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Offering memorandum

Not for general circulation in the United States

sappi

Sappi Papier Holding GmbH

€450,000,000 3⅜% Senior Secured Notes due 2022

Interest payable April 1 and October 1

Issue price: 100%

Sappi Papier Holding GmbH (the ''Issuer''), an Austrian limited liability company, issued €450,000,000 aggregate principal amount of its 3⅜% Senior Secured Notes due 2022 (the ''notes'').

The Issuer will pay interest on the notes semi-annually on April 1 and October 1 of each year, beginning October 1, 2015. The notes will mature on April 1, 2022. Some or all of the notes may be redeemed prior to April 1, 2018 by paying 100% of the principal amount of such notes plus a make-whole premium plus accrued and unpaid interest (if any) to the redemption date. Some or all of the notes may be redeemed at any time on or after April 1, 2018 at the redemption prices set forth in this Offering Memorandum plus accrued and unpaid interest (if any) to the redemption date. In addition, at any time prior to April 1, 2018, up to 35% of the aggregate principal amount of the notes may be redeemed with the net proceeds of certain equity offerings at 103.375% of the principal amount thereof plus accrued and unpaid interest (if any) to the redemption date, if at least 65% of the principal amount of the notes remains outstanding.

All of the notes may also be redeemed at 100% of their principal amount plus accrued interest if at any time the Issuer or any guarantor becomes obligated to pay withholding taxes as a result of a change in law. Upon the occurrence of certain change of control events, each holder of notes may require the Issuer to repurchase all or a portion of its notes.

The notes will be the Issuer's senior obligations. The notes will rank equally in right of payment with all of the Issuer's existing and future senior debt and senior to any of the Issuer's future subordinated debt. Sappi Limited, the parent company of the Issuer, and certain of the Issuer's subsidiaries will jointly and severally guarantee the notes on a senior basis. The guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances. The notes will be secured by first-priority security interests, subject to Permitted Collateral Liens, over certain assets of the Issuer, Sappi Limited and the subsidiary guarantors as described in this Offering Memorandum. The security interests will be subject to limitations under applicable laws and may be released under certain circumstances.

We have applied to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market.

Investing in the notes involves risks that are described in the ''Risk Factors'' section beginning on page 18 of this Offering Memorandum. This Offering Memorandum constitutes a prospectus for the purposes of the Luxembourg Law dated July 10, 2005 on Prospectuses for Securities, as amended.

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the ''Securities Act''), or the securities laws of any other jurisdiction. Unless they are registered, the notes may be offered only in transactions that are exempt from registration under the Securities Act. Accordingly, we are offering the notes only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. For further details about eligible offerees and resale restrictions, see ''Notice to Investors''.

Delivery of the notes was made to investors in book-entry form through Euroclear Bank SA/NV (''Euroclear'') and Clearstream Banking, *société anonyme* (''Clearstream'') on March 23, 2015. Interests in each global note are exchangeable for the relevant definitive notes only in certain limited circumstances. See ''Book-Entry, Delivery and Form''.

Joint Global Coordinating Bookrunners

Crédit Agricole CIB **J.P. Morgan** **UniCredit Bank**

Joint Lead Managers and Bookrunners

Citigroup **Erste Group** **KBC Bank NV** **The Royal Bank of Scotland** **Standard Chartered Bank**

April 2, 2015

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Delivery of the notes was made against payment on the notes on the date specified on the cover page of this Offering Memorandum, which was seven business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Securities Exchange Act of 1934, as amended (the ''Exchange Act'')) following the date of pricing of the notes (this settlement cycle is being referred to as ''T+7''). See ''Plan of Distribution''.

NOTICE TO INVESTORS

THE NOTES AND THE GUARANTEES HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OR THE SECURITIES LAWS OF ANY OTHER STATE OR JURISDICTION AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES. SEE ''PLAN OF DISTRIBUTION'' AND ''TRANSFER RESTRICTIONS''. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A UNDER THE SECURITIES ACT.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, any such information or representation must not be relied upon as having been authorized by the Issuer, Sappi Limited, the Subsidiary Guarantors, any of their respective affiliates or the initial purchasers. This Offering Memorandum does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Offering Memorandum nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, Sappi Limited or the Subsidiary Guarantors since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time subsequent to that date.

By receiving this Offering Memorandum, investors acknowledge that they have had an opportunity to request for review, and have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. Investors also acknowledge that they have not relied on the initial purchasers in connection with their investigation of the accuracy of this information or their decision whether to invest in the notes. The contents of this Offering Memorandum are not to be considered as legal, business, financial or tax advice. Prospective investors should consult their own counsel, accountants and other advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. The Issuer, Sappi Limited and the Subsidiary Guarantors have prepared this Offering Memorandum solely for use in connection with the offer of the notes. This Offering Memorandum may only be used for the purpose for which it has been published.

In making an investment decision, investors must rely on their own examination of the Issuer, Sappi Limited, the Subsidiary Guarantors, and their respective affiliates, the terms of the offering of the notes and the merits and risks involved. This offering is being made in reliance upon exemptions from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. The notes have not been registered with, recommended by or approved by the United States Securities and Exchange Commission (the ''SEC'') or any other federal, state or foreign securities commission or regulatory authority, nor has any such commission or regulatory authority reviewed or passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

The Issuer, Sappi Limited and the initial purchasers reserve the right to withdraw this offering of notes at any time and to reject any commitment to subscribe for the notes, in whole or in part. The initial purchasers also reserve the right to allot less than the full amount of notes sought by investors. The initial purchasers and certain related entities may acquire a portion of the notes for their own account.

No action has been taken by the initial purchasers, the Issuer, Sappi Limited, the Subsidiary Guarantors or any other person that would permit an offering of the notes or the circulation or distribution of this Offering Memorandum or any offering material in relation to the Issuer, Sappi Limited, the Subsidiary Guarantors or their respective affiliates or the notes in any country or jurisdiction where action for that purpose is required.

The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the notes. Persons into whose possession this Offering Memorandum or any of the notes come must inform themselves about, and observe, any such restrictions. None of the Issuer, Sappi Limited, the Subsidiary Guarantors, the initial purchasers or their respective representatives are making any representation to any offeree or any purchaser of the notes regarding the legality of any investment in the notes by such offeree or purchaser under applicable legal investment or similar laws or regulations. For a further description of certain restrictions on the offering and sale of the notes and the distribution of the Offering Memorandum, see ''—Notice to Investors in the European Economic Area'', ''—Notice to South African Investors'' and ''Transfer Restrictions''. By possessing this Offering Memorandum or purchasing any note, investors will be deemed to have represented and agreed to all of the provisions contained in the above referenced sections of the Offering Memorandum. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

The notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act (''Rule 144A'') will initially be represented by global notes in registered form without interest coupons attached (the ''144A Global Notes''). The 144A Global Notes will be deposited, on the closing date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear Bank SA/NV (''Euroclear'') and Clearstream Banking, *société anonyme* (''Clearstream''). The notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the ''Regulation S Global Notes'' and, together with the 144A Global Notes, the ''Global Notes''). The Regulation S Global Notes will be deposited, on the closing date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream. Prior to the date that is 40 days after the later of the commencement of the offering or the closing date, any sale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. See ''Book-Entry, Delivery and Form''.

Notes will be issued in denominations of €100,000 and any integral multiple of €1,000 in excess of €100,000. Notes in denominations of less than €100,000 will not be available.

To purchase the notes, investors must comply with all applicable laws and regulations in force in any jurisdiction in which investors purchase, offer or sell the notes or possess or distribute this Offering Memorandum. Investors must also obtain any consent, approval or permission required by such jurisdiction for investors to purchase, offer or sell any of the notes under the laws and regulations in force in any jurisdiction in which investors are subject or in which investors make such purchase, offer or sale. None of the Issuer, Sappi Limited, the Subsidiary Guarantors, their respective affiliates or the initial purchasers will have the responsibility therefor.

The notes will constitute ''controlled securities'' as that term is defined in the South African Exchange Control Regulations, 1961 (as amended), and as such may not be acquired by any person who is a resident of South Africa except in accordance with such Regulations and the directives or authorities issued or granted by the Financial Surveillance Department of the South African Reserve Bank in respect of those Regulations from time to time.

The Issuer and Sappi Limited accept responsibility for the information contained in this Offering Memorandum. Each Subsidiary Guarantor accepts responsibility in respect of the information in relation to itself and its guarantee as contained in this Offering Memorandum. To the best of the knowledge and belief of each of the Issuer and Sappi Limited (having taken reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts in all material respects and does not omit anything likely to affect the import of such information in any material respect and to the best of the knowledge and belief of each Subsidiary Guarantor, the information relating to it and its guarantee is in accordance with the facts in all material respects and does not omit anything likely to affect the import of such information in any material respect. The Issuer, Sappi Limited and the Subsidiary Guarantors accept responsibility accordingly. Notwithstanding the foregoing, certain information provided herein with respect to the Republic of South Africa, the South African economy, South African Exchange Control regulations and the South African securities markets has been derived from publicly available information. The Issuer and Sappi Limited accept responsibility for having correctly derived such information. The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

IN CONNECTION WITH THIS ISSUE, J.P. MORGAN SECURITIES PLC OR ONE OF ITS AFFILIATES (THE ''STABILIZING MANAGER'') (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE ''PLAN OF DISTRIBUTION''.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

The Offering Memorandum and the offer when made are only addressed to and directed at persons in member states of the European Economic Area (the ''EEA'') who are ''qualified investors'' within the meaning of Article 2(1)(e) of the Prospectus Directive. This Offering Memorandum has been prepared on the basis that all offers of notes will be made pursuant to an exemption under Article 3(2) of the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of notes. Accordingly, any person making or intending to make any offer within the EEA of the notes should only do so in circumstances in which no obligation arises for us or any of the initial purchasers to produce a prospectus for such offer. We and the initial purchasers have not authorized, nor do we authorize, the making of any offer of notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the notes contemplated in this Offering Memorandum.

The expression ''Prospectus Directive'' means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state), and includes any relevant implementing measure in the relevant member state, and the expression ''2010 PD Amending Directive'' means Directive 2010/73/EU.

NOTICE TO INVESTORS IN AUSTRIA

This Offering Memorandum has not been and will not be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Memorandum nor any other document connected therewith may be distributed, passed on or disclosed to any person in Austria other than as permitted in this paragraph. No steps may be taken that would constitute a public offering of the notes in Austria and the offering of the notes may not be advertised in Austria. Any offer of the notes in Austria may only be made (a) to any legal entity which is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive; or (b) to fewer than 150 natural or legal persons per member state (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; provided that no such offer of the notes shall require us or the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression a ''public offering of Notes'' means any communication (whether originating from the Issuer or a financial intermediary) to the public in any form and by any means, presenting sufficient information on the terms of the offer and the Notes to be offered (or an invitation to subscribe such Notes), so as to enable an investor to decide to purchase or subscribe to the Notes.

NOTICE TO INVESTORS IN BELGIUM

The notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets (the ''Prospectus Law''), save in those circumstances set out in Article 3 §§2-4 of the Prospectus Law.

This offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Offering Memorandum or any other offering material relating to the notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (''*Autorité des services et marchés financiers/Autoriteit voor financiële diensten en markten*'') (the ''FSMA'').

Accordingly, the offering may not be advertised and each of the joint global coordinating bookrunners represents and agrees that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

(i) qualified investors, as defined in Article 10 of the Prospectus Law;

(ii) investors required to invest a minimum of €100,000 (per investor and per transaction);

and in any other circumstances set out in Article 3 §§2-4 of the Prospectus Law.

This Offering Memorandum has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of notes. Accordingly, the information contained herein may not be used for any other purpose nor disclosed to any other person in Belgium.

NOTICE TO INVESTORS IN THE NETHERLANDS

The notes are being offered solely to ''qualified investors'' as defined in the Prospectus Directive and accordingly the offer of notes is not subject to the obligation to publish a prospectus within the meaning of the Prospectus Directive.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Offering Memorandum is for distribution only to, and is only directed at, persons who (i) have professional experience in matters related to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ''Financial Promotion Order''), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as ''relevant persons''). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The notes are being offered solely to ''qualified investors'' within the meaning of Article 2(1)(e) of the Prospectus Directive and accordingly the offer of notes is not subject to the obligation to publish a prospectus within the meaning of Article 3 of the Prospectus Directive.

NOTICE TO SWISS INVESTORS

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the notes described herein. The notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering

Memorandum nor any other offering or marketing material relating to the notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Offering Memorandum nor any other offering or marketing material relating to the notes may be publicly distributed or otherwise made publicly available in Switzerland.

NOTICE TO SOUTH AFRICAN INVESTORS

The offer of the notes is not an ''offer to the public'' as defined in Section 95(1)(h) of the Companies Act. No. 71 of 2008, as amended (''South African Companies Act''), and this Offering Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the South African Companies Act. No South African residents or other offshore subsidiaries may subscribe for or purchase any notes or beneficially own or hold any notes unless such subscription, purchase or beneficial holding or ownership is pursuant to Section 96(1) of the South African Companies Act, or is otherwise permitted under the South African exchange control regulations or the rulings or policies of the South African Reserve Bank or applicable law.

USE OF TERMS AND CONVENTIONS

Unless otherwise specified or the context requires otherwise in this Offering Memorandum:

- 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 the notes pursuant to this offering and the use of proceeds therefrom together with drawings under the Amended and Restated Revolving Credit Facility and cash on hand to redeem €250 million in aggregate principal amount of our 2018 Notes and US$300 million in aggregate principal amount of our 2019 Notes;
- References to the ''2011 Refinancing'' are to the refinancing that we implemented in April 2011 which was comprised of 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 was comprised of 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 ''Indenture'' are to the indenture governing the notes;
- 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;
- 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;
- 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 ''2032 Notes'' are to our US$250 million 7.50% unsecured guaranteed notes due 2032;
- References to the ''Existing Revolving Credit Facility'', ''Amended and Restated Revolving Credit Facility'', and ''Intercreditor Agreement'' are to the facilities 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;
- 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 ‘‘m^2’’ 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 28, 2014;
- 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 Offering Memorandum 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 Offering Memorandum. 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 Offering Memorandum, 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 Offering Memorandum 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 cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of 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;
- currency fluctuations; and
- risks related to the notes and the guarantees.

These factors are fully discussed in this Offering Memorandum. For further discussion on these factors, see ''Risk Factors'', ''Our Business'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and note 31 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum. 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 Offering Memorandum 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 Offering Memorandum to a ''fiscal year'' and ''year ended'' of Sappi Limited refer to a twelve-month financial period. All references in this Offering Memorandum to fiscal 2014, fiscal 2013, fiscal 2012, fiscal 2011 or fiscal 2010, or the years ended September 2014, 2013, 2012, 2011 or 2010 refer to Sappi Limited's twelve-month financial periods ended on September 28, 2014, September 29, 2013, September 30, 2012, October 2, 2011 and September 26, 2010, respectively. References to September 2014, September 2013, September 2012, September 2011 or September 2010 represent amounts as at, respectively, September 28, 2014, September 29, 2013, September 30, 2012, October 2, 2011 and September 26, 2010. References to the three months ended December 2014 and 2013 refer to the periods from September 29, 2014 to December 28, 2014 and September 30, 2013 to December 29, 2013, respectively. References to December 2014 and December 2013 represent amounts as at, respectively, December 28, 2014 and December 29, 2013. Our Group annual financial statements included elsewhere in this Offering Memorandum have been prepared in conformity with IFRS as issued by the IASB.

With regard to the Issuer, unless otherwise specified, all references in this Offering Memorandum to fiscal 2014 or fiscal 2013, or the years ended September 2014 or 2013, refer to the Issuer's twelve-month financial periods ended on September 28, 2014 and September 29, 2013, respectively. The Issuer's annual consolidated financial statements as of and for the years ended September 2014 and September 2013, included elsewhere in this Offering Memorandum, have been prepared in conformity with the IFRS as issued by the IASB and as adopted by the European Union.

The Group's audited financial statements as of and for the years ended September 2014, 2013 and 2012 and its unaudited financial statements for the three months ended December 2014 and December 2013 are set forth in the F-pages of this Offering Memorandum. The Group's audited consolidated financial statements as of and for the years ended September 2014, 2013 and 2012 included in the F-pages to this Offering Memorandum have been extracted from our annual reports for fiscal 2014, 2013 and 2012, respectively, although page references have been modified solely for the convenience of the reader. The Group restated its consolidated financial statements as of and for the years ended September 2013 and 2012 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. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. 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 is considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that, although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation), the Group consequently deconsolidated its assets with its South African insurer. The Group's unaudited condensed consolidated financial statements as of and for the three months ended December 2013 did not reflect this change. However, the comparative information for the three months ended December 2013 presented in the unaudited condensed consolidated Group financial statements as of and for the three months ended December 2014 included in the F-pages of this Offering Memorandum was restated to reflect this interpretation.

As such, (a) the consolidated financial information as of and for the year ended September 2014 presented in this Offering Memorandum has been derived from our 2014 audited consolidated

Group financial statements and related notes included elsewhere herein, (b) the consolidated financial information as of and for the years ended September 2013 (Restated 2013) and September 2012 (Restated 2012) presented in this Offering Memorandum has been extracted from the consolidated financial information for the 2013 and 2012 comparative periods presented in our 2014 audited consolidated Group financial statements and related notes included elsewhere herein, (c) the unaudited condensed consolidated financial information as of and for the three months ended December 2014 presented in this Offering Memorandum has been derived from our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014 included elsewhere herein, (d) the unaudited condensed consolidated financial information as of and for the three months ended December 2013 (Restated three months ended December 2013) presented in this Offering Memorandum has been derived from the unaudited condensed consolidated financial information for the three months ended December 2013 comparative period presented in our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014 included elsewhere herein and (e) the consolidated financial information as of and for the years ended September 2011 and 2010 presented in this Offering Memorandum has not been restated and is derived from our audited consolidated Group financial statements and related notes for such years, which are not included herein.

Certain numerical figures set out in this Offering Memorandum, 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 Offering Memorandum 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 Offering Memorandum 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:

	Average rates					Closing rates				
Exchange rates	**December 2014**	**December 2013**	**2014**	**2013**	**2012**	**December 2014**	**December 2013**	**2014**	**2013**	**2012**
ZAR to one US$	11.2122	10.1406	10.5655	9.2779	8.0531	11.6001	10.5300	11.2285	10.0930	8.3096
EUR to one US$	0.7997	0.7349	0.7365	0.7621	0.7699	0.8212	0.7277	0.7883	0.7395	0.7777
US$ to one EUR	1.2504	1.3607	1.3577	1.3121	1.2988	1.2177	1.3742	1.2685	1.3522	1.2859

The Bloomberg Composite Rate of the Rand against the US dollar on March 6, 2015 was US$1.00 = ZAR12.0438. The Bloomberg Composite Rate of the US dollar against the euro on March 6, 2015 was €1.00 = US$1.0844. 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 2014 included elsewhere in this Offering Memorandum and ‘‘Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Impacting on Group Results—Currency Fluctuations’’.

USE OF NON-GAAP FINANCIAL MEASURES

The following are the primary EBITDA-based financial measures that are used in this Offering Memorandum:

- ***EBITDA**:* *EBITDA* represents profit (loss) for the period before taxation charge (benefit), net finance costs, depreciation and amortization. Net finance costs include finance costs, finance income, net foreign exchange gains and net fair value gain or loss on financial instruments. We reconcile EBITDA to profit (loss) for the period, rather than operating profit.

- ***EBITDA Excluding Special Items**:* *EBITDA Excluding Special Items* represents profit (loss) for the period before taxation charge (benefit), net finance costs, depreciation, amortization and special items. Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, plant and equipment, investments and businesses, asset and investment impairments and reversals, restructuring provisions raised, integration costs related to acquisitions, insurance recoveries, fires, flood, storm and other events, plantation price fair value adjustment, alternative fuel mixture tax credits and the B-BBEE transaction charge.

These EBITDA-based measures are non-GAAP measures. We use EBITDA-based measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA-based measures are used as measures by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA-based measures are useful measures of financial performance in addition to profit (loss) for the period, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA-based measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or profit (loss) for the period as an indicator of our operations in accordance with IFRS.

In addition to these EBITDA-based measures, we have included other non-GAAP financial measures in this Offering Memorandum, including:

- ***Operating Profit (Loss) Excluding Special Items**:* *Operating Profit (Loss) Excluding Special Items* represents operating profit (loss) for the period before special items. Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, plant and equipment, investments and businesses, asset and investment impairments and reversals, restructuring provisions raised, integration costs related to acquisitions, insurance recoveries, fires, flood, storm and other events, plantation price fair value adjustment, alternative fuel mixture tax credits and the B-BBEE transaction charge.

- ***Net Debt**:* *Net Debt* represents current and non-current interest-bearing borrowings and overdrafts, net of cash, cash equivalents and short-term deposits.

We believe that it is useful to include these non-GAAP measures as they are used by us for internal performance analysis and the presentation by our business segments of these measures facilitates comparability with other companies in our industry, although our measures may not be comparable with similar measurements presented by other companies. These other non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. Capitalized terms used but not defined in this summary are defined elsewhere in this Offering Memorandum, including under ''Use of Terms and Conventions''. Investors should thoroughly consider this Offering Memorandum in its entirety, including the information set forth under ''Risk Factors'', prior to making an investment in the notes. The basis of certain information in this Offering Memorandum regarding market share and our position relative to our competitors is described under ''Use of Terms and Conventions''.

Sappi Papier Holding GmbH, an Austrian limited liability company and the issuer of the notes, is a wholly-owned indirect subsidiary of Sappi Limited, a public limited company incorporated in the Republic of South Africa and one of the guarantors of the notes.

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 across more than 100 countries. The Group's 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 products. The Group's range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region, newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products. Our sales and EBITDA excluding special items during the twelve months ended December 2014 were US$5,939 million and US$656 million, respectively.

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. During the twelve months ended December 2014, 76% of our sales and 52% of our EBITDA excluding special items were generated, and, as of December 2014, 66% of our net operating assets were located, outside southern Africa, principally in North America (27%) and Europe (39%).

The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We operate 16 pulp and paper mills in seven countries, with an aggregate annual paper, paper pulp and dissolving wood pulp production capacity of approximately 5.7 million tons, 2.4 million tons and 1.3 million tons, respectively. 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 Europe, North America and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

Our European business is engaged primarily in the sale of coated, uncoated and speciality paper, and accounted for 51% of our sales in the twelve months ended December 2014. We have an aggregate annual paper and pulp production capacity of approximately 3.5 million tons and 1.2 million tons, respectively, at seven paper and related paper pulp mills in five countries across Europe.

Our North American business is engaged primarily in the sale of dissolving wood pulp and coated and speciality paper, and accounted for 25% of our sales in the twelve months ended December 2014. Our North American business has an aggregate paper and pulp production capacity of approximately 1.2 million tons and 855,000 tons, respectively, at three U.S. mills, including approximately 330,000 tons of dissolving wood pulp capacity at our Cloquet Mill.

Our Southern African business produces dissolving wood pulp, paper pulp, timber products and coated, uncoated and commodity paper, and accounted for 24% of our sales in the twelve months ended December 2014. We operate six pulp and paper mills in this region with an aggregate annual paper and pulp production capacity of approximately 1 million tons and

1.8 million tons, respectively, including approximately 1 million tons of dissolving wood pulp capacity, as well as one sawmill.

Our Industry

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 to 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 recently 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.

