined benefit schemes.

Generally, but not always, rising corporate bond yields reduce our net balance sheet liabilities, whereas falling bond yields increase our net balance sheet liabilities. There is a risk that equity markets will deteriorate and bond yields will remain low in North America and Europe, which could negatively affect the funded status of our post-employment defined benefit arrangements. In addition, volatility in our net balance sheet liabilities resulting from the relative change in the value of assets and liabilities may be further enhanced by investment strategies, resulting in exposure to various classes of assets.

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. Although statutory easements in the pace of funding on these bases have provided some contribution relief to us, as long as yields on these asset classes remain low we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

In addition, our pension and post-retirement funds hold various bonds as part of their fund assets, including sovereign bonds issued by Austria, Belgium, France, Germany, South Africa, the United Kingdom and the United States of America. Any significant decline in value or default of such securities, including in the context of a renewed local or regional sovereign debt crisis, could negatively affect the funded status of our post-employment defined benefit arrangements.

Fluctuations in the value of currencies, particularly the Rand and the euro in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our results of operations.

Exchange rate fluctuations have in the past, and may in the future, affect the competitiveness of our products in relation to the products of pulp and paper companies based in other countries.

Fluctuations in the exchange rate between currencies, particularly the Rand and euro in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our earnings, the competitiveness of our exports, the prices of imported competitors' products and the costs of our raw materials. For example, weaker euro/US dollar exchange rates place pressure on our European business, which purchases approximately half of its pulp requirements from non-local suppliers. In addition, a weaker euro/US dollar exchange rate places pressure on our North American business by increasing the levels of imports into the United States and making our exports from the United States less competitive.

Since the adoption of the euro by the European Union on January 1, 1999 (when the euro was trading at approximately US\$1.18 per euro), it has fluctuated against the US dollar, reaching a low of approximately US\$0.83 per euro in October 2000 before trading at approximately US\$1.12, US\$1.27 and US\$1.35 per euro at the end of fiscal 2015, 2014 and 2013, respectively. At the end of December 2015, the euro was trading at US\$1.10 per euro. On March 11, 2016, it was trading at approximately US\$1.12 per euro.

The value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R6.81 per US dollar in December 2007 to approximately ZAR13.91, ZAR11.23 and ZAR10.09 per US dollar at the end of fiscal 2015, 2014 and 2013, respectively. At the end of December 2015, the Rand was trading at ZAR15.29 per US dollar. The Rand was trading at approximately ZAR15.22 per US dollar on March 11, 2016.

For further information, see notes 2 and 31 to our Group annual financial statements for the year ended September 2015 and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Currency Fluctuations".

There are risks relating to the countries in which we operate that could adversely affect our business, results of operations and financial condition.

We own manufacturing operations in five countries in Europe, two states in the United States and in South Africa and own plantations in South Africa. We also sell our products to customers in various countries worldwide. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions.

Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—South African Economic and Political Environment”.

The inability to recover increasing input costs through increased prices of our products has had, and may continue to have, an adverse impact on our profitability.

The selling prices of the majority of the products we manufacture and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control.

In some countries, electricity generation companies are competing for the same raw materials, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. Although oil prices have decreased from the historical highs of 2008, they could return to high levels in the foreseeable future because of, among other things, political instability in the oil-producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

As has occurred in previous years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices, resulting in reduced operating profit and negatively impacting business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, the hedging techniques we apply on our raw materials and products are on a small scale and short-term in nature, other than our maintenance of a high level of economic pulp integration. Moreover, in the event of significant increases in the prices of pulp, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

If we are unable to obtain energy or raw materials at reasonable prices, or at all, it could adversely affect our operations.

We require substantial amounts of oil-based chemicals, fuels, water and other raw materials for our production activities and to transport our timber and other products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber and pulp, which are consumed in our operations. In addition, our operations are dependent on access to electricity generated by local utilities and power plants, which can at times be unpredictable. For example, Eskom, the state-owned electricity company in South Africa, has recently struggled to meet demand and in some cases has requested that we reduce our demand, leading to temporary shutdowns of certain of our South African production facilities. Eskom has warned that electricity shortages and conditions of intermittent supply could persist for some time. The prices for and availability of these energy supplies, water and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions.

Environmental litigation aimed at protecting forests and species habitats as well as regulatory restrictions on cutting or harvesting may in the future cause significant reductions in the amount of timber available for commercial harvest. In addition, future legal challenges and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. The availability of harvested timber may further be limited by factors such as fire, insect infestation, disease, ice and wind storms, droughts, floods and other nature and man-made causes, thereby reducing supply and increasing prices.

The prices of various sources of energy supplies and raw materials have significantly increased in the past, and may in the future further increase significantly from current levels. An increase in energy and raw material prices could materially adversely affect our results of operations, plantation valuation and financial condition.

A limited number of customers account for a significant amount of our revenues.

We sell a significant portion of our products to several significant customers, including Antalis, Birla, Igepa, Lenzing, Lindenmeyr, Papyrus and Veritiv. During fiscal 2015 and 2014, no single customer individually represented more than 10% of our total sales. As a significant portion of our sales revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. In addition, we

rely on credit insurance for our arrangements with certain customers, and the withdrawal or unavailability of such credit insurance may impact our ability to engage with such customers.

Adverse changes to economic or market conditions could have a negative impact on our significant customers, which in turn could materially adversely affect our results of operations and financial position.

Adverse changes in economic conditions have had and may continue to have a negative impact on our significant customers. Such changes cannot be predicted and their impacts may be severe. For example, a disruption in the ability of our significant customers to access sources of liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position. Similarly, sustained adverse changes in market conditions for our significant customers' products, such as lower demand or prices or increased competition, could also reduce future orders of our products and have a material adverse effect on our results of operations and financial position. For example, prices for viscose staple fiber, the primary product produced by our dissolving wood pulp customers, dropped over the course of fiscal 2014 due to large reserves of, and declines in the prices for, competitive fibers such as cotton and polyester, for which viscose staple fiber can be used as a substitute. In the three months ended December 2015, although US dollar spot prices for dissolving wood pulp increased during most of the period, lower textile prices and a weaker Chinese RMB placed pressure on our viscose staple fiber customers towards the end of the period, which adversely affected the prices for dissolving wood pulp. If low prices and weak margins prevail in the market for viscose staple fiber, our Specialised Cellulose business could be adversely affected.

Such adverse changes could also lead to consolidation in the industries in which our significant customers participate, as evidenced by the current trend towards consolidation in the North American print, publishing and distribution industries. Such consolidation could increase our dependence on a few key customers, which could lead to less favorable terms and lower sales prices for our products.

Because of the nature of our business and workforce, we may face challenges in the retention of staff and the employment of skilled people that could adversely affect our business.

We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements. The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

A large percentage of our employees are unionized and wage increases or work stoppages by our unionized employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past sought and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of sales.

Although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future, which could adversely impact our business. In recent years, certain of our unionized employees in southern Africa have participated in strike actions that have resulted in interruptions in our business operations. Any strike actions or other labor disruptions, or any related negotiations that result in onerous terms for us, may have an adverse effect on our business and profitability.

The prevalence of HIV/AIDS, specifically in Africa, exposes us to certain risks which may have an adverse effect on our southern African operations.

The southern African region has one of the highest infection rates of HIV/AIDS in the world. Although we initiated in the early 1990s a comprehensive HIV/AIDS management program to address the effects of the disease and its impact on our employees and our business, our operations, and in particular our southern African operations, continue to be exposed to certain risks related to the HIV/AIDS pandemic. We incur and will continue to incur costs related to the prevention, detection and treatment of the disease. However, we cannot guarantee that any current or future management program will be successful in preventing or reducing the infection rate among our employees and any potential effect

thereof on the mortality rate. We may be exposed to lost workers' time associated with the disease and a potential loss of skill, which may adversely affect our operations.

Catastrophic events affecting our plantations, such as fires and droughts, may adversely impact our ability to supply our southern African mills with timber from the region.

The southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high. In 2007 and 2008, southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa affecting 14,000 hectares of our plantations. These abnormal weather conditions might be more frequent as a result of climate change. In addition, because the transformation of land ownership and management in southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. The availability of harvested timber may also be limited by other abnormal weather conditions, such as droughts. For example, in the three months ended December 2015, a severe drought in South Africa slowed production at the Saiccor Mill for several weeks, which reduced the operating profit excluding special items of our Southern Africa business by US\$6 million. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

Concerns about the effects of climate change may have an impact on our business.

Concerns about global warming and carbon emissions footprints, as well as legal and financial incentives favoring alternative fuels, are leading to the increased use of sustainable, non-fossil fuel sources for electricity generation.

The increased emphasis on water footprint in southern Africa is causing increased focus on the use of water by our operational units, on the quality of water released back into natural water systems and on the control of effluent discharges. The cost, availability and use of our water supply also have a direct impact on our input costs and operating profit.

Climate change leading to different weather patterns, such as rainfall and temperature, could also cause the spread of disease and pestilence into our plantations and fiber sources far beyond their traditional geographic spreads, increasing the risk that wood supply necessary to our operations may be negatively impacted.

Our ability to utilize our net operating tax loss carry forwards generated by our United States operations could be substantially limited if we experience a Company "ownership change" as defined under the United States Internal Revenue Code, which may adversely affect our results of operations and financial condition.

As a result of the past financial performance of our North American businesses, we have net operating tax loss carry forwards that have been generated by our United States operations. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), contains rules that limit the ability of a company that undergoes an ownership change, at the Sappi Limited company level, to utilize its net operating tax loss carry forwards in years after the ownership change. An "ownership change" for purposes of Section 382 of the Code generally refers to any change in ownership of more than 50% of the company's shares over a three-year period. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the share capital of a company or any change in ownership arising from a new issuance of the company's shares.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our share capital, including purchases or sales of shares between our greater than 5% shareholders, our ability to use our net operating tax loss carry forwards generated by our United States operations would be subject to the limitations of Section 382. Depending on the resulting limitations, a portion of our United States net operating tax loss carry forwards could expire before we would be able to use them. Our inability to utilize our United States net operating tax loss carry forwards could have an adverse effect on our financial condition and results of operations.

Our manufacturing and forestry operations are inherently dangerous, and we may be subject to risks related to the health and safety of our employees.

We operate a number of manufacturing facilities and conduct various forestry operations, each of which is inherently dangerous. Although we employ safety procedures in the design and operation of our manufacturing facilities and forestry operations, accidents resulting in injury or death have occurred at our facilities in the past and could occur in the future. Any accident could result in injuries, environmental impacts, equipment damage and/or production delays, which could harm our business and our results of operations. The potential liability resulting from any such accident or

death, to the extent not covered by insurance, and any negative publicity associated therewith could harm our business, reputation, financial condition or results of operations. Whether or not a claim against us succeeds, its defense may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

Unforeseen shutdowns or disruptions at our production facilities or affecting our information technology systems may adversely impact our business.

Our pulp and paper mills and our production facilities are central to our business and are subject to operational risks. These risks include, but are not limited to, fire or explosions, accidents, severe weather and natural disasters, mechanical, operational or structural failures, unplanned production or power disruptions or political turmoil. Shutdowns or outages resulting from such events could have a material adverse effect on our business and financial condition if the outages continued for an extended period of time or if we were unable to restart production in a timely manner.

We also use information technologies to securely manage our operations and various business functions. We rely on various technologies to process, store and report on our business and interact with customers, vendors and employees. Despite our security design and controls, and those of our third-party providers, we could become subject to cyber attacks which could result in operational disruptions or the misappropriation of sensitive data. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not adversely impact our reputation, financial condition or results of operations.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization at December 27, 2015, on an actual basis and as adjusted to give effect to the Refinancing (using the closing exchange rate on December 27, 2015 of US\$1.0977 to €1.00).

	As at December 2015	
	Actual	As adjusted (US\$ million)
Cash and cash equivalents ⁽¹⁾	383	388
Short-term debt:		
Other public debt ⁽²⁾	49	49
Other short-term debt ⁽³⁾	85	85
Total short-term debt	134	134
Long-term debt:		
Revolving Credit Facility ⁽⁴⁾	—	—
Certain debt securities	—	384
7.75% Senior Secured Notes due 2017	400	400
6.625% Senior Secured Notes due 2021 ⁽⁵⁾	350	—
3.375% Senior Secured Notes due 2022	494	494
7.50% Guaranteed Notes Due 2032	221	221
Other public debt ⁽²⁾	108	108
Other long-term debt ⁽³⁾	91	91
Securitization debt	339	339
Adjustment to long-term debt ⁽⁶⁾	(20)	(26)
Total long-term debt	1,983	2,011
Total debt	2,117	2,145
Total shareholders' equity ⁽⁷⁾	1,015	989
Total capitalization ⁽⁸⁾	2,749	2,746

⁽¹⁾ Adjustment reflects the Refinancing based on the closing exchange rate at December 27, 2015 of US\$1.0977 to €1.00.

⁽²⁾ Represents debt under the South African medium-term note program.

⁽³⁾ Other short-term debt includes €9 million (US\$21 million) of short-term debt outstanding under the OeKB Term Loan Facility and Other long-term debt includes €82 million (US\$89 million) of long-term debt outstanding under the OeKB Term Loan Facility.

⁽⁴⁾ Represents indebtedness under our Revolving Credit Facility. As of December 2015, the Revolving Credit Facility was undrawn and had €465 million of undrawn capacity.

⁽⁵⁾ We intend to use the proceeds of certain debt securities to redeem all of our US\$350 million in aggregate principal amount of our 2021 Notes.

⁽⁶⁾ Adjustment to reduce principal amount of long-term debt outstanding to amounts shown on our consolidated balance sheet after taking into account aggregate discounts paid up-front, fair value adjustments relating to hedge accounting and capitalized transaction costs relating to long-term debt. The adjustment comprises the accelerated write-off of upfront fees related to the 2021 Notes of US\$5 million, and an increase arising from the capitalization of upfront fees related to the Refinancing.

⁽⁷⁾ Total shareholders' equity as adjusted to give effect to the Refinancing and for redemption premia, breakage fees incurred or to be incurred as a result of redemption of our outstanding 2021 Notes with the proceeds of certain debt securities and accrued interest through to the anticipated redemption dates of our 2021 Notes on April 15, 2016.

⁽⁸⁾ Total capitalization is calculated as net debt plus shareholders equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our Group annual financial statements. Certain information contained in the discussion and analysis set forth below and elsewhere in this document includes forward-looking statements that involve risk and uncertainties. See "Forward-Looking Statements", "Risk Factors" and the notes to our Group annual financial statements for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, the forward-looking statements contained herein.

The consolidated financial information of the Sappi Group contained herein have been prepared in accordance with IFRS.

The Group restated its consolidated financial statements as of and for the year ended September 2013 as described in note 2.6 to our consolidated financial statements as of and for the year ended September 2014 to reflect the adoption of IAS 19 (Revised) Employee Benefits ("IAS 19 (Revised)") and IFRS 10 Consolidated Financial Statements ("IFRS 10"), each of which was adopted by the Group for the year ended September 2014. The amendments to IAS 19 (Revised) require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. As a result of the changes to the standard, the Group has elected to disclose net interest, the components of which were previously disclosed in operating profit, in finance costs. 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.

As such, (a) the consolidated financial information as of and for the years ended September 2015 and 2014 presented in this document has been derived from our audited consolidated Group financial statements and related notes for 2015 and 2014, respectively, (b) the consolidated financial information as of and for the year ended September 2013 (Restated 2013) presented in this document has been extracted from the consolidated financial information for the 2013 comparative period presented in our audited consolidated Group financial statements and related notes for 2014 and (c) the unaudited condensed consolidated financial information as of and for the three months ended December 2015 and 2014 presented in this document has been derived from our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2015 and 2014, respectively.

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2015, 2014 and 2013 each operated on a 52 accounting week cycle. The three-month periods ended December 2015 and December 2014 each consisted of 13 weeks.

Company and Business Overview

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base. Our dissolving wood pulp products are used worldwide by converters to create viscose fiber for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer and household products. Our paper products include: 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 newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products in the Southern Africa region.

Sappi Limited was founded and incorporated in 1936 in South Africa. While we primarily expanded our operations within southern Africa until 1990, we have since grown through acquisitions outside of southern Africa. The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and of our other products in areas outside our core operating regions of North America, Europe and Southern Africa. All sales and costs associated with Sappi Trading are allocated to the three reportable segments.

We operate 14 pulp and paper mills in seven countries, with an aggregate annual paper, paper pulp and dissolving wood pulp production capacity of approximately 5.4 million tons, 2.5 million tons and 1.3 million tons, respectively.

Sales by source and destination for the three months ended December 2015 and each of fiscal 2015, fiscal 2014 and fiscal 2013 were as follows:

	Sales by Source				Sales by Destination			
	Three Months Ended December 2015	2015	2014	Restated	Three Months Ended December 2015	2015	2014	Restated
				2013				2013
				%				
Europe	51	49	51	53	45	41	45	46
North America.....	27	26	25	23	24	24	21	23
Southern Africa	22	25	24	24	9	11	11	12
Asia and others.....	—	—	—	—	22	24	23	19
Total.....	100	100	100	100	100	100	100	100

Principal Factors Impacting our Group Results

Our results of operations are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in sales volumes and prices. Sales volumes and prices are significantly affected by demand for our products, changes in industry capacity and output levels and customer inventory levels. Demand levels are highly dependent on cyclical and structural changes in the world economy and changes in technology and consumer preferences. Industry profitability is also influenced by factors such as the level of raw material inventory, energy, chemicals, wood and other input costs, currency exchange rates, and operational efficiency.

The principal factors that have impacted the business during the fiscal and interim periods presented in the following discussion and analysis and that are likely to continue to impact the business are:

- (a) Cyclical nature of the industry and movement in market prices, raw materials and input costs;
- (b) Substitution towards digital media and declining demand for graphic paper products;
- (c) Sensitivity to currency movements; and
- (d) Expansions, restructurings, cost-reduction initiatives, capacity closures, our ability to maintain and improve operational efficiencies and performance and other significant factors impacting costs.

Because many of these factors are beyond our control and certain of these factors have historically been volatile, past performance is not necessarily indicative of future performance and it is difficult to predict future performance with any degree of certainty.

Cyclical Nature of the Industry and Movement in Market Prices, Raw Materials and Input Costs

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core paper product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business, and other factors such as growing consumer preference for digital media over print media. Dissolving wood pulp is primarily used in the textile market, and thus is highly susceptible to cyclical changes in the market for competing commodities such as cotton and synthetic fibers, as well as other factors affecting the textile market, including general economic conditions. In addition, the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. Other input costs, such as energy and fuel costs, vary depending on various factors, including local and global demand and seasonality. Worldwide economic conditions experienced a significant downturn during the latter half of 2008, resulting in significant recessionary pressures and lower business and consumer confidence throughout calendar 2009 and into calendar 2010. The emergence of the sovereign debt crises in the European Union during the latter half of calendar 2011 and continuing into calendar 2012 led to a renewed downturn. Global

economic recovery in subsequent years has been slow and has been marked by further periods of decline which, together with other market factors, has caused demand for many of our major products to decline during fiscal 2013, 2014 and 2015. Despite the aggressive measures taken by governments and central banks thus far, the economic recovery in certain of our markets remains slow, which continues to put pressure on demand and sales prices, particularly for our graphic paper products. Despite these economic factors, market prices for hardwood pulp increased significantly in fiscal 2015 due to increased worldwide demand before decreasing in the first quarter of fiscal 2016. Market prices for softwood pulp decreased significantly in fiscal 2015 and continued to decrease in the first quarter of fiscal 2016. Similarly, prices for dissolving wood pulp remain under pressure in all market segments due to excess market supply, as well as weak margins in the viscose stable fiber market, exacerbated by large reserves of, and declines in the prices for, competing fibers such as cotton.

Substitution Towards Digital Media and Declining Demand for Graphic Paper Products

Graphic paper demand in Europe and North America has been in decline since 2009. While some of the decline can be attributed to weak economic conditions, increased substitution for digital media has been, and will continue to be, a significant driver of this trend. Over the last ten to fifteen years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines has been declining, accessibility to, and use of, the internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications, including print publishing and advertising, and the storage, duplication, transmission and consumption of written information more generally, are now readily available. We expect competition from digital media to continue to adversely affect demand for graphic paper products across the industry, leading to oversupply, declining revenues from paper businesses and reductions in high cost paper manufacturing capacity to balance declining demand. We presently forecast annual demand declines for coated graphic papers of approximately 3% to 5% in each of the North American and European markets and we are responding by cutting costs and maintaining operating rates to maximize the significant cash generation potential of these businesses, while simultaneously investing in higher growth businesses not impacted by the secular shift to digital media, such as our dissolving wood pulp business and our speciality packaging business.

Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), the euro (€) and the South African Rand (ZAR). Although our reporting currency is the US dollar, a significant portion of the Group's sales and purchases are made in currencies other than the US dollar. In Europe and North America, sales and expenses are generally denominated in euro and US dollars, respectively; however, pulp purchases in Europe are primarily denominated in US dollars. In Southern Africa, costs incurred are generally denominated in Rand, as are local sales.

Exports from the Southern African businesses to other regions are primarily denominated in US dollars. Such exports represented, in local currency terms, 61% and 59% of sales of our Southern African operations in the three months ended December 2015 and 2014, respectively and 59% and 57% of sales of our Southern African operations in fiscal 2015 and fiscal 2014, respectively.

The appreciation of the Rand or the euro against the US dollar diminishes the value of exports from Southern Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins of exports sales as well as those domestic sales which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which our subsidiaries are exposed. The following table depicts the average and year-end exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements in the three months ended December 2015 and 2014 and in fiscal 2015, fiscal 2014 and fiscal 2013:

Exchange rates	Average rates					Closing rates				
	Three months ended	Three months ended	2015	2014	2013	December 2015	December 2014	2015	2014	2013
	December 2015	December 2014								
ZAR to one US\$.....	14.1577	11.2122	11.9641	10.5655	9.2779	15.2865	11.6001	13.9135	11.2285	10.0930
US\$ to one EUR.....	1.0968	1.2504	1.1501	1.3577	1.3121	1.0977	1.2177	1.1195	1.2685	1.3522

The profitability of certain of our Southern African operations is directly dependent on the Rand proceeds of their US dollar exports. Selling prices in the local Southern African market are significantly influenced by the pricing of competing imported products. The appreciation of the Rand against the US dollar leads to increased pressure from imports.

The translation of our annual results into our reporting currency (US dollar) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. In the three months ended December 2015, the euro was weaker against the US dollar with an average exchange rate of US\$1.10/euro as compared to an average exchange rate of US\$1.25/euro in the three months ended December 2014, and the Rand was weaker against the US dollar with an average exchange rate of ZAR14.16/US\$ as compared to an average of ZAR11.21/US\$ in the three months ended December 2014. The impact of these currency movements decreased reported sales in US dollars by US\$167 million for the three months ended December 2015 compared to the three months ended December 2014.

On average, the euro weakened 15% against the US dollar in fiscal 2015 compared to fiscal 2014. The Rand weakened in fiscal 2015 to an average level against the US dollar of ZAR11.96, 13% weaker than fiscal 2014 average levels, and ended fiscal 2015 at a closing rate of ZAR13.91/US\$, 24% weaker than the closing rate of fiscal 2014. The impact of these currency movements decreased reported sales in US dollars by US\$662 million for fiscal 2015, by US\$96 million for fiscal 2014 and by US\$181 million in fiscal 2013.

The Group has a current policy of not hedging translation risks. The Southern African and European operations use the Rand and the euro as their respective functional currencies. Any translation of the value of these operations into US dollars results in foreign exchange translation differences as the Rand and the euro exchange rates move against the US dollar. These changes are booked to the foreign currency translation reserve via other comprehensive income. Borrowings taken up in a currency other than the functional currency of the borrowing entity are typically hedged with financial instruments, such as currency swaps and forward exchange contracts.

Expansions, Restructurings and Cost-reduction Initiatives

We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base on a regional basis, including closing non-performing assets and pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

Expansion of dissolving wood pulp capacity: In May 2011, we announced the US\$340 million investment in our Ngodwana Mill in South Africa. The expansion changed the product portfolio of the mill to include the annual production of 210,000 tons of dissolving wood pulp. During November 2011, we also announced an additional investment of US\$170 million in our Cloquet Mill in the United States, which enabled the facility to produce 330,000 tons of dissolving wood pulp per annum. Together with our Saiccor Mill in South Africa, these investments increased our total annual dissolving wood pulp production capacity to approximately 1.3 million tons. Both projects were completed during fiscal 2013, and we began realizing the benefits from these initiatives in 2014.

Alfeld Mill PM2 conversion: During the fourth quarter of fiscal 2012 we announced the planned conversion of PM2 at the Alfeld Mill from 150,000 tons of coated fine paper to 100,000 tons of speciality paper per annum. This conversion was completed in the first quarter of 2014 and has reduced our exposure to the declining coated woodfree market and allowed us to increase sales into the growing and higher margin speciality paper segment. The qualification for and growth into the speciality segment was slower than originally planned, but the last quarter of fiscal 2014 saw significant progress made in increasing sales volumes, lowering costs and improved quality. This mill contributed towards further improvement in the operating performance of the business in fiscal 2015.

Sale of Usutu Forests: On July 1, 2013, we announced the sale of our Usutu forestry operations, including approximately 67,000 hectares of softwood plantations, a decommissioned pulp mill and two villages in close proximity to the pulp mill all located in the Kingdom of Swaziland, for US\$97 million (ZAR1 billion). The decision to dispose of these non-core assets was reached following the conversion and expansion of our Ngodwana plant to produce dissolving pulp rather than bleached softwood pulp, which reduced our softwood requirements. The sale was subject to the fulfillment of certain conditions precedent, which were met in July 2014.

Sale of Nijmegen Mill: In September 2013, we announced that we had begun consultations regarding the future of the Nijmegen Mill in The Netherlands due to market conditions and a sustained increase in input costs. In June 2014, we reached an agreement to dispose of the mill to an affiliate of American Industrial Acquisition Corporation (AIAC). Under the terms of the sale agreement, the mill will manufacture speciality paper and will no longer be engaged in the coated graphic paper business. A transfer plan was arranged with the mill's graphic paper customers. This disposal further reduced our graphic paper capacity by 240,000 tons in line with our strategy.

2013 European restructuring initiatives: In November 2013, we announced plans to invest approximately US\$162 million (€120 million) in the Group's coated graphic paper mills at Kirkniemi and Gratkorn over the following three years to significantly reduce the cost base and improve the profitability of those mills. These investments continued through fiscal 2014 and were completed in 2015.

Sale of Enstra and Cape Kraft Mills: In July 2015, we announced the intention to dispose of the Enstra and Cape Kraft Mills in South Africa for US\$40 million (ZAR570 million) in aggregate, as part of our exit from the waste-based packaging paper business. The decision to dispose of these non-core assets was in line with our strategy to reduce debt, strengthen our balance sheet and refocus our product portfolio in Southern Africa to those products for which we have a cost competitive position. The sale of the Enstra Mill was completed in October 2015 and the sale of the Cape Kraft Mill was completed in November 2015.

South African Operations

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 22% and 25% of our sales in the three months ended December 2015 and 2014, respectively, and 25%, 24% and 24% of our sales in fiscal 2015, 2014 and 2013, respectively. See “—Operating Results” for the proportion of South African operating profit to total profit and “—South African Economic and Political Environment” for a description of the South African economic and political environment.

Environmental Matters

We operate in an industry subject to extensive environmental regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters in fiscal 2016. We do separately account for environmental capital expenditures. See note 34 to our Group annual financial statements for the year ended September 2015 for a discussion of these matters.

Operating Results

Financial Condition and Results of Operations

The operations of the Group are organized into the following three reportable segments comprising the corresponding geographic areas:

- Europe;
- North America; and
- Southern Africa.

The Southern Africa reportable segment includes the following divisions: Sappi Paper and Paper Packaging, Sappi Specialised Cellulose, and Sappi Forests. Sappi Paper and Paper Packaging consists of one fine paper mill, two packaging paper mills and the Sappi ReFibre operation. The volume, revenue and cost relationship within the Sappi Forests business is substantially different to that of the paper and dissolving wood pulp businesses which form a part of this segment.

Costs related to our corporate head office, the Group's treasury operations, insurance captive and non-manufacturing entities which form part of the Sappi Group are not included in the reportable segments mentioned above, and are disclosed as Unallocated and eliminations in the segmental reporting.

The analysis and discussion which follows should be read in conjunction with our Group annual financial statements.

The key indicators of the Group's operating performance include sales, operating profit and operating profit excluding special items. Operating profit represents sales after operating expenses, which comprise cost of sales, selling, general and administrative expenses, other operating expenses or income and share of profit or loss from joint ventures. As described in more detail in the discussion and analysis which follows, the key components of the Group's operating expenses can be characterized as variable costs (primarily variable manufacturing costs) or fixed costs (the fixed cost components of cost of sales and selling, general and administrative expenses).

Cost of sales comprises:

- variable costs, which include raw materials and other direct input costs, including:

- wood (which includes growth and felling adjustments);
- energy;
- chemicals;
- pulp;
- delivery charges; and
- other variable costs;
- fixed costs, which include:
 - employment costs allocated to cost of sales;
 - depreciation expense allocated to cost of sales; and
 - maintenance;
- fair value adjustment on plantations, representing an accounting fair value adjustment of the timber assets of the Sappi Forests operation, which is mainly impacted by historical timber selling prices, costs associated with standing timber values, costs of harvesting and delivery, the estimated growth rate or annual volume changes in the plantations and discount rates applied; and
- other overheads.

Selling, general and administrative expenses comprise:

- employment costs not allocated to cost of sales;
- depreciation expense not allocated to cost of sales;
- marketing and selling expenses; and
- administrative and general expenses.

Other operating expenses (income) comprise:

- net asset impairment (reversal);
- (profit) loss on sale and write-off of property, plant and equipment; and
- restructuring provisions raised (released) and closure costs.

Comparison of the Three Months ended December 2015 and 2014

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below.

The key indicators of the Group's operating performance are:

Key figures	Three Months Ended December	
	2015	2014
	(US\$ million)	
Sales	1,284	1,377
Operating profit.....	123	69
Special items—(gains) losses	(11)	5
Operating profit excluding special items	112	74

The following table reconciles operating profit excluding special items to profit (loss) for the period.

	Three Months Ended December	
	2015	2014
	(US\$ million)	
Profit for the period	75	24
Taxation charge	23	8
Net finance costs.....	25	37
Operating profit	123	69
Special items—(gains) losses	(11)	5
Operating profit excluding special items	112	74
Plantation price fair value adjustment.....	(2)	(1)
Net restructuring provisions.....	3	1
Profit on disposal of property, plant and equipment	(15)	—
Fire, flood, storm and other events	3	5
Total special items	(11)	5

Movements in operating profit and operating profit excluding special items are explained below.

Segment contributions to operating profit (loss), special items and operating profit (loss) excluding special items were as follows:

Operating Profit (Loss)	Three Months Ended December 2015	December 2015 vs. December 2014	Three Months Ended December 2014
		(US\$ million)	
Europe	28	14	14
North America.....	13	17	(4)
Southern Africa	82	23	59
Unallocated and eliminations	—	—	—
Total	123	54	69

Special items Loss (Gain)	Three Months Ended December	
	2015	2014
	(US\$ million)	
Europe	4	1
North America	—	—
Southern Africa	(15)	4
Unallocated and eliminations	—	—
Total	(11)	5

Operating Profit (Loss) excluding special items	Three Months Ended December 2015	December 2015 vs. December 2014	Three Months Ended December 2014
		(US\$ million)	
Europe.....	32	17	15
North America	13	17	(4)
Southern Africa.....	67	4	63
Unallocated and eliminations.....	—	—	—

<u>Operating Profit (Loss) excluding special items</u>	<u>Three Months Ended December 2015</u>	<u>December 2015 vs. December 2014 (US\$ million)</u>	<u>Three Months Ended December 2014</u>
Total	112	38	74

Special items for the Group in the three months ended December 2015 and the three months ended December 2014 are generally summarized below:

Plantation price fair value adjustment: This relates to an accounting fair value adjustment of the timber assets of Sappi Forests. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, and discount rates applied. The parameters applied are all derived from market information. A positive US\$2 million adjustment was recognized in the three-month period ended December 2015 and a positive US\$1 million adjustment was recognized in the three-month period ended December 2014.

Net restructuring provisions: Restructuring provisions of US\$3 million for general fixed cost optimization programs were raised for the European business in the three-month period ended December 2015. Restructuring provisions of US\$1 million for general fixed cost optimization programs were raised for the European business in the three-month period ended December 2014.

Profit on disposal of property, plant and equipment: In the three-month period ended December 2015, operating profit was positively impacted by a profit on the sale of assets of US\$15 million, mainly relating to the disposal of the Enstra and Cape Kraft mills in Southern Africa.

Fire, flood and storm and other events: A charge of US\$3 million was recorded in the three-month period ended December 2015, mainly relating to a US\$2 million loss due to plantation fires and a charge of US\$1 million relating to a self-insured mechanical failure at the Alfeld Mill. A charge of US\$5 million was recorded in the three-month period ended December 2014, mainly relating to a self-insured mechanical failure at the Ngodwana Mill.

Group

The operating profit of US\$69 million in the three months ended December 2014 increased to an operating profit of US\$123 million in the three-month period ended December 2015.

Operating profit in the three months ended December 2015 was positively affected by special items of US\$11 million compared to a negative impact of special items of US\$5 million in the three months ended December 2014. Special items in the three months ended December 2015 included a profit of US\$15 million relating to the disposal of the Enstra and Cape Kraft Mills. Special items in the three months ended December 2014 included a charge due to a self-insured mechanical failure at the Ngodwana Mill of US\$5 million.

Operating profit excluding special items increased in the three months ended December 2015 to US\$112 million from US\$74 million in the three months ended December 2014. This change was due to improvements in each of our European, North American and Southern African businesses. While the European and Southern African businesses benefited from higher sales prices on a local currency basis, the effect of a considerably stronger US dollar outweighed such benefits on an as-reported basis. The European business benefited from increased sales prices for graphic paper in euro terms, ongoing cost reduction efforts to manage variable and fixed costs, as well as the transfer of volumes from Metsä Board Corporation's Husum Mill (the output of which we previously sold on an agency basis) to our own paper mills in Europe. The North American business benefited from lower variable costs (mainly related to savings in fiber and energy costs) and higher coated paper sales volumes as a result of an increase in our market share in North America, partly offset by a decline in exports of coated paper as a result of a strong US dollar and the negative impact of a weak patterned textile market in China on our release paper business. The three-month period ended December 2014 was also impacted by a planned extended annual maintenance shutdown at the Somerset Mill. The Southern African business benefited from higher sales prices for our products in Rand terms, partly offset by a negative impact of US\$6 million relating to a severe drought in South Africa, which slowed production at the Saiccor Mill for several weeks, and raw material cost pressures resulting from a weaker Rand. Although US dollar spot prices for dissolving wood pulp increased during most of the three-month period ended December 2015, lower textile prices and a weaker Chinese RMB placed pressure on our viscose staple fiber customers towards the end of the period, which adversely affected the prices of dissolving wood pulp.

Europe

Key figures	Three Months Ended December	
	2015	2014
	(US\$ million)	
Operating profit	28	14
Special items—losses	4	1
Operating profit excluding special items	32	15

Operating profit in the three months ended December 2015 was US\$28 million as compared to an operating profit of US\$14 million for the comparative period in 2014.

The operating profit in the three months ended December 2015 included unfavorable special items of US\$4 million, comprising restructuring provisions of US\$3 million related to general fixed cost optimization programs across the European business and unfavorable special items of US\$1 million related to a self-insured mechanical failure at the Alfeld Mill. The operating profit in the three months ended December 2014 included unfavorable special items of US\$1 million for restructuring provisions related to general fixed cost optimization programs across the European business.

Operating profit excluding special items increased to US\$32 million in the three months ended December 2015 compared to an operating profit excluding special items in the three-month period ended December 2014 of US\$15 million. The increase was mainly due to ongoing cost reduction efforts to manage variable and fixed costs, the transfer of volumes from Metsä Board Corporation's Husum Mill (the output of which we previously sold on an agency basis) to our own paper mills in Europe, as well as increased sales prices for graphic paper in euro terms. The three-month period ended December 2014 was also impacted by a planned paper machine upgrade at the Gratkorn Mill.

North America

Key figures	Three Months Ended December	
	2015	2014
	(US\$ million)	
Operating profit (loss).....	13	(4)
Special items—gains.....	—	—
Operating profit (loss) excluding special items.....	13	(4)

Operating profit in the three months ended December 2015 was US\$13 million as compared to an operating loss of US\$4 million for the comparative period in 2014.

Operating profit excluding special items increased to US\$13 million in the three months ended December 2015 compared to an operating loss excluding special items in the three-month period ended December 2014 of US\$4 million. The increase was due to lower variable costs (mainly related to savings in fiber and energy costs) and higher coated paper sales volumes as a result of an increase in our market share in North America, partly offset by a decline in exports of coated paper as a result of a strong US dollar and the negative impact of a weak patterned textile market in China on our release paper business. The three-month period ended December 2014 was also impacted by a planned extended annual maintenance shutdown at the Somerset Mill.

Southern Africa

Key figures	Three Months Ended December	
	2015	2014
	(US\$ million)	
Operating profit	82	59
Special items—(gains) losses	(15)	4
Operating profit excluding special items	67	63

Operating profit for the three months ended December 2015 was US\$82 million as compared to an operating profit of US\$59 million for the comparative period in 2014.

The operating profit for the three months ended December 2015 included favorable special items of US\$15 million, mainly relating to a profit on the disposal of the Enstra and Cape Kraft Mills. The operating profit in the

three months ended December 2014 included unfavorable special items of US\$4 million, mainly comprising a US\$5 million self-insured mechanical failure at the Ngodwana Mill.

Operating profit excluding special items was US\$67 million in the three months ended December 2015 as compared to an operating profit excluding special items in the three-month period ended December 2014 of US\$63 million. The increase was mainly due to ongoing cost reduction efforts to manage variable and fixed costs, partly offset by a negative impact of US\$6 million relating to a severe drought in South Africa, which slowed production at the Saiccor Mill for several weeks. The sales prices for our products increased in Rand terms, the effects of which were partly offset by raw material cost pressures resulting from a weaker Rand. Although US dollar spot prices for dissolving wood pulp increased during most of the three-month period ended December 2015, lower textile prices and a weaker Chinese RMB placed pressure on our viscose staple fiber customers towards the end of the period, which adversely affected the prices of dissolving wood pulp.

Sales

An analysis of sales movements in the three months ended December 2015 and in the three months ended December 2014 is presented below:

Sales Volume	Three Months Ended December 2015	December 2015 vs. December 2014	Three Months Ended December 2014
		('000 tons)	
Europe	836	61	775
North America	330	(3)	333
Southern Africa	645	(9)	654
Paper and pulp	386	(40)	426
Forestry	259	31	228
Total	1,811	49	1,762
Paper and pulp (excluding dissolving wood pulp)	1,297	63	1,234
Dissolving wood pulp	255	(45)	300
Forestry	259	31	228
Sales	Three Months Ended December 2015	December 2015 vs. December 2014	Three Months Ended December 2014
		(US\$ million)	
Europe	659	(25)	684
North America	343	(10)	353
Southern Africa	282	(58)	340
Paper and pulp	268	(57)	325
Forestry	14	(1)	15
Total	1,284	(93)	1,377

The main factors impacting sales are volume, price, product sales mix and currency exchange rate movements. The South African and European businesses transact in Rand and euro, respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rates between local currency and the US dollar during periods of high volatility significantly impacts results reported in US dollars from one period to the next. Changes in average exchange rates for the three months ended December 2015 compared to the three months ended December 2014 impacted sales negatively by US\$167 million in the three months ended December 2015.

Sales for the three months ended December 2015 were US\$1,284 million, a decrease of 7% compared to the three months ended December 2014 due in part to slightly lower sales volumes in South Africa, mainly as a result of the water shortage at the Saiccor Mill and the timing of shipments. The significantly weaker Rand and euro relative to the US dollar and the translation impact on the South African and European businesses' sales also reduced revenue. These effects were partially offset by higher sales prices in local currency terms in the Southern African and European businesses and higher sales volumes in Europe.

Average selling prices realized by the Group in the three months ended December 2015 were approximately 9% lower in US dollar terms than the average selling prices realized in the three months ended December 2014, mainly as a result of the significantly weaker Rand and euro relative to the US dollar. Although US dollar spot prices for dissolving wood pulp increased during most of the three-month period ended December 2015, lower textile prices and a weaker

Chinese RMB placed pressure on our viscose staple fiber customers towards the end of the period, which adversely affected the prices for dissolving wood pulp.

In the three months ended December 2015, sales volume for the Group was approximately 3% higher than in the three-month period ended December 2014. This was mainly due to increased sales volumes in Europe, which benefited from the transfer of volumes from Metsä Board Corporation's Husum Mill (the output of which we previously sold on an agency basis) to our own paper mills in Europe.

Operating expenses

In the analyses which follow, cost per ton has been based on sales tons. An analysis of the Group operating expenses is as follows:

Operating Expenses ⁽¹⁾	Three Months Ended December 2015	December 2015 vs. December 2014	Three Months Ended December 2014
	(US\$ million)		
Variable Costs			
Delivery	111	(12)	123
Manufacturing.....	671	(85)	756
Total Variable Costs	782	(97)	879
Fixed costs	383	(40)	423
Special items—(gains) losses.....	(11)	(16)	5
Other operating expenses (income).....	7	6	1
Total	1,161	(147)	1,308

⁽¹⁾ Operating expenses consists of cost of sales; selling, general and administrative expenses; other operating expenses (income); and share of profit from joint ventures.

See “—Operating Results” for a discussion on special items.

Variable and fixed costs are analyzed in further detail below.

Variable costs

The table below sets out the major components of the Group's variable costs.

	Three Months Ended December 2015		Change 2015 vs. 2014 (US\$ million)	Three Months Ended December 2014	
	Costs (US\$ million)	US\$/Ton		Costs (US\$ million)	US\$/Ton
Variable Manufacturing Costs					
Wood	154	85	2	152	86
Energy	91	50	(31)	122	69
Pulp ⁽¹⁾	218	120	(21)	239	136
Chemicals	183	101	(17)	200	114
Delivery	111	61	(12)	123	70
Other costs	25	14	(18)	43	24
Total	782	431	(97)	879	499

⁽¹⁾ Pulp includes only bought-in fully bleached hardwood and softwood.

Variable manufacturing costs relate to costs of inputs which vary directly with output. The line “Other costs” in the table above relates to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables. The Group's variable costs are impacted by sales volume, exchange rate impacts on translation of our European and South African businesses into US dollars and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been the impact of the exchange rates on translation of the European and the South African operations into the US dollar presentation currency and actual input cost escalations. See “—Principal Factors Impacting on Group Results—Currency Fluctuations” for a discussion of exchange rate movements. Cost increases are driven by international commodity price increases.

We have engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies and product re-engineering initiatives to reduce raw

material input costs through substitution. Product design and raw material inputs are constantly reviewed to ensure product attributes and quality meet market specifications.

Variable costs decreased by US\$97 million, or 11%, in the three months ended December 2015 compared to the three months ended December 2014. This reduction was achieved despite an increase in sales volume, and was mainly due to cost savings in pulp, energy and chemicals as well as exchange rate impacts on the translation of costs for our European and South African businesses into US dollars.

In Europe, overall variable costs per ton decreased by 12% in US dollar terms in the three months ended December 2015 compared to the three months ended December 2014, mainly due to the different average exchange rates used for translation in the three months ended December 2015 (US\$1.10 to one euro) compared to the three months ended December 2014 (US\$1.25 to one euro). The weaker euro negatively impacted US dollar-denominated variable costs, particularly for paper pulp, in the three months ended December 2015 compared to the equivalent quarter in 2014. The higher costs of pulp were offset by lower energy costs following the completion of the multi-fuel boiler at the Kirkniemi Mill and cost savings in chemicals. In North America, variable costs per ton decreased by 11% in the three months ended December 2015 compared to the three months ended December 2014 primarily due to decreases in energy and fiber costs, including savings related to a partial switch to using kraft pulp instead of dissolving wood pulp as raw materials for our paper-making operations at the Cloquet Mill during applicable periods. In Southern Africa, overall variable costs per ton decreased by 18% in US dollar terms in the three months ended December 2015 compared to the three months ended December 2014 mainly due to the different average exchange rates used for translation in the three months ended December 2015 (ZAR14.16 to one US\$) compared to the three months ended December 2014 (ZAR11.21 to one US\$). Energy cost savings in Southern Africa were partly offset by increased fiber costs.

Fixed costs

A summary of the Group's major fixed cost components is as follows:

<u>Fixed Costs</u>	Three Months Ended December 2015	Variance	Three Months Ended December 2014
	Costs	Value	Costs
		(US\$ million)	
Personnel	220	(26)	246
Maintenance	54	(10)	64
Depreciation	63	(8)	71
Other	46	4	42
Total	383	(40)	423

Fixed costs in the three months ended December 2015 decreased by US\$40 million, or 9%, compared to the three months ended December 2014. Ongoing cost reduction efforts, as well as a decline in the average exchange rates used for translation, contributed to an 11% decline in fixed costs in our European operations during the three months ended December 2015 compared to the three months ended December 2014. Fixed costs in the Southern African region decreased by 21% in US dollar terms mainly due to the different average exchange rates used for translation in the three months ended December 2015 (ZAR14.16 to one US\$) compared to the three months ended December 2014 (ZAR11.21 to one US\$). Fixed costs increased by US\$3 million in the North American region in the three months ended December 2015 compared to the corresponding period in 2014 mainly due to higher personnel costs.

Net Finance Costs

Net finance costs for the three-month periods ended December 2015 and December 2014 may be analyzed as follows:

<u>Net Finance Costs</u>	Three Months Ended December	
	2015	2014
	(US\$ million)	
Finance costs	31	43
Finance revenue	(4)	(3)
Net interest	27	40
Net foreign exchange gains	(2)	(2)
Net fair value (gain) loss on financial instruments	—	(1)
Net finance costs	25	37

Net interest (finance costs less finance revenue) for the three months ended December 2015 was US\$27 million compared to US\$40 million for the three months ended December 2014. The decrease in net interest was primarily a result of the overall reduction in gross debt levels as well as significantly lower interest rates following completion of the 2015 Refinancing in the first half of fiscal 2015.