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 11%. On a regional basis, we have an estimated market share in coated woodfree paper of 22% and 29% 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 183% and approximately 104%, 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. 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 16 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 the twelve months ended December 2014, our operations in Europe, North America and Southern Africa accounted for 51%, 25% and 24% 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, IGEPA, 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, that 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

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 2014 saw the initiation of a number of cost reduction initiatives in all three of our operating regions. These initiatives included investment in natural gas derived energy at the Somerset Mill and a multi-fuel boiler and turbine at the Kirkniemi Mill to lower our energy costs, a 5% reduction in our North American workforce and disposing of the Nijmegen Mill to significantly reduce fixed costs in Europe. We also refocused our product portfolio in Southern Africa on those products for which we have a cost competitive position. At the Group level, we have also focused on opportunities to lower costs in procurement and logistics, as well as investigating 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, including PM 11 at our largest and lowest cost coated woodfree mill, Gratkorn, in order to widen the product range capabilities, allowing for further fixed costs savings in the future. In South Africa, we intend to rationalize the product portfolio, ceasing the production of coated papers, moving office paper production to an integrated mill and producing more locally sourced, waste-based packaging papers.

Drive growth through strategic and opportunistic 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 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.

Liquidity and balance sheet

We intend to achieve our strategic initiatives within the constraints of the Group's balance sheet and liquidity position. In fiscal 2014, we undertook measures to strengthen our balance sheet, including disposing of our Usutu forestry operations. We may sell further softwood plantations in South Africa or other non-core assets to further strengthen our balance sheet in furtherance of our objectives. 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.

Recent Developments

The Refinancing

We are implementing the Refinancing in order to improve our debt maturity profile, reduce finance costs and strengthen our balance sheet.

The Refinancing comprises the issuance of the notes pursuant to this offering and the use of proceeds therefrom together with drawings under the Amended and Restated Revolving Credit Facility and cash on hand to redeem €250 million in aggregate principal amount of our 2018 Notes and US$300 million in aggregate principal amount of our 2019 Notes. The redemptions of the 2018 Notes and the 2019 Notes are expected to occur on or after April 15, 2015 and June 15, 2015, respectively, pursuant to notices of redemption that were mailed to the holders thereof on or prior to the closing date of this offering. On the closing date, the proceeds of this offering were irrevocably deposited with the trustee for the 2018 Notes and the 2019 Notes to be held in trust and paid to such holders on the applicable redemption date. See ''Use of Proceeds'' for more information.

The following table sets forth the estimated sources and uses for the Refinancing (using an assumed exchange rate of US$1.0844 to €1.00).

Source of Funds	(US$ million)	Use of Funds	(US$ million)
Notes offered hereby	488	Redemption of 2018 Notes[(2)]	280
Drawings under Amended and Restated Revolving Credit Facility[(1)]	108	Redemption of 2019 Notes[(3)]	313
Cash on hand	39	Fees, discounts and commissions[(4)]	42
Total	**635**	**Total**	**635**

(1) If we are unable to draw under the Amended and Restated Revolving Credit Facility as of the closing date of this offering, drawings will be made under the Existing Revolving Credit Facility. See ''—Amended and Restated Revolving Credit Facility''.

(2) Includes US$271 million aggregate principal amount of 2018 Notes to be redeemed plus US$9 million of accrued interest to the anticipated redemption date for the 2018 Notes of April 15, 2015.

(3) Includes US$300 million aggregate principal amount of 2019 Notes to be redeemed plus US$13 million of accrued interest to the anticipated redemption date for the 2019 Notes of June 15, 2015.

(4) Includes redemption premium on the 2018 Notes and the 2019 Notes assuming redemption dates of April 15, 2015 and June 15, 2015, respectively.

In connection with the redemption of the 2019 Notes, we also intend to unwind an interest rate currency swap arrangement with respect to the 2019 Notes which will generate cash proceeds of approximately US$9 million. In the near to medium term we may undertake additional financing transactions to extend our debt maturities and increase our financial flexibility.

Amended and Restated Revolving Credit Facility

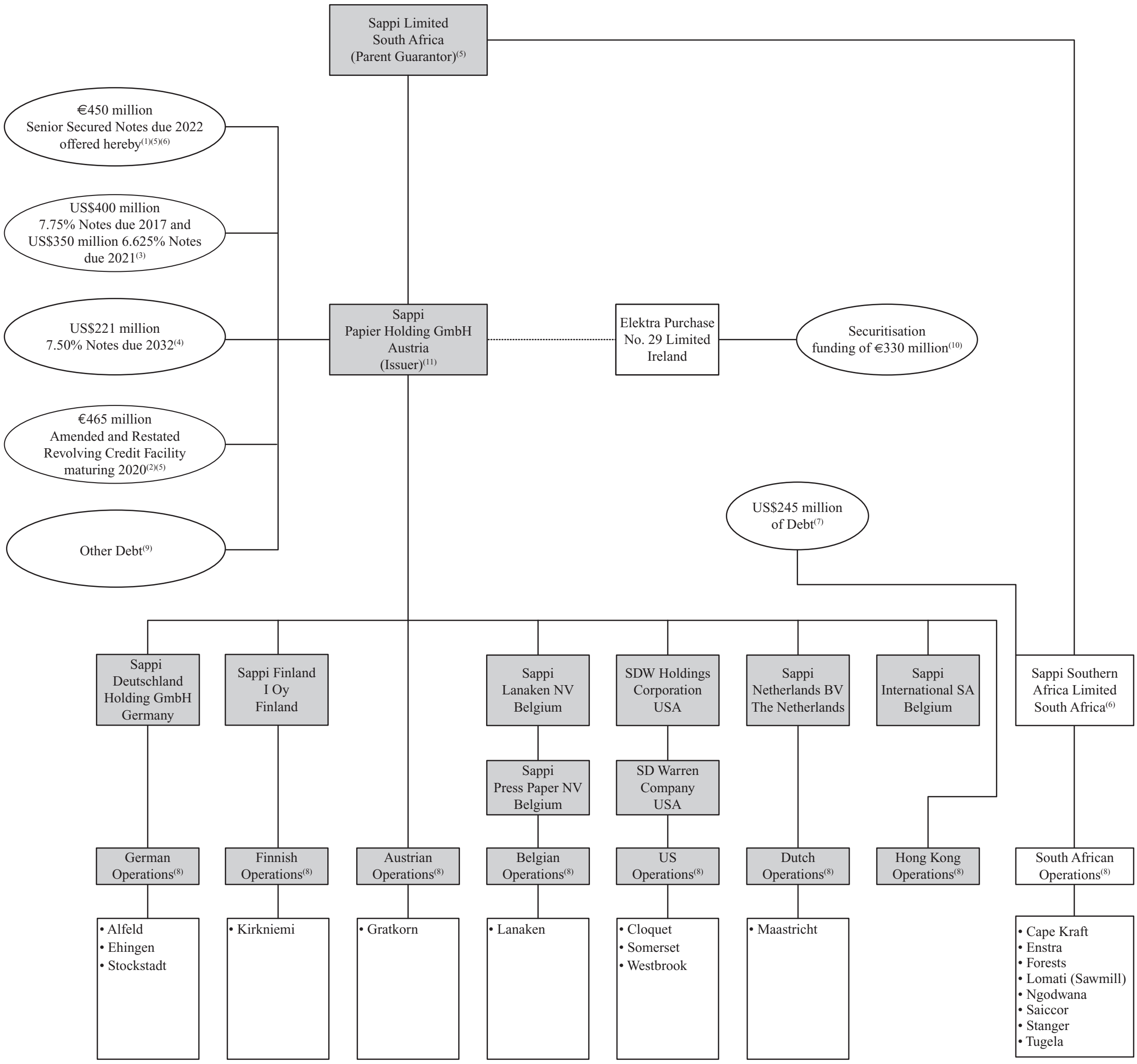
In connection with the Refinancing, we intend to enter into an amended and restated revolving credit facility (the ''Amended and Restated Revolving Credit Facility'') providing for borrowings of up to €465 million and maturing in 2020, which will replace our existing €350 million revolving credit facility maturing in 2016 (the ''Existing Revolving Credit Facility''). As of the date of this Offering Memorandum, the initial purchasers in connection with this offering or their affiliates have agreed to commit, subject to various conditions, an aggregate amount of €465 million under such Amended and Restated Revolving Credit Facility, which amount will be available for drawing in euro, US dollars or any other currency which is readily available and freely convertible into euro and which has been approved by all the lenders. While we expect to close our Amended and Restated Revolving Credit Facility on or around March 16, 2015, we can give no assurance that we will be able to close such Amended and Restated Revolving Credit Facility and that any commitments thereunder will be made available. For further information, see ''Description of Other Financing Arrangements—Amended and Restated Revolving Credit Facility''.

Other Recent Developments

The Group has entered into an agreement to transfer one of its European defined benefit pension schemes to an industry-wide pension fund. The transfer is expected to be recorded in the quarter ending March 2015.

Summary Corporate and Financing Structure

The diagram below depicts, in simplified form, our corporate structure and certain financing arrangements following completion of the Refinancing and the entering into the Amended and Restated Revolving Credit Facility. For a summary of certain of our other debt obligations, see ''Description of Other Financing Arrangements''.



(1) The notes will be jointly and severally guaranteed on a senior basis by Sappi Limited, as Parent Guarantor, and each of Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International SA, S.D. Warren Company, SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Lanaken Press Paper NV, Sappi Pulp Asia Limited, Sappi Netherlands B.V., Sappi Alfeld GmbH, Sappi Maastricht B.V., Sappi Ehingen GmbH, Sappi Europe SA, Sappi Stockstadt GmbH and Sappi Finland I Oy, as Subsidiary Guarantors. The guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances. The shaded boxes indicate the identity of certain of the Guarantors and the countries or jurisdictions in which certain of the Guarantors' business operations are primarily conducted. During fiscal 2014 and the three months ended December 2014, the Guarantors represented 71% of our sales and 55% and 50%, respectively, of our total EBITDA excluding special items, and as of December 2014, such entities represented 68% of our total assets. Each of the Subsidiary Guarantors is, directly or indirectly, 100% owned by Sappi Limited.

(2) We intend to enter into an Amended and Restated Revolving Credit Facility in an amount of €465 million, which will replace our €350 million Existing Revolving Credit Facility (which, as of the date of this Offering Memorandum, is entirely undrawn). The initial borrowers under the Amended and Restated Revolving Credit Facility will be the Issuer and Sappi International SA. The Amended and Restated Revolving Credit Facility initially will be guaranteed on a senior basis by the same companies that guarantee the notes. The obligations under the Amended and Restated Revolving Credit Facility will be secured on a pari passu basis by first-priority security interests, subject to Permitted Collateral Liens, in the Collateral that will secure the notes, and secures the 2017 Notes and the 2021 Notes.

(3) Consists of US$400 million 7.75% senior secured notes due 2017 and US$350 million 6.625% senior secured notes due 2021. The 2017 Notes and the 2021 Notes are jointly and severally guaranteed on a senior basis by the same companies that guarantee the notes.

(4) Consists of US$221 million notes due 2032. The 2032 Notes are guaranteed on an unsecured basis by Sappi Limited and Sappi International SA.

(5) The notes, the Amended and Restated Revolving Credit Facility, the 2017 Notes and the 2021 Notes will be secured on a *pari passu* basis by first-priority security interests (or security interests deemed to be so pursuant to the terms of the Intercreditor Agreement), subject to Permitted Collateral Liens, in the Collateral. As described in ''Description of Notes—Security'', the Collateral will consist substantially of (i) the land, plant and machinery located at Sappi's production facilities in Gratkorn, Austria, Kirkniemi, Finland, Maastricht, The Netherlands, Skowhegan/Somerset, Maine, U.S.A., and Cloquet, Minnesota, U.S.A.; (ii) ordinary shares, common stock or similar common equity interests of the Issuer, each of the Subsidiary Guarantors (other than Sappi Pulp Asia Limited and SDW Holdings Corporation), Cloquet Terminal Railroad Company, Inc., Sappi Trading Pulp AG and Sappi Southern Africa Limited; (iii) English law intercompany loan agreements or receivables under such loans that evidence financial indebtedness in excess of US$25 million under which certain of the Subsidiary Guarantors are the creditors under such loans; and (iv) certain inventory owned by S.D. Warren Company and Sappi Cloquet LLC. The Collateral will be subject to certain limitations and exclusions. Among other things, due to restrictions in certain existing indebtedness of the Issuer, the security documents will provide that the total indebtedness (including the notes, the Amended and Restated Revolving Credit Facility, the 2017 Notes and the 2021 Notes) that will be secured by the land, plant and machinery that comprise production facilities will be limited to an amount not to exceed 15% of consolidated net tangible assets (as defined in, and determined in accordance with, such existing indebtedness) of the Issuer. As of December 28, 2014, such amount represented approximately €330 million. However, the 15% threshold will be recalculated at the time any lien is granted on the Collateral to secure any *pari passu* indebtedness incurred by the Parent Guarantor or any of its restricted subsidiaries in accordance with the terms of the Indenture and the Intercreditor Agreement, and, at the time of such recalculation, such threshold may be higher or lower than the amount calculated as of the issue date of the notes. For example, the 15% threshold would be recalculated at the time any security is granted over the Collateral in favor of the OeKB Term Loan Facility pursuant to the terms of such facility. The security interests will be subject to limitations under applicable laws and may be released under certain circumstances. See ''Risk Factors—Risks Related to the Notes and the Guarantees''.

(6) The notes will not be guaranteed by any of the subsidiaries that comprise our Southern African business. Sappi Limited will pledge its shares in Sappi Southern Africa Limited as security for its guarantee of the notes.

(7) Consists of US$211 million of public bonds and US$34 million of other debt as at December 2014. In October 2014, the Group utilized its existing cash resources to redeem US$27 million (ZAR300 million) of its US$67 million (ZAR750 million) public bonds due April 2015. See ''Description of Other Financing Arrangements—Domestic Medium Term Note Program''.

(8) These operations are comprised of one or more legal entities. Certain of these entities are obligors under various long-term debt obligations in an aggregate amount of approximately US$3 million, including entities that are part of our Austrian operations.

(9) Consists of US$123 million of other long-term debt and US$92 million of other short-term debt, including €118 million (US$144 million) outstanding under the OeKB Term Loan Facility, €18 million (US$22 million) of which is short-term debt. 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 2017 Notes and the 2021 Notes and that will secure the notes and the Amended and Restated Revolving Credit Facility.

(10) Consists of a €330 million trade receivables securitization program pursuant to which the Issuer, Sappi Lanaken NV, Sappi Deutschland GmbH, and Sappi NA Finance LLC sell receivables on a non-recourse basis to Elektra Purchase No. 29 Limited. As of December 2014, the external securitization funding under the trade receivables program was US$347 million.

THE OFFERING

The summary below describes the principal terms of this offering. The ''Description of Notes'' section of this Offering Memorandum contains a more detailed description of the terms and conditions of the notes, including the definitions of certain terms used in this summary.

Issuer . . . . Sappi Papier Holding GmbH

Notes Offered . . . . €450 million aggregate principal amount of 3⅜% Senior Secured Notes due 2022 (the ''notes'').

Maturity . . . . The notes will mature on April 1, 2022.

Interest Rates and Payment Dates . . . . We will pay interest on the notes on April 1 and October 1 beginning on October 1, 2015, at a rate of 3⅜% per annum. Interest will accrue from the issue date of the notes.

Form of Denomination . . . . . . Notes will be issued in denominations of €100,000 and any integral multiple of €1,000 in excess of €100,000. Notes in denominations of less than €100,000 will not be available.

Guarantors . . . . The notes will be jointly and severally guaranteed on a senior basis by Sappi Limited (the ''Parent Guarantor'') and certain of its subsidiaries, including Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International SA, S.D. Warren Company, SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Lanaken Press Paper NV, Sappi Deutschland Holding GmbH, Sappi Deutschland GmbH, Sappi Alfeld GmbH, Sappi Ehingen GmbH, Sappi Stockstadt GmbH, Sappi Europe SA, Sappi Finland I Oy, Sappi Pulp Asia Limited, Sappi Netherlands B.V. and Sappi Maastricht B.V. (collectively, the ''Subsidiary Guarantors'' and, together with the Parent Guarantor, the ''Guarantors''). The guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances.

Collateral . . . . The notes will be secured by first-priority security interests (or, in the case of certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany, junior security interests), subject to Permitted Collateral Liens, over collateral (the ''Collateral'') that will consist substantially of (i) the land, plant and machinery located at our production facilities in Gratkorn, Austria, Kirkniemi, Finland, Maastricht, The Netherlands, Skowhegan/Somerset, Maine, U.S.A., and Cloquet, Minnesota, U.S.A.; (ii) ordinary shares, common stock or similar common equity interests of the Issuer and each of the Subsidiary Guarantors (other than Sappi Pulp Asia Limited and SDW Holdings Corporation), Cloquet Terminal Railroad Company, Inc., Sappi Trading Pulp AG and Sappi Southern Africa Limited; (iii) English law intercompany loan agreements or receivables under such loans that evidence financial indebtedness in excess of US$25 million under which certain of the Subsidiary Guarantors are the creditors under such loans; and (iv) certain inventory owned by S.D. Warren Company and Sappi Cloquet LLC. In connection with the issuance of the notes, we have entered into confirmations or new security agreements with respect to certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany that confirm security or secure on a *pari passu* basis the notes, the Existing Revolving Credit Facility (and, once entered into, the Amended and

	Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes. In relation to any new security arrangements entered into, the liens created by these security agreements will be junior to the liens created under the existing security documents in 2009, 2011 and 2012; however, under the terms of the Intercreditor Agreement such junior security interests will be deemed and treated as *pari passu* security interests with the security interests created in 2009, 2011 and 2012. See ''Description of Notes—Security''.
	The Collateral will be subject to certain limitations and exclusions. Among other things, due to restrictions in certain existing indebtedness of the Issuer, the security documents will provide that the total amount of indebtedness (including the notes, the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes) that will be secured by the land, plant and machinery of our production facilities will be limited to an amount not to exceed 15% of consolidated net tangible assets (as defined in, and determined in accordance with, such existing indebtedness) of the Issuer. As of December 28, 2014, such amount represented approximately €330 million. However, the 15% threshold will be recalculated at the time any lien is granted on the Collateral to secure any *pari passu* indebtedness incurred by the Parent Guarantor or any of its restricted subsidiaries in accordance with the terms of the Indenture and the Intercreditor Agreement, and, at the time of such recalculation, such threshold may be higher or lower than the amount calculated as of the issue date of the notes. For example, the 15% threshold would be recalculated at the time any security is granted over the Collateral in favor of the lenders under the OeKB Term Loan Facility pursuant to the terms of such facility. In addition, the mortgage in respect of certain land and plant at our Gratkorn production facility will only be granted upon the occurrence of certain agreed events. See ''Risk Factors—Risks Related to the Notes and the Guarantees''.
Ranking of the Notes	The notes will be senior obligations of the Issuer and will: • rank equally in right of payment with all of the Issuer's future indebtedness that is not subordinated in right of payment to the notes; • rank senior in right of payment to all of the Issuer's future indebtedness that is subordinated in right of payment to the notes; • rank equal in priority as to collateral that secures the notes on a first-priority security interest basis, subject to Permitted Collateral Liens, with respect to the Issuer's obligations under any future pari passu lien obligations; and • be structurally subordinated in right of payment to any obligations of the Parent Guarantor's subsidiaries (other than the Issuer and the Subsidiary Guarantors).
Ranking of the Guarantees . .	The payments of all amounts payable under the notes, including principal, premium, if any, and interest will be guaranteed on a senior basis (the ''guarantees'') by the Guarantors. The guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances. For

information regarding limitations on the amount and enforceability of the guarantees, see ''Risk Factors—Risks Related to the Notes and the Guarantees—Fraudulent conveyance laws and other limitations on the enforceability and the amount of the guarantees and the security may adversely affect their validity and enforceability'' and ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

The guarantees will:

- rank equally in right of payment with each of the Guarantors' existing and future indebtedness that is not subordinated in right of payment to the guarantees or preferred by law, subject to legal limitations on their enforceability (including any rights of set-off and counterclaim);
- rank senior in right of payment to all of the Guarantors' existing and future indebtedness that is subordinated in right of payment to the guarantees; and
- rank equal in priority as to collateral that secures the subsidiary guarantees on a first-priority security interest basis, subject to Permitted Collateral Liens, with respect to the Guarantors' obligations under any other *pari passu* lien obligations, including the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes.

As of December 28, 2014, after giving pro forma effect to the Refinancing:

- the Parent Guarantor and its consolidated subsidiaries would have had US$2,430 million of debt, US$548 million of which would have been represented by the notes;
- the Parent Guarantor and its consolidated subsidiaries would have had US$1,767 million of secured indebtedness; and
- the non-Guarantor subsidiaries would have had US$596 million of third-party interest-bearing liabilities.

Although the Indenture will contain limitations on the amount of additional indebtedness that the Issuer, the Guarantors and any Subsidiary will be allowed to incur, the amount of such additional indebtedness could be substantial.

Intercreditor Agreement . . . . . On the closing date of this offering, the trustee for the notes acceded to the intercreditor agreement, dated as of August 27, 2009, among Sappi Limited, the Issuer, the several Guarantors, the other obligors, the security agent, the agent and lenders under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the trustee under the 2017 Notes indenture, the trustee under the 2018 Notes indenture, the trustee under the 2019 Notes indenture, the trustee under the 2021 Notes indenture and any hedging creditor (the ''Intercreditor Agreement''). The Intercreditor Agreement provides that the debt held by the secured creditors that is secured by the Collateral will rank (including with respect to junior-priority security interests over certain Collateral in South Africa, England, Maine, Minnesota, Austria and Germany) *pari*

	passu without any preference between any class of secured debt. The Intercreditor Agreement also sets forth, among other things, the circumstances under which the security documents may be enforced by the security agent on behalf of the holders of the notes, the holders of the 2017 Notes, the holders of the 2018 Notes, the holders of the 2019 Notes, the holders of the 2021 Notes, the lenders under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility) and other secured creditors and the application of enforcement proceeds, and the circumstances under which the Collateral may be shared on a *pari passu* basis with additional third-party creditors. See ''Description of Other Financing Arrangements—Intercreditor Agreement''.
Use of Proceeds	We will use the net proceeds from the offering of the notes together with drawings under the Amended and Restated Revolving Credit Facility and cash on hand to redeem €250 million in aggregate principal amount of our 2018 Notes and US$300 million in aggregate principal amount of our 2019 Notes. See ''Use of Proceeds''.
Optional Redemption	At any time prior to April 1, 2018, the Issuer may redeem all or part of the notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable ''make-whole'' premium set forth in this Offering Memorandum, plus accrued and unpaid interest, if any. On or after April 1, 2018, the Issuer may redeem all or part of the notes at the redemption prices set forth in this Offering Memorandum plus accrued and unpaid interest (if any) to the redemption date. In addition, on or prior to April 1, 2018, the Issuer may redeem up to 35% of the original principal amount of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 103.375% of the principal amount of the notes, plus accrued and unpaid interest (if any) to the redemption date provided that at least 65% of the original principal amount of the notes remain outstanding after the redemption. See ''Description of Notes—Optional Redemption''.
Additional Amounts	Any payments made by or on behalf of the Issuer or any Guarantor with respect to the notes will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If such taxes are required by law to be deducted or withheld with respect to a payment to the holders of notes, subject to certain exceptions, we will pay the additional amounts necessary so that the net amount received by the holders of notes after the withholding is not less than the amount that they would have received in the absence of the withholding. See ''Description of Notes—Additional Amounts''.
Tax Redemption	If certain changes in the law of any relevant taxing jurisdiction become effective after the issuance of the notes that would impose withholding taxes or other deductions on the payments on the notes or the guarantees, the Issuer may redeem the notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See ''Description of Notes—Redemption for Changes in Taxes''.
Change of Control	Upon the occurrence of certain change of control events, the Issuer will be required to offer to repurchase the notes at a purchase price equal to 101% of their aggregate principal

	amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See ''Description of Notes—Repurchase at the Option of Holders—Change of Control''.
Asset Sales	The Issuer will be required to offer to purchase the notes with excess proceeds, if any, following certain asset sales at a purchase price equal to 100% of the principal amount, and accrued and unpaid interest to the date of purchase. See ''Description of Notes—Repurchase at the Option of Holders—Asset Sales''.
Certain Covenants	The Indenture will contain certain covenants that will limit, among other things, the ability of the Parent Guarantor and its restricted subsidiaries to: • incur additional indebtedness; • pay dividends or distributions on, redeem or repurchase our capital stock; • make certain restricted payments and investments; • transfer or sell assets; • in the case of our restricted subsidiaries, enter into arrangements that restrict dividends or other payments to the Issuer; • enter into transactions with affiliates; • create certain liens; and • merge or consolidate with other entities.
Transfer Restrictions	The notes and the guarantees have not been registered under the U.S. Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and will not be so registered. The notes are subject to restrictions on transferability and resale. See ''Transfer Restrictions''. Holders of the notes will not have the benefit of any exchange or registration rights.
Absence of a Public Market for the Notes	Although application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market in accordance with its rules, the notes will be new securities for which there is no market. The initial purchasers have informed the Issuer that they intend to make a market in the notes, however they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, the Issuer cannot assure you that a liquid market for the notes will develop or be maintained.
Listing	The Issuer has applied to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market.
Trustee, Principal Paying Agent and Transfer Agent . .	The Bank of New York Mellon, London Branch.
Luxembourg Listing Agent, Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Security Agent	J.P. Morgan Europe Limited.