Net foreign exchange gains of US\$2 million for each of the three months ended December 2015 and December 2014 were due to the forward points that accrued mainly on US dollar/Rand forward cover taken on export sales from our Southern African business, as well as other foreign exchange transaction differences due to short timing differences relating to the cover of the residual exposure. The Group's policy is to identify foreign exchange risks when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third-party banks.

Net fair value gain (loss) on financial instruments relates to the net impact of currency and interest rate movements under hedge accounting for certain interest rate and currency swaps entered into by the Group in order to manage the interest and currency exposure on external loans.

Taxation

	Three Months Ended December	
	2015	2014
	(US\$ million)	
Profit before taxation	98	32
Taxation at the average statutory tax rates	27	8
Net exempt income and non-tax deductible expenditure	(4)	17
No tax relief on losses	3	1
No tax charge on profits	(3)	(16)
Prior year adjustments	-	(2)
Other taxes	-	-
Taxation charge	23	8
Effective tax rate	23%	25%

Our effective tax rate for the three months ended December 2015 and the three months ended December 2014 was positive 23% and positive 25%, respectively. We benefited from Austrian tax losses carried forward and tax exemptions to shield profits in certain countries against taxation. Due to the unrecognized tax assets in Europe, there is effectively no accounting relief for losses incurred. We have substantial unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which we expect will substantially shield the taxable profit in those countries for some years.

The North American effective tax rate of 39% is slightly higher than the statutory tax rate of 38% due to the impact of non-deductible expenses estimated for the full year based on expected total annual earnings. The Southern African tax rate of 27% is lower than the statutory tax rate of 28% due to non-taxable income.

Profit (loss)

Profit for the three months ended December 2015 was US\$75 million compared to a profit for the three months ended December 2014 of US\$24 million. The main reasons for the change were a US\$38 million improvement in operating profit excluding special items, a net increase in favorable special items of US\$16 million and a US\$12 million improvement in net finance costs, partially offset by a US\$15 million increase in the taxation charge.

Comparison of Fiscal 2015, 2014 and 2013

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are highlighted below, with a detailed discussion and analysis in separate sections that follow.

The key indicators of the Group's operating performance are:

Key figures	2015	2014	Restated
			2013
			(US\$ million)
Sales.....	5,390	6,061	5,925
Operating profit.....	411	314	19
Special items—(gains) losses.....	(54)	32	161
Operating profit excluding special items	357	346	180

The following table reconciles operating profit excluding special items to profit (loss) for the period.

	Year Ended September		
	2015	2014	Restated 2013
			(US\$ million)
Profit (loss) for the period.....	167	135	(182)
Taxation charge	62	2	15
Net finance costs	182	177	186
Operating profit.....	411	314	19
Special items—(gains) losses	(54)	32	161
Operating profit excluding special items.....	357	346	180
Plantation price fair value adjustment	(41)	(18)	(87)
Net restructuring provisions and loss (profit) on disposal of assets and businesses	6	23	99
Impairment of goodwill.....	—	1	—
Asset impairments	—	—	155
Employee benefit liability settlement gain	(55)	—	—
Post-retirement plan settlements and amendments.....	—	—	(24)
Black Economic Empowerment charge	2	2	3
Fire, flood, storm and other events	34	24	15
Total special items	(54)	32	161

Movements in operating profit and operating profit excluding special items are explained below.

Segment contributions to operating profit (loss), special items and operating profit (loss) excluding special items were as follows:

Operating Profit (Loss)	2015	2015 vs. 2014	2014	2014 vs. 2013	Restated
					2013
					(US\$ million)
Europe	120	78	42	192	(150)
North America.....	27	11	16	(47)	63
Southern Africa	283	23	260	143	117
Unallocated and eliminations	(19)	(15)	(4)	7	(11)
Total.....	411	97	314	295	19

Special Items (Gain) Loss	2015	2014	Restated
			2013
			(US\$ million)
Europe.....	(47)	33	142
North America	—	2	(6)
Southern Africa.....	(27)	(12)	8
Unallocated and eliminations.....	20	9	17
Total.....	(54)	32	161

Operating Profit (Loss) excluding special items	2015	2015 vs. 2014	2014	2014 vs. 2013	Restated 2013
			(US\$ million)		
Europe	73	(2)	75	83	(8)
North America.....	27	9	18	(39)	57
Southern Africa	256	8	248	123	125
Unallocated and eliminations	1	(4)	5	(1)	6
Total	357	11	346	166	180

Special items for the Group in fiscal 2015, fiscal 2014 and fiscal 2013 are generally summarized below:

Plantation price fair value adjustment: A positive non-cash US\$41 million plantation price fair value adjustment was recognized in fiscal 2015 following increases to the market price of timber and a positive non-cash US\$18 million adjustment was recognized in fiscal 2014 following an increase in weighted average timber prices offset by cost increases. In fiscal 2013, a positive non-cash US\$87 million adjustment was recognized, which arose largely from the decision to sell in the local saw log markets a certain portion of the Southern African softwood plantations that were previously expected to be utilized in paper pulp production. This decision was precipitated by reductions in our paper pulp requirements following the Ngodwana dissolving wood pulp conversion and the closure of the kraft continuous digester at Tugela.

Net restructuring provisions and loss (profit) on disposal of assets and businesses: In fiscal 2015, operating profit was negatively impacted by US\$6 million of restructuring provisions raised, comprising a US\$4 million provision related to general fixed cost optimization programs across Europe and a US\$2 million provision related to Southern African and corporate head office restructurings.

In fiscal 2014, operating profit was negatively impacted by a US\$25 million charge relating to cost cutting initiatives aimed at our European coated mechanical business and an additional net US\$5 million charge taken for general cost restructures across the Group. The release of restructuring provisions previously raised for the Nijmegen Mill of US\$36 million and a profit on disposal of Usutu Forests of US\$2 million were partly offset by losses of US\$27 million on the disposal of the Nijmegen Mill and US\$6 million on disposal of minor assets across the Group.

In fiscal 2013, total restructuring provisions of US\$97 million were raised, comprising a US\$43 million provision related to the expected relocation of the production of the Nijmegen Mill, US\$36 million related to general fixed cost optimization programs across Europe and US\$18 million related to Southern African and corporate head office restructurings. Loss on disposal of property, plant and equipment amounted to US\$2 million in fiscal 2013.

Impairments of goodwill: In fiscal 2014, operating profit was negatively impacted by a goodwill impairment of US\$1 million.

Asset impairments: In fiscal 2013, difficult market conditions in the Group's graphic paper business, particularly in Europe, resulted in substantial impairments being taken in our European and South African businesses (US\$72 million and US\$92 million, respectively). Within our European business, the major impairments related to our Nijmegen Mill (US\$38 million) and our coated mechanical cash-generating unit (US\$25 million). In South Africa, the major impairments related to our Tugela Mill (US\$47 million), the Enstra Mill (US\$32 million) and our Stanger Mill (US\$12 million). An impairment reversal of US\$9 million was also recorded on the sale of our Kangas paper machine which was impaired in the 2010 financial year.

Employee benefit liability settlement gain: In fiscal 2015, an employee benefit liability settlement gain of US\$55 million was realized upon the transfer of the Sappi Dutch pension fund to a third-party industry-based pension fund in The Netherlands.

Post-retirement plan settlements and amendments: In fiscal 2013, a gain of US\$24 million was recognized when the Southern African medical aid was incorporated into an external medical aid provider, resulting in a reduced post-retirement medical aid liability due to cross-subsidization achieved within the larger scheme and the expectation of lower future premiums.

Black Economic Empowerment charge: Charges related to a B-BBEE transaction completed during fiscal 2010 amounted to US\$2 million in each of fiscal 2015 and fiscal 2014 and US\$3 million in fiscal 2013.

Fire, flood, storm and other events: Fire, flood, storm and other events resulted in damage of US\$34 million in fiscal 2015, including a turbine failure at Alfeld Mill and a boiler tube leak and turbine failure at Ngodwana Mill, resulting in business interruption and property damage of US\$6 million and US\$18 million, respectively, as well as fire and drought damage to our forests of US\$7 million. In fiscal 2014, damage from fire, flood, storm and other events

amounted to US\$24 million, including property and business interruption damage amounting to US\$9 million incurred at our Tugela Mill following its press roll failure and roof collapse. Fire, flood, storm and other events resulted in damage of US\$15 million in fiscal 2013.

Group

Comparing fiscal 2015 with fiscal 2014

Our operating profit increased to US\$411 million in fiscal 2015 from US\$314 million in fiscal 2014.

Operating profit in fiscal 2015 benefited from a positive impact of special items of US\$54 million compared to a negative impact of special items of US\$32 million in fiscal 2014. Favorable special items in fiscal 2015 included a positive non-cash plantation price fair value adjustment of US\$41 million, which was recognized following increases to the market price of timber, and an employee benefit liability settlement gain of US\$55 million, which was realized upon transfer of the Sappi Dutch pension fund to a third-party industry-based pension fund in The Netherlands.

Operating profit excluding special items increased in fiscal 2015 to US\$357 million from US\$346 million in fiscal 2014. This improvement was mainly due to increased operating profits in North America and Southern Africa, partly offset by a marginal reduction in operating profit excluding special items in Europe.

Comparing fiscal 2014 with fiscal 2013

Our operating profit increased to US\$314 million in fiscal 2014 from US\$19 million in fiscal 2013.

Operating profit in fiscal 2014 was negatively affected by special items of US\$32 million compared to a negative impact of special items of US\$161 million in fiscal 2013. Special items in fiscal 2013 included principally asset impairments (US\$155 million) and restructuring charges and loss on disposal of assets (US\$99 million), partly offset by a favorable plantation fair value price adjustment (US\$87 million).

Operating profit excluding special items increased in fiscal 2014 to US\$346 million from US\$180 million in fiscal 2013. This significant improvement was mainly due to the first full year of our expanded dissolving wood pulp operations and improved results in our European and Southern African paper operations, partly offset by cost pressures and lower average sales prices in North America. In fiscal 2014, specialised cellulose accounted for US\$243 million, or 70% of total operating profit excluding special items, paper products accounted for US\$98 million, or 28%, and other Unallocated and eliminations accounted for the remaining US\$5 million, or 2%.

Europe

Key figures	2015	2014	Restated 2013
			(US\$ million)
Operating profit (loss)	120	42	(150)
Special items—(gains) losses	(47)	33	142
Operating profit (loss) excluding special items.....	73	75	(8)

Comparing fiscal 2015 with fiscal 2014

An operating profit of US\$120 million in fiscal 2015 was an improvement compared to an operating profit of US\$42 million in fiscal 2014.

Operating profit excluding special items decreased to US\$73 million in fiscal 2015 from an operating profit excluding special items in fiscal 2014 of US\$75 million. This decline was primarily due to the currency translation impact of a weaker average euro during fiscal 2015 and the cost and sales impacts of the paper machine and boiler upgrade at the Gratkorn Mill. As a result of the weaker euro, sales prices for our products in export markets improved in euro terms and were higher than sales prices in the local market. However, the weaker euro also resulted in higher costs of procuring certain imported raw materials in euro terms, including paper pulp. In addition, the prices for hardwood paper pulp rose in US dollar terms. On a constant currency basis, operating profit excluding special items increased to US\$86 million in fiscal 2015 from US\$75 million in fiscal 2014.

Comparing fiscal 2014 with fiscal 2013

Operating profit of US\$42 million in fiscal 2014 was an improvement compared to an operating loss of US\$150 million in fiscal 2013.

The operating loss for fiscal 2013 included unfavorable special items of US\$142 million, which included asset impairments (US\$72 million), as well as restructuring provisions related to the expected relocation of the production of the Nijmegen Mill (US\$43 million) and for general fixed cost optimization programs across Europe (US\$36 million).

Operating profit excluding special items increased to US\$75 million in fiscal 2014 from an operating loss excluding special items in fiscal 2013 of US\$8 million. This improvement was due to successful cost reduction initiatives implemented to counter demand which continued to decline.

North America

Key figures	2015	2014	Restated 2013
			(US\$ million)
Operating profit	27	16	63
Special items—(gains) losses	-	2	(6)
Operating profit excluding special items	<u>27</u>	<u>18</u>	<u>57</u>

Comparing fiscal 2015 with fiscal 2014

Operating profit increased from US\$16 million in fiscal 2014 to US\$27 million in fiscal 2015.

Operating profit for fiscal 2015 was not affected by special items, while the operating profit for fiscal 2014 included unfavorable special items of US\$2 million.

Operating profit excluding special items increased from US\$18 million in fiscal 2014 to US\$27 million in fiscal 2015. This increase was mainly due to the successful implementation of efficiency programs, cost savings in raw materials and an improved sales mix, despite a strengthening US dollar, weaker local demand and extreme winter weather conditions that adversely influenced the North American operations.

Comparing fiscal 2014 with fiscal 2013

Operating profit decreased from US\$63 million in fiscal 2013 to US\$16 million in fiscal 2014.

The operating profit for fiscal 2013 included favorable special items of US\$6 million, compared to unfavorable special items of US\$2 million in fiscal 2014.

Operating profit excluding special items decreased from US\$57 million in fiscal 2013 to US\$18 million in fiscal 2014. This decline was mainly due to decreases in average selling prices for both coated paper and dissolving wood pulp, as well as increased variable manufacturing costs.

Southern Africa

Key figures	2015	2014	Restated 2013
			(US\$ million)
Operating profit	283	260	117
Special items—(gains) losses	(27)	(12)	8
Operating profit excluding special items	<u>256</u>	<u>248</u>	<u>125</u>

Comparing fiscal 2015 with fiscal 2014

Operating profit increased from US\$260 million in fiscal 2014 to US\$283 million in fiscal 2015.

The operating profit for fiscal 2015 included favorable special items of US\$27 million, which mainly consisted of a favorable plantation price fair value adjustment of US\$41 million, partially offset by property damage and business disruption following a boiler tube leak and turbine failure at our Ngodwana Mill (US\$18 million). Operating profit for fiscal 2014 included favorable special items of US\$12 million, which consisted mainly of a favorable plantation price fair

value adjustment (US\$18 million) partially offset by property and business interruption damage (US\$9 million) following a press roll failure and roof collapse at our Tugela Mill.

Operating profit excluding special items improved to US\$256 million in fiscal 2015 from an operating profit excluding special items in fiscal 2014 of US\$248 million. This improvement was mainly due to increased selling prices in Rand terms in our dissolving wood pulp business, strong volume demand and the introduction of new packaging grades, partially offset by increased variable costs per ton in Rand terms for the Southern African paper business.

Comparing fiscal 2014 with fiscal 2013

Operating profit increased from US\$117 million in fiscal 2013 to US\$260 million in fiscal 2014.

The operating profit for fiscal 2014 included favorable special items of US\$12 million, which consisted mainly of a favorable plantation price fair value adjustment (US\$18 million) partially offset by property and business interruption damage (US\$9 million) following a press roll failure and roof collapse at our Tugela Mill. Operating profit for fiscal 2013 included unfavorable special items of US\$8 million, which consisted primarily of asset impairments (US\$92 million) and restructuring provisions (US\$18 million), partly offset by a favorable plantation price fair value adjustment (US\$87 million) and a gain related to a post-retirement plan amendment (US\$24 million).

Operating profit excluding special items improved to US\$248 million in fiscal 2014 from an operating profit excluding special items in fiscal 2013 of US\$125 million. This significant improvement was mainly due to increased sales volumes and average selling prices in Rand terms in our dissolving wood pulp business, partially offset by increased variable input cost per ton for the Southern African paper business.

Movements in the sales, variable cost and fixed cost components of operating profit are explained below.

Sales

An analysis of sales movements in fiscal 2015, 2014 and 2013 is presented below:

Sales Volume	2015	Change 2015 vs. 2014	2014	Change 2014 vs. 2013	2013
			('000 tons)		
Europe	3,242	(61)	3,303	(64)	3,367
North America	1,305	(149)	1,454	156	1,298
Southern Africa	2,759	(8)	2,767	(34)	2,801
Paper and pulp	1,768	62	1,706	87	1,619
Forestry	991	(70)	1,061	(121)	1,182
Total	7,306	(218)	7,524	58	7,466
Paper and pulp (excluding dissolving wood pulp)	5,154	(110)	5,264	(226)	5,490
Dissolving wood pulp.....	1,161	(38)	1,199	405	794
Forestry	991	(70)	1,061	(121)	1,182
				Restated	
Sales	2015	Change 2015 vs. 2014	2014	Change 2014 vs. 2013	2013
			(US\$ million)		
Europe	2,660	(447)	3,107	(48)	3,155
North America	1,377	(140)	1,517	140	1,377
Southern Africa	1,353	(84)	1,437	44	1,393
Paper and pulp.....	1,293	(75)	1,368	52	1,316
Forestry	60	(9)	69	(8)	77
Total	5,390	(671)	6,061	136	5,925

The main factors impacting sales are volume, price, product sales mix and currency exchange rate movements. The Southern African and European businesses transact in Rand and euro, respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rate from local currency to US dollars during the periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales negatively by US\$662 million in fiscal 2015, by US\$96 million in fiscal 2014 and by US\$181 million in fiscal 2013.

Comparing fiscal 2015 with fiscal 2014

In fiscal 2015, sales volume decreased by 218,000 tons, or 3%, compared with fiscal 2014.

Sales volumes in Europe declined in fiscal 2015 by 61,000 tons, or 2%, compared to fiscal 2014, mainly due to the continuing drop in demand for coated paper as a result of the weak local economy and substitution towards digital media, partially offset by strong growth in speciality paper sales volumes of 12% following the conversion of the Alfeld coated woodfree machine in fiscal 2014 to produce speciality paper.

In North America, sales volume decreased by 149,000 tons, or 10%, in fiscal 2015 compared to fiscal 2014, primarily due to a decrease in dissolving wood pulp sales resulting from our decision to increase the production of paper pulp for internal consumption at the Cloquet Mill, as well as reduced demand for coated paper and higher levels of imports due to the stronger US dollar.

Sales volumes in Southern Africa marginally declined by 8,000 tons, or less than 1%, in fiscal 2015 compared to fiscal 2014, primarily due to a 7% decline in sales volumes of forestry products, offset in part by paper and specialised cellulose volumes that were higher in fiscal 2015 as a result of stronger demand.

Total sales revenue decreased by 11% from US\$6.1 billion in fiscal 2014 to US\$5.4 billion in fiscal 2015. The decrease was due to lower sales volumes, partially offset by an improved sales mix and price increases in all regions. A weaker average Rand and euro against the US dollar in fiscal 2015 compared to fiscal 2014 reduced revenue by US\$662 million in fiscal 2015.

Comparing fiscal 2014 with fiscal 2013

In fiscal 2014, sales volume increased by 58,000 tons, or 1%, compared with fiscal 2013.

Sales volumes in Europe declined in fiscal 2014 by 64,000 tons, or 2%, compared to fiscal 2013, mainly due to the continuing drop in demand for coated paper as a result of the weak local economy and substitution towards digital media, partially offset by strong growth in speciality paper sales volumes of 8% due in part to the completion of the conversion of the Alfeld coated woodfree machine to speciality paper and the commencement of production on the machine during fiscal 2014. Graphics sales volumes decreased in line with market developments at an average of approximately 3%, including the impact of the disposal of the Nijmegen Mill, which was completed in the third fiscal quarter of 2014.

In North America, sales volume increased by 156,000 tons, or 12%, in fiscal 2014 compared to fiscal 2013, primarily due to a significant increase in dissolving wood pulp sales following the conversion at the Cloquet Mill, which was completed in fiscal 2013. This increase was partially offset by a significant decrease in paper pulp sales volume due to the same conversion. Coated paper sales volumes remained comparable to the prior fiscal year.

Sales volumes in Southern Africa declined by 34,000 tons, or 1%, in fiscal 2014 compared to fiscal 2013, primarily due to a 10% decline in sales volumes of forestry products and lower paper volumes, offset in part by increased dissolving wood pulp volumes following the conversion at Ngodwana Mill.

Total sales revenue increased by 2% from US\$5.9 billion in fiscal 2013 to US\$6.1 billion in fiscal 2014. The increase was due to higher sales volumes and an improved sales mix. Selling price declines in North America and Europe were partially offset by price increases in Southern Africa. A weaker Rand partially offset by a stronger average euro rate in fiscal 2014 compared to fiscal 2013 reduced revenue by of \$96 million in fiscal 2014.

Operating expenses

In the analyses which follow, cost per ton has been based on sales tons. An analysis of the Group operating expenses is as follows:

		Change		Change	Restated
	2015	2015 vs.	2014	2014 vs.	2013
		2014		2013	
Operating Expenses⁽¹⁾					
			(US\$ million)		
Variable Costs					
Delivery	474	(58)	532	22	510
Manufacturing	2,940	(415)	3,355	97	3,258
Total Variable Costs.....	3,414	(473)	3,887	119	3,768

Fixed Costs	1,613	(224)	1,837	(106)	1,943
Special items—(gains) losses	(54)	(86)	32	(129)	161
Other operating costs	6	15	(9)	(44)	35
Total	4,979	(768)	5,747	(160)	5,907

⁽¹⁾ Operating expenses consists of cost of sales; selling, general and administrative expenses; other operating expenses (income) and share of profit from joint ventures.

See “—Operating Results” for a discussion on special items.

Variable and fixed costs are analyzed in further detail below.

Variable costs

The table below sets out the major components of the Group’s variable costs.

Variable Costs	2015			2014			Restated 2013	
	Costs	US\$/Ton	Change 2015 vs. 2014	Costs	US\$/Ton	Change 2014 vs. 2013	Costs	US\$/Ton
	(US\$ million)							
Wood	603	83	(61)	664	88	23	641	86
Energy	443	61	(86)	529	70	(18)	547	73
Pulp ⁽¹⁾	911	124	(128)	1,039	138	125	914	122
Chemicals	773	105	(141)	914	121	(32)	946	127
Delivery	474	65	(58)	532	71	22	510	68
Other costs	210	29	1	209	28	(1)	210	28
Total	3,414	467	(473)	3,887	516	119	3,768	504

⁽¹⁾ Pulp includes only bought-in fully bleached hardwood and softwood.

Variable manufacturing costs relate to costs of inputs which vary directly with output. The line “Other costs” in the table above relates to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables. The Group’s variable costs are impacted by sales volume, exchange rate impacts on translation of our European and Southern African businesses into US dollars, and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been the impact of the exchange rates on translation of the European and the Southern African operations into the US dollar presentation currency and actual input cost escalations. See “—Principal Factors Impacting our Group Results—Currency Fluctuations” for a discussion of exchange rate movements. Cost increases are largely driven by international commodity price increases.

The company has engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies, improvement of production processes and product re-engineering initiatives to reduce raw material input costs through substitution of high cost raw materials with low cost raw materials. Product design and raw material inputs are constantly reviewed to ensure that product attributes and quality meet market specifications.