Governing Law of the Indenture, Notes and Guarantees	State of New York.
Governing Law of the Intercreditor Agreement . . .	England.
Governing Law of the Security Documents	Austria, Belgium, England, Finland, Germany, State of Maine, State of Minnesota, State of New York, South Africa, Switzerland and The Netherlands.

Risk Factors

Investing in the notes involves substantial risks and uncertainties. You should consider carefully all the information in this Offering Memorandum and, in particular, you should evaluate the specific risk factors set forth in the ''Risk Factors'' section in this Offering Memorandum before making a decision whether to invest in the notes.

Summary Financial and Other Data

The following tables present summary consolidated financial and other data for Sappi Limited as of and for the three months ended December 2014 and the fiscal years ended September 2014, 2013 and 2012, and for the three months ended December 2013 and the twelve months ended December 2014.

The Group restated its consolidated financial statements as of and for the years ended September 2013 and 2012 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. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. 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 is considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that, although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation), the Group consequently deconsolidated its assets with its South African insurer. The Group's unaudited condensed consolidated financial statements as of and for the three months ended December 2013 did not reflect this change. However, the comparative information for the three months ended December 2013 presented in the unaudited condensed consolidated Group financial statements as of and for the three months ended December 2014 included elsewhere in this Offering Memorandum was restated to reflect this interpretation.

As such, (a) the summary financial data as of and for the year ended September 2014 presented below has been derived from our 2014 audited consolidated Group financial statements and related notes, which are included elsewhere in this Offering Memorandum, (b) the summary financial data as of and for the years ended September 2013 (Restated 2013) and September 2012 (Restated 2012) presented below has been extracted from the consolidated financial information for the 2013 and 2012 comparative periods presented in our 2014 audited consolidated Group financial statements and related notes, which are included elsewhere in this Offering Memorandum, (c) the summary unaudited financial data as of and for the three months ended December 2014 presented below has been derived from our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014, which are included elsewhere in this Offering Memorandum, (d) the summary unaudited financial data for the three months ended December 2013 (Restated three months ended December 2013) presented below has been derived from the unaudited condensed consolidated financial information for the three months ended December 2013 comparative period presented in our unaudited condensed consolidated Group financial statements and related notes for the three months ended December 2014, which are included elsewhere in this Offering Memorandum, and (e) the summary unaudited financial data for the twelve months ended December 2014 has been derived by adding the summary financial data for the fiscal year ended September 2014 and the three months ended December 2014 and subtracting the summary financial data for the Restated three months ended December 2013, which compilation has not been audited or reviewed.

The following tables should be read in conjunction with ''Use of Non-GAAP Financial Measures'', ''Capitalization'', ''Use of Proceeds'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'', ''Selected Consolidated Financial and Other

Information of the Sappi Group'', our financial statements and related notes included elsewhere in this Offering Memorandum.

	Three Months Ended December		Year Ended September			Twelve Months Ended December
		Restated		Restated		
	2014	2013	2014	2013	2012	2014
			(US$ million)			
Group Income Statement Data:						
Sales[(1)]	1,377	1,499	6,061	5,925	6,347	5,939
Cost of sales	1,224	1,339	5,370	5,285	5,549	5,255
Gross profit	153	160	691	640	798	684
Selling, general and administrative expenses[(2)]	84	94	352	384	414	342
Other operating expenses (income)	2	(2)	33	244	(41)	37
Share of profit from joint ventures	(2)	(2)	(8)	(7)	(2)	(8)
Operating profit	69	70	314	19	427	313
Net finance costs[(3)]	37	48	177	186	306	166
Profit (loss) before taxation	32	22	137	(167)	121	147
Profit (loss) for the period	24	18	135	(182)	93	141

	As of December 2014	As of September		
			Restated	
		2014	2013	2012
		(US$ million)		
Group Balance Sheet Data:				
Property, plant and equipment	2,758	2,841	3,078	3,157
Inventories	708	687	728	726
Trade and other receivables	688	731	747	800
Cash and cash equivalents	329	528	352	604
Total assets	5,145	5,465	5,727	6,168
Net assets	1,059	1,044	1,144	1,525
Current interest-bearing borrowings and overdrafts	131	163	100	266
Trade and other payables	832	996	1,015	1,005
Total long-term borrowings	2,238	2,311	2,499	2,358
Shareholders' equity	1,059	1,044	1,144	1,525

	Three Months Ended December		Year Ended September			Twelve Months Ended December
		Restated		Restated		
	2014	2013	2014	2013	2012	2014
Other Information:						
Capital expenditure[(4)]	68	71	295	552	358	292
Investment to maintain operations	50	22	148	116	177	176
EBITDA[(5)]	140	157	626	367	796	609
EBITDA excluding special items[(6)]	145	147	658	528	778	656

	As of and for the Twelve Months Ended December 2014
	(US$ million, except ratios)
Other Information:	
Net debt[7]	2,040
Adjusted net debt[8]	2,119
Adjusted net senior secured debt[8][9]	1,456
Net finance costs	166
Adjusted net finance costs[10]	140
Ratio of adjusted net senior secured debt to EBITDA excluding special items	2.2
Ratio of adjusted net debt to EBITDA excluding special items	3.2
Ratio of EBITDA excluding special items to adjusted net finance costs	4.7

(1) Sales are recognized when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms. Revenue is measured at the fair value of the amount received or receivable after deducting trade and settlement discounts, rebates and customer returns. Shipping and handling costs are included in cost of sales. These costs, when included in the sales price charged for our products, are recognized in sales.

(2) Selling, general and administrative expenses represent marketing and selling expenses, administrative and general expenses and a portion of employment costs and depreciation. For further details see note 4 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

(3) Net finance costs for fiscal 2012 include refinancing charges of US$88 million related to the 2012 Refinancing.

(4) Capital expenditure represents capital expenditure as presented in our statement of cash flows. For the years ended September 2014, 2013, and 2012, this represents the total of ‘‘investment to maintain operations’’ and ‘‘investment to expand operations’’ as presented in the statement of cash flows.

(5) We have reconciled EBITDA to profit (loss) for the period rather than operating profit. EBITDA represents profit (loss) for the period before taxation charge (benefit), net finance costs, depreciation and amortization. Net finance costs include: finance costs; finance income; net foreign exchange gains; and net fair value gain or loss on financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful measure of financial performance in addition to profit (loss) for the period, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or profit (loss) for the period as an indicator of our operations in accordance with IFRS.

(6) Represents profit (loss) for the period before taxation charge (benefit), net finance costs, depreciation, amortization and special items. Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, plant and equipment, investments and businesses, asset and investment impairments and reversals, restructuring provisions raised, integration costs related to acquisitions, insurance recoveries, fires, flood, storm and other events, plantation price fair value adjustment, alternative fuel mixture tax credits and the B-BBEE transaction charge.

(7) Represents current and non-current interest-bearing borrowings and overdrafts, net of cash and cash equivalents.

(8) Adjusted to give effect to the Refinancing and entry into the Amended and Restated Revolving Credit Facility as if these transactions had occurred on the first date of the respective period. For purposes of this calculation, we have assumed that (i) the full amount of the outstanding 2018 Notes and 2019 Notes will be redeemed, and accrued interest paid through, the expected redemption dates of April 15, 2015 and June 15, 2015, respectively, (ii) €100 million (US$122 million) of initial drawings will be made under the Amended and Restated Revolving Credit Facility, (iii) upfront fees of US$12 million related to the 2018 Notes, the 2019 Notes and the Existing Revolving Credit Facility will be

accelerated and written off and (iv) an amount of US$23 million deferred in other comprehensive income as part of an interest rate currency swap to be unwound in connection with redemption of the 2019 Notes will be released to the income statement which will be offset by the capitalization of upfront fees related to the Refinancing and entry into the Amended and Restated Revolving Credit Facility.

(9) Senior secured debt includes borrowings under the Amended and Restated Revolving Credit Facility, the 2017 Notes, the 2021 Notes, the notes offered hereby and our Securitization debt.

(10) Net finance costs for the twelve months ended December 2014 of US$166 million adjusted for the pro forma effects of the Refinancing and entry into the Amended and Restated Revolving Credit Facility as if these transactions had occurred on the first date of the respective period. For the purposes of this calculation, we have assumed that initial drawings of €100 million (US$122 million) will be made under the Amended and Restated Revolving Credit Facility.

The following tables reconcile profit (loss) for the period to EBITDA and EBITDA excluding special items.

	Three Months Ended December		Year Ended September			Twelve Months Ended December
		Restated		Restated		
	2014	2013	2014	2013	2012	2014
			(US$ million)			
Profit (loss) for the period	24	18	135	(182)	93	141
Add back:						
Depreciation and amortization	71	87	312	348	369	296
Net finance costs	37	48	177	186	306	166
Taxation charge	8	4	2	15	28	6
EBITDA	140	157	626	367	796	609
Add back:						
Plantation price fair value adjustment(i)	(1)	(8)	(18)	(87)	15	(11)
Net restructuring provisions and loss (profit) on disposal of assets and businesses	1	—	23	99	(65)	24
Impairment of goodwill	—	—	1	—	—	1
Asset (impairment reversals) impairments(ii)	—	(2)	—	155	10	2
Post-retirement plan amendment	—	—	—	(24)	—	—
Black Economic Empowerment transaction charge	—	—	2	3	3	2
Fire, flood, storm and other events	5	—	24	15	19	29
EBITDA excluding special items	145	147	658	528	778	656

(i) Represents the non-cash change in the fair value of our Plantations. For further information, see notes 2.3.5 and 11 of our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

(ii) In fiscal 2013 and 2012, we recorded asset impairments of US$155 million and US$10 million, respectively. For further information, see notes 4 and 10 of our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

RISK FACTORS

The following summarizes certain risks involved in an investment in the notes that may materially affect the ability of the Issuer, Sappi Limited and the Subsidiary Guarantors to pay the interest, principal and premium, if any, on the notes. There may be additional risks that we do not currently know of or that we currently deem immaterial based on information available to us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

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 18% of consolidated sales during fiscal 2014.

Most of our dissolving wood pulp sales contracts are multi-year contracts. The pricing is generally based on a formula linked to the NBSK price as adjusted to reflect market prices for dissolving pulp where there is a divergence. 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.

For further information, see ''The Pulp and Paper Industry''.

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, 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 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 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, and the results of our European business have been adversely affected by the economic conditions in Europe. 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 2015 asset and business interruption insurance cover at more favorable rates to those of 2014. 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 2016. For property damage and business interruption insurance cost effective cover is not generally available to full 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 2012 to 2014 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 cleanup 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 on-going operations may require costly investigation and cleanup. 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 2014, on a pro forma basis after giving effect to the Refinancing and entry into the Amended and Restated Revolving Credit Facility, our net interest-bearing debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) would have been US$2,119 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 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. 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, we disposed of our Nijmegen Mill in the third quarter of 2014 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 sovereign bonds as part of their fund assets, including Italian index-linked treasuries and 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 European 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 and could in the future significantly affect 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.

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$1.27, US$1.35 and US$1.29 per euro at the end of fiscal 2014, 2013 and 2012, respectively. At the end of December 2014, the euro was trading at US$1.21 per euro, though its value declined significantly in US dollar terms through January and February 2015. On March 6, 2015, it was trading at approximately US$1.08 per euro.

The value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R11.23, R10.09 and R8.31 per US dollar at the end of fiscal 2014, 2013 and 2012, respectively. At the end of December 2014, the Rand was trading at R11.60 per US dollar. The Rand was trading at approximately R12.04 per US dollar on March 6, 2015.

For further information, see notes 2 and 31 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum 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 over 100 countries world-wide. 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.

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 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 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 2014 and 2013, 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. US dollar prices for dissolving wood pulp have experienced sustained pressure as a result. If lower prices and weak margins continue to 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 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 specific 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. Also, 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, 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. 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 costs of our water supply and use also have a direct bearing 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 changes. Shutdowns or outages resulting from such events, including the press roll failure and roof collapse at our Tugela Mill and unforeseen mechanical and operational issues at our Cloquet Mill in fiscal 2014, 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.

Risks Related to the Notes and the Guarantees

To service the notes and our other indebtedness, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to make payments on the notes and our other indebtedness, and to refinance our indebtedness, and to fund planned capital expenditures and working capital requirements will partly depend on our ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. See ''—Risks Related to Our Industry'' and ''—Risks Related to Our Business''.

We cannot assure you that we will generate sufficient cash flow from operations, that we will realize operating improvements on schedule or that future borrowings will be available to us in an amount sufficient to enable us to service and repay the notes and our other indebtedness or to fund our other liquidity needs. If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms.

If we default under our debt covenants, we may not be able to meet our payment obligations.

Some of our credit facilities contain covenants that restrict some of our corporate activities, including our ability to:

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;
- merge or consolidate with other companies; and
- make a substantial change to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain affirmative covenants and specified financial covenants and ratios. See ''Description of Other Financing Arrangements''.

The Indenture for the notes and the indentures for certain of the other series of notes we have issued contain a number of significant covenants that restrict some of our corporate activities, including our ability to:

- incur additional debt;
- make restricted payments, including dividends or other distributions;
- create certain liens;
- sell assets;
- in the case of our restricted subsidiaries, enter into arrangements that restrict dividends or other payments to us;
- engage in transactions with affiliates;
- create unrestricted subsidiaries; and
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

Our ability to comply with these covenants and restrictions may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit the lending banks under our credit facilities or our bondholders to take certain actions, including declaring all amounts that we have borrowed under the credit facilities and other indebtedness to be due and payable, together with accrued and unpaid interest. This would also result in an event of default under the Indenture and some of our other debt instruments. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks or the bondholders, they could proceed against any collateral that secures the debt under the credit facilities and our bonds. If the debt under the credit facilities and other indebtedness or the notes or any other material financing arrangement that we enter into were to be accelerated, our assets may be insufficient to repay in full our notes and our other debt.

If the Issuer's subsidiaries are unable to make distributions and other payments to the Issuer, the Issuer may be unable to pay amounts due on the notes.

The notes will be obligations of the Issuer and guaranteed by the Guarantors of the notes only, and not of any of our other subsidiaries. The Issuer is a holding company that does not directly conduct any business operations. The Issuer's only assets are the capital stock of its subsidiaries, many of which are themselves holding companies. Because all of the Issuer's operations are conducted solely by its subsidiaries, the Issuer expects to obtain the money to make payments of principal or interest on the notes through cash dividends, distributions or other transfers from its subsidiaries. Therefore, the Issuer's ability to make payments of principal or interest on the notes will be contingent upon the Issuer's subsidiaries generating sufficient cash to make payments to it. These subsidiaries may not be able to make distributions to the Issuer. Moreover, since some of the other Guarantors also are holding companies or special purpose finance companies, such as Sappi Limited, Sappi International SA, Sappi Deutschland GmbH and SDW Holdings Corporation, the ability of these Guarantors to make payments on their guarantees will be dependent on the same factors. The terms of our other outstanding debt and the Indenture contain a number of significant covenants that restrict the Issuer's ability, and the ability of its subsidiaries to, among other things, pay dividends or make other distributions and incur additional debt and grant guarantees. In addition, any payment of interest, dividends, distributions, loans or advances by the Issuer's subsidiaries to the Issuer could be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which the subsidiaries operate.

Our subsidiaries are separate and distinct legal entities and those of our subsidiaries that do not guarantee the notes have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes or to make any funds available therefor, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the notes. The notes are not guaranteed by any of the subsidiaries that comprise our Southern Africa operations, including our Sappi Specialised Cellulose, Sappi Paper and Paper Packaging and Sappi Forests businesses. Any right that we or the Guarantors have to receive any assets of any of our operating subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent right of holders of notes to realize proceeds from the sale of their assets, may be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors and holders of debt issued by that subsidiary.

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the guarantees and the security may adversely affect their validity and enforceability.

Our obligations under the notes will be guaranteed by, and secured (on a first-priority or junior basis) by certain assets of, the Guarantors and the ordinary shares, common stock or similar common equity interests (other than for directors' qualifying shares and equity interests of a similar nature) of the Issuer and each of the Subsidiary Guarantors (other than Sappi Pulp Asia Limited and SDW Holdings Corporation), Cloquet Terminal Railroad Company, Inc., Sappi Trading Pulp AG and Sappi Southern Africa Limited. The notes and the guarantees and security may be subject to claims that they should be limited or subordinated in favor of our existing and future creditors under Austrian, Belgian, Dutch, Finnish, German, Hong Kong, South African, United States, Swiss or other applicable law. Furthermore, the security interests securing the notes over certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany will be junior to the security interests securing the Existing Revolving Credit Facility, the 2017 Notes and the 2021 Notes and holders of the notes will have to rely on the provisions of the Intercreditor Agreement for the treatment of such junior security interests as security interests ranking *pari passu* with first-ranking security interests securing other indebtedness of the Parent Guarantor, the Issuer and the Restricted Subsidiaries. In addition, enforcement of each guarantee and the relevant security will be limited to the extent of the amount which can be guaranteed or secured by a particular Guarantor without rendering the guarantee or security voidable or otherwise ineffective under applicable law. In addition, enforcement of any of the guarantees and the security against any Guarantor will be subject to certain defenses available to Guarantors and security providers generally. These laws and defenses include those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalization and defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and similar laws, a court could subordinate or void any guarantee or the security provided by such Guarantor if it found that:

- the guarantee was incurred or the security was created with actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor;

- the Guarantor did not receive fair consideration or reasonably equivalent value for the guarantee or security, and the Guarantor;
  - was insolvent or was rendered insolvent because of the guarantee or security;
  - was undercapitalized or became undercapitalized because of the guarantee or security; or
  - intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity;
- the guarantee or the security was not in the best interests or for the benefit of the Guarantor; or
- the amount paid or payable under the guarantee or realized from security was in excess of the maximum amount permitted by law.

The measure of insolvency for purposes of fraudulent conveyance and similar laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they became due. In such circumstances, if a court voided such guarantee or security, or held it unenforceable, you would cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuer and the remaining Guarantors. See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

Although the occurrence of specific change of control events affecting us will permit you to require us to repurchase your notes, we may not be able to repurchase your notes.

Upon the occurrence of specific change of control events affecting us, you will have the right to require us to repurchase your notes at 101% of their principal amount, plus accrued and unpaid interest. Our ability to repurchase your notes upon such a change of control event would be limited by our access to funds at the time of the repurchase and the terms of our debt agreements, which agreements could restrict or prohibit such a repurchase. Upon a change of control event, we may be required immediately to repay the outstanding principal, any accrued interest on and any other amounts owed by us under one or more of our bank facilities or offer to repurchase other notes that we have issued. The source of funds for these repayments would be our available cash or cash generated from other sources. However, we cannot assure you that we will have sufficient funds available upon a change of control to make these repayments and any required repurchases of tendered notes.

You may not be able to sell your notes.

There is no existing market for the notes. Although we have applied to list the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF, the non EU-regulated market of the Luxembourg Stock Exchange, we cannot assure you that the notes will remain listed. Certain of the initial purchasers of the notes have informed us that they intend to make a market in the notes after completing this offering. However, the initial purchasers are not obligated to make a market in the notes and may cease market making at any time. In addition, changes in the overall market for high yield securities and changes in our financial performance or in the markets where we operate may adversely affect the liquidity of the trading market in these notes and the market price quoted for these notes. As a result, we cannot assure you that an active trading market will actually develop for these notes.

Historically, the markets for non-investment grade debt such as the notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the notes may be subject to similar disruptions. Any disruptions may have an adverse effect on the holders of the notes.

The transfer of notes is restricted.

The notes have not been registered under the Securities Act or the securities laws of any jurisdiction and unless so registered, may not be offered or sold except pursuant to an exemption from, or transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See ''Notice to Investors'' and ''Transfer Restrictions''.

You may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and all of the Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) are companies incorporated outside the United States. Most of our directors and executive officers and the directors and executive officers of the Guarantors (other than the executive officers of S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) are non-residents of the United States. Although we and the Guarantors have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on our directors and executive officers or the directors and executive officers of the Guarantors (other than the executive officers of S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC). In addition, as most of our assets and those of our directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in the U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States. In addition, we have been informed that it is questionable whether a court in Austria or in any of the other home jurisdictions of the Guarantors located outside the United States would accept jurisdiction and impose civil liability if proceedings were commenced in such court predicated solely upon U.S. federal securities laws.

The United States and Austria do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, will not be enforceable, either in whole or in part, in Austria. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in Austria, such party may submit to the Austrian court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against the Issuer or its managing directors will be regarded by an Austrian court only as evidence of the outcome of the dispute to which such judgment relates, and an Austrian court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria. See ''Enforceability of Civil Liabilities''.

The notes will be secured only to the extent of the value of the assets that have been granted as security for the notes.

If there is an event of default on the notes, the holders of the notes will be secured only to the extent of the value of the assets underlying their security interest. Not all of our assets secure the notes and we will not take action to perfect all liens on assets which do secure the notes. In the future, the obligations to provide additional guarantees and grant additional security over assets, or a particular type or class of assets, whether as a result of the acquisition or creation of future assets or subsidiaries, the designation of an unrestricted subsidiary as a restricted subsidiary or otherwise, is subject to certain agreed security principles. The agreed security principles set forth in the Indenture set out a number of limitations on the rights of the holders of the notes to be granted security in certain circumstances. The operation of the agreed security principles may result in, among other things, the amount recoverable under any collateral provided being limited or security not being granted over a particular type or class of assets. Accordingly, the agreed security principles may affect the value of the security provided by the Issuer and the Guarantors. To the extent that the claims of the holders of the notes exceed the value of the assets securing those notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior unsecured indebtedness ranking *pari passu* with the notes. As a result, if the value of the assets pledged as security for the notes is less than the value of the claims of the holders of the notes, those claims may not be satisfied in full before the claims of certain unsecured creditors are paid. Furthermore, upon enforcement against any collateral or in insolvency, under the terms of the Intercreditor Agreement the claims of the holders of the notes to the proceeds of such enforcement will rank (including with respect to junior security interests over certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany) *pari passu* with the claims of the holders of the 2017 Notes and the 2021 Notes, the lenders under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility) and other holders of other indebtedness secured by the Collateral. As a result, holders of the notes will receive less from the proceeds of the Collateral in an enforcement action or insolvency proceeding than if they were not required to share proceeds.

The value of the Collateral securing the notes may not be sufficient to satisfy the obligations under the notes.

No appraisal of the value of the Collateral has been made in connection with this offering and the Refinancing, and the fair market value of the Collateral may be subject to fluctuations based on factors that include, among others, general economic conditions, industry conditions and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time, the timing and the manner of the sale and the availability of buyers. By its nature, some of the assets that comprise the Collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the Collateral may not be sold in a timely or orderly manner, and the proceeds from any sale or liquidation of this Collateral may not be sufficient to repay the obligations under the notes.

To the extent that other first-priority security interests, pre-existing liens, liens permitted under the Indenture and other rights encumber any of the Collateral securing the notes, those parties may have or may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the security agent to realize or foreclose on the Collateral.

The Collateral does not include certain categories of assets, including bank accounts, intellectual property, inventory of our non-U.S. businesses, proceeds from inventory and receivables or the assets of our South African business, other than the ordinary shares of Sappi Southern Africa Limited.

The Collateral also does not include any of our production facilities other than the five production facilities located in Austria, Finland, The Netherlands and the United States specifically granted as Collateral. Due to restrictions in the indenture for our 2032 Notes, the security documents will provide that the total indebtedness that will be secured by the land, plant and machinery that comprise production facilities will be limited to an amount not to exceed 15% of consolidated net tangible assets (as defined in, and determined in accordance with, such indenture) of the Issuer. Correspondingly, we expect that the total amount of indebtedness (including the notes, the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes) to be secured by such assets will be limited to such amount. The limitation in the indenture for our 2032 Notes is calculated based upon the most recent balance sheet of the Issuer and its subsidiaries. As a consequence, the amount of obligations secured by such land, plant and machinery will be limited to such amount, and not all of the indebtedness under the notes (or the other indebtedness that is secured by the Collateral) will be secured by such land, plant and machinery. As of December 28, 2014, such amount represented approximately €330 million. However, the 15% threshold will be recalculated at the time any lien is granted on the Collateral to secure any *pari passu* indebtedness incurred by the Parent Guarantor or any of its restricted subsidiaries in accordance with the terms of the Indenture and the Intercreditor Agreement, and, at the time of such recalculation, such threshold may be higher or lower than the amount calculated as of the issue date of the notes. For example, the 15% threshold would be recalculated at the time any security is granted over the Collateral in favor of the lenders under the OeKB Term Loan Facility pursuant to the terms of such facility. In addition, the mortgage in respect of certain land and plant at our Gratkorn production facility will only be granted upon the occurrence of certain agreed events. The total amount of indebtedness currently secured by the land at the production facility in Cloquet, Minnesota is limited to the estimated 2009 fair market value of the property. In addition, certain property and assets located at, or associated with these production facilities, will not be included in the Collateral. In addition, as described under the caption ''Description of Notes—Security'', certain other assets and property will be excluded from the Collateral. Prior to the execution of the security documents by the parties thereto, certain other assets and property may be identified and excluded from the Collateral under the terms of such security documents.

The Collateral will include a security interest in a number of intercompany loans made by Guarantors to restricted subsidiaries. Recovery under these intercompany loans may be limited by challenges or other claims on the grounds that such intercompany loans should be limited, subordinated or voided in favor of third-party creditors of the borrowers of such loans under applicable law. For example, the intercompany loans could be challenged because the loans are between related parties or were not made for adequate consideration or should be treated as equity to the extent that the borrower is deemed to be undercapitalized.

If an event of default occurs and the obligations under the notes are accelerated, the notes and the guarantees will rank equally with the holders of other unsubordinated and unsecured indebtedness of the Issuer or relevant Guarantor with respect to any property or assets that is excluded from the Collateral.

The notes will be secured on a *pari passu* basis by first-priority security interests (or, in the case of certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany, junior security interests that will be deemed and treated as first-priority security interests pursuant to the Intercreditor Agreement), subject to Permitted Collateral Liens, in the Collateral that secures or will secure the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes. The Indenture for the notes will permit us to incur additional indebtedness secured by a lien that ranks equally with the notes. Any such indebtedness may further limit the recovery from the realization of the value of such Collateral available to satisfy holders of the notes. The holders of other indebtedness secured or to be secured (or deemed to be so secured pursuant to the Intercreditor Agreement) on a first-priority security interest basis, including the indebtedness under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes, will be entitled to be paid out of the proceeds of the Collateral upon an insolvency or enforcement action on a *pari passu* basis with holders of the notes.

There may not be sufficient Collateral to repay the obligations under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes, the notes and any additional indebtedness that would be secured on the same basis as the notes offered hereby. Liquidating the Collateral securing the notes may not result in proceeds in an amount sufficient to pay any amounts due under the notes after also satisfying the obligations to pay any creditors with *pari passu* liens. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the notes, the holders of the notes (to the extent not repaired from the proceeds of the sale of the Collateral) would have only a senior unsecured, unsubordinated claim against the Issuer's and the Guarantors' remaining assets.

You may not be able to independently exercise rights arising from the notes, to enforce claims under Austrian law or to instruct a court-appointed trustee (Kurator).

In the event that the rights of the noteholders are put at risk due to lack of joint representation, a court of competent jurisdiction (*Kuratelgericht*) may appoint a trustee (*Kurator*) to represent the interests of all noteholders in matters concerning their collective rights (*gemeinsame Rechte*) pursuant to the Austrian Act on Trustees (*Kuratorengesetz*) and the Austrian Act Supplementing the Act on Trustees (*Kuratorenergänzungsgesetz*). In particular, this may be the case if insolvency proceedings are initiated against the Issuer. Such court-appointed trustee may be so appointed upon the request of an interested party (e.g., a noteholder) or upon the initiative of the competent court in case of insolvency.

The court-appointed trustee will have the exclusive right to exercise the collective rights of the noteholders on their behalf. Consequently, an individual noteholder or the trustee for the notes may not bring an individual action unless the matter concerns a special relationship between such individual noteholder and/or trustee for the notes and the Issuer. A noteholder will have the right to join any action commenced by the court-appointed trustee against the Issuer as a third party (*Intervenient*).

Noteholders will not be able to direct the actions taken on their behalf by the court-appointed trustee. If the court-appointed trustee has to take action that would, because of its importance, require approval from the court, the court has to ensure that a meeting of noteholders convenes in order to permit noteholders to interview the court-appointed trustee and to elect three representatives (*Vertrauensmänner*) and three alternative representatives (*Ersatzmänner*). The representatives must keep themselves informed of the actions taken by the court-appointed trustee by way of continuous direct communication with the court-appointed trustee and, if required, inspect the relevant files and documents. In addition, the representatives will have to assist the court-appointed trustee in the discharge of his duties by providing advice on relevant matters. A court decision approving an act of a court-appointed trustee may be appealed by a noteholder, a representative (*Vertrauensmann*) or an alternative representative (*Ersatzmann*).

The powers of the court-appointed trustee to exercise the collective rights of the noteholders would deprive the noteholders and the trustee for the notes of their ability to exercise their rights under the transaction documents, including their rights to instruct the security agent to enforce the security and guarantees granted under the notes.

The security over the Collateral will not be granted directly to the holders of the notes.

The security interests in the Collateral that will secure the obligations of the Issuer under the notes and the obligations of the Guarantors under the guarantees will not be granted directly to the holders of the notes but will be granted only in favor of the security agent for the first-lien obligations, including the notes, the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes. The Indenture and the Intercreditor Agreement will provide that only the security agent has the right to enforce the security documents. As a consequence, holders of the notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the notes, except through the applicable trustee for the notes, who will provide instructions to the security agent for the Collateral.

Following an appointment of a court-appointed trustee (*Kurator*) under Austrian law, neither the trustee for the notes nor individual noteholders will have the power to instruct the security agent to the extent such instructions relate to the collective rights of the noteholders. No assurance can be given that such powers will vest in the court-appointed trustee and, even if they vest in the court-appointed trustee, that the court-appointed trustee will exercise its powers in accordance with the best interests of the noteholders.

In certain jurisdictions, including Austria, Belgium, Germany, Switzerland and The Netherlands, due to the laws and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the relevant security documents and the Intercreditor Agreement will provide for the creation of ''parallel debt'' obligations in favor of the security agent, and the security interests in such jurisdictions will secure the parallel debt, and may not directly secure the obligations under the notes and the other indebtedness secured by the Collateral in certain of these jurisdictions. The parallel debt construct has not been tested under law in certain of these jurisdictions and to the extent that the security interests in the Collateral created under the parallel debt construct are successfully challenged by other parties, holders of the notes will not receive any proceeds from an enforcement of the security interests in the Collateral. See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

The Issuer and the Guarantors will have control over the Collateral, and the sale of particular assets could reduce the pool of assets securing the notes.

The security documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral securing the notes. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, without any release or consent by the trustee or security agent, conduct ordinary course activities with respect to the Collateral such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course case payments, including repayments of indebtedness.

There are circumstances other than repayment or discharge of the notes under which the Collateral securing the notes will be released automatically, without your consent or the trustee or the security agent obtaining your further consent.

Under a variety of circumstances, Collateral securing the notes will be released automatically, including:

- a sale, transfer or other disposal of such Collateral in a transaction that does not violate the asset sale covenant of the Indenture (as such covenant may be amended from time to time with the consent of the holders of at least a majority in aggregate principal amount of the notes then outstanding);
- with respect to Collateral held by a Guarantor, upon the release of such Guarantor from its guarantee;
- if on any date after their issuance, the notes have achieved investment grade status, the Issuer has delivered a written notice thereof to the trustee for the notes and no default has occurred and is continuing under the Indenture as of the date of the delivery of such notice;
- if all other liens on the Collateral securing indebtedness of the Issuer (subject to certain exceptions) are released or will be released following release of the liens on the Collateral securing the notes and the Issuer has delivered an officer's certificate so stating to the trustee for the notes; and
- in connection with an enforcement sale permitted under the Intercreditor Agreement.

The Indenture will also permit the Parent Guarantor to designate one or more restricted subsidiaries that are Guarantors as unrestricted subsidiaries. If we designate a Guarantor as an unrestricted subsidiary for purposes of the Indenture governing the notes, all the liens on the Collateral owned by such subsidiary and any guarantees of the notes by such subsidiary will be released under the Indenture. Designation of an unrestricted subsidiary will reduce the aggregate value of the Collateral securing the notes to the extent that liens on the assets of the unrestricted subsidiary will be released. The Collateral may also be released with the consent of holders of at least 90% of the aggregate principal amount of the notes then outstanding.

Certain Guarantors may be released from their guarantees and certain covenants will no longer apply to us if the notes achieve ''investment grade status''.

The Indenture will provide that the Guarantors (other than Sappi Limited and Sappi International SA) may be released from their guarantees if the notes have achieved ''investment grade status'' (as defined in the Indenture) and no event of default under the Indenture has occurred and is continuing. See ''Description of Notes—Note Guarantees Release''.

The Indenture will also provide that if on any date the notes have achieved investment grade status and no event of default under the Indenture has occurred and is continuing, then beginning on that date and continuing until such time as the notes are no longer rated investment grade, certain covenants will be suspended and cease to apply to us. In addition, the Indenture will generally permit us to honor any contractual commitments entered into during such a suspension period notwithstanding any future loss of investment grade status. See ''Description of Notes—Certain Covenants—Suspension of Covenants when Notes Achieve Investment Grade Status''.

It may be difficult to realize the value of the Collateral securing the notes.

The Collateral securing the notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and accepted by other creditors that have the benefit of first-priority or second-priority security interests in the Collateral securing the notes from time to time, whether on or after the date the notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the notes as well as the ability of the security agent to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions. In addition, the security interests securing the notes over certain Collateral in or under the laws of England, Maine, Minnesota, Austria and Germany will be junior security interests and holders of the notes will have to rely on the provisions of the Intercreditor Agreement for the treatment of such junior security interests as security interests ranking *pari passu* with other first-ranking security interests securing other indebtedness of the Parent Guarantor, the Issuer and the Restricted Subsidiaries.

The security interests of the security agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the security agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the security agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the security agent may not have the ability to foreclose upon those assets and the value of the collateral may significantly decrease.

In addition, our business requires a variety of national, state and local permits and licenses. The continued operation of properties that comprise part of the Collateral and which depend on the maintenance of such permits and licenses may be prohibited. Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with existing regulations or requirements or changes in applicable regulations or requirements. In the event of foreclosure, the transfer of such permits and licenses may be prohibited or may require us to incur significant cost and expense. Further, we cannot assure you that the applicable governmental authorities will consent to the transfer of all such permits. If the regulatory approvals required for such transfers are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may result and the value of the Collateral may be significantly decreased.

The Collateral is subject to casualty risks.

We intend to continue to maintain insurance or otherwise insure against hazards in the manner described in this Offering Memorandum. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the Collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the notes and the guarantees. In addition, even if there is sufficient insurance coverage, if there is a total or partial loss of certain Collateral, there may be significant delays in obtaining replacement Collateral.

The rights of holders in the Collateral may be adversely affected by the security interests in collateral not being perfected or being junior security interests.

In some jurisdictions, applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party, such as filings, registration, payment of registry taxes or other fees, or the publication of notices. The security interests in the Collateral may not have been perfected, and their priority may not have been retained, with respect to the obligations under the notes, if the security agent or others did not take the actions necessary to perfect any of these security interests on, or prior to, the date that the security was granted or as otherwise required by the laws of the relevant jurisdiction. In addition, applicable law in some jurisdictions requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at the time such property and rights are acquired and identified.

We will not initially grant a mortgage in respect of certain land and plant at the Gratkorn production facility, which could result in holders of the notes not having a valid security interest in respect of such assets. Because of the substantial court fees that are levied upon the registration of mortgages over land and the deposit of mortgage agreements in respect of buildings on third-party land in Austria, and due to the substantial stamp duties that are levied in Austria upon the execution of mortgage agreements over land and plant (unless such assets secure only loan receivables), rather than providing duly perfected mortgages, Sappi Gratkorn GmbH will provide an offer to grant a mortgage over the land and plant it owns at the Gratkorn production facility and Sappi MagnoStar GmbH delivered an executed mortgage agreement in respect of the buildings it owns at the Gratkorn production facility to the security agent. The mortgage offer with respect to the land and plant at the Gratkorn production facility owned by Sappi Gratkorn GmbH will only be countersigned and registered by the mortgagee and the mortgage agreement with respect to the buildings at the Gratkorn production facility owned by Sappi MagnoStar GmbH will only be deposited in the land register of the competent court upon the occurrence of certain agreed events (including certain events of default under the Indenture). There will be four separate mortgage offers with respect to the land and plant at the Gratkorn production facility and four separate mortgage agreements with respect to the buildings at the Gratkorn production facility, dated August 27, 2009, April 13, 2011, July 3, 2012 and on or about the Issue Date. Each of these mortgage offers and mortgage agreements will incur registration and perfection fees upon the occurrence of certain trigger events to the extent they are registered and perfected, respectively. Under the terms of the Intercreditor Agreement, the Issuer has agreed to indemnify the security agent for all Perfection Costs (as defined in the Intercreditor Agreement). To the extent that the Issuer is unable to cover such Perfection Costs, the security agent will be required to pay the Perfection Costs associated with registration of each of the four mortgage offers and four mortgage agreements. The costs which will be incurred in connection with the perfection are as follows: (i) in respect to the mortgage offers, court fees for the registration of the mortgages in the land register of 1.2% of the secured amount and stamp duties for mortgage deeds upon countersignature of the mortgage offer by the security agent of 1.0% of the secured amount payable with respect to each of the mortgage offers; and (ii) in respect to the mortgage agreements, court fees for the submission of the mortgages to the land register of 1.2% of the secured amount payable with respect to each of the mortgage agreements. However, the security agent should be able to recover these Perfection Costs against the value of the land, plant and buildings secured by each mortgage as part of the amount secured by the mortgages (subject to the limitations contained therein). Until (and only if) such events occur and the security agent countersigns and registers the mortgage over the land and plant at the Gratkorn production facility owned by Sappi Gratkorn GmbH or deposits the mortgage agreement with respect to the buildings at the Gratkorn production facility owned by Sappi MagnoStar GmbH in the land register, there will be no perfected mortgages in place, and there is a risk that the security agent's claim could be subordinated to prior perfected mortgages over, or attachments of, these assets. In addition, because the mortgages will not be perfected until the security agent seeks to enforce or perfect the security, this structure increases the risk of an insolvency administrator (*Insolvenzverwalter*) in any subsequent insolvency successfully challenging and avoiding the transaction in accordance with Austrian insolvency law. Moreover, upon the occurrence of certain insolvency events in respect of Sappi Gratkorn GmbH, the security agent will be barred from perfecting the security interests in respect of the land and plant owned by Sappi Gratkorn GmbH, and upon the occurrence of certain insolvency events in respect of Sappi MagnoStar GmbH, the security agent will be barred from perfecting the security interests in respect of the buildings owned by Sappi MagnoStar GmbH. If the security interests in respect of the land and plant at the Gratkorn production facility owned by Sappi Gratkorn GmbH or the buildings at the Gratkorn production facility owned by Sappi MagnoStar GmbH were avoided or held to be unenforceable for any reason, the security agent would not have any claim in respect of such security interests.

In addition, the security interests in respect of the production facilities owned by Sappi in Gratkorn, Austria, Skowhegan/Somerset, Maine and Cloquet, Minnesota, the ordinary shares of Sappi Alfeld GmbH, Sappi Deutschland GmbH, Sappi Stockstadt GmbH and Sappi Ehingen GmbH and the intercompany receivables of the Issuer, Sappi Pulp Asia Limited and Sappi Finland I Oy will be junior to the security interests securing the 2017 Notes, the 2021 Notes and our Existing Revolving Credit Facility. The Intercreditor Agreement provides that such junior security interests will be deemed and treated as security interests ranking *pari passu* with the security interests securing the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes. If the Intercreditor Agreement or the relevant provisions thereof were avoided or held to be unenforceable for any reason, holders would not benefit from such first-priority treatment and be subordinated, with respect to such security interests, to senior security interests over the same Collateral securing other indebtedness of the Parent Guarantor, the Issuer and the Restricted Subsidiaries.

Certain of the land used by the Gratkorn production facility is leased by Sappi MagnoStar GmbH from the municipality of Gratkorn. In connection with this lease, Sappi Gratkorn GmbH has been granted a purchase option by the municipality with respect to the municipality-owned land, exercisable within three months from the expiry of the lease at the end of

2015. If Sappi Gratkorn GmbH does not exercise this purchase option, the municipality has the option to purchase a part of the land (including buildings) at the Gratkorn facility owned by Sappi Gratkorn GmbH. Even if perfected, the mortgage over the Sappi Gratkorn GmbH-owned land will be subject to the municipality's purchase option, as both purchase options have been registered in the land register as pre-emption rights in order to preserve their rank. Upon any exercise of the purchase option by the municipality, Sappi Gratkorn GmbH would be contractually required to transfer the Sappi Gratkorn GmbH-owned land and Sappi MagnoStar GmbH would be contractually required to transfer the Sappi MagnoStar GmbH buildings, in each case to the municipality at a pre-determined price and free of encumbrances.

The mortgage to be granted in respect of certain land and plant at the Cloquet, Minnesota production facility will initially be recorded without the payment of mortgage registry tax. As a result, the mortgage will not be enforceable and will not have established priority until the appropriate amount of mortgage registry tax is paid, which could result in holders of the notes not having an enforceable security interest in respect of such assets. In connection with the 2012 Refinancing, a mortgage on the Cloquet property (the ''2012 Cloquet Mortgage'') was recorded, and upon the occurrence of certain agreed events, mortgage registry tax was subsequently paid with respect thereto. As a result, the 2012 Cloquet Mortgage presently secures indebtedness (including, *inter alia*, the 2017 Notes and the 2021 Notes) and is enforceable up to a statutory enforcement cap of $57,552,400 (the ''Enforcement Cap''), which amount is based on the 2009 estimated fair market value of the mortgaged property. In order to defer payment of substantial mortgage registry tax on the mortgage relating to the notes, the mortgage will provide that payment of mortgage registry tax by the mortgagor with respect thereto will be deferred until such time as the amount of outstanding indebtedness secured by the 2012 Cloquet Mortgage is less than the Enforcement Cap (such an event, the ''Mortgage Registry Tax Trigger''). In the interim, the Intercreditor Agreement provides that junior security interests (including those created in favor of the holders of the notes by the recording of the mortgage) will be deemed and treated as security interests ranking *pari passu* with the security interests (including those created by the 2012 Cloquet Mortgage) securing the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2021 Notes. However, if the Intercreditor Agreement or the relevant provisions thereof were avoided or held to be unenforceable for any reason, or if the recording of the mortgage without payment of mortgage registry tax was not held to create a valid junior security interest within the meaning of the Intercreditor Agreement, holders would not benefit from such first-priority treatment. Also, there can be no assurance that the trustee or the security agent for the notes will monitor, or that the Issuer or Guarantors will inform the trustee or security agent of, the occurrence of the Mortgage Registry Tax Trigger, or that the necessary action will be taken to properly perfect the security interest in the Collateral subject to the terms of the mortgage. The trustee and the security agent have no obligation to monitor the occurrence of the Mortgage Registry Tax Trigger. Such failure may result in the loss of the security interest in the intended collateral or the priority of the security interest in favor of the notes against third parties.

It is also possible that certain security interests, including mortgages on our U.S. real properties, may not be in place on the date of the closing of the offering. The Issuer and the Guarantors have limited obligations to perfect the security interest in the Collateral. There can be no assurance that the trustee or the security agent for the notes will monitor, or that the Issuer or Guarantors will inform the trustee or security agent of, the future acquisition of property and rights that constitute Collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired Collateral. The trustee and the security agent have no obligation to monitor the acquisition of additional property or rights that constitute Collateral or the perfection of any security interest. Such failure may result in the loss of the security interest in the collateral or the priority of the security interest in favor of the notes against third parties.

The grant of Collateral to secure the notes might be challenged or voidable in an insolvency proceeding.

The grant of Collateral in favor of the security agent may be voidable by the grantor or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may be otherwise set aside by a court, if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified ''clawback'' period following the grant.

See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

Under the Intercreditor Agreement, the holders of the notes will be required to share recovery proceeds with other secured creditors, have limited ability to enforce the security documents and have agreed that the Collateral may be released in certain circumstances without their consent.

The trustee for the notes will accede to the Intercreditor Agreement with, among others, the agents and representatives of the other indebtedness secured by the Collateral, including the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the 2017 Notes and the 2021 Notes. Other creditors may become parties to the Intercreditor Agreement in the future. Among other things, the Intercreditor Agreement governs the enforcement of the security documents, the sharing in any recoveries from such enforcement, and the release of the Collateral by the security agent.