Comparing fiscal 2015 with fiscal 2014

Variable costs decreased by US\$473 million, or 12%, in fiscal 2015 from fiscal 2014. The decrease in variable costs was proportionally larger than the decrease in sales volumes and reflects the currency translation impact as a result of a weaker average Rand and euro against the US dollar, resulting in a decrease in variable costs per ton of US\$467, or 10%, reflecting decreases in delivery, wood, pulp and chemicals costs. Prices of purchased hardwood pulp increased 12% in US dollar terms, and partly offset benefits from cost reduction initiatives as well as reduced chemical costs.

Variable costs per ton in Europe decreased by 11% in fiscal 2015 compared to fiscal 2014 mainly due to the effects of a weaker euro and cost savings in energy and chemicals, which was partially offset by a significant increase in the costs of purchased hardwood pulp in US dollar terms. Variable costs per ton in North America decreased by 5% in fiscal 2015 as a result of successful implementation of efficiency programs and cost savings in energy and fiber, including savings related to a partial switch to using kraft pulp instead of dissolving wood pulp as raw materials for our paper making operations at the Cloquet Mill during applicable periods. Variable costs per ton in Southern Africa decreased by 10% in fiscal 2015 mainly due to the effects of a weaker average Rand partially offset by increases in wood, pulp and energy costs.

Comparing fiscal 2014 with fiscal 2013

Variable costs increased by US\$119 million, or 3%, in fiscal 2014 from fiscal 2013. The increase in variable costs was proportionally larger than the increase in sales volumes, resulting in an increase in variable costs per ton of US\$12, or 2%, reflecting increases in delivery, wood and pulp costs, partially offset by significant cost savings in chemicals. Pulp prices increased throughout fiscal 2014, resulting in an increase in pulp costs of US\$125 million, or 14%, in fiscal 2014 compared to fiscal 2013. The Northern Bleached Softwood Kraft index (NBSK), which represents a significant portion of our external pulp purchases by value, was US\$871 per ton at the beginning of the year and rose by 7% to US\$932 per ton at the end of the year. Delivery costs increased in fiscal 2014 compared to fiscal 2013 by US\$22 million, or 4%.

Variable costs in Europe decreased by 4% in fiscal 2014 compared to fiscal 2013 as a result of various cost cutting and efficiency programs and generally lower commodity prices. Variable costs in North America increased by 8% in fiscal 2014 mainly due to adverse weather conditions in the winter and spring periods. Wood and energy costs were the main contributors to the increase. Variable costs per ton in Southern Africa increased by 7% in fiscal 2014 mainly due to input cost pressures in energy, imported chemicals, wood and pulp costs.

Fixed costs

A summary of the Group's major fixed cost components is as follows:

Fixed Costs	2015	Change 2015 vs. 2014	2014	Restated	
				Change 2014 vs. 2013	2013
			(US\$ million)		
Personnel	930	(120)	1,050	(6)	1,056
Maintenance	215	(23)	238	(16)	254
Depreciation	266	(44)	310	(35)	345
Other	202	(37)	239	(49)	288
Total	1,613	(224)	1,837	(106)	1,943

Comparing fiscal 2015 with fiscal 2014

Fixed costs in fiscal 2015 decreased by US\$224 million, or 12%, from fiscal 2014 as a result of ongoing cost reduction efforts and improvements in efficiencies across the Group, as well as the currency translation impact of a weaker average Rand and euro against the US dollar. The European operations reduced fixed costs by 19% in fiscal 2015 mainly due to the currency translation impact of a weaker average euro and the sale of our Nijmegen Mill in fiscal 2014. The North American region marginally reduced fixed costs by 1% in fiscal 2015, whereas the Southern African region reduced fixed costs by 9% in fiscal 2015 due to the currency translation impact of a weaker average Rand partly offset by the effects of local inflation.

Comparing fiscal 2014 with fiscal 2013

Fixed costs in fiscal 2014 decreased by US\$106 million or 5% from fiscal 2013 as a result of ongoing cost reduction efforts, including the sale of our Nijmegen Mill, which contributed to an 8% decline in fixed costs in our European operations during fiscal 2014. The benefit from the reduced fixed cost base of the Nijmegen Mill was effective from the fourth quarter of fiscal 2014. The North American region reduced fixed costs by 2% in fiscal 2014, whereas the Southern African region marginally increased fixed costs by 1% in fiscal 2014. Both regions had a reduced depreciation charge following a reassessment of the useful lives of the pulp mill equipment from 20 years to 30 years.

Net Finance Costs

Net finance costs were as follows:

Net Finance Costs	2015	Restated	
		2014	2013
		(US\$ million)	
Finance costs.....	194	194	195
Finance revenue	(14)	(9)	(7)

Net interest.....	180	185	188
Net foreign exchange gains.....	(11)	(7)	(1)
Net fair value loss (gain) on financial instruments	13	(1)	(1)
Net finance costs.....	182	177	186

Net interest (finance costs less finance revenue) in fiscal 2015 was US\$180 million compared to US\$185 million in fiscal 2014 and to US\$188 million in fiscal 2013. The decrease in net interest in fiscal 2015 compared to fiscal 2014 was the result of the overall reduction in net debt levels as well as significantly lower interest rates following completion of the 2015 Refinancing in the first half of fiscal 2015, partly offset by breakage costs of US\$46 million (excluding costs of US\$15 million associated with unwinding certain swaps) incurred in fiscal 2015 in connection with the 2015 Refinancing. The decrease in net interest in fiscal 2014 compared to fiscal 2013 was a result of the overall reduction in net debt levels.

Net foreign exchange gains in fiscal 2015 and fiscal 2014 of US\$11 million and US\$7 million, respectively, were due to the forward points that accrued mainly on US dollar/Rand forward cover taken on export sales from our Southern African business, as well as other foreign exchange transaction differences due to short timing differences relating to the cover of the residual exposure. The Group's policy is to identify foreign exchange risks when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third-party banks.

Net fair value gain or loss on financial instruments relates to the net impact of currency and interest rate movements under hedge accounting for certain interest rate and currency swaps entered into by the Group in order to manage the interest and currency exposure on external loans. During fiscal 2015, certain interest rate swap arrangements were unwound in connection with the 2015 Refinancing, which resulted in additional charges related to interest rate swaps.

Taxation

	2015	2014	Restated 2013
	(US\$ million)		
Profit (loss) before taxation.....	229	137	(167)
Taxation at the average statutory tax rates.....	62	35	(42)
Net exempt income and non-tax deductible expenditure	11	(53)	(12)
No tax relief on losses.....	18	75	52
No tax charge on profits	(21)	(2)	(3)
Derecognition of deferred tax assets.....	—	—	32
Recognition of deferred tax assets	—	(53)	(8)
Prior year adjustments	(7)	—	(8)
Other taxes.....	(1)	—	4
Taxation charge	62	2	15
Effective tax rate.....	27%	1%	(9)%

Our effective tax rate for fiscal years 2015, 2014 and 2013 was positive 27%, positive 1% and negative 9%, respectively. Our tax rate is affected by factors including exempt income, non-tax deductible expenditure, no tax relief on losses in certain tax jurisdictions and the recognition (derecognition) of deferred tax assets. The main factors accounting for differences between our statutory income tax rate and our effective tax rate are explained below:

2015

Our tax charge for the year was US\$62 million, based on profit before taxation of US\$229 million.

As we are not able to recognize deferred tax assets in Europe, there is effectively no accounting relief for losses incurred. We have substantial unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which we expect will substantially shield the taxable profit in those countries for some years.

The North American effective tax rate of 24% is lower than the statutory rate of 38% mainly due to the impact of non-taxable income.

The Southern African tax rate of 22% is lower than the statutory tax rate of 28% mostly as a result of a prior year energy efficiency tax allowance of US\$5 million being claimed.

2014

Our tax charge for the year was US\$2 million, based on profit before taxation of US\$137 million.

As we are not able to recognize deferred tax assets in Europe, there is effectively no accounting relief for losses incurred. We have substantial unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which we expect will substantially shield the taxable profit in those countries for some years.

In North America, tax relief is mainly due to the recognition of a deferred tax asset of US\$53 million. The Group received a final examination report from the US Internal Revenue Service relating to the tax audit of our North American operations which confirmed that the Alternative Fuel Mixture Credit received in prior years, which was previously treated as taxable by the Group, was non-taxable. This resulted in an additional deferred tax asset of US\$53 million being recognized by the Group.

The Southern African effective tax rate of 27% is close to the statutory tax rate of 28%. No tax was charged on profits of US\$9 million generated from the sale of our Usutu forestry operations during the year.

2013

Our tax charge for the year was US\$15 million, based on a loss before taxation of US\$167 million.

As we are not able to recognise deferred tax assets in Europe, there is effectively no accounting relief for losses incurred, nor for restructuring costs in various countries, which has increased the effective tax rate. We have substantial unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which we expect will substantially shield the taxable profit in those countries for some years. During the second fiscal quarter the deferred tax asset in The Netherlands of US\$24 million was written off due to lower profit expectations.

The North American tax rate has been reduced by recognizing a portion of the tax benefit of the Cellulosic Biofuel Tax Credit which was claimed by amending prior years' federal tax returns for fiscal years 2009, 2010 and 2011. The tax credit has been recognized for the expected refund of federal alternative minimum taxes paid in these prior fiscal years and has been utilized to offset estimated federal minimum taxes payable on year to date earnings for fiscal years 2012 and 2013.

The Southern African tax rate is lower than the statutory tax rate of 28% due to tax incentives, including an additional allowance of US\$59 million claimed on top of normal tax allowance with the commissioning of the dissolving wood pulp conversion project at Ngodwana.

Profit (loss)

The Group recorded a profit of US\$167 million for fiscal 2015 compared to a profit of US\$135 million for fiscal 2014 and a loss of US\$182 million in fiscal 2013. The increase in profit in fiscal 2015 can be attributed to each of our regional businesses delivering improved operating performance in local currencies compared to fiscal 2014, our ongoing focus on cost reduction measures and efficiency programs.

The increase in profit in 2014 can be attributed to the delivery of substantially increased dissolving wood pulp sales volumes of 51% following the successful completion of the dissolving wood pulp conversion projects at the Ngodwana and Cloquet Mills in the prior year, the steady improvement of the European graphic paper business following our focus on cost reduction measures, and the restructured Southern African paper packaging businesses, which delivered an improved performance on the back of healthy demand and improved pricing.

Liquidity and Capital Resources

Our principal sources of liquidity are cash holdings, cash generated from operations and availability under our committed credit facilities and other debt arrangements. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements, to service our debt and to make dividend payments. Short-term debt as of December 2015 was US\$134 million and included ZAR755 million (US\$49 million) of a ZAR255 million (US\$16 million) Public Bond in South Africa due in April 2016 and a ZAR500 million (US\$33 million) Public Bond in South Africa due in June 2016. The remainder of the short-term debt consisted of additional short-term portions of long-term debt (US\$21 million) and short-term trade finance facilities which we expect to be able to refinance on a quarterly basis (US\$64 million). Based on our current level of operations we believe our cash flow from operations, available borrowings under our credit facilities, and cash and cash equivalents will be adequate to meet our liquidity needs for at least the next twelve months.

Our liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower than expected cash flow from operations, including decreases caused by lower demand for our products, weaker selling prices for our products, or higher input costs. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash, could have a significant effect on our liquidity resources. Our liquidity could also be impacted by any limitations on the availability of our existing debt and our ability to refinance existing debt or raise additional debt and the associated terms of such debt. However, at the end of fiscal 2015 and the three-month period ended December 2015 we had substantial cash and cash equivalents of US\$456 million and US\$383 million, respectively. In addition, both the €465 million Revolving Credit Facility (US\$510 million) and the ZAR1,000 million (US\$66 million) revolving credit facility of Sappi Southern Africa Limited were undrawn as of December 2015.

One of our targeted liquidity requirements is the payment of annual dividends to shareholders when applicable. Considering, among other factors, our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2015 not to declare a dividend for fiscal 2015.

Cash Flow

In fiscal 2015 and the three months ended December 2015, we retained our emphasis on cash generation despite our capital project investments and some energy projects. Capital expenditure was managed to a strategic target below US\$250 million in fiscal 2015 without compromising the maintenance of our asset base. We focused on managing working capital, particularly in relation to inventory levels and receivables, keeping our level of working capital in line with the level of trading activity.

Cash Flow Summary	Three Months Ended December		Year Ended September		Restated
	2015	2014	2015	2014	2013
			(US\$ million)		
Cash generated from operations⁽¹⁾	171	137	544	566	447
Movement in working capital	(100)	(136)	(11)	34	(20)
Net finance costs paid	(36)	(52)	(135)	(162)	(164)
Taxation paid	(18)	(3)	(16)	(1)	(17)
Cash retained from (utilized) operating activities	17	(54)	382	437	246
Investing activities	2	(67)	(237)	(194)	(493)
Net cash generated (utilized)	19	(121)	145	243	(247)

⁽¹⁾ Cash generated from operations is calculated by adding to the profit (loss) for the period, net finance costs, taxation and various non-cash items as set out in the table below. For further information on the years ended September 2015, 2014 and 2013, see note 24 to our Group annual financial statements for the year ended September 2015.

Cash generated from operations

In the three months ended December 2015, we generated cash from operations of US\$171 million compared to US\$137 million in the same period in 2014.

Cash generated from operations decreased to US\$544 million in fiscal 2015 compared to US\$566 million in fiscal 2014, mainly due to the currency translation impact of the weaker Rand and euro relating to the cash generated by the European and South African businesses.

Cash generated from operations was US\$566 million in fiscal 2014 compared to US\$447 million in fiscal 2013 mainly due to the US\$166 million increase in operating profit excluding special items.

Net cash generated (utilized)

Net cash generated in the three months ended December 2015 was US\$19 million compared to net cash utilized in the three-month period ended December 2014 of US\$121 million. The improvement was due to higher operating profits, higher proceeds from the disposal of assets as a result of the sale of the Enstra and Cape Kraft Mills and a reduction in capital expenditure in the three months ended December 2015 compared to the corresponding period in 2014.

Net cash generated in fiscal 2015 was US\$145 million compared to net cash generated of US\$243 million in fiscal 2014. The decrease was due to a reduction in cash generated from operations (US\$22 million), an increase in working capital (US\$45 million) and tax payments (US\$15 million) and lower proceeds from the disposal of assets

(US\$86 million) in fiscal 2015 compared to fiscal 2014, which were partly offset by a reduction in capital expenditure (US\$47 million) and finance costs (US\$27 million).

Net cash generated in fiscal 2014 was US\$243 million compared to net cash utilized of US\$247 million in fiscal 2013. The improvement was due to higher operating profits, optimization of working capital, a reduction in tax payments, a reduction in capital expenditure and higher proceeds from the disposal of assets in fiscal 2014 compared to the prior fiscal year.

Non-cash items

Non-cash Items	Three Months Ended December		Year Ended September		Restated
	2015	2014	2015	2014	2013
	(US\$ million)				
Depreciation and amortisation	63	71	268	312	348
Fellings	14	14	57	59	66
Asset and investment impairments (reversals).....	—	—	—	1	155
Plantation fair value—price	(2)	(1)	(41)	(18)	(87)
Plantation fair value—volume	(14)	(17)	(65)	(68)	(79)
Restructuring provisions and closure costs raised (reversed)	3	1	6	(6)	97
Profit on disposal of investment	—	—	—	—	—
Profit on sale of assets held for sale.....	(15)	—	—	—	—
(Profit) loss on disposal of assets and businesses	—	—	—	29	2
Other non-cash items	10	14	(36)	13	—
Total	59	82	189	322	502

Total non-cash items in the three months ended December 2015 amounted to US\$59 million, compared to US\$82 million in the three months ended December 2014. In fiscal 2015, total non-cash items amounted to US\$189 million, compared to US\$322 million in fiscal 2014 and US\$502 million in fiscal 2013.

Working capital

The movement in components of net working capital is as shown in the table below.

Working capital movement	Three Months Ended December		Year Ended September		Restated
	2015	2014	2015	2014	2013
	(US\$ million)				
Inventories	636	708	595	687	728
% sales ⁽¹⁾	12.4%	12.9%	11.0%	11.3%	12.3%
Receivables	601	688	645	731	747
% sales ⁽¹⁾	11.7%	12.5%	12.0%	12.1%	12.6%
Payables ⁽²⁾	(745)	(860)	(860)	(1,028)	(1,092)
% Cost of sales ⁽¹⁾	17.1%	17.6%	18.3%	19.1%	20.7%
Net working capital.....	492	536	380	390	383
Ratio of net working capital to sales.....	9.6%	9.7%	7.1%	6.4%	6.5%

⁽¹⁾ Figures for three-month periods ended December 2015 and December 2014 have been annualized

⁽²⁾ For annual periods, this represents the sum of “trade and other payables” and “provisions” as presented in the balance sheet.

Optimizing the levels of our working capital was a key management focus area during fiscal 2015 and the three months ended December 2015. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all our businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital expressed as a percentage of sales was lower at the end of December 2015 than at the end of December 2014. Net working capital decreased to US\$492 million at the end of December 2015 from US\$536 million at the end of December 2014. Inventories decreased by US\$72 million at the end of December 2015 compared to the end of December 2014, mainly due to a currency translation impact of US\$71 million. Receivables decreased by US\$87 million at the end of December 2015 compared to the end of December 2014, though after taking into consideration a currency translation impact of US\$48 million, receivables decreased by US\$39 million due to lower sales. The reduction in

payables by US\$115 million at the end of December 2015 compared to the end of December 2014 is due to a currency translation impact of US\$92 million, lower accruals of US\$4 million for capital projects and a US\$14 million reduction in restructuring provisions, particularly in the European region.

Net working capital expressed as a percentage of sales was higher at the end of fiscal 2015 than at the end of fiscal 2014. Net working capital decreased from US\$390 million at the end of fiscal 2014 to US\$380 million at the end of fiscal 2015. Inventories decreased by US\$92 million at the end of fiscal 2015 compared to the end of fiscal 2014, mainly due to a currency translation impact of US\$64 million and a US\$14 million inventory reduction relating to the sale of the Enstra and Cape Kraft Mills which were reclassified to assets held for sale at the end of fiscal 2015. Receivables decreased by US\$86 million at the end of fiscal 2015 compared to the end of fiscal 2014, though after taking into consideration a currency translation impact of US\$53 million, receivables decreased by US\$33 million. The decrease in receivables at the end of fiscal 2015 compared to the end of fiscal 2014 was mainly due to management of receivables and the collection in fiscal 2015 of a US\$8 million outstanding receivable relating to the sale of our Usutu forestry operations completed during fiscal 2014. Payables decreased by US\$168 million at the end of fiscal 2015 compared to the end of fiscal 2014, of which US\$110 million was due to the impact of currency translation, mainly related to a reduction in trade creditors' balances, lower interest and rebate accruals, and the reduction of restructuring provisions.

Net working capital expressed as a percentage of sales was lower at the end of fiscal 2014 than at the end of fiscal 2013. Net working capital increased to US\$390 million at the end of fiscal 2014 from US\$383 million at the end of fiscal 2013. Inventories decreased by US\$41 million at the end of fiscal 2014 compared to the end of fiscal 2013, mainly due to a currency translation impact of US\$39 million. Receivables decreased by US\$16 million at the end of fiscal 2014 compared to the end of fiscal 2013, though after taking into consideration a currency translation impact of US\$31 million, receivables actually increased by US\$14 million due to higher sales volumes and an outstanding receivable of US\$8 million relating to the sale of our Usutu forestry operations completed during fiscal 2014. The reduction in payables by US\$64 million at the end of fiscal 2014 compared to the end of fiscal 2013 is due to lower accruals of US\$33 million for capital projects following the completion of the dissolving wood pulp expansion projects and a US\$45 million reduction in restructuring provisions as we implemented further cost containment initiatives, particularly in the European region.

Capital expenditure

Cash generated from (utilized in) investing activities for the three months ended December 2015 and 2014 and the period from fiscal 2013 to fiscal 2015 is as set out in the table below:

	Three Months Ended		Year Ended September		
	December				Restated
Investing Activities	2015	2014	2015	2014	2013
			(US\$ million)		
Capital expenditure to maintain and expand operations ⁽¹⁾	40	68	248	295	552
Proceeds on disposal of non-current assets ⁽²⁾	(41)	—	(1)	(87)	(53)
Other movements	(1)	(1)	(10)	(14)	(6)
Total	(2)	67	237	194	493

⁽¹⁾ Includes capitalized interest of US\$9 million for the 2013 financial year. The capitalized interest in fiscal 2013 relates to the Ngodwana and Cloquet dissolving wood pulp expansion projects. After the plants were commissioned during fiscal 2013, capitalization of finance costs for the projects ceased.

⁽²⁾ For annual periods, this represents the sum of "cash outflows on disposal of business", "proceeds on disposal of assets held for sale" and "proceeds on disposal of other non-current assets" as presented in the statement of cash flows. For the three-month periods ending December 2015 and December 2014, this represents "net proceeds on disposal of assets and businesses" as presented in the condensed consolidated statement of cash flows.

Our capital expenditure program varies from year to year, and expenditure in one year is not necessarily indicative of future capital expenditure. We operate in an industry that requires high capital expenditures and, as a result, we need to devote a significant part of our cash flow to capital expenditure programs, including investments relating to maintaining operations. Capital spending for investment relating to maintaining operations during the three-month periods ended December 2015 and 2014 and fiscal 2015, fiscal 2014 and fiscal 2013 amounted to US\$29 million, US\$50 million, US\$175 million, US\$148 million and US\$116 million, respectively. Capital spending for expanding or improving our operations during the three-month periods ended December 2015 and 2014 and fiscal 2015, fiscal 2014 and fiscal 2013 amounted to US\$11 million, US\$18 million, US\$73 million, US\$147 million and US\$436 million, respectively.

During the three months ended December 2015, our capital expenditure was US\$40 million, compared to US\$68 million for the three months ended December 2014.

During fiscal 2015, our capital expenditure was US\$248 million, compared to US\$295 million during fiscal 2014. As part of our cash management efforts we managed capital expenditure to a strategic target below US\$250 million without compromising the maintenance of our asset base. We incurred US\$73 million on projects to increase capacity or improve efficiency. These projects mainly relate to the paper machine upgrade at the Gratkorn Mill and the energy project at Kirkniemi Mill. The remainder of the expenditure was spent on projects to maintain our production facilities.

During fiscal 2014, our capital expenditure was US\$295 million, compared to US\$552 million during fiscal 2013. As part of our cash management efforts we managed capital expenditure to a strategic target below US\$300 million without compromising the maintenance of our asset base. As part of its strategy to sell non-core or underperforming assets, during fiscal 2014 the Group disposed of its subsidiary, Usutu Forests Products Company Limited, for an amount of US\$97 million (ZAR1 billion) which includes a vendor loan note of US\$8 million (ZAR90 million) which is repayable over six years at the prime rate plus 2%. The Group also disposed of its Nijmegen Mill at the end of the third fiscal quarter of fiscal 2014.

Capital spending is expected to be funded primarily through internally generated funds. For further details about our capital commitments, see note 26 to our Group annual financial statements for the year ended September 2015.