Under the Intercreditor Agreement, the trustee may only instruct the security agent to enforce the security interests upon receipt of the instructions of holders of 25% of the then outstanding notes. The Intercreditor Agreement provides that the security agent shall act upon the instructions of the class of secured creditor that first delivers a notice to the security agent, and the agents and representatives of certain other classes of secured creditors may also deliver such notices. The Intercreditor Agreement further provides that the classes of creditors entitled to provide enforcement instructions to the security agent consult with each other for a period of 10 business days before any instruction is given to the security agent. These arrangements could be disadvantageous to the holders of the notes in a number of respects. For example, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Parent or its restricted subsidiaries during such period, the Parent or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of the Collateral could otherwise be impaired or reduced in value.

The Intercreditor Agreement provides that the security agent may release the Collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the relevant financing documents. Therefore, the Collateral available to secure the notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Indenture governing the notes.

The enforcement of the security interests may be limited if a court-appointed trustee (*Kurator*) is appointed under Austrian law. Following the appointment of such court-appointed trustee, neither the trustee for the notes nor individual noteholders will have the power to instruct the security agent to enforce the noteholders' collective rights under the notes. No assurance can be given that such court-appointed trustee will exercise its powers in accordance with the best interests of the noteholders. In addition, the noteholders will not be able to direct the actions taken on their behalf by the court-appointed trustee.

The value of the collateral securing the notes may not be sufficient to secure post-petition interest.

In the event of a bankruptcy proceeding in the United States involving one or more of the U.S. Guarantors, the holders of the notes will be entitled to post-petition interest under the U.S. Bankruptcy Code only if the value of their security interest in the Collateral is greater than their pre-bankruptcy claim. Holders of the notes may be deemed to have an under-secured claim if the obligations under the notes and any obligations secured on a *pari passu* basis with the notes equal or exceed the fair market value of the Collateral securing the notes and such *pari passu* obligations. Holders of the notes that have a security interest in the Collateral with a value equal to or less than their pre-bankruptcy claim will not be entitled to post-petition interest under the U.S. Bankruptcy Code. In addition, the amount of indebtedness secured by land, plant and machinery located in the United States is limited as specified under ''—The value of the Collateral securing the notes may not be sufficient to satisfy the obligations under the notes''. The bankruptcy trustee, the debtor-in-possession or competing creditors could possibly assert that the fair market value of the Collateral with respect to the notes on the date of the bankruptcy filing was less than the then-current principal amount of the notes. Upon a finding by a U.S. bankruptcy court that the notes are under-collateralized, the claims in the bankruptcy proceeding with respect to the notes and guarantees would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the Collateral. Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of holders of the notes to receive post-petition interest and a lack of entitlement on the part of the unsecured portion of the notes to receive other ''adequate protection'' under U.S. federal bankruptcy laws. In addition, if any payments of post-petition interest were made at the time of such a finding of under-collateralization, such payments could be re-characterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the notes and guarantees. No appraisal of the fair market value of the Collateral securing the notes has been prepared in connection with this offering of the notes and, therefore, the value of the collateral may not equal or exceed the principal amount of the notes.

Enforcement of the guarantees and the security across multiple jurisdictions may be difficult.

The notes will be issued by the Issuer, which is incorporated under the laws of Austria, and guaranteed by the several Guarantors, which are organized or incorporated under the laws of multiple jurisdictions. In the event of insolvency or a similar event, proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor. The rights under the guarantees and the Collateral will thus be subject to the laws of a number of jurisdictions, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. In addition, the bankruptcy, insolvency, administration and other laws of the jurisdiction of organization of the Issuer and the Guarantors may be materially different from, or in conflict with, one another, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the security and to realize any recovery under the notes and the guarantees. See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

USE OF PROCEEDS

The net proceeds from the sale of the notes, after the estimated transaction costs for the offering and the Refinancing, are approximately US$474 million (using an assumed exchange rate for the notes of US$1.0844 to €1.00). We intend to use the net proceeds from this offering together with drawings under the Amended and Restated Revolving Credit Facility and cash on hand to redeem €250 million in aggregate principal amount of our 2018 Notes and US$300 million in aggregate principal amount of our 2019 Notes.

The 2018 Notes were originally issued in an aggregate principal amount of €250 million, accrue interest at a rate of 6.625% per annum and mature on April 15, 2018. The 2019 Notes were originally issued in an aggregate principal amount of US$300 million, accrue interest at a rate of 8.375% per annum and mature on June 15, 2019. The redemption of the 2018 Notes is expected to be effected on or after April 15, 2015 at a redemption price of 103.313% of the principal amount thereof, plus accrued and unpaid interest (if any) to the redemption date pursuant to a redemption notice mailed to the holders of the 2018 Notes on or prior to the closing date of this offering. The redemption of the 2019 Notes is expected to be effected on or after June 15, 2015 at a redemption price of 106.281% of the principal amount thereof, plus accrued and unpaid interest (if any) to the redemption date pursuant to a redemption notice mailed to the holders of the 2019 Notes on or prior to the closing date of this offering.

On the closing date, the proceeds of this offering, drawings under the Amended and Restated Revolving Credit Facility and cash on hand in an aggregate amount sufficient to pay and discharge all of the Issuer's obligations through to the applicable redemption date under the outstanding 2018 Notes and 2019 Notes, including the applicable redemption price and accrued and unpaid interest to the applicable redemption date, were irrevocably deposited with the trustee for the 2018 Notes and the 2019 Notes to be held in trust and paid to such holders on the applicable redemption date.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization at December 28, 2014, on an actual basis and as adjusted to give effect to the Refinancing and entry into the Amended and Restated Revolving Credit Facility (using the closing exchange rate on December 28, 2014 of US$1.2177 to €1.00).

You should read this table together with ''Use of Proceeds'', ''Summary—Summary Financial and Other Data'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'', ''Description of Other Financing Arrangements'', our annual and interim financial statements and related notes of the Sappi Group included elsewhere in this Offering Memorandum.

	As at December 2014	
	Actual	As adjusted
	(US$ million)	
Cash and cash equivalents[(1)]	329	311
Short-term debt:		
Other public debt[(2)]	39	39
Other short-term debt[(3)]	92	92
Total short-term debt	131	131
Long-term debt:		
Existing Revolving Credit Facility[(4)]	—	—
Amended and Restated Revolving Credit Facility[(5)]	—	122
Notes offered hereby	—	548
7.75% Senior Secured Notes due 2017	400	400
6⅝% Senior Secured Notes due 2018[(6)]	304	—
8⅜% Senior Secured Notes due 2019[(6)]	300	—
6⅝% Senior Secured Notes due 2021	350	350
7.50% Guaranteed Notes Due 2032	221	221
Other public debt[(2)]	173	173
Other long-term debt[(3)]	160	160
Securitization debt	347	347
Adjustment to long-term debt[(7)]	(17)	(22)
Total long-term debt	2,238	2,299
Total debt	2,369	2,430
Total shareholders' equity[(8)]	1,059	995
Total capitalization[(9)]	3,099	3,114

(1) Adjustment reflects the Refinancing based on the closing exchange rate at December 28, 2014 of US$1.2177 to €1.00 and a US$15 million payment associated with the unwinding of an interest rate currency swap arrangement with respect to the 2019 Notes as at December 2014.

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

(3) Other short-term debt includes €18 million (US$22 million) of short-term debt outstanding under the OeKB Term Loan Facility, and Other long-term debt includes €100 million (US$122 million) of long-term debt outstanding under the OeKB Term Loan Facility.

(4) Represents indebtedness under our Existing Revolving Credit Facility, which, as of December 2014, was entirely undrawn. In connection with the Refinancing, we intend to enter into the Amended and Restated Revolving Credit Facility providing for borrowings of up to €465 million and maturing in 2020.

(5) Assumes initial drawings of €100 million (US$122 million) under the Amended and Restated Revolving Credit Facility in connection with the Refinancing. Drawings under the Amended and Restated Revolving Credit Facility will rank *pari passu* with the notes offered hereby. Should we be unable to draw under the Amended and Restated Revolving Credit Facility as of the closing date of this offering, drawings will be made under the Existing Revolving Credit Facility. See ''Summary—Recent Developments—Amended and Restated Revolving Credit Facility''.

(6) We intend to use the proceeds of this offering together with drawings under the Amended and Restated Revolving Credit Facility and cash on hand to redeem €250 million in aggregate principal amount of our 2018 Notes and US$300 million in aggregate principal amount of our 2019 Notes. The adjustment assumes all of the 2018 Notes and the 2019 Notes will be refinanced.

[7] 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 2018 Notes, 2019 Notes and the Existing Revolving Credit Facility of US$12 million which is offset by the capitalization of upfront fees related to the Refinancing and entry into the Amended and Restated Revolving Credit Facility.

[8] Total shareholders' equity as adjusted to give effect to the Refinancing and entry into the Amended and Restated Revolving Credit Facility is adjusted for redemption premia, breakage fees incurred or to be incurred as a result of redemption of our outstanding 2018 Notes and 2019 Notes with the proceeds of this offering and accrued interest through to the anticipated redemption dates of our 2018 Notes and 2019 Notes of April 15, 2015 and June 15, 2015, respectively.

[9] Total capitalization is calculated as net debt plus shareholders equity.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE SAPPI GROUP

The following tables present selected consolidated financial and other data for Sappi Limited as of and for the three months ended December 2014 and the fiscal years ended September 2014, 2013, 2012, 2011 and 2010, and for the three months ended December 2013.

The Group restated its consolidated financial statements as of and for the years ended September 2013 and 2012 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. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. 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 is considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that, although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation), the Group consequently deconsolidated its assets with its South African insurer. The Group's unaudited condensed consolidated financial statements as of and for the three months ended December 2013 did not reflect this change. However, the comparative information for the three months ended December 2013 presented in the unaudited condensed consolidated Group financial statements as of and for the three months ended December 2014 included elsewhere in this Offering Memorandum was restated to reflect this interpretation.

As such, (a) the financial data as of and for the year ended September 2014 presented in these tables has been derived from our 2014 audited consolidated Group financial statements and related notes, which are included elsewhere in this Offering Memorandum, (b) the financial data as of and for the years ended September 2013 (Restated 2013) and September 2012 (Restated 2012) presented in these tables has been extracted from the consolidated financial information for the 2013 and 2012 comparative periods presented in our 2014 audited consolidated Group financial statements and related notes, which are included elsewhere in this Offering Memorandum, (c) the unaudited financial data as of and for the three months ended December 2014 presented in these tables has been derived from our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014, which are included elsewhere in this Offering Memorandum, (d) the unaudited financial data for the three months ended December 2013 (Restated three months ended December 2013) presented in these tables has been derived from the unaudited condensed consolidated financial information for the three months ended December 2013 comparative period presented in our unaudited condensed consolidated Group financial statements and related notes for the three months ended December 2014, which are included elsewhere in this Offering Memorandum, and (e) the financial data as of and for the years ended September 2011 and 2010 presented in these tables has not been restated and is derived from our audited consolidated Group financial statements and related notes for such years, which are not included herein. These tables should be read in conjunction with ''Capitalization'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements and related notes included elsewhere in this Offering Memorandum.

The Sappi Limited Group annual financial statements as of and for the fiscal years ended September 2014, 2013, 2012, 2011 and 2010 have been prepared in conformity with IFRS.

	Three Months Ended December		Year Ended September				
		Restated		Restated			
	2014	2013	2014	2013	2012	2011[1]	2010
			(US$ million)				
Group Income Statement Data:							
Sales[2]	1,377	1,499	6,061	5,925	6,347	7,286	6,572
Cost of sales	1,224	1,339	5,370	5,285	5,549	6,454	5,786
Gross profit	153	160	691	640	798	832	786
Selling, general and administrative expenses[3]	84	94	352	384	414	454	448
Other operating expenses (income)	2	(2)	33	244	(41)	298	10
Share of profit from joint ventures	(2)	(2)	(8)	(7)	(2)	(6)	(13)
Operating profit	69	70	314	19	427	86	341
Net finance costs[4]	37	48	177	186	306	307	255
Profit (loss) before taxation	32	22	137	(167)	121	(221)	86
Profit (loss) for the period	24	18	135	(182)	93	(232)	66

	As of December	As of September				
			Restated			
	2014	2014	2013	2012	2011	2010
			(US$ million)			
Group Balance Sheet Data:						
Property, plant and equipment	2,758	2,841	3,078	3,157	3,235	3,660
Inventories	708	687	728	726	750	836
Trade and other receivables	688	731	747	800	831	888
Cash and cash equivalents	329	528	352	604	639	792
Total assets	5,145	5,465	5,727	6,168	6,308	7,184
Net assets	1,059	1,044	1,144	1,525	1,478	1,896
Current interest-bearing borrowings and overdrafts	131	163	100	266	450	696
Trade and other payables	832	996	1,015	1,005	1,065	1,271
Total long-term interest borrowings	2,238	2,311	2,499	2,358	2,289	2,317
Shareholders' equity	1,059	1,044	1,144	1,525	1,478	1,896

	Three Months Ended December		Year Ended September				
		Restated		Restated			
	2014	2013	2014	2013	2012	2011	2010
			(US$ million)				
Cash Flow Information:							
Cash generated by operations	137	136	566	447	728	798	737
Movement in working capital	(136)	(149)	34	(20)	(102)	(98)	(5)
Net finance costs paid[5]	(52)	(56)	(162)	(164)	(195)	(256)	(194)
Taxation	(3)	(1)	(1)	(17)	(20)	(38)	(9)
Capital expenditure[6]	(68)	(71)	(295)	(552)	(358)	(262)	(211)
Net cash (utilized) generated[7]	(121)	(133)	243	(247)	127	163	341
Other Information:							
EBITDA[8]	140	157	626	367	796	503	754

(1) Our fiscal years operate on a 52-accounting-week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2011 operated on a 53-accounting-week cycle while fiscal 2014, 2013, 2012 and 2010 operated on a 52-accounting-week cycle.

(2) Sales are recognized when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs

at the point of offloading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms. Revenue is measured at the fair value of the amount received or receivable after deducting trade and settlement discounts, rebates and customer returns. Shipping and handling costs are included in cost of sales. These costs, when included in the sales price charged for our products, are recognized in sales.

(3) Selling, general and administrative expenses represent marketing and selling expenses, administrative and general expenses and a portion of employment costs and depreciation. For further details see note 4 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

(4) Net finance costs for fiscal 2012 and fiscal 2011 include refinancing charges of US$88 million and US$60 million related to the 2012 Refinancing and 2011 Refinancing, respectively.

(5) For annual periods, this represents the sum of ''finance costs paid'' and ''finance revenue received'' as presented in the statement of cash flows.

(6) Capital expenditure represents capital expenditure as presented in our statement of cash flows. For annual periods, this represents the total of ''investment to maintain operations'' and ''investment to expand operations'' as presented in the statement of cash flows.

(7) For annual periods, this represents the sum of ''cash retained from operating activities'' and ''cash utilized in investing activities'' as presented in the statement of cash flows. For the three-month periods ending December 2014 and December 2013, this represents the sum of ''cash utilized in operating activities'' and ''cash utilized in investing activities'' as presented in the condensed consolidated statement of cash flows.

(8) We have reconciled EBITDA to profit (loss) for the period rather than operating profit. EBITDA represents profit (loss) for the period before taxation charge (benefit), net finance costs, depreciation and amortization. Net finance costs include: finance costs; finance income; net foreign exchange gains; and net fair value gain or loss on financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful measure of financial performance in addition to profit (loss) for the period, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or profit (loss) for the period as an indicator of our operations in accordance with IFRS.

The following table reconciles profit (loss) for the period to EBITDA.

	Three Months Ended December		Year Ended September				
		Restated		Restated			
	2014	2013	2014	2013	2012	2011	2010
			(US$ million)				
Profit (loss) for the period	24	18	135	(182)	93	(232)	66
Add back:							
Depreciation and amortization	71	87	312	348	369	417	413
Net finance costs	37	48	177	186	306	307	255
Taxation	8	4	2	15	28	11	20
EBITDA	140	157	626	367	796	503	754

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

Sappi Limited, as Issuer's parent company, will fully and unconditionally guarantee the notes. Accordingly, the following discussion and analysis is for the Sappi Group as a whole. You should read the following discussion and analysis together with our Group annual financial statements, including the notes, included elsewhere in this Offering Memorandum. Certain information contained in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes forward-looking statements that involve risk and uncertainties. See ''Forward-Looking Statements'', ''Risk Factors'', ''Our Business'' and the notes to our Group annual financial statements included elsewhere in this Offering Memorandum 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 in this Offering Memorandum.

The annual financial statements of the Sappi Group, including the applicable notes thereto, contained in this Offering Memorandum and 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 years ended September 2013 and 2012 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. The Group's unaudited condensed consolidated financial statements as of and for the three months ended December 2013 did not reflect this change. However, the comparative information for the three months ended December 2013 presented in the unaudited condensed consolidated Group financial statements as of and for the three months ended December 2014 included in the F-pages of this Offering Memorandum was restated to reflect this interpretation.

As such, (a) the consolidated financial information as of and for the year ended September 2014 presented in this Offering Memorandum has been derived from our 2014 audited consolidated Group financial statements and related notes included elsewhere herein, (b) the consolidated financial information as of and for the years ended September 2013 (Restated 2013) and September 2012 (Restated 2012) presented in this Offering Memorandum has been extracted from the consolidated financial information for the 2013 and 2012 comparative periods presented in our 2014 audited consolidated Group financial statements and related notes included elsewhere herein, (c) the unaudited condensed consolidated financial information as of and for the three months ended December 2014 presented in this Offering Memorandum has been derived from our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014 included elsewhere herein and (d) the unaudited condensed consolidated financial information as of and for the three months ended December 2013 (Restated three months ended December 2013) presented in this Offering Memorandum has been derived from the unaudited condensed consolidated financial information for the three months ended December 2013 comparative period presented in our unaudited condensed consolidated Group financial statements and related notes as of and for the three months ended December 2014 included elsewhere herein.

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2014, 2013 and 2012 each operated on a 52 accounting week cycle. The three-month periods ended December 2014 and December 2013 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 across more than 100 countries. 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 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 16 pulp and paper mills in seven countries, with an aggregate annual paper, paper pulp and dissolving wood pulp production capacity of approximately 5.7 million tons, 2.4 million tons and 1.3 million tons, respectively.

Sales by source and destination for the three months ended December 2014 and each of fiscal 2014, fiscal 2013 and fiscal 2012 were as follows:

	Sales by Source				Sales by Destination			
	Three Months Ended December 2014	2014	Restated 2013	Restated 2012	Three Months Ended December 2014	2014	Restated 2013	Restated 2012
	%							
Europe	50	51	53	53	41	45	46	45
North America	25	25	23	23	20	21	23	23
Southern Africa	25	24	24	24	10	11	12	13
Asia and others	—	—	—	—	29	23	19	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 2012, 2013 and 2014. 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 paper pulp increased significantly in fiscal 2012 and continued to do so during fiscal 2013 and 2014 due to increased worldwide demand. Conversely, 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 2% and 5% in the North American and European markets, respectively, and 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.

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 South Africa, costs incurred are generally denominated in Rand, as are local sales. Exports from the South African businesses to other regions, which in local currency represented 59% and 57%, respectively, of sales of our South African operations in both the three months ended December 2014 and 2013 and 57% and 52%, respectively, of sales of our South African operations in fiscal 2014 and fiscal 2013, are denominated primarily in US dollars.

The appreciation of the Rand or the euro against the US dollar diminishes the value of exports from South 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 principal currencies in which subsidiaries conduct business that are subject to the risks described in this paragraph are the euro and Rand. 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 2014 and 2013 and in fiscal 2014, fiscal 2013 and fiscal 2012:

	Average rates					Closing rates				
Exchange rates	**December 2014**	**December 2013**	**2014**	**2013**	**2012**	**December 2014**	**December 2013**	**2014**	**2013**	**2012**
ZAR to one US$	11.2122	10.1406	10.5655	9.2779	8.0531	11.6001	10.5300	11.2285	10.0930	8.3096
US$ to one EUR	1.2504	1.3607	1.3577	1.3121	1.2988	1.2177	1.3742	1.2685	1.3522	1.2859

The profitability of certain of our South African operations is directly dependent on the Rand proceeds of their US dollar exports. Selling prices in the local South 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 2014, the euro was weaker against the US dollar with an average exchange rate of US$1.25/euro as compared to an average of US$1.36/euro in the three months ended December 2013, and the Rand was weaker against the US dollar with an average exchange rate of ZAR11.21/US$ as compared to an average of ZAR10.14/US$ in the three months ended December 2013. The impact of these currency movements decreased reported sales in US dollars by US$96 million for the three months ended December 2014 compared to the three months ended December 2013.

On average, the euro strengthened 3% against the US dollar in fiscal 2014 compared to fiscal 2013, but weakened towards the end of fiscal 2014 to close below its 2013 fiscal closing levels. The Rand weakened in fiscal 2014 to an average level against the US dollar of ZAR10.57, 14% weaker than fiscal 2013 average levels, and ended fiscal 2014 at a closing rate of ZAR11.23/US$, 11% weaker than the closing rate of fiscal 2013. The impact of these currency movements decreased reported sales in US dollars by US$96 million for fiscal 2014, by US$181 million in fiscal 2013 and by US$494 million in fiscal 2012.

The Group has a current policy of not hedging translation risks. The South 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:

2011 European and southern African restructuring initiatives: During fiscal 2011, we embarked on restructuring initiatives in our European and southern African operations in an effort to streamline our operations further, to adapt to the changing needs of our customers and to match our assets to profitable markets for future growth. We realized the targeted cost-saving benefits from these initiatives in Europe and in southern Africa in fiscal 2012.

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.

Enstra and Tugela Mills closure of KCD lines and PM3: During fiscal 2012 we announced the closure of the 10,000 ton per annum paper machine (PM3) at our Tugela Mill. During fiscal 2012 we also announced the closure of the pulp line at our Enstra Mill and the closure of the Kraft Continuous Digester (''KCD'') at our Tugela Mill.

Tugela Mill mothballing of PM4: On October 12, 2012 we announced the decision to mothball PM4, a sackkraft and containerboard machine, at the Tugela Mill from January 01, 2013. The asset impairment charge related to the mothballing of the machine of ZAR76 million (US$9 million) was taken in the fourth quarter of fiscal 2012 and was included in special items.

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. We expect this mill to contribute towards further improvement in the operating performance of the business in the coming year.

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 our 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). In 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 is being arranged with current 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 were continuing through fiscal 2014.

South African Operations

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 25% and 23% of our sales in the three months ended December 2014 and 2013, respectively, and 24% of our sales in each of fiscal 2014, 2013 and 2012. 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 2015. We do separately account for environmental capital expenditures. See note 34 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum for a discussion of these matters.

For further information, see ''Our Business—Environmental and Safety 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 two fine paper mills, three 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 included elsewhere in this Offering Memorandum.

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 are comprised of 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 is comprised of:

- 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 are comprised of:

- 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) are comprised of:

- 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 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 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 2014	Three Months Ended December 2013
	(US$ million)	
Sales	1,377	1,499
Operating profit	69	70
Special items—losses (gains)	5	(10)
Operating profit excluding special items	74	60

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

	Three Months Ended December 2014	Three Months Ended December 2013
	(US$ million)	
Profit for the period	24	18
Taxation charge	8	4
Net finance costs	37	48
Operating profit	69	70
Special items—losses (gains)	5	(10)
Operating profit excluding special items	74	60
Plantation price fair value adjustment	(1)	(8)
Net restructuring provisions	1	1
Profit on disposal of property, plant and equipment	—	(1)
Asset impairment reversals	—	(2)
Fire, flood, storm and other events	5	—
Total special items:	5	(10)

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 2014	December 2014 vs. December 2013	Three Months Ended December 2013
		(US$ million)	
Europe	14	10	4
North America	(4)	(2)	(2)
Southern Africa	59	(7)	66
Unallocated and eliminations	—	(2)	2
Total	69	(1)	70

Special items Loss (Gain)	Three Months Ended December 2014	Three Months Ended December 2013
	(US$ million)	
Europe	1	—
North America	—	(1)
Southern Africa	4	(10)
Unallocated and eliminations	—	1
Total	5	(10)

Operating Profit (Loss) excluding special items	Three Months Ended December 2014	December 2014 vs. December 2013	Three Months Ended December 2013
		(US$ million)	
Europe	15	11	4
North America	(4)	(1)	(3)
Southern Africa	63	7	56
Unallocated and eliminations	—	(3)	3
Total	74	14	60

Special items for the Group in the three months ended December 2014 and the three months ended December 2013 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$1 million adjustment was recognized in the three-month period ended December 2014 and a positive US$8 million adjustment was recognized in the three-month period ended December 2013.

Net restructuring provisions: Restructuring provisions of US$1 million for general fixed cost optimization programs were raised for each of the European business in the three-month period ended December 2014 and the Southern African business in the three-month period ended December 2013.

Profit on disposal of property, plant and equipment: In the three-month period ended December 2013, operating profit was positively impacted by profit on the sale of assets of US$1 million, mainly related to the disposal of minor assets in Southern Africa.

Asset impairment reversals: Impairment reversals of US$2 million were recorded in the three-month period ended December 2013 related to the disposal by the Southern African business of minor assets that were previously impaired.

Fire, flood and storm and other events: 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$70 million in the three months ended December 2013 marginally decreased to operating profit of US$69 million in the three-month period ended December 2014.

Operating profit in the three months ended December 2014 was negatively affected by special items of US$5 million compared to a positive impact of special items of US$10 million in the three months ended December 2013. 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. Special items in the three months ended December 2013 included a positive plantation fair value price adjustment of US$8 million and asset impairment reversals of US$2 million.

Operating profit excluding special items increased in the three months ended December 2014 to US$74 million from US$60 million in the three months ended December 2013. This change was mainly due to an improvement in the European and Southern African businesses. The European business benefited from a reduction in fixed costs following the disposal of the Nijmegen Mill in June 2014, higher sales prices for coated woodfree paper and improved performance from the speciality paper business at the Alfeld Mill. The improvement in the Southern African business was mainly due to exchange rate gains on export sales and variable cost savings.

Europe

Key figures	Three Months Ended December 2014	2013
	(US$ million)	
Operating profit	14	4
Special items—losses	1	—
Operating profit excluding special items	**15**	**4**

Operating profit in the three months ended December 2014 was US$14 million as compared to an operating profit of US$4 million for the comparative period in 2013.

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. There were no special items impacting operating profit in the three months ended December 2013.

Operating profit excluding special items increased to US$15 million in the three months ended December 2014 compared to an operating profit excluding special items in the three-month period ended December 2013 of US$4 million. The increase was due to a reduction in fixed costs following the disposal of the Nijmegen Mill, higher sales prices for coated woodfree paper and improved operating and sales performance from the speciality paper business at the Alfeld Mill, partly offset by the cost and sales impacts of the paper machine upgrade at the Gratkorn Mill. Coated mechanical paper prices and volumes also remained under pressure.

North America

Key figures	Three Months Ended December 2014	Three Months Ended December 2013
	(US$ million)	
Operating loss	(4)	(2)
Special items—gains	—	(1)
Operating loss excluding special items	**(4)**	**(3)**

Operating loss in the three months ended December 2014 was US$4 million as compared to an operating loss of US$2 million for the comparative period in 2013.

The operating loss for fiscal 2013 included favorable special items of US$1 million.

Operating loss excluding special items increased to US$4 million in the three months ended December 2014 compared to an operating loss excluding special items in the three-month period ended December 2013 of US$3 million. A planned extended annual maintenance shutdown at the Somerset Mill and the completion of a number of capital projects had a significant impact on costs and sales volumes during the three months ended December 2014, partly offset by improved pricing in the coated paper business. The release business continues to be adversely affected by weak demand in China.

Southern Africa

Key figures	Three Months Ended December 2014	Three Months Ended December 2013
	(US$ million)	
Operating profit	59	66
Special items—losses (gains)	4	(10)
Operating profit excluding special items	**63**	**56**

Operating profit for the three months ended December 2014 was US$59 million as compared to US$66 million for the comparative period in 2013.

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. The operating profit for the three months ended December 2013 included favorable special items of US$10 million, mainly comprising positive plantation fair value adjustments of US$8 million.

Operating profit excluding special items increased to US$63 million in the three months ended December 2014 compared to an operating profit excluding special items in the three-month period ended December 2013 of US$56 million. The increase was mainly due to exchange rate gains on export sales, improved pricing for packaging paper grades and fixed and variable cost savings.

Sales

An analysis of sales movements in the three months ended December 2014 and in the three months ended December 2013 is presented below:

Sales Volume	Three Months Ended December 2014	December 2014 vs. December 2013	Three Months Ended December 2013
		('000 tons)	
Europe	**775**	**(61)**	**836**
North America	**333**	**(15)**	**348**
Paper and pulp (excluding dissolving wood pulp)	262	(4)	266
Dissolving wood pulp	71	(11)	82
Southern Africa	**654**	**(6)**	**660**
Paper and pulp (excluding dissolving wood pulp)	197	(2)	199
Dissolving wood pulp	229	25	204
Forestry	228	(29)	257
Total	**1,762**	**(82)**	**1,844**

Sales	Three Months Ended December 2014	December 2014 vs. December 2013	Three Months Ended December 2013
		(US$ million)	
Europe	**684**	**(106)**	**790**
North America	**353**	**(12)**	**365**
Southern Africa	**340**	**(4)**	**344**
Paper and pulp	325	(2)	327
Forestry	15	(2)	17
Total	**1,377**	**(122)**	**1,499**

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 2014 compared to the three months ended December 2013 impacted sales negatively by US$96 million in the three months ended December 2014.

Sales for the three months ended December 2014 were US$1,377 million, a decrease of 8% compared to the three months ended December 2013 due to lower sales volumes in Europe and North America as a result of competitive market conditions. These impacts were partially offset by higher prices in local currency terms across all regions. The significantly weaker Rand and euro relative to the US dollar and its translation impact on the South African and European businesses' sales also reduced revenue.

Average selling prices realized by the Group in the three months ended December 2014 were approximately 4% lower in US dollar terms than the average selling prices realized in the three months ended December 2013, mainly as a result of the significantly weaker Rand and euro relative to the US dollar. The average world benchmark NBSK pulp price was 4% higher in the three months ended December 2014 compared to the three-month period ended December 2013.

In the three months ended December 2014, sales volume for the Group was approximately 4% lower than in the three-month period ended December 2013. This was mainly due to the continuing decline in demand for coated paper 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 2014	December 2014 vs. December 2013	Three Months Ended December 2013
		(US$ million)	
Variable Costs			
Delivery	123	(7)	130
Manufacturing	756	(78)	834
Total Variable Costs	**879**	**(85)**	**964**
Fixed costs	423	(44)	467
Special items—losses (gains)	5	15	(10)
Other operating expenses (income)	1	(7)	8
Total	**1,308**	**(121)**	**1,429**

(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 Manufacturing Costs	Three Months Ended December 2014		Change 2014 vs. 2013 (US$ million)	Three Months Ended December 2013	
	Costs (US$ million)	US$/Ton		Costs (US$ million)	US$/Ton
Wood	152	86	—	152	82
Energy	122	69	(15)	137	74
Pulp[(1)]	239	136	(44)	283	153
Chemicals	200	114	(33)	233	126
Delivery	123	70	(7)	130	70
Other costs	43	24	14	29	16
Total	**879**	**499**	**(85)**	**964**	**521**

(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$85 million, or 9%, in the three months ended December 2014 compared to the three months ended December 2013. This reduction was marginally larger than the decrease in sales volume, and was due to cost savings in pulp, energy and chemicals, which were partially offset by rising wood costs. Energy costs decreased by US$15 million, or 11%, despite substantial increases in the cost of energy from the national energy supplier in South Africa.

In Europe, overall variable costs per ton decreased by 8% in US dollar terms in the three months ended December 2014 compared to the three months ended December 2013 mainly due to the different average exchange rates used for translation in the three months ended December 2014 (US$1.25 to one euro) compared to the three months ended December 2013 (US$1.36 to one euro). The weaker euro negatively impacted US dollar-denominated variable costs, particularly for paper pulp, in the three months ended December 2014 compared to the equivalent quarter in 2013. In North America, variable costs per ton increased by 1% in the three months ended December 2014 compared to the three months ended December 2013 primarily due to increases in the cost of wood as a result of low inventory levels in the supply chain, partly offset by lower starch and latex costs. In Southern Africa, overall variable costs per ton decreased by 5% in US dollar terms in the three months ended December 2014 compared to the three months ended December 2013 mainly due to the different average exchange rates used for translation in the three months ended December 2014 (ZAR11.21 to one US$) compared to the three months ended December 2013 (ZAR10.1406 to one US$). This decrease was partially offset by increased prices for purchased wood and pulp, and an increase in delivery costs of 5% in the region due to additional export volumes together with increased warehousing and fuel costs.

Fixed costs

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

Fixed Costs	Three Months Ended December 2014 Costs	Variance Value	Three Months Ended December 2013 Costs
		(US$ million)	
Personnel	246	(20)	266
Maintenance	64	1	63
Depreciation	71	(15)	86
Other	42	(10)	52
Total	**423**	**(44)**	**467**

Fixed costs in the three months ended December 2014 decreased by US$44 million, or 9%, compared to the three months ended December 2013. Ongoing cost reduction efforts, including the sale of our Nijmegen Mill, as well as a decline in the average exchange rates used for translation, contributed to an 11% decline in fixed costs in our European operations during the three months ended December 2014 compared to the three months ended December 2013. Fixed costs in the Southern African region decreased by 7% in US dollar terms mainly due to the different average exchange rates used for translation in the three months ended December 2014 (ZAR11.21 to one US$) compared to the three months ended December 2013 (ZAR10.1406 to one US$). Fixed costs were substantially unchanged in the North American region in the three months ended December 2014 compared to the corresponding period in 2013.

Net Finance Costs

Net finance costs for the three-month periods ended December 2014 and December 2013 may be analyzed as follows:

Net Finance Costs	Three Months Ended December	
	2014	2013
	(US$ million)	
Finance costs	43	49
Finance revenue	(3)	(1)
Net interest	**40**	**48**
Net foreign exchange gains	(2)	(1)
Net fair value (gain) loss on financial instruments	(1)	1
Net finance costs	**37**	**48**

Net interest (finance costs less finance revenue) for the three months ended December 2014 was US$40 million compared to US$48 million for the three months ended December 2013. The decrease in net interest was primarily a result of the overall reduction in gross debt levels.

Net foreign exchange gains for the three months ended December 2014 and December 2013 of US$2 million and US$1 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 (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. The main impact is due to hedge ineffectiveness arising from changes in credit risk adjustments as a result of IFRS 13 *Fair Value Measurements*.

Taxation

	Three Months Ended December	
	2014	2013
	(US$ million)	
Profit before taxation	32	22
Taxation at the average statutory tax rates	8	5
Net exempt income and non-tax deductible expenditure	17	1
No tax relief on losses	1	3
No tax charge on profits	(16)	(3)
Prior year adjustments	(2)	(1)
Other taxes	—	(1)
Taxation charge	**8**	**4**
Effective tax rate	**25%**	**18%**

Our effective tax rate for the three months ended December 2014 and the three months ended December 2013 was positive 25% and positive 18%, 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.

North America applied the estimated weighted average tax rate for the full year of 43% to its net loss before tax for the quarter ended December 2014. The Southern African tax rate of 25% is lower than the statutory tax rate of 28% due to the availability of tax credits.

Profit (loss)

Profit for the three months ended December 2014 was US$24 million compared to a profit for the three months ended December 2013 of US$18 million. The main reasons for the change were a US$14 million improvement in operating profit excluding special items and a US$11 million reduction in net finance costs, offset by a net increase in unfavorable special items of US$15 million and a US$4 million increase in the taxation charge.

Comparison of Fiscal 2014, 2013 and 2012

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	2014	Restated 2013	Restated 2012
	(US$ million)		
Sales	6,061	5,925	6,347
Operating profit	314	19	427
Special items—losses (gains)	32	161	(18)
Operating profit excluding special items	346	180	409

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

	Year Ended September		
		Restated	
	2014	2013	2012
	(US$ million)		
Profit (loss) for the period	**135**	**(182)**	**93**
Taxation charge	2	15	28
Net finance costs	177	186	306
Operating profit	**314**	**19**	**427**
Special items—losses (gains)	32	161	(18)
Operating profit excluding special items	**346**	**180**	**409**
Plantation price fair value adjustment	(18)	(87)	15
Net restructuring provisions and loss (profit) on disposal of assets and businesses	23	99	(65)
Impairment of goodwill	1	—	—
Asset impairments	—	155	10
Post-retirement plan amendment	—	(24)	—
Black Economic Empowerment charge	2	3	3
Fire, flood, storm and other events	24	15	19
Total special items	**32**	**161**	**(18)**

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)	2014	2014 vs. 2013	Restated 2013	2013 vs. 2012	Restated 2012
			(US$ million)		
Europe	42	192	(150)	(336)	186
North America	16	(47)	63	(18)	81
Southern Africa	260	143	117	(40)	157
Unallocated and eliminations	(4)	7	(11)	(14)	3
Total	**314**	**295**	**19**	**(408)**	**427**

Special Items (Gain) Loss	2014	Restated 2013	Restated 2012
		(US$ million)	
Europe	33	142	(45)
North America	2	(6)	7
Southern Africa	(12)	8	25
Unallocated and eliminations	9	17	(5)
Total	**32**	**161**	**(18)**

Operating Profit (Loss) excluding special items	2014	2014 vs. 2013	Restated 2013	2013 vs. 2012	Restated 2012
			(US$ million)		
Europe	75	83	(8)	(149)	141
North America	18	(39)	57	(31)	88
Southern Africa	248	123	125	(57)	182
Unallocated and eliminations	5	(1)	6	8	(2)
Total	**346**	**166**	**180**	**(229)**	**409**

Special items for the Group in fiscal 2014, fiscal 2013 and fiscal 2012 are generally summarized below:

Plantation price fair value: 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. A negative US$15 million adjustment was recognized in fiscal 2012, mainly due to changes in timber selling prices, costs associated with standing timber values, harvesting and delivery costs, and discount rates as applied in valuing plantation assets.

Net restructuring provisions and loss (profit) on disposal of assets and businesses: In fiscal 2014, operating profit was negatively impacted by cost cutting initiatives aimed at our European coated mechanical business, resulting in a US$25 million charge with 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.

In fiscal 2012 operating profit was positively impacted by the release of net restructuring provisions of US$2 million as a result of the release of US$7 million from a restructuring provision held in South Africa, partly offset by restructuring charges of US$5 million in Europe. Operating profit was further positively impacted by profit of US$11 million on disposal of our 34% stake in the Jiangxi Joint Venture (including the impact of releasing a foreign currency translation reserve) and by profit on disposal of non-current assets of US$52 million. The profit realized on the sale of the Biberist Mill assets was US$45 million and we also realized a US$7 million profit on the sale of various smaller assets by our European and southern African businesses.

Impairments of goodwill: In fiscal 2014 operating profit was negatively impacted by 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 of US$72 million and US$92 million, respectively. Within our European business, the major impairments related to our Nijmegen Mill of US$38 million and our coated mechanical cash-generating unit of US$25 million. In South Africa, the major impairments related to our Tugela Mill of US$47 million, our Enstra Mill of US$32 million and our Stanger Mill of 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.

In fiscal 2012 operating profit was negatively impacted by asset impairments of US$10 million comprising US$9 million related to the mothballing of the sackkraft paper machine at our Tugela Mill in South Africa and US$1 million related to the Stockstadt Mill in Europe.

Post-retirement plan amendment: A gain of US$24 million was recognized in fiscal 2013 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 fiscal 2014 and US$3 million in each of fiscal 2013 and 2012.

Fire, flood, storm and other events: 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. 2012 operating profit was negatively impacted by fire and flood damage to the amount of US$19 million, comprised primarily of fire damage at the Nijmegen Mill and the Usutu plantations of US$4 million each and flood damage at the Cloquet Mill of US$9 million.

Group

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 South African paper operations, partly offset by cost pressures and lower average sales prices in North America. In fiscal 2014, dissolving wood pulp 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%.

Comparing fiscal 2013 with fiscal 2012

Operating profits declined to US$19 million in fiscal 2013 from US$427 million in fiscal 2012.

Operating profit in fiscal 2013 was negatively affected by special items of US$161 million compared to a positive impact of special items of US$18 million in fiscal 2012. 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). The major special items in fiscal 2012 were an unfavorable plantation fair value price adjustment (US$15 million), profit realized on the sale of non-current assets and investments, together with restructuring provision release (US$65 million), asset impairments (US$10 million) and fire and flood damage (US$19 million).

Operating profit excluding special items decreased in fiscal 2013 to US$180 million from US$409 million in fiscal 2012. This significant decline was mainly due to deterioration of market conditions in Europe due to excess capacity leading to downward pressure on selling prices and volumes, as well as the negative impact of three major capital projects at our Cloquet, Ngodwana and Alfeld Mills. In fiscal 2013, dissolving wood pulp accounted for US$182 million of total operating profit excluding special items, paper products accounted for a loss of US$8 million and other Unallocated and eliminations accounted for the remaining profit of US$6 million.

Europe

Key figures	2014	Restated 2013	Restated 2012
	(US$ million)		
Operating profit (loss)	42	(150)	186
Special items—losses (gains)	33	142	(45)
Operating profit (loss) excluding special items	**75**	**(8)**	**141**

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.

Comparing fiscal 2013 with fiscal 2012

An operating loss of US$150 million was incurred in fiscal 2013 compared to an operating profit of US$186 million in fiscal 2012.

The operating profit for fiscal 2012 included favorable special items of US$45 million which mainly comprises the profit on the sale of the Biberist Mill property.

Operating profit excluding special items of US$141 million in fiscal 2012 declined to an operating loss excluding special items of US$8 million in fiscal 2013. This decline was due to difficult trading conditions in the face of declining demand and over-capacity in the coated paper market and resulting lower average selling prices and sales volumes.

North America

Key figures	2014	Restated 2013	Restated 2012
	(US$ million)		
Operating profit	16	63	81
Special items—losses (gains)	2	(6)	7
Operating profit excluding special items	**18**	**57**	**88**

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.

Comparing fiscal 2013 with fiscal 2012

Operating profit decreased from US$81 million in fiscal 2012 to US$63 million in fiscal 2013.

The operating profit for fiscal 2012 included unfavorable special items of US$7 million, which included flood damage at the Cloquet Mill of US$9 million and insurance recoveries of US$2 million.

Operating profit excluding special items decreased to US$57 million in fiscal 2013 from US$88 million in 2012, driven mainly by lower sales volumes due primarily to 22 days of incremental downtime taken for the conversion of the Cloquet pulp mill to dissolving wood pulp production and the associated one-off costs.

Southern Africa

Key figures	2014	Restated 2013	Restated 2012
	(US$ million)		
Operating profit	260	117	157
Special items—(gains) losses	(12)	8	25
Operating profit excluding special items	**248**	**125**	**182**

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.

Comparing fiscal 2013 with fiscal 2012

Operating profit declined from US$157 million in fiscal 2012 to US$117 million in fiscal 2013.

The operating profit for fiscal 2012 included unfavorable special items of US$25 million which consisted mainly of an unfavorable plantation price fair value adjustment (US$15 million), asset impairment (US$9 million), fire, flood, storm and other events (US$6 million) partially offset by a release of a restructuring provision of US$7 million. The asset impairment of US$9 million related to the mothballing of the sackkraft paper machine at our Tugela Mill.

Operating profit excluding special items declined to US$125 million in fiscal 2013 from US$182 million in fiscal 2012. This decline was mainly due to difficult conditions in the domestic markets for containerboard and graphic paper, increased variable costs, particularly with respect to imported timber and pulp due to the weaker Rand exchange rate, and the adverse impact of the conversion to dissolving wood pulp production at the Ngodwana Mill.

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

Sales

An analysis of sales movements in fiscal 2014, 2013 and 2012 is presented below:

Sales Volume	2014	Change 2014 vs. 2013	2013	Change 2013 vs. 2012	2012
			('000 tons)		
Europe	**3,303**	**(64)**	**3,367**	**(140)**	**3,507**
North America	**1,454**	**156**	**1,298**	**(102)**	**1,400**
Paper and pulp (excluding dissolving wood pulp)	1,151	(101)	1,252	(148)	1,400
Dissolving wood pulp	303	257	46	46	—
Southern Africa	**2,767**	**(34)**	**2,801**	**3**	**2,798**
Paper and pulp (excluding dissolving wood pulp)	810	(61)	871	(62)	933
Dissolving wood pulp	896	148	748	5	743
Forestry	1,061	(121)	1,182	60	1,122
Total	**7,524**	**58**	**7,466**	**(239)**	**7,705**

Sales	2014	Restated Change 2014 vs. 2013	2013	Change 2013 vs. 2012	2012
			(US$ million)		
Europe	**3,107**	**(48)**	**3,155**	**(195)**	**3,350**
North America	**1,517**	**140**	**1,377**	**(61)**	**1,438**
Southern Africa	**1,437**	**44**	**1,393**	**(166)**	**1,559**
Paper and pulp	1,368	52	1,316	(159)	1,475
Forestry	69	(8)	77	(7)	84
Total	**6,061**	**136**	**5,925**	**(422)**	**6,347**

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 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$96 million in fiscal 2014 and by US$181 million in fiscal 2013.

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 South 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.

Comparing fiscal 2013 with fiscal 2012

In 2013, sales volume decreased by 239,000 tons, or 3%, compared with 2012.

Sales volume in Europe declined in fiscal 2013 by 140,000 tons, or 4%, compared to fiscal 2012, mainly due to a continuing and accelerating drop in demand for coated paper, partially offset by strong growth in speciality paper.

In North America, sales volumes decreased by 102,000 tons, or 7%, in fiscal 2013 compared to fiscal 2012 due to significant reductions in paper pulp sales volumes as a result of downtime related to the conversion at the Cloquet Mill and the subsequent building of inventories to service the dissolving wood pulp business, partially offset by a 9% increase in speciality paper sales volumes.

Sales volumes in Southern Africa were largely the same in fiscal 2013 and fiscal 2012, increasing by 3,000 tons. Paper pulp sales volumes were lower because of the conversion at Ngodwana Mill and paper and packaging sales volumes were lower mainly due to the loss of sackkraft sales after the closure of Paper Machine 4 at the Tugela Mill in the first quarter of fiscal 2013, but these reductions were offset by increases in forestry and dissolving wood pulp sales volumes.

Total sales revenue decreased by 7% from US$6.3 billion in fiscal 2012 to US$5.9 billion in fiscal 2013 because of lower sales volumes, as well as reduced average selling prices in Europe and North America due to the competitive market conditions. These impacts were partially offset by higher pulp prices for kraft pulp and dissolving wood pulp. The significantly weaker Rand relative to the US Dollar in fiscal 2013 compared to fiscal 2012 and its translation impact on the South African business's sales also reduced revenue by US$213 million.