Financing cash flows

Net financing cash outflows relate mainly to both planned and additional voluntary debt repayments. During the three months ended December 2015, net financing cash outflows were US\$72 million. During fiscal 2015, net financing cash outflows were US\$127 million, including US\$68 million of cash costs attributable to refinancing transactions. During fiscal 2014, net financing cash outflows were US\$36 million. During fiscal 2013, net financing cash outflows were US\$8 million, including US\$3 million of cash costs attributable to refinancing transactions. See “—Financing” for a more detailed discussion on financing transactions, other cash inflows and cash outflows and the application of funds received from these transactions.

Financing

General

Debt is a major source of funding for the Group.

	As of December		As of September		Restated 2013
	2015	2014	2015	2014	
Gross Debt					
			(US\$ million)		
Long term interest-bearing borrowings.....	1,983	2,238	2,031	2,311	2,499
Short term interest-bearing borrowings	134	131	196	163	99
Bank overdraft	—	—	—	—	1
Gross interest-bearing borrowings.....	2,117	2,369	2,227	2,474	2,599

	As of December		As of September		Restated 2013
	2015	2014	2015	2014	
Cash Position					
			(US\$ million)		
Cash and cash equivalents	383	329	456	528	352

49% of total assets excluding cash and cash equivalents as of December 2015 was funded by gross debt as is shown in the table below:

	As of December		As of September		Restated 2013
	2015	2014	2015	2014	
Total Assets Excluding Cash and Cash Equivalents					
			(US\$ million)		
Gross interest-bearing borrowings.....	2,117	2,369	2,227	2,474	2,599
Shareholder's equity	1,015	1,059	1,015	1,044	1,144
Other net liabilities	1,528	1,717	1,671	1,947	1,984
Cash and cash equivalents	(383)	(329)	(456)	(528)	(352)
Total assets excluding cash and cash equivalents	4,277	4,816	4,457	4,937	5,375

			%		
Gross interest-bearing borrowings	49	49	50	50	48
Shareholder's equity	24	22	23	21	21
Other net liabilities	36	36	37	40	37
Cash and cash equivalents	(9)	(7)	(10)	(11)	(6)
Total assets excluding cash and cash equivalents	100	100	100	100	100

Debt profile

Our debt comprises a variety of debt instruments, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and finance leases. See note 21 to our Group annual financial statements for the year ended September 2015 for a more detailed discussion on our debt instruments.

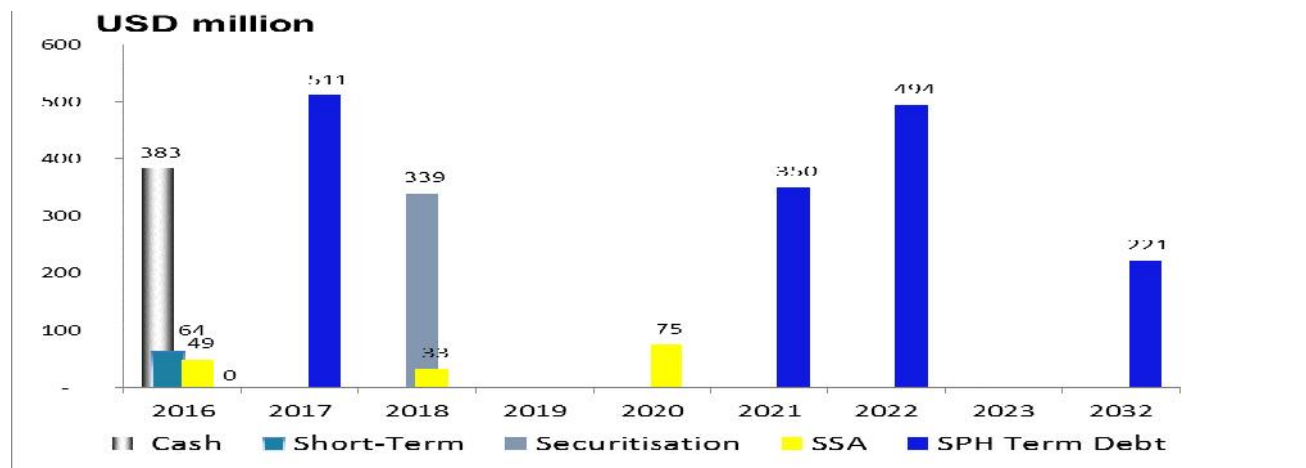
The make-up of our gross debt as of the end of the various periods is set out in the table below:

Debt Profile	As of December		As of September		Restated 2013
	2015	2014	2015	2014	
			(US\$ million)		
Long-term debt	1,983	2,238	2,031	2,311	2,499
Short-term debt	134	131	196	163	99
Overdrafts	—	—	—	—	1
Gross interest-bearing borrowings.....	2,117	2,369	2,227	2,474	2,599

Short-term debt of US\$134 million includes an amount of ZAR755 million (US\$49 million) corresponding to the outstanding portion of a ZAR255 million (US\$16 million) Public Bond in South Africa due in April 2016 and a ZAR500 million (US\$33 million) Public Bond in South Africa due in June 2016. The remainder of the short-term borrowings consists of the short-term portion of long-term debt and short-term trade finance facilities which are refinanced quarterly.

The average maturity of our long-term debt as at December 2015 was 5.2 years with the profile as shown below:

Gross debt maturity profile (US\$ million)



As at December 2015 and September 2015, short-term debt was US\$134 million and US\$196 million, respectively, and cash and cash equivalents were US\$383 million and US\$456 million, respectively.

At December 2015 and September 2015, the Group had unutilized committed borrowing facilities of US\$598 million and US\$562 million, respectively, including €465 million (US\$510 million) under the Revolving Credit Facility, and available cash and cash equivalents of US\$383 million and US\$456 million, respectively. At September 2014, the Group had unutilized committed borrowing facilities of US\$582 million, including the €350 million (US\$444 million) Revolving Credit Facility, and available cash and cash equivalents of US\$528 million. A portion of these committed facilities includes the unutilized portion of the long-term securitized trade receivables funding program established in August 2011 and extended in June 2013 and June 2015. The unutilized portion is the difference between the total €330 million committed facility and the funded amount and is subject to additional eligible receivables being

available for sale. As at December 2015 and September 2015, the unutilized portion was US\$23 million and US\$26 million, respectively.

US\$339 million of the long-term debt at December 2015 and US\$343 million of the long-term debt at the fiscal 2015 year-end was in the form of securitized trade receivables funding under the extended three year program. For further information on Group borrowing facilities secured by trade receivables, refer to notes 17 and 21 to our Group annual financial statements for the year ended September 2015.

In the three months ended December 2015 and fiscal 2015, our financing activities concentrated on reducing our net debt levels and interest rates, improving our debt maturity profile and enhancing our liquidity position. During fiscal 2015, we completed the 2015 Refinancing, which included the issuance of the €450 million 2022 Notes, the proceeds of which (together with a drawing under the Revolving Credit Facility of €100 million and cash on hand) were used to repay in full the 2018 Notes and 2019 Notes, as well as an increase of the Revolving Credit Facility from €350 million (US\$381 million) to €465 million (US\$506 million) and an extension of its maturity from 2016 to 2020. We also used cash on hand to repay ZAR750 million of our Public Bond No. SSA02, which matured in April 2015, and renewed and extended our three-year securitized trade receivables funding program from August 2016 to August 2018.

In the three months ended December 2014 and fiscal 2014, our financing activities concentrated on reducing gross debt by utilizing our cash resources to repay certain short-term debt. In fiscal 2013, our financing activities included renegotiating the covenants on our non-South African bank debt to allow for additional cash outlays in early fiscal 2014 related to our European restructuring initiatives, concluding a new ZAR1 billion revolving credit facility in Southern Africa which consolidated a number of local bilateral facilities into a single facility, renewing and extending our €360 million three-year securitization program to August 2016 at a lower €330 million level, completing a tender for repayment of the remaining €31 million 2014 bonds of Sappi Papier Holding GmbH outstanding, raising a ZAR1.5 billion Public Bond in South Africa to refinance a ZAR1 billion Public Bond in South Africa which matured in June 2013 and to partially fund the Ngodwana dissolving wood pulp conversion project, and raising a new ZAR400 million bilateral seven-year loan in the South African bank market to refinance ZAR460 million maturing long-term promissory notes over a 12-month period.

The make-up of our gross interest-bearing liabilities by currency is shown in the following table:

Debt by currency ratio	December			
	2015	2015	2014	2013
US\$.....	31.6%	30.6%	27.9%	27.1%
EUR.....	61.0%	61.7%	60.8%	59.9%
ZAR.....	7.4%	7.7%	11.3%	13.0%

Included in the euro-denominated debt are the US\$400 million 2017 Notes which have been swapped into euro.

Interest on Borrowings

Raising new debt and refinancing existing debt in the second quarter of fiscal 2015 improved the interest payable on borrowings. The refinancing did, however, result in one-off refinancing costs of US\$61 million recorded as interest paid in fiscal 2015.

Interest Rate Risk

The Group has a policy of maintaining a balance between fixed and variable rate loans which enables it to minimize the impact of borrowing costs on reported earnings. Exceptions are made when fixed rates can be obtained at attractive rates, as this strategy locks in acceptable interest rates for the life of the borrowing instrument. Hedging activities in relation to borrowings are restricted to interest rate swaps and cross-currency swaps.

Upon issuing the US\$350 million 2021 Notes in April 2011, the fixed interest rate was swapped into a floating interest rate using an interest rate swap. Upon issuing the US\$400 million 2017 Notes in fiscal 2012, such notes were swapped from fixed USD interest rates into fixed euro interest rates using an interest rate and currency swap. At the end of fiscal 2015, the ratio of gross debt at fixed and floating interest rates, after the impact of the interest rate swaps, was 58:42.

Short-term borrowings

The Group's short-term borrowings position improved during the three months ended December 2015 as a result of the repayment in December 2015 of the €50 million (US\$55 million) drawdown under the Revolving Credit Facility and a reduction of the securitization funding. The Group's short-term borrowings position also improved during fiscal

2015 with the redemption of ZAR750 million (US\$54 million) of its Public Bond No. SSA02, which matured in April 2015, from cash resources. The Group issued no commercial paper during the three months ended December 2015, fiscal 2015 or fiscal 2014, with limited commercial paper issuance of ZAR400 million in fiscal 2013. The Group relies mainly on the Revolving Credit Facility, the securitization program and cash on hand for short-term liquidity requirements.

Summary of Certain Debt Arrangements

Set forth below is a summary of certain key terms of some of our significant debt arrangements. For further details on our debt arrangements, see also “Description of Other Financing Arrangements”, note 21 to our Group annual financial statements for the year ended September 2015 and “—Off-Balance Sheet Arrangements”.

Revolving Credit Facility. On March 16, 2015, we amended and restated our existing revolving credit facility dated August 27, 2009, and previously amended and restated on April 28, 2011 and September 19, 2013. The amended and restated revolving credit facility provides for up to €465 million of borrowing availability in euro, US dollars and certain other currencies (the “Revolving Credit Facility”). As of the date of this document, the Revolving Credit Facility was undrawn. The commitments under the Revolving Credit Facility terminate on March 16, 2020 and the annual interest rate on borrowings is calculated based on Libor or Euribor plus a funding margin varying between 1.00% and 2.75% per annum depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, Sappi Papier Holding GmbH and certain other subsidiaries of Sappi Limited, as well as secured, together with certain of our other indebtedness, by first-priority security interests over certain assets of Sappi Limited, Sappi Papier Holding GmbH and the other subsidiary guarantors. The Revolving Credit Facility contains an interest coverage covenant and a leverage covenant, in each case measured at the Sappi Limited consolidated level and set at various levels in line with the long-term forecast of Sappi’s results. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on dividend distributions, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals.

2022 Secured Notes. On March 23, 2015 Sappi Papier Holding GmbH issued €450 million 3.375% Senior Secured Notes due 2022 (the “2022 Notes”). The interest on the 2022 Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2022 Notes mature on April 1, 2022. The 2022 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited that will guarantee certain debt securities. The 2022 Notes are secured by substantially the same collateral that secures the obligations under the 2017 Notes, the 2021 Notes and the Revolving Credit Facility and that will secure certain debt securities. Sappi has agreed to observe certain covenants with respect to the 2022 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

2021 Secured Notes. On April 14, 2011, Sappi Papier Holding GmbH issued US\$350 million 6.625% Senior Secured Notes due 2021 (the “2021 Notes”). The interest on the 2021 Notes is payable semi-annually in arrears on April 15 and October 15 of each year. The 2021 Notes mature on April 15, 2021. The 2021 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited that will guarantee certain debt securities. The 2021 Notes are secured by substantially the same collateral that secures the obligations under the 2017 Notes, the 2022 Notes and the Revolving Credit Facility and that will secure certain debt securities. Sappi has agreed to observe certain covenants with respect to the 2021 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

2017 Secured Notes. On July 5, 2012, Sappi Papier Holding GmbH issued US\$400 million 7.750% Senior Secured Notes due 2017 (the “2017 Notes”). The interest on the 2017 Notes is payable semi-annually in arrears on January 15 and July 15 of each year. The 2017 Notes mature on July 15, 2017. The 2017 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited that will guarantee certain debt securities, and are secured by substantially the same collateral that secures the obligations under the 2021 Notes, the 2022 Notes and the Revolving Credit Facility and that will secure certain debt securities. Sappi has agreed to observe certain covenants with respect to the 2017 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

OeKB Term Loan Facility. On March 16, 2015, we amended and restated Sappi Papier Holding GmbH’s existing term loan facility with OeKB (the “OeKB Term Loan Facility”) dated July 10, 2012, as previously amended and restated on September 18, 2013. The commitments under the OeKB Term Loan Facility are for €136 million and such amount was fully drawn on August 30, 2012. At December 2015, the outstanding balance was €101 million. The annual interest rate on borrowings is calculated based on the OeKB financing rate plus a margin varying between 2.00% and 4.75%, depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. The margin at the date of this document was 3.059% per annum. The OeKB Term Loan Facility is guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than Sappi Papier Holding GmbH) under the Revolving

Credit Facility. The obligations under the OeKB Term Loan Facility are unsecured. However, the terms of the OeKB Term Loan Facility require that upon the occurrence of certain events, the borrower will be required to secure its obligations under the OeKB Term Loan Facility with substantially the same collateral that secures the Revolving Credit Facility, the 2017 Notes, the 2021 Notes and the 2022 Notes and that will secure certain debt securities. The other material terms of the OeKB Term Loan Facility, including the financial covenants, the undertakings and the events of default, are substantially the same as the terms of the Revolving Credit Facility.

Domestic Medium Term Note Program. In June 2009, Sappi Southern Africa Limited (previously Sappi Manufacturing (Pty) Ltd and Sappi Southern Africa Proprietary Limited) combined its ZAR3 billion Domestic Medium Term Note Program established in June 2006 (the “Initial Program”) with its commercial paper program established in November 2003 (“Initial CP Program”), into a new ZAR5 billion Domestic Medium Term Note Program (the “DMTN Program”) which superseded and replaced the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. The DMTN Program was amended and restated on September 13, 2013 and the new program memorandum applies to all notes issued under the DMTN Program and supersedes and replaces any previous program memoranda. On June 28, 2011, Sappi Southern Africa Limited issued ZAR500 million (US\$62 million) senior unsecured fixed rate notes (“Series 1”) under the DMTN Program at a fixed interest rate of 9.63%, payable semi-annually on June 28 and December 28 of each year. The securities issued under Series 1 mature on June 28, 2016. The proceeds of Series 1 were used to partially refinance ZAR1 billion of senior unsecured fixed rate notes previously issued under the DMTN program that matured on October 14, 2011. On April 20, 2012, Sappi Southern Africa Limited issued ZAR750 million (US\$98 million) senior unsecured floating rate notes (“Series 2”) under the DMTN Program at a floating rate of the 3 month JIBAR plus 144 basis points, payable quarterly on January 20, April 20, July 20 and October 20 of each year commencing on July 20, 2012. The proceeds of the securities issued under Series 2 were used to redeem ZAR500 million of senior unsecured fixed rate notes previously issued under the DMTN program that matured on June 30, 2012 and for other debt repayments. During fiscal 2015, cash on hand was used to repay the securities issued under Series 2, which matured on April 20, 2015. On April 16, 2013, Sappi Southern Africa Limited issued ZAR255 million (US\$28 million) three-year senior unsecured floating rate notes (“Series 4”) under the DMTN Program at a floating rate of 3 month JIBAR plus 123 basis points payable quarterly on January 16, April 16, July 16 and October 16 of each year commencing on July 16, 2013. In addition it issued ZAR500 million (US\$54 million) five-year senior unsecured floating rate notes (“Series 5”) under the DMTN Program at a floating rate of 3 month JIBAR plus 150 basis points payable quarterly on January 16, April 16, July 16 and October 16 of each year commencing on July 16, 2013. It also issued ZAR745 million (US\$80 million) seven-year senior unsecured fixed rate notes (“Series 6”) under the DMTN Program at a fixed rate of 8.06% per annum payable semi-annually on April 16 and October 16 of each year commencing on October 16, 2013. The securities under Series 4, 5 and 6 mature on April 16, 2016, 2018 and 2020, respectively. The proceeds of Series 4, 5 and 6 were used to refinance ZAR1 billion of senior unsecured fixed rate notes previously issued under the DMTN program that matured on June 27, 2013 and to partially fund the Ngodwana dissolving wood pulp conversion project. Sappi Southern Africa Limited has agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets.

Trade Receivables Securitization Program. In August 2011, Sappi Trading, Sappi Europe and Sappi North America entered a new, three-year, €360 million trade receivables securitization program to replace their prior trade receivables securitization program. The program was renewed and extended to August 2016 at a lower level of €330 million in June 2013, and further renewed and extended to August 2018 in June 2015. Under the renewed and extended program, eligible receivables are sold on a non-recourse basis by Sappi Papier Holding GmbH, Sappi Lanaken NV and Sappi NA Finance LLC to Elektra Purchase No. 29 Limited (the “Purchaser”) and Sappi entities act as servicers to administer, collect and enforce the receivables purchased. The sellers have agreed to observe certain covenants, including a limitation on creating liens on any receivables. Sappi Papier Holding GmbH has guaranteed the performance by the sellers of their respective obligations under the receivables purchase agreements and the performance by the Sappi entities acting as servicers of their respective obligations under the servicing agreements pursuant to a performance guarantee with the Purchaser. The trade receivables securitization program matures in August 2018, unless it is terminated earlier. The program could be terminated in the event of certain change of control events, certain credit rating downgrades occur for Sappi Limited or if Sappi Limited fails to maintain certain financial ratios, including ratios for consolidated net debt to EBITDA and EBITDA to consolidated net interest expense. As of December 2015, the external securitization funding under the trade receivables program was US\$339 million.

2032 Guaranteed Notes. In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US\$250 million 7.50% unsecured guaranteed notes due 2032 (the “2032 Notes”), guaranteed by Sappi Limited and Sappi International SA. Interest on the 2032 Notes is payable semi-annually. The indenture governing the 2032 Notes provides for an optional redemption of the 2032 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indentures, together with, in each case, accrued interest. The indenture governing the 2032 Notes contains events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and

certain bankruptcy events. The indenture also contains certain customary covenants, which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations.

Financial Covenants

Financial Covenants apply to the outstanding balance under the OeKB Term Loan Facility, the €465 million Revolving Credit Facility and our Securitization borrowings.

Separate covenants apply to certain debt in our Southern African businesses.

With regards to our financial covenants, EBITDA, net interest expense and net debt are defined under the relevant agreements. Our financial covenants require (on the basis of the measures so defined), *inter alia*, that:

- (i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 2.50:1 for all quarters ending from September 2015 to March 2020;
- (ii) The ratio of net debt to EBITDA be not greater than 4.00:1 for all quarters ending from June 2015 to March 2019 and 3.75:1 for all quarters ending from June 2019 to March 2020; and
- (iii) With regard to Sappi Southern Africa Limited and its subsidiaries only, the percentage of net debt to equity must not exceed 65%, and the ratio of EBITDA (before special items) to net interest, calculated on a last 12 months basis, must not be less than 2.00:1, both of which are calculated semi-annually in March and September.

The table below shows that as at December 2015 and September 2015 we were in compliance with these covenants. Net debt is calculated using average exchange rates for the four quarters ended December 2015 and September 2015, respectively.

	December 2015	September 2015	Covenants
<i>Group Covenants</i>			
Net Debt to EBITDA	2.6	2.8	< 4.00
EBITDA to Net Interest	5.15	4.44	> 2.50x
<i>Sappi Southern Africa Covenants</i>			
Net Debt to Equity	55.47%	35.39%	< 65%
EBITDA to Net Interest	(1.55)	(7.89)	> 2.00x

The Group financial covenants also apply to our securitization program, with outstanding balances of US\$339 million and US\$343 million at the end of December 2015 and September 2015, respectively. No Sappi Limited guarantee has been provided for these facilities.

Off-Balance Sheet Arrangements

Letters of credit discounting. To improve the Group working capital, the Group sells certain Letters of Credit to the Royal Bank of Scotland (Hong Kong), KBC Bank (Hong Kong) and Union Bancaire Privée (Switzerland) every fiscal month-end on a non-recourse basis. Similarly, the Group discounts certain trade receivables with Deutsche Bank (Frankfurt), HSBC (Mexico) and Citibank (Sao Paulo) by utilizing the customers' credit facilities with the discounting bank.

“Scheckwechsel”. The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers who wish to obtain a loan to finance early payment of specified trade receivables owed to us (thereby benefiting from an early settlement discount). By signing the Scheckwechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognized at fair value. At inception the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). Therefore, the fair value at inception is zero. Subsequently, the financial guarantee contract is measured at the higher of:

- (i) The amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and

- (ii) The amount initially recognized less any cumulative amortization.

As no default event has occurred, no provision has been set up and the fair value at the end of fiscal 2015 and as of December 2015 remained zero. However, according to IAS 37 a contingent liability as of December 2015 of US\$14 million (December 2014: US\$18 million) and as of September 2015 of US\$12 million (2014: US\$21 million) has been disclosed in this respect.

Sappi Southern Africa securitization facility. Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but bears 15% of the credit risk (with Rand Merchant Bank Limited bearing the remainder) of each underlying receivable after all recoveries, including insurance recoveries. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

If this securitization facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% credit risk described above. There are a number of events which may trigger termination of the facility, including, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement was entered into.

The total value of trade receivables outstanding as at December 2015 amounted to US\$58 million (December 2014: US\$86 million). The total value of trade receivables outstanding as at September 2015 amounted to US\$98 million (September 2014: US\$120 million). Details of the securitization program at the end of fiscal 2015 and 2014 are set out below:

Bank	Currency	Value	Facility	Discount charges
December 2015				
Rand Merchant Bank	ZAR	ZAR888 million	Unlimited*	Linked to 3 month JIBAR
December 2014				
Rand Merchant Bank	ZAR	ZAR1,001 million	Unlimited*	Linked to 3 month JIBAR
September 2015				
Rand Merchant Bank	ZAR	ZAR1,368 million	Unlimited*	Linked to 3 month JIBAR
September 2014				
Rand Merchant Bank	ZAR	ZAR1,348 million	Unlimited*	Linked to 3 month JIBAR

* The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on-balance sheet securitization facilities that are applicable to our non-South African businesses, being Sappi Trading and our North American and European operations, are described in notes 17 and 21 of our Group annual financial statements for the year ended September 2015.

For details of operating lease commitments refer to note 26 of our Group annual financial statements for the year ended September 2015.

Contractual Obligations

We have various obligations and commitments to make future cash payments under contracts, such as debt instruments, lease arrangements, supply agreements and other contracts. The following table includes information contained within the Group annual financial statements, as well as information regarding purchase obligations. The tables reflect those contractual obligations at the end of fiscal 2015 that could be quantified.

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(US\$ millions)				
On-Balance Sheet					
Long-term debt obligations ⁽¹⁾	2,872	269	1,060	211	1,332
Other long-term borrowings reflected on the balance sheet ⁽²⁾	530	—	—	—	—
Off-Balance Sheet					
Operating lease obligations ⁽³⁾	53	20	21	7	5
Purchase obligations ⁽⁴⁾	125	56	64	5	-

Capital commitments ⁽⁵⁾	60	60	-	-	-
Group Total	3,640	405	1,145	223	1,337-

- (1) Includes interest obligations to maturity to service the debt using interest rates prevailing at September 2015. The principal debt is US\$2,227 million.
- (2) The Other long-term liabilities reflected on the balance sheet of US\$530 million (fiscal 2014: US\$563 million) relate mainly to post-employment benefits, post-retirement benefits other than pension obligations, workmen’s compensation, and other items which do not have a payment profile. Refer to note 22 of our Group annual financial statements for the year ended September 2015.
- (3) Operating leases are future minimum obligations under operating leases. Refer to note 26 of our Group annual financial statements for the year ended September 2015.
- (4) Purchase obligations are unconditional obligations to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts, relating to, among others, timber and power).
- (5) Capital commitments are commitments for which contracts have been entered into. Refer to note 26 of our Group annual financial statements for the year ended September 2015.

Share Buy Backs

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. No shares were acquired during the three months ended December 2015 and fiscal 2015, 2014 and 2013. Some of these treasury shares have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. See notes 18 and 29 to our Group annual financial statements for the year ended September 2015 for additional details relating to treasury shares.

Dividends

Our policy is to consider dividends on an annual basis and to declare cash dividends in US dollars. Considering, among other factors, our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2015 not to declare a dividend for fiscal 2015.

Our ability to pay dividends to our shareholders is subject to certain restrictive covenants.

Broad Based Black Economic Empowerment

Broad Based Black Economic Empowerment deal. In 2006, we implemented the Lereko Property Consortium (Lereko) B-BBEE deal. However, this transaction did not meet our undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for B-BBEE in the forestry industry and includes the B-BBEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its B-BBEE targets). Accordingly, we decided to unwind the 2006 deal, which resided at a South African subsidiary level, to implement a new sustainable transaction of equivalent value at the holding company level by making use of our listed securities.

In June 2010, we completed a B-BBEE transaction whereby ordinary and “A” ordinary shares equivalent to 4.5% of Sappi Limited were issued to our strategic empowerment partners, and to various trusts for the benefit of our black managers, our employees and growers/communities in the geographic areas where our South African business has operations. The value of the B-BBEE transaction (ZAR814 million (US\$115 million)) corresponds to an effective 30% interest in Sappi Southern Africa, which meets the requirements of Forest Sector Charter and B-BBEE legislation in general. For further information on the B-BBEE transaction, see “—South African Economic and Political Environment” and note 29 of our Group annual financial statements for the year ended September 2015.

Pensions and Post-Retirement Benefits Other than Pensions

The Group provides various defined benefit post-retirement benefits to its active and retired employees worldwide, including pension, post-retirement health and other employee benefits. The Group also provides various defined contribution schemes to its active employees worldwide.

For defined contribution schemes, the Group is only obligated to pay contributions according to contribution scales applicable in each scheme. Contributions are expensed for the period in which they fall due. No actuarial risk exists for the company with respect to these schemes.

Our funded defined benefit pension schemes generally hold a broad range of assets including a significant portion of bonds, in line with an investment strategy to preserve funded status and balance risk and return.

The interaction of various factors (e.g., discount rates, inflation rates, equity returns), by way of assumptions, determines the extent to which pension schemes balance sheet liabilities will change. Listed below are example situations and how they could affect the balance sheet position of our pension schemes:

- Falls in equity markets coupled with corresponding falls in bond markets (rising bond yields) will most likely have a broadly neutral effect on balance sheet liability.
- Deflationary economic scenarios coupled with very low discount rates would increase liabilities in our schemes, particularly due to the fact that pensions cannot reduce.
- Recoveries in equity markets coupled with falling bond markets (rising bond yields) (e.g., “risk on” investor sentiment) will most likely result in reductions in balance sheet deficits.
- Rising bond markets (falling bond yields), possibly as a result of increased investor demand coupled with underperforming equities (e.g., “risk off” investor sentiment), will increase balance sheet deficits.
- Rising inflation rates will, in isolation, increase benefit costs and liabilities (such as post-retirement pension increases or rate of salary increase).
- Rising inflation coupled with rising nominal bond yields will most likely cut liabilities in schemes providing fixed (i.e., no cost of living adjustment) benefits.
- Statutory minimum funding requirements affect the pace of funding our defined benefit schemes. Most take account of yields on assets such as government bonds or interbank interest rate swap curves. While yields on these asset classes in some markets remain low, we expect the prospect of paying additional contributions to meet onerous minimum funding targets. However, recent statutory easements in the pace of funding on these bases have provided contribution relief to the Group.
- Increases in post-retirement longevity (commonly found in updated published mortality tables) increase the expected duration that pensions will be paid from our schemes. This in turn increases the provision necessary to fund these longer term payments.

Defined benefit schemes remain open to mill employees in North America and continental Europe. Defined benefit schemes in southern Africa, Austria and some in Germany are closed. Plans in the United Kingdom and one in North America are closed to future accrual.

During fiscal 2015 the liabilities of our funded defined benefit plans decreased by US\$688 million, from US\$1,911 million at September 2014 to US\$1,223 million at September 2015. Liabilities of our unfunded defined benefit plans increased by US\$16 million, from US\$244 million at September 2014 to US\$260 million at September 2015. Combined, gross liabilities declined by US\$672 million during fiscal 2015. The effects of lower discount rates determined from yields in the relevant bond markets in continental Europe increased liabilities but were offset by the settlement of our Dutch pension plan and the strengthening of the US dollar which resulted in a gain in terms of our reporting currency.

Defined benefit plan assets decreased by US\$640 million over the course of fiscal 2015, from US\$1,701 million at September 2014 to US\$1,061 million at September 2015. Strong investment returns in South Africa, Europe and the United Kingdom were offset by the transfer of assets off the balance sheet as part of the settlement of the Dutch pension plan and the strengthening of the US dollar which resulted in a loss in terms of our reporting currency. Investment strategies of our funded plans include a portion of assets invested in bonds to hedge against actuarial losses in corresponding liabilities due to falling discount rates, which contributed to the strong investment returns of our plan assets over the year.

Since the reduction in defined benefit plan liabilities was greater than the reduction in assets over the course of fiscal 2015, the overall net balance sheet liability decreased by US\$32 million, from a deficit of US\$454 million at September 2014 to a deficit of US\$422 million as at September 2015. For a reconciliation of the movement in the balance sheet liability over the course of fiscal 2015, see note 28 of our Group annual financial statements for the year ended September 2015.

Insurance

The Group has an active program of risk management in each of its geographical operating regions to address and to reduce exposure to property damage and business interruption events. All production and distribution units are subjected to regular risk assessments, the results of which receive the attention of senior management. The risk assessment and mitigation programs are coordinated at Group level in order to achieve a harmonization of methodology and standardization of approach.

Sappi follows a practice of insuring its assets against losses arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Our insurance also covers the business interruption costs which may result from such events. Specific environmental risks are also insured. In line with previous years, the Board decided not to take separate cover for losses from acts of terrorism, which is consistent with current practice in the paper manufacturing industry. This insurance cover excludes insurance for our plantations, which is placed separately.

Sappi has a global insurance structure and the bulk of its insurance is placed with its own captive insurance company, Sappisure Försäkrings AB, domiciled in Stockholm, Sweden, which re-insures most of the risks in the insurance market.

Asset insurance is renewed on a calendar-year basis. Maximum self-insured retention for any one property damage occurrence is €20.5 million (US\$23 million), with an annual aggregate of €33 million (US\$37 million). For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, we believe that the loss limit cover of €750 million (US\$840 million) should be adequate for what we have determined as the maximum reasonably foreseeable loss for any single claim. From fiscal 2011 our property damage insurance policy is euro-denominated as most of our assets are based in euro-denominated jurisdictions.

Critical Accounting Policies and Key Sources of Estimation Uncertainty

Management of the Group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results.

The Group believes that the following accounting policies are critical due to the degree of management judgment and estimation required and/or the potential material impact they may have on the Group's financial position and performance.

Impairment of assets other than goodwill and financial instruments. The Group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or the reversal of a previously recognized impairment.

Intangible assets not yet available for use are tested at least annually for impairment. In assessing assets for impairment, the Group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

Where impairment exists, the losses are recognized in other operating expenses in profit or loss for the period.

A previously recognized impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior periods.

Refer to note 10 to the Group annual financial statements for the year ended September 2015 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

Property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalized to the cost of the item of owner-occupied property and equipment and the part replaced is derecognized.

Depreciation, which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

Management judgment and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings.....	straight-line 10 to 40 years
Plant	straight-line 5 to 30 years
Vehicles	straight-line 5 to 10 years
Furniture and Equipment	straight-line 3 to 6 years

During fiscal 2014, the estimated useful life of the Group's pulp mill equipment was reassessed and extended from 20 to 30 years and, as such, the depreciation charge for the year was approximately US\$18 million less than it would have been had the useful life not been reassessed.

The Group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

Taxation. Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is also recognized in other comprehensive income.

Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The Group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

The various Group entities are subject to examination by tax authorities. The outcome of tax audits cannot be predicted with certainty. If any matters addressed in these tax audits are resolved in a manner not consistent with management's expectations or tax positions taken in previously filed tax returns, then the provision for income tax could be required to be adjusted in the period that such resolution occurs.

Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Before recognizing a deferred tax asset, the Group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognized.

In recognizing deferred tax assets, the Group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

Refer to note 12 to the Group annual financial statements for the year ended September 2015 for the movement in unrecognized deferred tax assets.

Dividend withholding tax

Dividend withholding tax is payable on dividends distributed to certain shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognized as part of the current tax charge in the income statement in the period in which the dividend is received.

Derivatives and hedge accounting

For the purpose of hedge accounting, hedges are classified as follows:

Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognized in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognized in the same line of profit or loss as the change in the hedged item.

Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognized firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss.

The gains or losses recognized in other comprehensive income are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from other comprehensive income to the underlying asset or liability on the transaction date.

Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in other comprehensive income is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognized immediately in profit or loss.

Refer to notes 30 and 31 to the Group annual financial statements for the year ended September 2015 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

Plantations. Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 Fair Value Measurement. The Group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognized in the period in which they arise.

The impact of changes in estimated prices, discount rates, and volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 11 to the Group annual financial statements for the year ended September 2015.

Estimated prices less cost of delivery

The Group uses a 12-quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. 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 is valued using unadjusted current market prices. Such timber is expected to be used in the short-term and, consequently, current market prices are considered an appropriate reflection of fair value.

The fair value is derived by using the prices as explained above and reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

Discount rate

The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

Volume and growth estimations and cost assumptions

The Group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between 8 and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

Depletion costs include the fair value of timber felled, which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The Group has projected growth estimation over a period of 8 to 18 years per rotation. In deriving this estimate, the Group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the Group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The Group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tending of trees. The associated costs for managing plantations are recognized as silviculture costs in cost of sales (see note 4 to the Group annual financial statements for the year ended September 2015).

Post-employment benefits. Defined-benefit and defined-contribution plans have been established for eligible employees of the Group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The Group's policy is to recognize actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in profit or loss when the Group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognized immediately.

Net interest for the period is determined 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 and recorded in finance costs in profit or loss.

The net liability recognized in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the Group, the recognized asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 28 to the Group annual financial statements for the year ended September 2015 for the key estimates, assumptions and other information on post-employment benefits.

Provisions. A provision is recognized when the Group has a legal or constructive obligation arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and which can be reliably measured. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgment by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations. Refer to note 2.3.8 to the Group annual financial statements for the year ended September 2015.

Restructuring provisions are recognised when the Group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Refer to note 23 to the Group annual financial statements for the year ended September 2015 for the nature of provisions recorded.

Environmental restoration and decommissioning obligations. The Group initially recognizes a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the Group's facilities, some of these obligations have an indeterminate settlement date, and the Group believes that adequate information does not exist to apply an expected-present-value technique to estimate any such potential obligations. Accordingly, the Group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

Refer to note 34 to the Group annual financial statements for the year ended September 2015 for a description of the major environmental laws and regulations that affect the Group, expected new laws and regulations, and the estimated impact thereof.

Adoption of accounting standards in fiscal 2015

Standards, interpretations and amendments to standards

The Group adopted the following standards and amendments to standards during the year ended September 2015, all of which had no material impact on the Group's reported results or financial position:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities;
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting financial assets and financial liabilities (disclosure requirements);
- Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting;
- Amendments to IAS 19 Defined Benefit Plans – Employee Contributions; and
- IFRIC 21 Levies – Provides guidance on when to recognise a liability for a levy imposed by a government.

Accounting standards, interpretations and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and have not yet been early adopted by the Group. The impact of these standards is still being evaluated by the Group. These new standards and their effective dates for the Group's annual accounting periods are listed below:

- IFRS 9 Financial Instruments – requires financial assets to be classified by reference to the business model within which they are held and their contractual cash flow characteristics and also introduces an 'expected credit loss' model for the measurement of impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. Additionally, IFRS introduces a new hedge accounting model which is designed to be more closely aligned with entities' risk management activities when hedging financial and non-financial risk exposures – September 2019;
- IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture such that full recognition of gains and losses arising on the sale or contribution of assets that constitute a business are required in the investor's financial statements, together with partial recognition of gains and losses arising on the sale or contribution of assets that do not constitute a business (i.e., a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture) – effective date currently deferred indefinitely;
- IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Applying the Consolidation Exception – September 2017;
- IFRS 11 Joint Arrangements – requires an acquirer of an interest in a joint business operation to apply all of the business combinations accounting principles in, and to disclose all information required by, IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11 – September 2017;
- IFRS 14 Regulatory Deferral Accounts – permits a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both upon initial adoption of IFRS and in subsequent financial statements - September 2017;
- IFRS 15 Revenue from Contracts with Customers – provides a single, principles based five-step model to be applied to all contracts with customers – September 2019;
- IFRS 16 Leases – provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value – September 2020;
- IAS 1 Presentation of Financial Statements – amends IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports by clarifying that information should not be obscured by aggregating or by providing immaterial information (i.e., materiality considerations apply to the all parts of the financial statements, including where a standard requires specific disclosure). Additionally, the amendment (i) clarifies that line items can be aggregated and disaggregated as relevant, (ii) provides additional guidance on subtotals and (iii) clarifies that an entity's share of other comprehensive income for equity-accounted associates and joint ventures should be presented as aggregated single line

items based on whether or not such income will subsequently be reclassified as profit or loss – September 2017;

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – clarifies that depreciation methods based on revenue generated by the use of an asset is inappropriate for property, plant and equipment and introduces a rebuttable presumption that an amortization method based on revenue generated by the use of intangible assets is inappropriate – September 2017;
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – includes 'bearer plants' within the scope of IAS 16 (rather than IAS 41), allowing such assets to be accounted for in property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. Also introduces a definition of 'bearer plants' as living plants used in the production or supply of agricultural produce, and that are expected to bear produce for more than one period and have a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Additionally, clarifies that produce growing on 'bearer plants' remains within the scope of IAS 41 – September 2017; and
- IAS 27 Separate Financial Statements – permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements – September 2017.

South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 25% of our net sales in fiscal 2015, 24% of our net sales in fiscal 2014 and 24% of our net sales in fiscal 2013. In the three months ended December 2015 and 2014, South Africa accounted for 22% and 25%, respectively, of our net sales. See “—Operating Results” for the proportion of South African operating profit to total profit.

South Africa features a highly developed, sophisticated “first world” infrastructure at the core of its economy. The International Monetary Fund (IMF) estimates that the South African economy grew by 1.3% in 2015. The IMF forecasts the South African gross domestic product to grow by 0.7% in calendar year 2016.

In December 2015, Fitch downgraded its credit rating on South African government bonds to “BBB-”. Standard and Poor's (S&P) revised its credit rating outlook on South African government bonds from “stable” to “negative” but kept its credit rating of “BBB-” unchanged. Subsequently, Moody's also revised its credit rating outlook from “stable” to “negative” whilst keeping its credit rating of “Baa2” unchanged. In March 2016, Moody's placed its credit rating on South African government bonds on review for downgrade. Accordingly, as of the date of this document, South Africa's credit ratings remained investment grade, though further downgrades could lead to a loss of investment grade status.

In the event that one or more credit rating agencies downgrade their credit rating on South African government bonds to non-investment grade in the future, South African government bonds may no longer be included in key emerging market bond benchmark indices, which may result in a sharp increase in the disposal of South African government bonds by foreign investors. The loss of investment grade status would increase the cost of debt in South Africa and may have adverse effects on government spending.

South Africa continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. In order to address South Africa's high unemployment, poverty and inequality, the government set out recommendations in its National Development Plan 2030. Such recommendations include, for example, improving education and skills, encouraging job creation in the labor market environment, and nurturing and increasing entrepreneurship and small business activity.

The Restitution of Land Rights Act (Act No. 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Initially claims were required to be lodged by December 31, 1998; however, this date has been extended by the Restitution of Land Rights Amendment Act (No. 15 of 2014) which extends the cut-off period for instituting land claims to June 30, 2019. The claims which were lodged by the initial cut-off date are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. We have not yet received any notice of new claims under the extended period for the submission of claims. The process of land claims is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. See “Our Business—Legal Proceedings—Southern Africa”.

The southern African region has one of the highest infection rates of HIV/AIDS in the world. In 1992, we started a program to address the effects of HIV/AIDS and its impact on our employees and our business. Our aim is to ensure that our program prevents new infections and to treat the HIV/AIDS positive employees. The program places special emphasis on testing and counseling to ensure that staff are informed with regard to their HIV/AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. We have also extended our voluntary counseling and testing (VCT) programs, and are offering an HIV test to every employee who visits the clinics for a medical examination.

Our Health and Wellness Programme includes health risk assessments, counseling services, a comprehensive HIV/AIDS program, medical aid and strategic business alliances. The HIV/AIDS program has now advanced to a position where more than 58% of employees presented themselves for HIV testing and counseling (HCT) in 2015, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2015 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 16.8% versus the South African workforce prevalence rate of 18.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.4% in 2014 to 0.3% in 2015.

Each Sappi operation in southern Africa has also identified the relevant role players in their geographical area and is working with them on the implementation of a comprehensive HIV/AIDS program, eliminating duplication and making optimum use of relevant resources through private-public partnerships.

The government and organized business have taken a number of steps in recent years to increase the participation of people from designated groups (i.e., Black people, women and people with disabilities) in the South African economy. To this end, the Employment Equity Act (No. 55 of 1998), the Skills Development Act (No. 97 of 1998) and the Preferential Procurement Policy Framework Act (No. 5 of 2000) were promulgated. The Broad-Based Black Economic Empowerment Act (No. 53 of 2003) has formalized the country's approach to distributing skills, employment and wealth more equitably between races and genders. B-BBEE focuses on increasing equity ownership, management and control of businesses by Black people, and improving Black representation in all levels of employment. It also promotes the development of skills within a business, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment.

In February 2007, the B-BBEE scorecard as set out in the Codes of Good Practice published by the Department of Trade and Industry was streamlined and simplified without affecting their intended objectives. Our South African businesses were evaluated by Empowerdex, an independent B-BBEE certification agency, against the Department of Trade and Industry's generic B-BBEE scorecard and we achieved a score of 41 points with an overall B-BBEE status of a "level seven contributor" (B rating) and a preferential procurement recognition level of 50%. Preferential procurement is used to drive transformation throughout the South African economy in that many customers will only buy from high B-BBEE scorecard suppliers to boost their own B-BBEE scorecard ratings. In July 2009, Empowerdex undertook the second verification of our South African businesses' B-BBEE scorecard, and we improved our rating to a score of 54 points and an overall B-BBEE status of a "level six contributor" (BB rating) and a preferential procurement recognition level of 60%.

The Forest Sector Charter was published in the Government Gazette in June 2009 as the "Forest Sector Code". This Charter applies to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses are signatories to this charter via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). This charter sets the objectives and principles for B-BBEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by the government and the private sector (or South African forestry companies) to assist the forestry industry to achieve its B-BBEE targets. With effect from calendar 2010, our South African businesses were evaluated against the Forest Sector's B-BBEE scorecard and no longer against the Codes of Good Practice.

In June 2010, Sappi completed a B-BBEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of Sappi Limited were issued to its strategic empowerment partners, and to various trusts for the benefit of its black managers, its employees and growers/communities in the geographic areas where Sappi's South African businesses have operations. The value of the B-BBEE transaction (ZAR814 million (US\$115 million)) corresponds to an effective 30% interest in Sappi Southern Africa, which meets the requirements of Forest Sector Charter and B-BBEE legislation in general.

In September 2010, Empowerdex verified the South African businesses against the Forestry Sector's B-BBEE scorecard for the first time, and we achieved a score of 75.2 points with an overall B-BBEE status of a "level three contributor" and a preferential procurement recognition level of 110%. As a result, 110% of the value of all purchases from our South African businesses qualified as preferential procurement spend in a customer's B-BBEE scorecard. Further Empowerdex verifications of the South African businesses against the Forestry Sector's B-BBEE scorecard were

performed annually in 2011, 2012 and 2013. We achieved scores on these verifications of 74.5, 73.2 and 72.79, respectively, with an overall B-BBEE status of a “level four contributor”. In November 2014 and 2015, we achieved a score of 83.6 and 80.24, respectively, and a “level 3 contributor” status, a preferential procurement recognition level of 110%, and were recognized as a value-added supplier.

On October 11, 2013, the government issued amended Codes of Good Practice, which was implemented in April 2015. There is a proposal for the Forest Sector Code to align with the amended Codes of Good Practice in January 2016. Until the Forest Sector Code is aligned or repealed, we will continue to apply the Forest Sector Code in its current form. The amended Codes of Good Practice have increased targets substantially which will lead to a negative impact on the current recognition levels of most South African businesses. We have recognized this and have set in motion action plans to mitigate this negative impact.