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]	2014	Restated Change 2014 vs. 2013	Restated 2013	Restated Change 2013 vs. 2012	Restated 2012
	(US$ million)				
Variable Costs					
Delivery	532	22	510	(16)	526
Manufacturing	3,355	97	3,258	(135)	3,393
Total Variable Costs	**3,887**	**119**	**3,768**	**(151)**	**3,919**
Fixed Costs	1,837	(106)	1,943	(43)	1,986
Special items—losses (gains)	32	(129)	161	179	(18)
Other operating costs	(9)	(44)	35	2	33
Total	**5,747**	**(160)**	**5,907**	**(13)**	**5,920**

(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	2014 Costs	2014 US$/Ton	2014 Change 2014 vs. 2013	Restated 2013 Costs	Restated 2013 US$/Ton	Restated 2013 Change 2013 vs. 2012	Restated 2012 Costs	Restated 2012 US$/Ton
	(US$ million)							
Wood	664	88	23	641	86	(82)	723	94
Energy	529	70	(18)	547	73	(18)	565	73
Pulp[1]	1,039	138	125	914	122	161	753	98
Chemicals	914	121	(32)	946	127	(82)	1,028	133
Delivery	532	71	22	510	68	(16)	526	68
Other costs	209	28	(1)	210	28	(114)	324	42
Total	**3,887**	**516**	**119**	**3,768**	**504**	**(151)**	**3,919**	**508**

(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 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 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 the 2014 financial year, 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 manufacturing 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.

Comparing fiscal 2013 with fiscal 2012

Variable costs decreased by US$151 million, or 4%, in fiscal 2013 from fiscal 2012. This reduction was proportionally larger than the drop in sales volumes due to significant cost savings in wood and chemicals, partially offset by rising pulp prices, which increased throughout fiscal 2013. The NBSK index began fiscal 2013 at US$762 per ton and rose 14% to US$871 per ton by year-end. Energy costs decreased by US$18 million, or 3%, despite substantial increases in the cost of energy from the national energy supplier in South Africa. In North America, variable costs per ton increased by 4% in fiscal 2013, primarily due to the impact of purchased fiber at the Cloquet Mill following the pulp mill conversion. In Southern Africa, overall variable costs per ton increased by 11% in fiscal 2013 compared to fiscal 2012 due to increased prices for purchased wood and pulp, and an increase in delivery costs of 10% in the region due to additional export volumes together with increased warehousing and fuel costs.

Fixed costs

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

		Restated			
Fixed Costs	**2014**	**Change 2014 vs. 2013**	**2013**	**Change 2013 vs. 2012**	**2012**
			(US$ million)		
Personnel	1,050	(6)	1,056	(36)	1,092
Maintenance	238	(16)	254	1	253
Depreciation	310	(35)	345	(22)	367
Other	239	(49)	288	14	274
Total	**1,837**	**(106)**	**1,943**	**(43)**	**1,986**

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.

Comparing fiscal 2013 with fiscal 2012

Fixed costs in fiscal 2013 decreased by US$43 million or 2% from fiscal 2012 as a result of ongoing cost reduction efforts in our European operations and the impact of the significantly weaker Rand. Fixed costs in the Southern African region decreased by 10% in US dollar terms, mainly due to the different average exchange rates used for translation in fiscal 2013 (ZAR9.28 to one US$) compared to fiscal 2012 (ZAR8.05 to one US$).

Net Finance Costs

Net finance costs were as follows:

Net Finance Costs	2014	Restated 2013	Restated 2012
	(US$ million)		
Finance costs	194	195	328
Finance revenue	(9)	(7)	(12)
Net interest	185	188	316
Net foreign exchange gains	(7)	(1)	(5)
Net fair value gain on financial instruments	(1)	(1)	(5)
Net finance costs	**177**	**186**	**306**

Net interest (finance costs less finance revenue) in fiscal 2014 was US$185 million compared to US$188 million in 2013 and to US$316 million in fiscal 2012. The decrease in net interest in fiscal 2014 compared to fiscal 2013 was a result of the overall reduction in net debt levels. The decrease in net interest in fiscal 2013 compared to fiscal 2012 was the result of lower interest rates following completion of the 2012 Refinancing towards the second half of fiscal 2012 and breakage costs of US$88 million incurred in fiscal 2012 in connection with the 2012 Refinancing.

Net foreign exchange gains in fiscal 2014 and fiscal 2013 of US$7 million and US$1 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 2012, certain interest rate swaps were closed early in anticipation of the 2012 Refinancing, which resulted in additional swap charges.

Taxation

	2014	Restated 2013	Restated 2012
	(US$ million)		
Profit (loss) before taxation	**137**	**(167)**	**121**
Taxation at the average statutory tax rates	35	(42)	41
Net exempt income and non-tax deductible expenditure	(53)	(12)	(41)
Effect of tax rate changes	—	—	(2)
No tax relief on losses	75	52	58
No tax charge on profits	(2)	(3)	(26)
Derecognition of deferred tax assets	—	32	—
Recognition of deferred tax assets	(53)	(8)	—
Prior year adjustments	—	(8)	(6)
Other taxes	—	4	4
Taxation charge	**2**	**15**	**28**
Effective tax rate	**1%**	**(9)%**	**23%**

Our effective tax rate for fiscal years 2014, 2013, and 2012 was positive 1%, negative 9% and positive 23%, 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:

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 recognise 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.

2012

Our tax charge for the year was US$28 million, based on profit before taxation of US$121 million.

In Europe, certain of our companies did not record tax relief on pre-tax losses and impairments for the same reasons described above for fiscal 2014.

A US$5 million charge in North America relates mainly to US Federal Alternative Minimum Tax and taxes paid in certain of the States where we operate. At the Federal level we have substantial tax losses which shielded most of the pre-tax profits of the business. North America also reassessed its unrecognized deferred tax assets and recognized deferred tax assets previously not recognized of US$101 million which was accounted for directly against other comprehensive income. As a result, during the last fiscal quarter of 2012, the North American entity began to recognize taxes at its statutory federal and state tax rate.

Southern Africa benefited from the utilization of tax losses brought forward in South Africa. Also, no tax was charged on profits from our Swaziland forestry business due to the availability of tax losses carried forward.

Profit (loss) for fiscal 2014

The Group recorded a profit of US$135 million for fiscal 2014 compared to a loss of US$182 million for fiscal 2013 and a profit of US$93 million in fiscal 2012. The increase in profit in fiscal 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 2014 was US$131 million and included ZAR450 million (US$39 million) of a ZAR750 million (US$65 million) Public Bond in South Africa due in April 2015. 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$71 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 2014 and the three-month period ended December 2014 we had substantial cash and cash equivalents of US$528 million and US$329 million, respectively.

One of our targeted liquidity requirements is the payment of annual dividends to shareholders when applicable. Considering, among other factors, weak global economic and market conditions and our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2014 not to declare a dividend for fiscal 2014.

Cash Flow

In fiscal 2014 and the three months ended December 2014, 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$300 million in fiscal 2014 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		Restated	
	2014	2013	2014	2013	2012
	(US$ million)				
Cash generated from operations[1]	**137**	**136**	**566**	**447**	**728**
Movement in working capital	(136)	(149)	34	(20)	(102)
Net finance costs paid	(52)	(56)	(162)	(164)	(195)
Taxation paid	(3)	(1)	(1)	(17)	(20)
Cash (utilized) retained from operating activities	**(54)**	**(70)**	**437**	**246**	**411**
Investing activities	(67)	(63)	(194)	(493)	(284)
Net cash (utilized) generated	**(121)**	**(133)**	**243**	**(247)**	**127**

(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 2014, 2013 and 2012, see note 24 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

Cash generated from operations

In the three months ended December 2014, we generated cash from operations of US$137 million compared to US$136 million in the same period in 2013.

Cash generated from operations increased to 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.

Cash generated from operations was US$447 million in fiscal 2013 compared to US$728 million in fiscal 2012 mainly due to the US$229 million decrease in operating profit excluding special items.

Net cash generated (utilized)

Net cash utilized in the three months ended December 2014 was US$121 million compared to net cash utilized in the three-month period ended December 2013 of US$133 million. The cash outflow in both periods was mainly a result of a seasonal increase in working capital.

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.

Net cash utilized in fiscal 2013 was US$247 million compared to net cash generated in fiscal 2012 of US$127 million, primarily as a result of significantly higher capital expenditure to fund the dissolving wood pulp conversion projects, as well as lower operating profit in fiscal 2013.

Non-cash items

Non-cash Items	Three Months Ended December		Year Ended September		
		Restated		Restated	
	2014	2013	2014	2013	2012
			(US$ million)		
Depreciation and amortisation	71	87	312	348	369
Fellings	14	15	59	66	73
Asset and investment impairments (reversals)	—	(2)	1	155	10
Plantation fair value—price	(1)	(8)	(18)	(87)	15
Plantation fair value—volume	(17)	(18)	(68)	(79)	(83)
Restructuring provisions and closure costs raised (reversed)	1	1	(6)	97	(2)
Profit on disposal of investment	—	—	—	—	(11)
(Profit) loss on disposal of assets and businesses	—	(1)	29	2	(52)
Other non-cash items	14	9	13	—	44
Total	**82**	**83**	**322**	**502**	**363**

Total non-cash items in the three months ended December 2014 amounted to US$82 million, compared to US$83 million in the three months ended December 2013. In fiscal 2014, total non-cash items amounted to US$322 million, compared to US$502 million in fiscal 2013 and US$363 million in fiscal 2012.

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		Restated	
	2014	2013	2014	2013	2012
			(US$ million)		
Inventories	708	771	687	728	726
% sales(1)	12.9%	12.9%	11.3%	12.3%	11.4%
Receivables	688	776	731	747	800
% sales(1)	12.5%	12.9%	12.1%	12.6%	12.6%
Payables(2)	(860)	(968)	(1,028)	(1,092)	(1,022)
% Cost of sales(1)	17.6%	18.1%	19.1%	20.7%	18.4%
Net working capital	**536**	**579**	**390**	**383**	**504**
Ratio of net working capital to sales	9.7%	9.6%	6.4%	6.5%	7.9%

(1) Figures for three-month periods ended December 2014 and December 2013 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 2014 and the three months ended December 2014. 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 marginally higher at the end of December 2014 than at the end of December 2013. Net working capital decreased to US$536 million at the end of December 2014 from US$579 million at the end of December 2013. Inventories decreased by US$63 million at the end of December 2014 compared to the end of December 2013, mainly due to a currency translation impact of US$59 million. Receivables decreased by US$88 million at the end of December 2014 compared to the end of December 2013, though after taking into consideration a currency translation impact of US$54 million, receivables decreased by US$34 million due to lower 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$108 million at the end of December 2014 compared to the end of December 2013 is due to a currency translation impact of US$77 million, lower accruals of

US$15 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.

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 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.

Net working capital expressed as a percentage of sales was lower at the end of fiscal 2013 than at the end of fiscal 2012. Net working capital decreased significantly from US$504 million at the end of fiscal 2012 to US$383 million at the end of fiscal 2013, a reduction of US$121 million, including a currency translation impact which increased working capital by US$31 million. Inventories increased by only US$2 million at the end of fiscal 2013 compared to the end of fiscal 2012, despite an additional investment of US$37 million to build up the supply chain for the new dissolving wood pulp conversions. Receivables decreased by US$53 million at the end of fiscal 2013 compared to the end of fiscal 2012, reflecting the lower sales volumes across the business. Payables increased by US$70 million at the end of fiscal 2013 compared to the end of fiscal 2012, partially due to the raising of US$97 million restructuring provisions related to cost containment initiatives, particularly in the European region.

Capital expenditure

Cash utilized in investing activities for the three months ended December 2014 and 2013 and the period from fiscal 2012 to fiscal 2014 is as set out in the table below:

	Three Months Ended December		Year Ended September		
		Restated		Restated	
Investing Activities	**2014**	**2013**	**2014**	**2013**	**2012**
	(US$ million)				
Capital expenditure to maintain and expand operations[(1)]	68	71	295	552	358
Proceeds on disposal of non-current assets[(2)]	—	(6)	(87)	(53)	(71)
Other movements	(1)	(2)	(14)	(6)	(3)
Total	**67**	**63**	**194**	**493**	**284**

(1) Includes capitalized interest of US$9 million and US$6 million for the 2013 and 2012 financial years, respectively. The capitalized interest in fiscal 2013 and fiscal 2012 relate 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 2014 and December 2013, 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 2014 and 2013 and fiscal 2014, fiscal 2013 and fiscal 2012 amounted to US$50 million, US$22 million, US$148 million, US$116 million and US$177 million, respectively. Capital spending for expanding or improving our operations during the three-month periods ended December 2014 and 2013 and fiscal 2014, fiscal 2013 and fiscal 2012 amounted to US$18 million, US$49 million, US$147 million, US$436 million and US$181 million, respectively.

During the three months ended December 2014, our capital expenditure was US$68 million, compared to US$71 million for the three months ended December 2013.

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.

During fiscal 2013, our capital expenditure was US$552 million, including US$353 million for the dissolving wood pulp conversions at Ngodwana and Cloquet Mills, compared to US$358 million during fiscal 2012, including US$156 million for the same conversion projects. Capital expenditure to expand or improve operations in fiscal 2013 also included US$83 million on other projects to increase capacity or improve efficiency.

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. During fiscal 2013 we received US$42 million for the sale of the Jiangxi Chenming Joint Venture concluded in fiscal 2012.

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 2014 included elsewhere in this Offering Memorandum.

Financing cash flows

Net financing cash outflows of US$61 million and US$36 million during the three months ended December 2014 and fiscal 2014, respectively, relate mainly to both planned and additional voluntary debt repayments. Net financing cash outflows of US$8 million and US$103 million during fiscal 2013 and 2012, respectively, relate mainly to debt repayments, and include US$3 million and US$66 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		Restated	
Gross Debt	**2014**	**2013**	**2014**	**2013**	**2012**
		(US$ million)			
Long term interest-bearing borrowings	2,238	2,444	2,311	2,499	2,358
Short term interest-bearing borrowings	131	114	163	99	261
Bank overdraft	—	—	—	1	5
Gross interest-bearing borrowings	**2,369**	**2,558**	**2,474**	**2,599**	**2,624**

	As of December		As of September		
		Restated		Restated	
Cash Position	**2014**	**2013**	**2014**	**2013**	**2012**
		(US$ million)			
Cash and cash equivalents	329	178	528	352	604

49% of total assets excluding cash and cash equivalents as of December 2014 were funded by gross debt as is shown in the table below:

Total Assets Excluding Cash and Cash Equivalents	As of December 2014	As of December Restated 2013	As of September 2014	As of September Restated 2013	As of September Restated 2012
	(US$ million)				
Gross interest-bearing borrowings	2,369	2,558	2,474	2,599	2,624
Shareholder's equity	1,059	1,122	1,044	1,144	1,525
Other net liabilities	1,717	1,862	1,947	1,984	2,019
Cash and cash equivalents	(329)	(178)	(528)	(352)	(604)
Total assets excluding cash and cash equivalents	**4,816**	**5,364**	**4,937**	**5,375**	**5,564**
	%				
Gross interest-bearing borrowings	49	48	50	48	47
Shareholder's equity	22	21	21	21	28
Other net liabilities	36	35	40	37	36
Cash and cash equivalents	(7)	(4)	(11)	(6)	(11)
Total assets excluding cash and cash equivalents	**100**	**100**	**100**	**100**	**100**

Debt profile

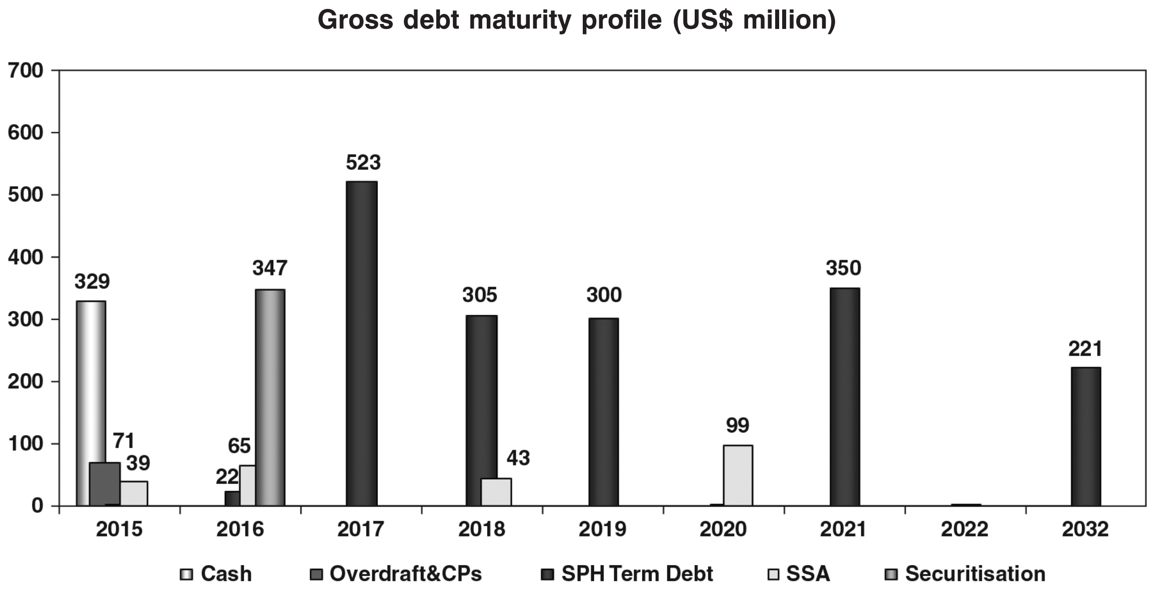
Our debt is comprised of a variety of debt instruments, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and finance leases. See note 21 to our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum.

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 2014	As of December Restated 2013	As of September 2014	As of September Restated 2013	As of September Restated 2012
	(US$ million)				
Long-term debt	2,238	2,444	2,311	2,499	2,358
Short-term debt	131	114	163	99	261
Overdrafts	—	—	—	1	5
Gross interest-bearing borrowings	**2,369**	**2,558**	**2,474**	**2,599**	**2,624**

Short-term debt of US$131 million includes an amount of ZAR450 million (US$39 million) corresponding to the outstanding portion of the ZAR750 million (US$65 million) Public Bond in South Africa due in April 2015, ZAR300 million (US$27 million) of which was redeemed in October 2014 using cash on hand. 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. Short-term debt of US$261 million in fiscal 2012 included the ZAR1 billion (US$120 million) Public Bond in South Africa due in June 2013, which has since been repaid.

The average maturity of our long-term debt as at December 2014 is 4.7 years with the profile as shown below:



As at December 2014 and September 2014, short-term debt was US$131 million and US$163 million, respectively, and cash and cash equivalents were US$329 million and US$528 million, respectively.

At December 2014 and September 2014 the Group had unutilized committed borrowing facilities of US$571 million and US$582 million, respectively, including the €350 million (US$426 million and US$444 million at December 2014 and September 2014, respectively) Existing Revolving Credit Facility, and available cash and cash equivalents of US$329 million and US$528 million, respectively. At September 2013 the unutilized committed borrowing facilities was US$619 million and the available cash and cash equivalents was US$352 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. 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 2014 and September 2014, the unutilized portion was US$55 million and US$45 million, respectively.

US$347 million of the long-term debt at December 2014 and US$374 million of the long-term debt at the fiscal 2014 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 2014 contained elsewhere in this Offering Memorandum.

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 the Issuer 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.

We expect to use the net proceeds from this offering to repay a portion of our outstanding debt. See ''Summary—The Refinancing'', ''Use of Proceeds'' and ''Capitalization''.

Following the completion of the offering of the notes, we will continue to have a significant level of indebtedness. See ''Risk Factors—Risks Related to Our Business—Our significant indebtedness may impair our financial and operating flexibility''.

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

Debt by currency ratio	December 2014	2014	2013	2012
US$	28.6%	27.9%	27.1%	26.9%
EUR	61.0%	60.8%	59.9%	59.4%
ZAR	10.4%	11.3%	13.0%	13.7%

Included in the euro denominated debt are the US$400 million 2017 Notes and the US$300 million 2019 Notes which have been swapped into euro.

Interest on Borrowings

Raising new debt and refinancing existing debt in the third quarter of fiscal 2012 improved the interest payable on borrowings. The refinancing did, however, result in one-off breakage costs of US$88 million recorded as interest paid in fiscal 2012.

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 and the US$300 million 2019 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 2014, the ratio of gross debt at fixed and floating interest rates, after the impact of the interest rate swaps, was 61:39.

Short-term borrowings

The Group's short-term borrowings position improved during the three months ended December 2014 with the redemption of ZAR300 million (US$27 million) of its ZAR750 million (US$67 million) Public Bond in South Africa from cash resources in October 2014. The Group's short-term borrowings position also improved during fiscal 2013 with the refinancing of its ZAR1 billion Public Bond in South Africa which matured in June 2013. The Group issued no commercial paper during the three months ended December 2014, fiscal 2014 or fiscal 2012, with limited commercial paper issuance of ZAR400 million in fiscal 2013. The Group relies mainly on the Existing Revolving Credit Facility (and, once entered into, will rely on the Amended and Restated 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 2014 and ''—Off-Balance Sheet Arrangements''.

Existing Revolving Credit Facility. On September 19, 2013, we amended and restated our existing revolving credit facility dated August 27, 2009, and previously amended and restated on April 28, 2011. The amended and restated revolving credit facility provides for up to €350 million of borrowing availability in euro, US dollars and certain other currencies (the ''Existing Revolving Credit Facility''). As of the date of this Offering Memorandum, the Existing Revolving Credit Facility was undrawn. The commitments under the Existing Revolving Credit Facility terminate on April 28, 2016 and the annual interest rate on borrowings is calculated based on Libor or Euribor plus a funding margin varying between 1.65% and 4.75% 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 Existing Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, the Issuer 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, the Issuer and the other subsidiary guarantors. The Existing 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 Existing 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.