The representation of people from designated groups, particularly Black women, in management and all levels of employment within the company is a focus within the organization, driven by employment equity targets set in each occupational level and category. Skills development initiatives, particularly programs aimed at improving management and leadership skills, are geared to meet these targets. Where practical, we purchase goods and services from Black-owned businesses and seek opportunities to develop future Black vendors. We are committed to the support of our Project Grow, which is an initiative with local communities using their land for plantations while training them in the core principles of forestry management. This is achieved through financial and technical input, as well as by providing a secure market during the start-up phase of these small tree farming enterprises. This initiative has been extended to encourage aspirant tree farmers who wish to undertake forestry activities on a larger scale consistent with the government’s strategy of promoting forestry as a means of sustainable livelihood in rural areas. We have a number of enterprise development initiatives and have established programs to train new entrepreneurs. These initiatives involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market. We have a history of investment in the communities in which we operate. Initiatives to promote education, health and welfare, arts and culture, and rural and community development, amongst others, are regularly undertaken.

The South African Constitution guarantees ownership rights of assets, and it is the stated intent of the Constitution that transfer of ownership will occur at market prices. It should be noted that B-BBEE equity participation need not necessarily occur at the corporate level, and can be effected at divisional, business unit or lower levels. Because the B-BBEE Act sets forth a framework for plans rather than specific requirements or goals, it is not possible to predict whether or how our business or assets may be impacted.

South African Exchange Controls

Introduction

The information below is not intended as legal advice and it does not purport to describe all of the considerations that may be relevant to you.

South African residents are subject to exchange controls in terms of the Exchange Control Regulations, issued under the Currency and Exchanges Act, 1933 (the “Regulations”).

The Financial Surveillance Department of the South African Reserve Bank (“SARB”) (previously known as the Exchange Control Department) is responsible for the day-to-day administration of exchange controls.

Most South African commercial banks have been appointed to act as authorized dealers in foreign exchange (“Authorized Dealers”). Authorized Dealers may buy and sell foreign exchange, subject to conditions and within limits prescribed by the SARB. From time to time, the SARB issues Exchange Control Rulings to Authorized Dealers, which set out the conditions, permissions and limits applicable to the transactions in foreign exchange which may be undertaken by Authorized Dealers.

The SARB from time to time also issues Circulars to provide further guidelines regarding the implementation of exchange controls. The Regulations, Rulings and Circulars are hereinafter collectively referred to as “Excon Rules”.

The South African government remains committed to the gradual relaxation of exchange controls, but the existing exchange controls are strictly enforced, particularly in the current uncertain financial environment. Steps to liberalize exchange controls are announced from time to time in Budget Speeches and Medium-Term Budget Policy Statements issued by the Minister of Finance.

The purpose of exchange controls is, *inter alia*, to regulate inflows and outflows of capital from South Africa. South African residents are not permitted to export capital from South Africa except as provided for in the Excon Rules.

No South African resident is thus entitled to enter into any transaction in terms of which capital (whether in the form of funds or otherwise) or any right to capital is directly or indirectly exported from South Africa without the approval of either the SARB or, in certain cases, by an Authorized Dealer.

Exchange controls do not apply to non-residents, but non-residents may be impacted indirectly as acquisitions of South African assets and transactions with a resident may require Excon approval.

Transactions between residents (including corporations) of the Common Monetary Area (“CMA”) (comprising the Republic of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland) on the one hand and non-residents of the CMA on the other hand, are subject to exchange controls.

Controls on current account transactions, with the exception of certain discretionary expenses, have been abolished and are dealt with by Authorized Dealers in terms of the Exchange Control Rulings.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents in respect of fixed and ascertained foreign exchange commitments covering the movement of goods.

Although the stated intention of the South African Government is to gradually relax exchange controls, there are currently no indications that exchange controls will be abolished by the South African Government in the near future.

Quantitative and Qualitative Disclosures About Market Risk

The principal quantitative and qualitative disclosures about market risks (which are the risk of loss arising from adverse changes in market rates and prices) to which Sappi is exposed are:

Market Risk

Interest rate risk. We are exposed to interest rate risk as we borrow funds at both fixed and floating interest rates.

Currency risk. We are exposed to economic, transaction and translation currency risks.

Commodity price risk. We are exposed to commodity price risk from price volatility and threats to security of our raw material supply and other inputs to the production process.

See note 31 to our Group annual financial statements for the year ended September 2015.

Credit Risk

We are exposed to credit risk in relation to trade receivables, cash deposits and financial investments.

See note 31 to our Group annual financial statements for the year ended September 2015.

Liquidity Risk

We are exposed to liquidity risk in that we may be unable to meet our current and future financial obligations as they fall due.

See note 31 to our Group annual financial statements for the year ended September 2015.

Other Risks

Plantation risk. We are exposed to fair value fluctuations on plantations, as well as to fire, hazardous weather, disease and other damages to our plantations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates”.

Discount rates. We are exposed to the discount rate fluctuations in the calculation of post-employment benefit liabilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates”.

For additional descriptions of these risks, see notes 2, 11 and 28 to our Group annual financial statements for the year ended September 2015.

Commodity Price Risk

The selling prices of the majority of products manufactured and purchase prices of many raw materials used generally fluctuate in line with commodity cycles. There are differences between the types of pulp required for our paper making operations and the grades of pulp we produce, as well as regional differences. We are therefore a buyer as well as a seller of pulp. Despite our present relatively high level of pulp integration on a Group-wide basis, in the event of significant increases in the prices of pulp on a Group-wide basis, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

We are exposed to commodity price risk from price volatility and threats to security of supply of our raw materials and other inputs to the production process. A combination of contract and spot deals are used to manage price volatility and contain supply costs. Contracts are limited to the Group's own use requirements.

THE PULP AND PAPER INDUSTRY

Overview

The paper industry is generally divided into the graphics paper business (consisting of woodfree paper, mechanical paper and newsprint) and the packaging business (consisting of label papers, sackkraft, boxboard and containerboard). The pulp industry is generally divided into pulps used mainly in the production of graphic and packaging papers, and dissolving pulps used mainly in the production of textiles and in various other cellulose-based applications in the food, film, cigarette, chemical and pharmaceutical industries, including the production of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders.

Over the long term, paper and packaging consumption has depended on overall economic growth, but consumption patterns are also influenced by short-term economic developments and other factors. Pricing is largely influenced by the supply/demand balance for individual products, which is partially dependent on capacity and inventory levels in the industry. The ability to adapt capacity changes in response to shorter-term fluctuations in demand is limited, as large amounts of capital are required for the construction or upgrade of production facilities and lead times are long between the planning and completion of new facilities. Industry-wide over-investment in new production capacity has in the past led to situations of significant oversupply, which have caused product prices to decrease. This has been exacerbated by inventory speculation, as purchasers have sought to benefit from the price trend. As a result, our financial performance has deteriorated during periods of significant oversupply and improved when demand has increased to levels that support the implementation of price increases. Consumption patterns for graphic paper have been adversely impacted by changes in consumer preferences for digital media over traditional print media, with the trend most evident in the mature markets of western and central Europe and North America.

Consumption patterns in the paper pulp industry are associated with changes in graphic paper and packaging paper consumption, which are often cyclical, and in the case of certain graphic grades, are in secular decline. Dissolving pulps, however, have different end uses and applications, and thus the consumption of these types of pulp has largely followed growth rates in the demand for textiles and population growth.

The following table shows a breakdown and description of the major product categories we participate in, the products in these categories and the typical uses for such products. We have produced and sold each of these products in each of our last three fiscal years and the three months ended December 2015.

Major Product Categories	Description and Typical Uses
Woodfree paper	
Coated paper	Higher level of smoothness than uncoated paper achieved by applying a coating (typically pigment based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines.
Uncoated paper	Uses typically include business forms, business stationery, tissue, photocopy paper as well as cut-size, preprint and office paper. Certain brands are used for books, brochures and magazines.
Speciality paper	Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (e.g., artificial leather and decorative laminates) for use in the textile, automotive, furniture and engineering film markets.
Mechanical paper	
Newsprint	Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.
Coated mechanical paper	Coated mechanical fiber based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.
Packaging products	
Packaging paper	Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sackkraft (multi-walled shipping sacks) and machine glazed kraft (grocery bags). Can be coated to enhance barrier and aesthetics properties.

Pulp

Paper Pulp	Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fiber derived from wood. These cellulose fibers may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibers to leave cellulose fibers. Paper made from chemical pulp is generally termed “woodfree”. Uses include paper, paperboard and tissue.
Dissolving Wood Pulp	Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibers. Dissolving wood pulp is used in the manufacture of a variety of cellulose textile and non-woven fiber products, including viscose staple fiber (rayon), solvent spun fiber (lyocell) and filament. It is also used in various other cellulose-based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders. The various grades of dissolving wood pulp are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the dissolving wood pulp is one of the key determinants of its suitability for particular applications with the purer grades of dissolving wood pulp generally supplied into the speciality segments.
Timber products	Sawn timber for construction and furniture manufacturing purposes.

The following table sets forth selected pulp and paper prices in certain markets for the periods presented.

	Three Months Ended December 2015		Year Ended September					
			2015		2014		2013	
	High	Low	High	Low	High	Low	High	Low
Coated Woodfree Paper								
100 gsm delivered Germany (euro per ton) ⁽¹⁾	750	710	750	690	770	700	810	740
60 lb. delivered US (US\$ per short ton) ⁽²⁾	900	870	920	870	965	850	985	920
Coated Mechanical Paper								
60 gsm. LWC offset reels(euro per ton) ⁽³⁾	630	600	635	590	680	610	690	640
Paper Pulp								
NBSK (US\$ per ton) ⁽⁴⁾	830	795	940	830	935	890	880	780
Dissolving Wood Pulp								
92 alpha (US\$ per ton) ⁽⁵⁾	903	878	873	800	902	819	939	850

⁽¹⁾ 100 gsm sheets, RISI.

⁽²⁾ 60 lb. Coated Web, RISI.

⁽³⁾ 60 gsm LWC offset reels Germany, RISI.

⁽⁴⁾ Northern Bleached Softwood Kraft Pulp CIF Western Europe, RISI.

⁽⁵⁾ Selected indicative spot prices, CCF. However, most of our product is sold at contract prices.

Woodfree Paper

Our woodfree paper activities are divided into coated and uncoated woodfree paper and speciality paper grades.

Coated Woodfree Paper. Major end uses of coated woodfree paper include high-end magazines, catalogues, brochures, annual reports and commercial printing. The coated woodfree market has become increasingly consolidated over time, with a small number of top producers controlling a growing share of global production capacity over the past 25 years. Coated woodfree paper is made from chemical pulp and is coated on one or both sides for use where high reprographic quality is required. The majority of coated woodfree paper production is coated on two sides, permitting quality printing on both sides of the paper. Paper that is coated on one side is used in special applications such as consumer product and mailing label applications.

Our North American sheet volume is largely influenced by brochure and general commercial printing activities using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal. Reels volume is heavily influenced by catalogue and magazine activity, which is strongest in the third and fourth calendar quarters, text book activity, which is strongest in the second and third calendar quarters, and publication printer activity, which is not particularly seasonal. These printers principally use heat-set web offset printing processes.

Due to the diversity in languages in the European market, the print editions of brochure and general commercial printing activities are considerably smaller than in the US market. This translates into a significantly higher volume in sheets. The seasonal patterns of both sheets and reels are mostly influenced by the catalogue business. This business has its highest seasonal activity in the spring, when the fashion catalogues come out, and the autumn, when the Christmas catalogues and holiday brochures are printed. Commercial print and publishing business provide a more steady level of demand in this market.

Total production capacity of coated woodfree paper has been decline in the North American and European markets in recent years in response to declining demand, due in part to changes in consumer preferences for digital media over traditional print media.

Uncoated Woodfree Paper. Uncoated woodfree paper represents the largest industry woodfree paper grade in terms of both global capacity and consumption. Uncoated woodfree paper is used for bond/writing and offset printing papers, photocopy papers, writing tablets (e.g., legal pads), speciality lightweight printing paper (e.g., bibles) and thin paper. The market for uncoated paper products generally follows cyclical trends, which do not necessarily coincide with cycles for coated paper but are impacted by capacity changes in uncoated woodfree paper output levels.

Speciality Paper. The high value-added speciality paper markets, in which Sappi operates, generally follow trends in the respective end use sectors in addition to changes in production capacity, output levels and cyclical changes in the world economy. Largely due to the highly specialized nature of speciality paper, price fluctuations have historically tended to lag and be less precipitous than price changes in the uncoated woodfree paper market.

Mechanical Paper Products

Coated Mechanical Paper. Coated mechanical paper has similar end-uses as coated woodfree paper and is used mainly for magazines and, among other things, for brochures, catalogues, advertising materials and promotional products. Depending on quality requirements and price levels, substitution between coated woodfree paper and coated mechanical paper is possible. Coated mechanical paper is made mainly from mechanical pulp and typically has glossy finishes on both sides.

Newsprint. The worldwide market for newsprint is a low growth sector in the paper industry and is being adversely affected by stagnating demand from end-users and cost-cutting measures imposed by major newspaper publishers.

Paper Packaging Products

We are one of the major suppliers of paper packaging solutions in southern Africa, which we produce locally at our Tugela and Ngodwana Mills. These products are sold predominantly to customers in southern Africa with some products destined for export markets.

Paper Packaging. We provide a wide range of packaging solutions to the industrial, agricultural and fast moving consumer goods industries. This includes containerboard products and multi-walled shipping sacks for use in the transport of goods as well as grocery bags for use by the end consumer. The market for packaging papers is therefore affected by changes in the world economy, local economic growth, retail sales and by changes in production capacity, demand and inventory levels.

Pulp

We produce dissolving wood pulp, as well as a wide range of paper pulp grades, including mechanical pulp used in newsprint, bleached kraft pulp and bleached sulphite pulp.

Paper Pulp. The paper pulp industry is highly competitive and is sensitive to changes in industry capacity, producer inventories, demand for paper, exchange rates and cyclical changes in the world economy. The market price of NBSK pulp per ton, a pulp principally used to manufacture woodfree paper, is a benchmark widely used in the industry for comparative purposes.

Dissolving wood pulp. The viscose staple fiber (VSF) industry, which manufactures textile and non-woven fibers, is the largest market segment for dissolving wood pulp. Most of our VSF grade dissolving wood pulp production is sold on long-term contracts with longstanding customers at prices that are generally based on a formula linked to market prices for dissolving wood pulp and are adjusted based on negotiations with the applicable customers. The remaining VSF grade dissolving wood pulp production is sold on the spot market at prices that tend to follow the international price of cotton, as VSF can be used as a substitute for cotton. Prices of the higher purity dissolving wood pulp used in applications other than for VSF products tend to be more stable and are largely unrelated to the price of

dissolving pulps. The market price for these dissolving wood pulp products is set by competitive forces within those specific markets.

Timber Products

Our timber products operations are concentrated in South Africa and consist of sawn timber for the building industry and components for the furniture and packaging industry.

OUR BUSINESS

Our Strengths

Leading market positions

We believe we are the world's largest manufacturer of dissolving wood pulp by sales and volume. Dissolving wood pulp is a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. We are also one of the largest producers of coated woodfree paper in the world with an estimated global market share of 10%. On a regional basis, we have an estimated market share in coated woodfree paper of 22% and 30% in Europe and North America, respectively (based on production capacity). We have achieved leading positions in our core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands.

High level of economic pulp integration

Our Group, as a whole, sells slightly less pulp (including dissolving wood pulp) than it purchases and is therefore generally neutral to pulp prices, other factors remaining neutral. From a regional perspective, our Southern African and North American businesses are net sellers of pulp with a pulp integration of approximately 185% and approximately 102%, respectively, while our European business is a net buyer of pulp with a pulp integration of approximately 59%.

Efficient asset base

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated woodfree paper, coated mechanical paper and dissolving wood pulp sectors in the world. A significant portion of our past capital expenditure was used to increase production capacity at efficient facilities, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base by divesting or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. We have very strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio. During the three months ended December 2015, we exited the waste-based packaging paper business through the disposal of the Enstra and Cape Kraft Mills and transferred office paper production from the Enstra Mill to our integrated Stanger Mill, as part of our efforts to refocus our product portfolio in Southern Africa on those products for which we have a cost competitive position. During fiscal 2015, we transferred approximately 100,000 tons of annual paper production from Metsä Board Corporation's Husum Mill (the output of which we previously sold on an agency basis) to our own paper mills in Europe. During fiscal 2014, we disposed of our Nijmegen Mill and transferred paper production to the remaining lower-cost paper mills in Europe. We will continue to align our production capacity with market demand, which may require us to financially impair operating assets, sell assets or initiate further capacity reductions.

Global presence

We believe that our 14 pulp and paper mills across Europe, North America and South Africa enable us to take greater advantage of opportunities where markets are strong and reduce risk where they are weak. Our geographic diversity assists us in offsetting the effects of volatile movements of major currencies as we can benefit from imbalances in demand and relative strengths of currencies. In fiscal 2015, our operations in Europe, North America and Southern Africa accounted for 49%, 26% and 25% of our sales, respectively. In the three months ended December 2015, our operations in Europe, North America and Southern Africa accounted for 51%, 27% and 22% of our sales, respectively.

Long-standing customer relationships supported by product innovation and customer service

We sell our paper products to a large number of customers, including merchants such as Antalis, IGEP, Lindenmeyr, Papyrus and Veritiv, converters such as Amcor Flexibles and Novelis, and other direct consumers such as The CTP Group and Media 24, many of whom have long-standing relationships with us. We sell dissolving wood pulp to a variety of customers, including Lenzing and Birla and other Asian customers operating particularly in Europe, Indonesia, Thailand, India and China, which generally use our product in the manufacturing of viscose staple fiber. We support these customer relationships through our portfolio of premium international operating brands under which we produce and market our products, as well as through the quality of our products, our customer service and our reliability. We are aiming to continually improve service and reliability through innovation, and we believe that our research and development centers in Europe, North America and South Africa enhance our ability to design and improve value added products and services and to bring them to market with increased efficiency.

Experienced management team and strong track record of business realignment

Our management team has substantial experience in the global paper industry and a strong track record of successfully realigning the Group's business in response to emerging industry trends. Major initiatives in this regard have included the significant expansion of the Group's dissolving wood pulp capacity through two pulp conversion projects at the Ngodwana and Cloquet Mills, consolidating Sappi's position as a global leader in dissolving wood pulp production, and the successful conversion of PM2 at the Alfeld Mill, which reduced our exposure to the declining coated woodfree market in favor of the growing and higher margin speciality paper segment. We have also succeeded in shifting graphic paper production to lower cost mills and exiting high cost production capacity without compromising market share, all while maintaining a strong focus on cost management.

Our Objectives

We endeavor to be, on a sustainable basis, the most profitable company in paper, paper pulp and dissolving wood pulp-based solutions, measured in terms of return on capital employed.

Sappi's strategy involves five key themes, namely: achieving cost advantages, rationalizing declining businesses, investing moderately for future growth in higher margin businesses, including dissolving wood pulp, achieving its strategic initiatives within the reality of the Group's balance sheet and liquidity position, and seeking new opportunities for growth in adjacent businesses.

Maintain focus on cost base and profitability

We intend to focus on improving our profitability through further reducing fixed and variable costs, increasing cost efficiencies and investing in cost advantages where possible. Fiscal 2015 saw the completion of a number of major capital projects aimed at reducing our energy costs, including investments in natural gas derived energy at our Somerset Mill in North America and a multi-fuel boiler and turbine at our Kirknemi Mill in Europe. During fiscal 2014, we disposed of our Nijmegen Mill and transferred paper production to the remaining lower-cost paper mills in Europe to significantly reduce fixed costs. In addition, we have taken initiatives to refocus our product portfolio in Southern Africa on those products for which we have a cost competitive position. These initiatives include our exit from the waste-based packaging paper business through the disposal of the Enstra and Cape Kraft Mills and the transfer of office paper production from the Enstra Mill to our integrated Stanger Mill during the three months ended December 2015. At the Group level, we have also focused on opportunities to lower costs in procurement and logistics, as well as seeking additional benefits from Group-wide shared service centers. We intend to continue pursuing these and other initiatives to reduce costs and improve operational performance.

Rationalize declining businesses

Against the backdrop of decreasing demand for graphic paper in our core markets, we intend to manage our capacity to strengthen our leadership position in these markets, realizing their strategic importance to the Group and maximizing their significant cash flow generation. To this end, we will continue to maintain operating rates and strive to lower costs, while continuously balancing graphic paper supply and demand in all regions. In North America, our cost competitive manufacturing facilities, consistent and reliable supply and our high levels of customer service have allowed us to maintain volumes by increasing market share, despite decreasing demand in the overall market. In Europe, we have focused on shifting our paper production to more efficient paper mills, thereby reducing fixed costs and lowering the average production cost. As we anticipate future demand declines for graphic paper in this market, we will continue to pursue cost reductions and, where possible, convert PMs to higher margin paper business. During fiscal 2015, we transferred approximately 100,000 tons of annual paper production from Metsä Board Corporation's Husum Mill (the output of which we previously sold on an agency basis) to our own paper mills in Europe in order to improve our coated mechanical paper operating rates. We also completed a rebuild of the recovery boiler and an upgrade of PM 11 at our largest and lowest cost coated woodfree mill, Gratkorn Mill, in order to widen the product range capabilities, allowing for further fixed costs savings in the future. In addition, our coating expertise and the growing speciality packaging market has allowed us to reallocate some of our coated woodfree production in both Europe and North America to various grades of speciality packaging paper, without significant capital required. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both regions. In South Africa during the three months ended December 2015, we exited the waste-based packaging paper business through the disposal of the Enstra and Cape Kraft Mills and transferred office paper production from the Enstra Mill to our integrated Stanger Mill.

Drive growth through strategic and moderate investment

We intend to make further investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers. We will continue to seek out opportunities to make moderate investment in growth areas

that promise improved margins and returns and offer a better risk adjusted return to shareholders than paying down further debt or increasing dividends. Over the near term, we also intend to investigate and analyze the various opportunities available to us in near and adjacent businesses that rely on forest products for their inputs. These may include further opportunities in forestry, dissolving wood pulp and cellulose, as well as paper-based packaging. We will also continue to investigate means to extract greater value from our waste stream.

Continue to enhance liquidity position and strengthen balance sheet

We intend to achieve our strategic initiatives within the constraints of the Group's balance sheet and liquidity position. We have undertaken measures to strengthen our balance sheet, including disposing of the Enstra and Cape Kraft Mills during fiscal 2015 and our Usutu foresting operations during fiscal 2014. We intend to continue to carefully manage the Group's level of indebtedness, including repaying and refinancing debt when possible to improve our debt maturity profile and lower risk and interest costs, and to retain our focus on optimizing working capital management and containing capital expenditure.

Seek new opportunities for growth in adjacent businesses

We intend to seek new opportunities for growth in fields close to our current businesses or processes, such as the markets for sugars, lignins, nanocellulose and other innovative performance materials produced from renewable resources. We have identified several areas for investment where we believe we have a competitive advantage and intend to undertake research and development projects, work closely with existing customers and collaborate with research and commercial partners. In Europe, we plan to commence construction of our nanocellulose pilot plant in The Netherlands during the first half of fiscal 2016, with a view to determining the viability of our production process and the commercial applications for nanocellulose, which we believe has a potential market in a wide range of commercial and industrial applications. In Southern Africa, we have increased the beneficiation of our by-products by investing in increased lignosulphonate capacity at both our Saiccor and Tugela Mills, and are exploring the extraction of sugars from our pulping processes. We also intend to continue exploring cogeneration and renewable biomass energy projects.

Legal Proceedings

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

North America

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring us to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage was substantially completed in 2013 and overall costs were approximately US\$5 million. In 2014, we entered into an agreement with the City of Westbrook, two non-governmental organizations, and state and federal regulators, to extend the deadline for installation of the fish passage at the next dam upstream, the Saccarappa hydrofacility, to evaluate alternative designs. Pursuant to the agreement, the fish passage at the Saccarappa hydrofacility must be operational during the third quarter of 2017. The total estimated construction cost of Sappi North America's proposed design, including removal of the Saccarappa hydrofacility and installation of the fish passage, is approximately US\$4.4 million. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of our other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with our dams along the Presumpscot River is estimated to be in the range of approximately US\$18 million to US\$28 million. This estimate includes costs incurred on the Cumberland Mills dam, costs expected to be incurred in the next several years for the fish passage on the Saccarappa hydrofacility, and estimated costs for the upstream fish passages which may be incurred in the future. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

Southern Africa

The Restitution of Land Rights Act (No. 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Initially claims were required to be lodged by December 31, 1998; however, this date has been extended by the Restitution of Land Rights Amendment Act (No. 15 of 2014) which extends the cut-off period for

instituting land claims to June 30, 2019. The claims which were lodged by the initial cut-off date are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. We have not yet received any notice of new claims under the extended period for the submission of claims. The process of land claims is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues.

There are currently 49 open land claims against Sappi. At the end of December 2015, the status of these claims are as follows: 6 claims (covering 3,642 hectares) have been agreed and sold, 21 claims (covering 50,127 hectares) are to be settled by negotiation, 18 claims (covering 34,316 hectares) have been referred to Court and four claims (covering 2,622 hectares) are unresolved and invalid and subject to further discussion with the Commission. Thirty-seven claims (covering 39,222 hectares) have been withdrawn by the Commission. Sappi is actively managing the open claims.

In September 2012, the Competition Commission of South Africa notified the Group that it has initiated an investigation into alleged anti-competitive behavior between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of December 2015, the investigation had not commenced as the proceedings were being challenged by a third party.

DESCRIPTION OF OTHER FINANCING ARRANGEMENTS

Our existing indebtedness comprises a variety of arrangements, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and finance leases. For further information regarding our existing indebtedness, see “Capitalization”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and notes 17 and 21 to the Group annual financial statements for the year ended September 2015.

Set forth below is a summary of certain of our existing significant debt arrangements. The summary is not complete and reference should be made to the full text of the documents.

Revolving Credit Facility

On August 27, 2009, Sappi Papier Holding GmbH and Sappi International SA, as borrowers, entered into a revolving credit facility (which, as amended and restated, is our “Revolving Credit Facility”) in an amount of €209 million available for drawing in euro, US dollars, Swiss francs or any other currency which is readily available and freely convertible into euro and has been approved by all the lenders. In connection with the 2011 Refinancing, we amended and restated the Revolving Credit Facility on April 28, 2011 with a group of lenders providing for, amongst other things, an increase in commitments to €350 million and extending the maturity until April 28, 2016. We further amended and restated the Revolving Credit Facility on September 19, 2013. In connection with the 2015 Refinancing, we amended and restated the Revolving Credit Facility on March 16, 2015 with a group of lenders providing for, amongst other things, an increase in commitments to €465 million and extending the maturity until March 16, 2020. As of December 2015, the Revolving Credit Facility was undrawn.

Borrowers

The borrowers under the Revolving Credit Facility are Sappi Papier Holding GmbH and Sappi International SA. Other wholly owned subsidiaries of Sappi Limited may accede as borrowers under the Revolving Credit Facility if such subsidiaries are approved by all the lenders.

Guarantees

The Revolving Credit Facility is guaranteed by Sappi Limited and by substantially the same subsidiaries of Sappi Limited that guarantee certain debt securities. The obligations of the guarantors are subject to certain customary limitations as set forth in the Revolving Credit Facility in order to comply with applicable laws in the various guarantors’ jurisdictions of incorporation. The guarantees constitute direct, unconditional and unsubordinated obligations of the guarantors and rank at least *pari passu* with all other future unsubordinated obligations of the guarantors, except as otherwise provided by law. Other wholly-owned subsidiaries of Sappi Limited may accede as guarantors under the Revolving Credit Facility at the request of Sappi Limited.

Guarantor coverage test

The Revolving Credit Facility contains guarantor coverage tests pursuant to which we are required to test whether the aggregate EBITDA of the guarantors that are either Sappi Papier Holding GmbH or one of its subsidiaries and the aggregate gross assets of such guarantors (on an unconsolidated basis and excluding all intra Group items) represents at least 80% of the consolidated EBITDA and the consolidated gross assets of Sappi Papier Holding GmbH and its subsidiaries (the “Guarantor Coverage Group”), respectively, each quarter. If this minimum percentage is not satisfied, additional subsidiaries must accede to the Revolving Credit Facility as additional guarantors to maintain compliance with these guarantor coverage tests. We are also required to ensure a relevant Group company (excluding a southern African subsidiary) accedes to the Revolving Credit Facility as an additional guarantor if its EBITDA or gross assets represent at least 7.5% of the consolidated EBITDA or the consolidated gross assets of the Group.

Security

The obligations under the Revolving Credit Facility are secured on a *pari passu* basis by substantially the same collateral that secures the obligations under certain debt securities, the 2017 Notes, the 2021 Notes and the 2022 Notes.

Amount and repayment of borrowings

Loans under the Revolving Credit Facility must be for at least €25 million (or US\$25 million if the borrowing is made in US\$) and no more than 10 loans may be outstanding at any time. Each loan must be repaid on the last day of the loan’s interest period, which can be a period of one, two, three or six months or any other period agreed by Sappi Limited

and the majority lenders. All loans must be repaid in full on the termination date, which shall be the fifth anniversary of the establishment of the Revolving Credit Facility.

Interest rates and fees

The annual interest rate on loans is calculated based on LIBOR or, for borrowings in euro, EURIBOR, plus a margin varying between 1.00% and 2.75% *per annum* depending on the credit rating assigned to the Revolving Credit Facility or, if such rating is not assigned, the long-term rating assigned to the Group. Interest on loans is payable on the last day of the loan's interest period and, if the interest period exceeds six months, on the dates falling at six-month intervals after the day the loan was made.

We are required to pay a commitment fee equal to 40% of the then applicable margin *per annum* on the undrawn and uncanceled amount of the Revolving Credit Facility and a utilization fee of 0.15% *per annum* (if the aggregate outstanding loans are less than 33¹/₃% of the maximum amount of the Revolving Credit Facility), 0.25% *per annum* (if the aggregate outstanding loans are equal to or greater than 33¹/₃% and up to 66²/₃% of the maximum amount of the Revolving Credit Facility) or 0.40% *per annum* (if the aggregate outstanding loans are greater than 66²/₃% of the maximum amount of the Revolving Credit Facility) on the amount of the aggregate outstanding loans under the Revolving Credit Facility.

Financial covenants

The Revolving Credit Facility includes financial covenants which require that:

- on each quarter end date, the ratio of EBITDA to consolidated net interest expense (as such terms shall be defined in the Revolving Credit Facility) for the previous four consecutive quarters should not be less than 2.50:1; and
- on each quarter end date, the ratio of net debt to EBITDA (as such terms shall be defined in the Revolving Credit Facility) for the previous four consecutive quarters should not be greater than the ratio specified for such date in the table below:

Test Dates	Ratio
Until March 2019.....	4.00:1
June 2019-March 2020	3.75:1

Change of control

Subject to (i) there being a negotiation period of not more than 10 days between the agent and Sappi following notice of a Change of Control (as such terms are defined in the Revolving Credit Facility), and (ii) a lender giving notice within 10 days following the expiration of that negotiation period, the commitments of that lender under the Revolving Credit Facility will be cancelled and all outstanding loans, together with accrued interest and all other amounts accrued, will become immediately due and payable on a date not less than 10 days after the relevant notice has been received from that lender in respect of that lender's commitments.

Undertakings

The Revolving Credit Facility contains affirmative and negative covenants, including restrictions on the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of our Group, acquisitions or participations in joint ventures and mergers and disposals. The covenants are subject to exceptions and materiality thresholds.

The Revolving Credit Facility also contains, among others, the following affirmative covenants: mandatory periodic reporting of financial and other information, notice upon the occurrence of defaults and certain other events, compliance with environmental regulations and reporting of environmental claims, and other obligations requiring the members of the Group to, among other things, maintain insurance coverage.

Suspension of certain covenants and release of security

The collateral securing indebtedness under the Revolving Credit Facility may be released if, among other things, (i) no default or event of default has occurred or is continuing on such date or will or is reasonably likely to result from such release and (ii) our ratio of net debt to EBITDA has not been greater than 2.50 to 1 in the two most recently delivered compliance certificates.

Events of default

The Revolving Credit Facility contains events of default including failure to make payment of amounts due, defaults under other agreements evidencing indebtedness, failure of an obligor to be a wholly owned subsidiary of Sappi Limited, certain events having a material adverse effect on our Group, a material qualification in Sappi's or Sappi Papier Holding GmbH's annual audited financial statements, certain insolvency events and a cessation of business. The occurrence of an event of default could result in the acceleration of payment obligations under the Revolving Credit Facility.

2021 Secured Notes

On April 14, 2011, Sappi Papier Holding GmbH issued US\$350 million 6.625% Senior Secured Notes due 2021 (the "2021 Notes"). The interest on the 2021 Notes is payable semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The 2021 Notes mature on April 15, 2021.

Sappi Papier Holding GmbH may redeem all or part of the 2021 Notes prior to April 15, 2016 at a redemption price equal to 100% of the principal amount of such notes redeemed plus a make-whole premium and accrued and unpaid interest to the redemption date. Sappi Papier Holding GmbH may redeem all or part of the 2021 Notes on or after April 15, 2016 at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% of the principal amount of the 2021 Notes redeemed on or after April 15, 2019.

The 2021 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of Sappi Papier Holding GmbH that guarantee certain debt securities. The 2021 Notes are secured by first-priority security interests, subject to permitted collateral liens, over substantially the same assets of Sappi Limited, Sappi Papier Holding GmbH and the other subsidiary guarantors that secure certain debt securities, the 2017 Notes, the 2022 Notes and the Revolving Credit Facility. The security interests are subject to limitations under applicable laws and may be released under certain circumstances.

We have agreed to observe certain covenants with respect to the 2021 Notes including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. In case of a change of control (including, among others, if all or substantially all of the properties or assets of Sappi Limited and certain of its subsidiaries taken as a whole are sold, transferred or otherwise disposed of, or if any person acquires the majority of voting power of Sappi Limited), holders of the 2021 Notes have the right to require Sappi Papier Holding GmbH to repurchase all or any part of their 2021 Notes at a purchase price equal to 101% of the principal amount of the 2021 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2021 Notes was not registered under the Securities Act or any U.S. state securities laws. The 2021 Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. The 2021 Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market. For further information, see note 21 to our Group annual financial statements for the year ended September 2015.

2017 Secured Notes

On July 5, 2012, Sappi Papier Holding GmbH issued US\$400 million 7.75% Senior Secured Notes due 2017 (the "2017 Notes"). The interest on the 2017 Notes is payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2013. The 2017 Notes mature on July 15, 2017.

Sappi Papier Holding GmbH may redeem all or part of the 2017 Notes prior to April 15, 2017 at a redemption price equal to 100% of the principal amount of such notes redeemed plus a make-whole premium and accrued and unpaid interest to the redemption date. Sappi Papier Holding GmbH may redeem all or part of the 2017 Notes on or after April 15, 2017 at a redemption price equal to 100% of the principal amount of such notes redeemed plus accrued and unpaid interest to the redemption date.

The 2017 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of Sappi Papier Holding GmbH that guarantee certain debt securities. The 2017 Notes are secured by first-priority security interests, subject to permitted collateral liens, over substantially the same assets of Sappi Limited, Sappi Papier Holding GmbH and the other subsidiary guarantors that secure certain debt securities, the 2021 Notes, the 2022 Notes and the Revolving Credit Facility. The security interests are subject to limitations under applicable laws and may be released under certain circumstances.

We have agreed to observe certain covenants with respect to the 2017 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. In case of a change of control (including, among others, if all or substantially all of the properties or assets of Sappi Limited and certain of its subsidiaries taken as a whole are sold, transferred or otherwise disposed of, or if any person acquires the majority of voting power of Sappi Limited), holders of the 2017 Notes have the right to require Sappi Papier Holding GmbH to repurchase all or any part of their 2017 Notes at a purchase price equal to 101% of the principal amount of the 2017 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2017 Notes was not registered under the Securities Act or any U.S. state securities laws. The 2017 Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. The 2017 Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market. For further information, see note 21 to our Group annual financial statements for the year ended September 2015.

2022 Secured Notes

On March 23, 2015, Sappi Papier Holding GmbH issued €450 million 3.375% Senior Secured Notes due 2022 (the “2022 Notes”). The interest on the 2017 Notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2015. The 2022 Notes mature on April 1, 2022.

Sappi Papier Holding GmbH may redeem all or part of the 2022 Notes prior to April 1, 2018 at a redemption price equal to 100% of the principal amount of such notes redeemed plus a make-whole premium and accrued and unpaid interest to the redemption date. Sappi Papier Holding GmbH may redeem all or part of the 2022 Notes on or after April 1, 2018 at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% of the principal amount of the 2022 Notes redeemed on or after April 1, 2020.

The 2022 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of Sappi Papier Holding GmbH that guarantee certain debt securities. The 2022 Notes are secured by first-priority security interests, subject to permitted collateral liens, over substantially the same assets of the Sappi Limited, Sappi Papier Holding GmbH and the other subsidiary guarantors that secure certain debt securities, the 2021 Notes, the 2017 Notes and the Revolving Credit Facility. The security interests are subject to limitations under applicable laws and may be released under certain circumstances.

We have agreed to observe certain covenants with respect to the 2022 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. In case of a change of control (including, among others, if all or substantially all of the properties or assets of Sappi Limited and certain of its subsidiaries taken as a whole are sold, transferred or otherwise disposed of, or if any person acquires the majority of voting power of Sappi Limited), holders of the 2022 Notes have the right to require Sappi Papier Holding GmbH to repurchase all or any part of their 2022 Notes at a purchase price equal to 101% of the principal amount of the 2022 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2022 Notes was not registered under the Securities Act or any U.S. state securities laws. The 2022 Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. The 2022 Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market. For further information, see note 21 to our Group annual financial statements for the year ended September 2015.

OeKB Term Loan Facility

General

On July 10, 2012, Sappi Papier Holding GmbH entered into a new OeKB term loan facility (the “OeKB Term Loan Facility”) arranged by UniCredit Bank Austria AG to finance the expansion of Sappi’s pulp production facilities at Cloquet Mill. The OeKB Term Loan Facility was amended and restated on September 18, 2013 and March 16, 2015. The commitments under the OeKB Term Loan Facility are for €136 million and such amount was fully drawn on August 30, 2012. As of the date of this document, the outstanding balance under the OeKB Term Loan Facility is €101 million. The OeKB Term Loan Facility is provided by UniCredit Bank Austria AG and a syndicate of financial institutions (“the lenders”) and the lenders refinanced their commitments with financing provided by the Oesterreichische Kontrollbank Aktiengesellschaft (“OeKB”), an Austrian bank providing financial services.

Borrower

Sappi Papier Holding GmbH is the borrower under the OeKB Term Loan Facility and UniCredit Bank Austria AG is acting as agent on behalf of the lenders.

Guarantees and security

The OeKB Term Loan Facility is guaranteed by Sappi Limited and substantially the same subsidiaries of Sappi Papier Holding GmbH that guarantee certain debt securities. The obligations under the OeKB Term Loan Facility are initially unsecured; however, the terms of the OeKB Term Loan Facility require that upon the occurrence of certain events, including a downgrade to specified ratings or an event of default under the OeKB Term Loan Facility, the borrower will be required to secure its obligations under the OeKB Term Loan Facility with substantially the same collateral that secures the Revolving Credit Facility, the 2017 Notes, the 2021 Notes, the 2022 Notes and that will secure certain debt securities.

Repayment of borrowings

Sappi Papier Holding GmbH is required to repay the OeKB Term Loan Facility in annual repayments based on a percentage of total commitments (13% at September 30, 2014, 13% at September 30, 2015, 14% at September 30, 2016 and 60% at June 30, 2017). The first such repayment was made on September 30, 2014.

Interest Rate

The annual interest rate on borrowings is calculated based on the interest rate under the export rate financing scheme of the OeKB plus a margin depending on the credit rating assigned to the senior secured debt of Sappi Limited (1.45% at BB+/Ba1 or higher, 1.95% at BB/Ba2, 2.20% at BB-/Ba3, 2.70% at B+/B1 and 4.20% at B/B2 or lower), plus certain mandatory costs. Initially, the margin is 2.20% per annum.

Other Terms

The other material terms of the OeKB Term Loan Facility, including the financial covenants, the undertakings and the events of default are substantially the same as the terms of the Revolving Credit Facility. The OeKB Term Loan Facility is governed by Austrian law.

Domestic Medium Term Note Program

In June 2009, Sappi Southern Africa Limited (previously Sappi Manufacturing (Pty) Ltd and Sappi Southern Africa Proprietary Limited) combined its ZAR3 billion (US\$437 million) Domestic Medium Term Note Programme established in June 2006 (the "Initial Program") with its commercial paper program established in November 2003 ("Initial CP Program"), into a new ZAR5 billion Domestic Medium Term Note Programme (the "DMTN Program") which supersedes and replaces the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. The DMTN Program was amended and restated on 13 September 2013 and the new programme memorandum applies to all notes issued under the DMTN Program and supersedes and replaces any previous programme memoranda.

On June 28, 2011, Sappi Southern Africa Limited issued ZAR500 million (US\$62 million) senior unsecured fixed rate notes ("Series 1") under the DMTN Program at a fixed interest rate of 9.63%, payable semi-annually on June 28 and December 28 of each year. The securities issued under Series 1 mature on June 28, 2016. The proceeds of Series 1 were used to partially refinance ZAR1 billion of senior unsecured fixed rate notes previously issued under the DMTN program that matured on October 14, 2011.

On April 20, 2012, Sappi Southern Africa Limited issued ZAR750 million (US\$98 million) senior unsecured floating rate notes ("Series 2") under the DMTN Program at a floating rate of the 3 month JIBAR plus 144 basis points, payable quarterly on January 20, April 20, July 20 and October 20 of each year commencing on July 20, 2012. The securities issued under Series 2 mature on April 20, 2015. The proceeds of Series 2 were used to refinance ZAR500 million of senior unsecured fixed rate notes previously issued under the DMTN program that matured on June 30, 2012 and for other debt repayments.

On April 16, 2013, Sappi Southern Africa Limited issued ZAR255 million (US\$28 million) three-year senior unsecured floating rate notes ("Series 4") under the DMTN Program at a floating rate of 3 month JIBAR plus 123 basis points payable quarterly on January 16, April 16, July 16 and October 16 of each year commencing on July 16, 2013. In addition it issued ZAR500 million (US\$54 million) five-year senior unsecured floating rate notes ("Series 5") under the DMTN Program at a floating rate of 3 month JIBAR plus 150 basis points payable quarterly on January 16, April 16,

July 16 and October 16 of each year commencing on July 16, 2013. It also issued ZAR745 million (US\$80 million) seven-year senior unsecured fixed rate notes (“Series 6”) under the DMTN Program at a fixed rate of 8.06% per annum payable semi-annually on April 16 and October 16 of each year commencing on October 16, 2013. The securities under Series 4, 5 and 6 mature on April 16, 2016, 2018 and 2020, respectively. The proceeds of Series 4, 5 and 6 were used to refinance ZAR1 billion of senior unsecured fixed rate notes previously issued under the DMTN program that matured on June 27, 2013 and to partially fund the Ngodwana dissolving wood pulp conversion project.

Sappi Southern Africa Limited has also agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. Should a change of control event (more than 50% of the voting rights of Sappi Southern Africa Limited be acquired by any party and a negative rating event in respect of Sappi Southern Africa Limited, the DMTN program or the securities) occur, then the holders of the securities may, within 30 days after the change of control event, convene a meeting of holders to require the redemption of certain debt securities by way of an extraordinary resolution.

The offering of the securities, which are listed on the Interest Rate Market of the JSE Limited, was not registered under the Securities Act or any U.S. state securities laws. The securities were offered and sold outside the United States in accordance with Regulation S under the Securities Act, and were not offered and sold within the United States.

Trade Receivables Securitization Program

On August 25, 2011, Sappi Trading, Sappi Europe and Sappi North America entered a new, three-year €360 million trade receivables securitization program arranged by UniCredit Bank and funded through UniCredit Bank’s Arabella Finance Limited conduit to replace their prior trade receivables securitization program. The program was renewed and extended to August 2016 at a lower level of €330 million in June 2013. Under the renewed and extended program, eligible receivables are sold on a non-recourse basis by Sappi Papier Holding GmbH, Sappi Lanaken NV and Sappi NA Finance LLC to Elektra Purchase No. 29 Limited (the “Purchaser”) under various purchase agreements. Pursuant to corresponding servicing agreements, Sappi entities act as servicers to administer, collect and enforce the receivables purchased under the various purchase agreements. Under the purchase agreements, the sellers have agreed to observe certain covenants, including a limitation on creating liens on any receivables. Sappi Papier Holding GmbH has guaranteed the performance by the sellers of their respective obligations under the receivables purchase agreements and the performance by the Sappi entities acting as servicers of their respective obligations under the servicing agreements pursuant to a performance guarantee with the Purchaser. The trade receivables securitization program matures on August 24, 2016, unless it is terminated earlier. In case of a change of control (which occurs upon the failure of Sappi Limited and its wholly owned subsidiaries to beneficially own at least 65% of the capital stock of or control all sellers, servicers, Sappi International SA and Sappi Papier Holding GmbH or the failure of S.D. Warren Company to own 100% of or control Sappi NA Finance LLC), the facility could be terminated. A termination event could also occur if certain credit rating downgrades occur for Sappi Limited or if Sappi Limited fails to maintain certain financial ratios, including ratios for consolidated net debt to EBITDA and EBITDA to consolidated net interest expense. As of December 2015, the external securitization funding under the trade receivables program was US\$339 million. For further information, see notes 17 and 21 to our Group annual financial statements for the year ended September 2015.

2032 Notes

In June 2002, Sappi Papier Holding GmbH (then organized as an AG company) issued US\$250 million 7.50% unsecured guaranteed notes due 2032 (the “2032 Notes”), guaranteed by Sappi Limited and Sappi International SA. Interest on the 2032 Notes is payable semi-annually.

The indenture governing the 2032 Notes provides for an optional redemption of the 2032 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indentures, together with, in each case, accrued interest. The indenture governing the 2032 Notes contains events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and certain bankruptcy events. The indenture also contains certain covenants which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations. US\$29 million of the 2032 Notes became available for repurchase during fiscal 2010 and were repurchased by the Group at a discount. For further information, see note 21 to our Group annual financial statements for the year ended September 2015.