2018 and 2021 Secured Notes. On April 14, 2011, the Issuer issued €250 million 6.625% Senior Secured Notes due 2018 (the ''2018 Notes'') and US$350 million 6.625% Senior Secured Notes due 2021 (the ''2021 Notes''). The interest on the 2018 Notes and the 2021 Notes is payable semi-annually on April 15 and October 15 of each year, commencing on October 15, 2011. The 2018 Notes and the 2021 Notes mature on April 15, 2018 and April 15, 2021, respectively. The 2018 Notes and 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 the notes. The 2018 Notes and the 2021 Notes are secured by substantially the same collateral that secures the obligations under the 2017 Notes, the 2019 Notes and the Existing Revolving Credit Facility and that will secure the notes and, once entered into, the Amended and Restated Revolving Credit Facility. Sappi has agreed to observe certain covenants with respect to the 2018 Notes and the 2021 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

2017 and 2019 Secured Notes. On July 5, 2012, the Issuer issued US$400 million 7.750% Senior Secured Notes due 2017 (the ''2017 Notes'') and US$300 million 8.375% Senior Secured Notes due 2019 (the ''2019 Notes''). The interest on the 2017 Notes is payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2013, and the interest on the 2019 Notes is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2012. The 2017 Notes and the 2019 Notes mature on July 15, 2017 and June 15, 2019, respectively. The 2017 Notes and the 2019 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited that will guarantee the notes, and are secured by substantially the same collateral that secures the obligations under the 2018 Notes, the 2021 Notes and the Existing Revolving Credit Facility and that will secure the notes and, once entered into, the Amended and Restated Revolving Credit Facility. Sappi has agreed to observe certain covenants with respect to the 2017 Notes and the 2019 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

OeKB Term Loan Facility. On July 10, 2012, the Issuer entered into a new term loan facility with OeKB (the ''OeKB Term Loan Facility''). The commitments under the OeKB Term Loan Facility are for €136 million and such amount was fully drawn on August 30, 2012. At December 2014, the outstanding balance was €118 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 Offering Memorandum was 2.75% per annum. The OeKB Term Loan Facility is guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than the Issuer) under the Existing 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 Existing Revolving Credit Facility, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2021 Notes and that will secure the notes and, once entered into, the Amended and Restated Revolving Credit Facility. 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 Existing 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 securities issued under Series 2 mature on April 20, 2015. The proceeds 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. 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. Under the renewed and extended program, eligible receivables are sold on a non-recourse basis by the Issuer, Sappi Lanaken NV, Sappi Deutschland GmbH, 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. The Issuer 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 2016, 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 2014, the external securitization funding under the trade receivables program was US$347 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 €350 million Existing 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 2014 to June 2017;

(ii) The ratio of net debt to EBITDA be not greater than 4.50:1 for the quarter ending September 2014, 4.25:1 for the quarter ending December 2014, 4.00:1 for the quarter ending March 2015 and 3.75:1 for all quarters ending June 2015 to June 2017; and

(iii) With regard to Sappi Southern Africa Limited and its subsidiaries only, at the end of any fiscal quarter, the percentage of net debt to equity must not exceed 65%, and at the end of each fiscal year, the ratio of EBITDA (before special items) to net interest must not be less than 2.00:1.

The table below shows that as at December 2014 and September 2014 we were in compliance with these covenants. Net debt is calculated using average exchange rates for the four quarters ended December 2014 and September 2014, respectively.

	December 2014	September 2014	Covenants
Group Covenants			
Net Debt to EBITDA	3.18x	2.99x	< 4.25x (Dec.) / 4.50x (Sept.)
EBITDA to Net Interest	3.79x	3.66x	> 2.50x
Sappi Southern Africa Covenants			
Net Debt to Equity	10.80%	10.90%	< 65%
EBITDA to Net Interest	15.37x	12.93x	> 2.0x

The Group financial covenants also apply to our securitization program, with outstanding balances of US$347 million and US$374 million at the end of December 2014 and September 2014, respectively. No Sappi Limited guarantee has been provided for these facilities.

A set of new financial covenants will apply to our Amended and Restated Revolving Credit Facility. See ''Description of Other Financing Arrangements—Amended and Restated Revolving Credit Facility—Financial Covenants''.

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) 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 2014 and as of December 2014 remained zero. However, according to IAS 37 a contingent liability as of December 2014 of US$18 million (December 2013: US$32 million) and as of September 2014 of US$21 million (2013: US$31 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 First Rand 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.

The total value of trade receivables outstanding as at December 2014 amounted to US$86 million (December 2013: US$90 million). The total value of trade receivables outstanding at September 2014 amounted to US$120 million (September 2013: US$122 million). Details of the securitization program at the end of fiscal 2014 and 2013 are disclosed in the tables below.

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, 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.

Details of the securitization facility are set out below:

Bank	Currency	Value	Facility	Discount charges
December 2014				
Rand Merchant Bank	ZAR	ZAR1,001 million	Unlimited*	Linked to 3 month JIBAR
December 2013				
Rand Merchant Bank	ZAR	ZAR949 million	Unlimited*	Linked to 3 month JIBAR
September 2014				
Rand Merchant Bank	ZAR	ZAR1,348 million	Unlimited*	Linked to 3 month JIBAR
September 2013				
Rand Merchant Bank	ZAR	ZAR1,235 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 2014 contained elsewhere in this Offering Memorandum.

For details of operating lease commitments refer to note 26 of our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum.

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 included elsewhere in this Offering Memorandum, as well as information regarding purchase obligations. The tables reflect those contractual obligations at the end of fiscal 2014 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)	3,311	266	1,266	834	945
Other long-term borrowings reflected on the balance sheet(2)	563	—	—	—	—
Off-Balance Sheet					
Operating lease obligations(3)	64	24	24	8	8
Purchase obligations(4)	196	73	84	14	25
Capital commitments(5)	104	95	9	—	—
Group Total	**4,238**	**458**	**1,383**	**856**	**978**

(1) Includes interest obligations to maturity to service the debt using interest rates prevailing at September 2014. The principal debt is US$2,474 million.

(2) The Other long-term liabilities reflected on the balance sheet of US$563 million (fiscal 2013: US$506 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 2014 included elsewhere in this Offering Memorandum.

(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 2014 included elsewhere in this Offering Memorandum.

(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 2014 included elsewhere in this Offering Memorandum.

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 2014 and fiscal 2014, 2013 and 2012. 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 2014 included elsewhere in this Offering Memorandum 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, weak global economic and market conditions and our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2014 not to declare a dividend for fiscal 2014.

Our ability to pay dividends to our shareholders is subject to certain restrictive covenants. See ''Description of Notes—Certain Covenants—Restricted Payments''.

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 ''—Major Shareholders and Certain Transactions—Related Party Transactions'' and ''—South African Economic and Political Environment'', and note 29 of our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

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 2014 the liabilities of our funded defined benefit plans increased by US$239 million, from US$1,672 million at September 2013 to US$1,911 million at September 2014. Liabilities of our unfunded defined benefit plans reduced by US$53 million, from US$297 million at September 2013 to US$244 million at September 2014, mainly due to a US$61 million liability reclassification to funded. Combined, gross liabilities rose by US$186 million during fiscal 2014, mainly due to the effects of lower discount rates determined from yields in respective bond markets of the regions that our plans exist. The overall movement in gross liabilities also includes a US$48 million provision for indexation allowances restored to a plan in Europe.

Defined benefit plan assets increased by US$141 million over the course of fiscal 2014, from US$1,560 million at September 2013 to US$1,701 million at September 2014. This was due to strong investment returns across all regions and the inclusion of US$39 million of company assets to post-retirement medical aid liability in South Africa (previously treated as unfunded liabilities). 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 increase in defined benefit plan liabilities was greater than the increase in assets over the course of fiscal 2014, the overall net balance sheet liability increased by US$45 million, from a deficit of US$409 million at September 2013 to a deficit of US$454 million as at September 2014. For a reconciliation of the movement in the balance sheet liability over the course of fiscal 2014, see note 28 of our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum.

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. 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 unavoidable loss 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$26 million), with an annual aggregate of €33 million (US$42 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$951 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 2014 included elsewhere in this Offering Memorandum 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 2014 included elsewhere in this Offering Memorandum 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 2014 included elsewhere in this Offering Memorandum 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 2014 included elsewhere in this Offering Memorandum.

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 2014 included elsewhere in this Offering Memorandum).

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 2014 included elsewhere in this Offering Memorandum 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 2014 included elsewhere in this Offering Memorandum.

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 2014 included elsewhere in this Offering Memorandum 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 2014 included elsewhere in this Offering Memorandum 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 2014

Standards, interpretations and amendments to standards

The standards listed below, which have a material impact on the Group annual financial statements, were adopted by the Group for the year ended September 2014. These standards are required to be applied retrospectively. Refer to note 2.6 to the Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum for a description of the quantitative impact of adopting these standards.

- IAS 19 (Revised) Employee Benefits—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 accelerates the recognition of past service costs. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, there are certain changes to the presentation of defined benefit cost including more extensive disclosures.

  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. The Group had previously elected to recognize remeasurements in other comprehensive income.

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

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

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

- IFRS 7 Financial Instruments: Disclosures—Offsetting Financial Assets and Financial Liabilities;
- IFRS 11 Joint Arrangements—classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these;
- IFRS 12 Disclosure of Interest in Other Entities;
- IFRS 13 Fair Value Measurements—establishes a single source of guidance for fair value measurements under IFRS;
- IAS 27 Separate Financial Statements—amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28 Investments in Associates and Joint Ventures—amendment to conform changes based on the issuance of IFRS 10 and IFRS 11.

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—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2019.

The new standards, amendments and revisions and their effective dates mentioned below are not expected to have a material impact on the Group's results or financial position:

- IFRS 11 Joint Arrangements—Accounting for Acquisitions of Interests in Joint Operations—September 2017;
- IFRS 14 Regulatory Deferral Accounts—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 2018;
- IAS 19 Defined Benefit Plans—Employee Contributions—September 2015;
- IAS 27 Separate Financial Statements—Equity Method in Separate Financial Statements—September 2017;
- IAS 32 Financial Instruments: Presentation—Offsetting Financial Assets and Financial Liabilities—September 2015;
- IAS 36 Impairment of Assets—Recoverable Amount Disclosures for Non-Financial Assets—September 2015;
- IAS 39 Financial Instruments: Recognition and Measurement—Novation of Derivatives and Continuation of Hedge Accounting—September 2015;
- IAS41 Agriculture—Bearer Plants—September 2017;
- IFRIC 21 Levies—September 2015; and
- Various improvements to IFRS.

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 24% of our net sales in fiscal 2014, 24% of our net sales in fiscal 2013 and 24% of our net sales in fiscal 2012. In the three months ended December 2014 and 2013, South Africa accounted for 25% and 23%, 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 South African economy grew by 1.5% in 2014, and the International Monetary Fund forecasts the South African gross domestic product to grow by 2.1% in calendar year 2015. South Africa's long-term foreign currency investment ratings were downgraded by each of Moody's and Standard & Poor's during the 2014 calendar year, and Fitch revised its outlook to negative, in each case reflecting concerns over slow economic growth, prolonged labor disputes and electricity supply shortages. However, both Moody's and Standard & Poor's revised their outlooks to stable at the time of the downgrades, and Fitch and Standard & Poor's kept their ratings unchanged in December 2014 in recognition of fiscal reforms undertaken by the government to address persistent budget deficits and slow growth. As of February 2015, South Africa's credit ratings remained investment grade, though further downgrades could lead to a loss of investment grade status.

South Africa continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. Access to land, poverty, unemployment, crime and a growing prevalence of HIV/AIDS are some of the social and economic factors that affect businesses operating in this country.

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 56% of employees presented themselves for HIV testing and counseling (HCT) in 2014, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2014 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 16.5% versus the South African workforce prevalence rate of 19.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.6% in 2013 to 0.4% in 2014.

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 we achieved a score of 83.6 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 will be implemented in April 2015. There is a proposal for the Forest Sector Code to align with the amended Codes of Good Practice in October 2015. Until the alignment requirement becomes mandatory, we will continue to apply the Forest Sector Code. 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 a prospective purchaser of notes. Prospective purchasers of notes who are non-South African residents or emigrants from the Common Monetary Area (defined below) are urged to seek further professional advice in regard to the purchase of notes.

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 (''FSD'') of the South African Reserve Bank (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 FSD. From time to time, the FSD 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 FSD 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 FSD 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.

Exchange Controls Applicable to Holders of the Notes

The prior written approval of the SARB is required for South African residents to purchase the notes. The Parent Guarantor obtained SARB approval to guarantee the obligations of the Issuer under the notes, to make payments under the guarantee and to pledge its shares in Sappi Southern Africa Limited as collateral. See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations—South Africa—Limitation on Enforcement'' herein for a description of South African exchange controls in respect of the granting of guarantees and security interests by South African residents.

Non-residents of the Common Monetary Area. Non-residents of the Common Monetary Area may acquire, hold or transfer notes without the approval of the SARB.

Residents of the Common Monetary Area. A South African resident cannot acquire the notes from a non-resident without the approval of the SARB.

Emigrants from the Common Monetary Area. Emigrants from the Common Monetary Area may not purchase notes using ''blocked'' rand amounts without appropriate SARB approval. For purposes of this paragraph, ''blocked'' rand amounts means funds denominated in Rand which may not be transferred out of South Africa or paid into the bank account of a non-South African resident.

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 2014 included elsewhere in this Offering Memorandum.

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 2014 included elsewhere in this Offering Memorandum.

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 2014 included elsewhere in this Offering Memorandum.

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 2014 included elsewhere in this Offering Memorandum.

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. Prices of dissolving wood pulp generally follow those of paper pulp, although the cycle is generally less volatile. As a result, the sale of dissolving wood pulp also tends to act as a natural hedge for paper pulp. Our total pulp production capacity is approximately 97% of our total pulp requirements. However, there are differences between the types of pulp required in 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 paper pulp. For a description of our level of pulp integration, see ''Our Business—Supply Requirements''. 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. For details on commodity price deals see note 31 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum and for a description of our supply requirements see ''Our Business—Supply 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 recently 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 2014.

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.

Major Product Categories	Description and Typical Uses
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.
	Sawn timber for construction and furniture manufacturing purposes.

Timber products

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

	Three Months Ended December 2014		Year Ended September 2014		2013		2012	
	High	Low	High	Low	High	Low	High	Low
Coated Woodfree Paper								
100 gsm delivered Germany (euro per ton)[1]	735	735	750	715	788	760	800	755
60 lb. delivered US (US$ per short ton)[2]	890	880	943	860	975	943	1,020	975
Coated Mechanical Paper								
60 gsm. LWC offset reels(euro per ton)[3]	623	623	660	623	670	660	700	670
Paper Pulp								
NBSK (US$ per ton)[4]	934	931	932	873	871	764	943	762
Dissolving Wood Pulp								
92 alpha (US$ per ton)[5]	818	809	902	819	939	850	1,590	980

(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 Ngodwana Mill, situated in South Africa, produces newsprint. The worldwide market for newsprint is a low growth sector in the paper industry and is being adversely affected by stagnating demand from, and cost-cutting measures imposed by, major newsprint end-users.

Paper Packaging Products

We are one of the major suppliers of paper packaging solutions in southern Africa, which we produce locally at our Cape Kraft, 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 of 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, representing approximately 60% of the global dissolving wood pulp market. Most of our VSF grade dissolving wood pulp production is sold on long-term contracts with longstanding customers at prices that follow the Chinese Chemical Fibers and Textile Consultancy (CCF) index prices. 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. The CCF index price dropped over the course of fiscal 2014 as competitive fiber prices have dropped and competition has increased. 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

Sappi Limited is a public company incorporated in the Republic of South Africa. Our principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa. We currently have our primary listing on the JSE Limited, formerly the Johannesburg Stock Exchange.

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 across more than 100 countries. The Group's 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 products. The Group's range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region, newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products. During fiscal 2014, we had sales and EBITDA excluding special items of US$6,061 million and US$658 million, respectively. During the three months ended December 2014, we had sales and EBITDA excluding special items of US$1,377 million and US$145 million, respectively.

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. During fiscal 2014 and the three months ended December 2014, 76% and 75%, respectively, of our sales and 52% and 47%, respectively, of our EBITDA excluding special items were generated, and, as of December 2014, 66% of our net operating assets were located, outside southern Africa, principally in North America and Europe.

Our Group has three reportable segments comprising the geographic regions of Europe, North America and Southern Africa. We operate 16 pulp and paper mills in seven countries, with an aggregate annual paper, paper pulp and dissolving wood pulp production capacity of approximately 5.7 million tons, 2.4 million tons and 1.3 million tons, respectively. 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 Europe, North America and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

Europe

Our European business is a leading producer and supplier of coated and uncoated woodfree paper, coated and uncoated speciality paper and coated mechanical paper in Europe. Headquartered in Brussels, Belgium, the segment operates seven paper mills in five countries with an aggregate annual production capacity of approximately 3.5 million tons of paper and 1.2 million tons of related paper pulp, which represents approximately 59% of the pulp requirements of our European operations. As our European business is not fully integrated from a pulp perspective, the segment is exposed to fluctuations in the price of market pulp. Our European business accounted for US$3,107 million and US$684 million, or 51% and 50% of our sales in fiscal 2014 and the three-month period ended December 2014, respectively.

North America

Our North American business is a leading producer and supplier of dissolving wood pulp, coated woodfree paper, coated speciality paper and from time to time, uncoated woodfree paper in the United States. Headquartered in Boston, Massachusetts, the segment operates three paper mills in the United States with an aggregate annual production capacity of approximately 1.2 million tons of paper and approximately 855,000 tons of pulp (including 330,000 tons of dissolving wood pulp), which represents approximately 104% of our pulp requirements in North America. This significantly reduces our exposure to fluctuations in the price of market pulp in North America that are not driven by fluctuations in wood or other major raw material prices. Our North American business accounted for US$1,517 million and US$353 million, or 25% of our sales in fiscal 2014 and 25% of our sales in the three months ended December 2014, respectively.

Southern Africa

Our Southern African business, headquartered in Johannesburg, South Africa, is an integrated dissolving wood pulp, paper pulp, packaging paper, coated paper, uncoated paper, speciality paper and timber products producer. The segment operates five paper and paper packaging mills, one dissolving wood pulp mill and one sawmill, and is managed in three divisions: Sappi Paper and Paper Packaging, Sappi Specialised Cellulose and Sappi Forests. We are a major pulp and paper producer in Africa, with a production capacity of approximately 500,000 tons of paper packaging products, 450,000 tons of graphic paper, 1.0 million tons of dissolving wood pulp and 750,000 tons of paper pulp per annum. The segment is also a major timber grower and through direct ownership or contractual agreements has access to approximately 495,000 hectares of plantation. Approximately 77% of our Southern African timber requirements are sourced from Sappi's directly owned plantations. The contractual agreements relate to plantations in southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form of advice on the growing and tending of trees. Our Southern Africa operations accounted for US$1,437 million and US$340 million, or 24% and 25%, of our sales in fiscal 2014 and the three months ended December 2014, respectively.

Sappi Trading

Our trading network, Sappi Trading, is responsible for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world, and also coordinates the international marketing and distribution of our woodfree and mechanical paper products in areas outside our core operating regions of Europe, North America and Southern Africa. Sappi Trading operates in Hong Kong (China), Sydney (Australia), Sao Paulo (Brazil), Shanghai (China), Bogotá (Colombia), Konstanz (Germany), Nairobi (Kenya), Mexico City (Mexico), Singapore, Johannesburg and Durban (South Africa), Zurich (Switzerland), Taipei (Taiwan) and New York (United States). It manages a network of agents around the world, handling exports to over 100 countries. All sales and costs associated with Sappi Trading are allocated to our three reportable segments.

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 11%. On a regional basis, we have an estimated market share in coated woodfree paper of 22% and 29% 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 183% and approximately 104%, 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 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 16 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 2014, our operations in Europe, North America and South Africa accounted for 51%, 25% and 24% of our sales, respectively. In the three months ended December 2014, our operations in Europe, North America and Southern Africa accounted for 50%, 25% and 25% 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, IGEPA, 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, that 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 four key themes, namely: achieving cost advantages, rationalizing declining businesses, investing moderately for future growth in higher margin businesses, including dissolving wood pulp, and achieving this within the reality of the Group's balance sheet and liquidity position.

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 2014 saw the initiation of a number of cost reduction initiatives in all three of our operating regions. These initiatives included investment in natural gas derived energy at the Somerset Mill and a multi-fuel boiler and turbine at the Kirkniemi Mill to lower our energy costs, a 5% reduction in our North American workforce and disposing of the Nijmegen Mill to significantly reduce fixed costs in Europe. We also refocused our product portfolio in Southern Africa on those products for which we have a cost competitive position. At the Group level, we have also focused on opportunities to lower costs in procurement and logistics, as well as investigating 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, including PM 11 at our largest and lowest cost coated woodfree mill, Gratkorn, in order to widen the product range capabilities, allowing for further fixed costs savings in the future. In South Africa, we intend to rationalize the product portfolio, ceasing the production of coated papers, moving office paper production to an integrated mill and producing more locally sourced, waste-based packaging papers. This transition in the South African business commenced during the quarter ended December 2014.

Drive growth through strategic and opportunistic 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 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.

Liquidity and balance sheet

We intend to achieve our strategic initiatives within the constraints of the Group's balance sheet and liquidity position. In fiscal 2014, we undertook measures to strengthen our balance sheet, including disposing of our Usutu forestry operations. We may sell further softwood plantations in South Africa or other non-core assets to further strengthen our balance sheet in furtherance of our objectives. 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.

Business Review

The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. For further information, see ''Risk Factors—Risks Related to Our Industry'' and ''The Pulp and Paper Industry''.

The following tables set forth certain information with respect to our operations for, or as of the end of, fiscal 2014 and the three months ended December 2014.

	Year Ended September 2014				
	Europe	North America	Southern Africa	Unallocated and Eliminations	Total
			('000 tons)		
Sales volume	3,303	1,454	2,767	—	7,524
			(US$ million)		
Sales	3,107	1,517	1,437	—	6,061
Operating profit (loss)	42	16	260	(4)	314
Operating profit excluding special items	75	18	248	5	346

	Three Months Ended December 2014				
	Europe	North America	Southern Africa	Unallocated and Eliminations	Total
			('000 tons)		
Sales volume	775	333	654	—	1,762
			(US$ million)		
Sales	684	353	340	—	1,377
Operating profit (loss)	14	(4)	59	—	69
Operating profit (loss) excluding special items	15	(4)	63	—	74

The following table sets forth Group sales by product for each of fiscal 2014, 2013 and 2012:

	Year Ended September					
			Restated			
Sales by Product	2014		2013		2012	
	(US$ million)					
Coated paper	3,652	60%	3,782	64%	4,014	63%
Uncoated paper	345	6%	394	7%	432	7%
Speciality paper	566	9%	489	8%	453	7%
Commodity paper	376	6%	385	6%	451	7%
Dissolving wood pulp	1,013	17%	683	12%	685	11%
Paper pulp	43	1%	125	2%	230	4%
Other	66	1%	67	1%	82	1%
Total	**6,061**	**100%**	**5,925**	**100%**	**6,347**	**100%**

	Year Ended September			
			Restated	
EBITDA Excluding Special Items by Product	2014		2013	
	(US$ million)			
Paper	350	53%	296	56%
Dissolving wood pulp	303	46%	226	43%
Unallocated and eliminations	5	1%	6	1%
Total	**658**	**100%**	**528**	**100%**

Facilities and Operations

Europe

Coated, uncoated and speciality paper are the main products produced and sold by our European business. Our European operations contributed 51% of our sales in fiscal 2014 and 50% of our sales in the three months ended December 2014. For fiscal 2014 and the three months ended December 2014, our European operations sold approximately 3.3 million tons and

775,000 tons, respectively, of pulp and paper products. The following table sets forth the annual production capacity and products for fiscal 2014 at each of our seven mills in Europe.

Mill	Mill Location	Production capacity ('000 tons) Paper	Paper Products	Production capacity ('000 tons) Pulp	Pulp Products
Alfeld	Germany	270	Coated and uncoated speciality paper, uncoated woodfree paper	120	Bleached chemical pulp for own consumption
Ehingen	Germany	275	Coated woodfree paper	140	Bleached chemical pulp for own consumption and market pulp
Gratkorn	Austria	1,000	Coated woodfree paper	250	Bleached chemical pulp for own consumption
Kirkniemi	Finland	760	Coated mechanical paper	330	Bleached mechanical pulp for own consumption
Lanaken	Belgium	510	Coated mechanical paper, coated woodfree paper	170	Bleached chemi-thermo mechanical pulp for own consumption
Maastricht	Netherlands	280	Coated woodfree paper	—	—
Stockstadt	Germany	445	Coated woodfree paper, uncoated woodfree paper	160	Bleached chemical pulp for own consumption and market pulp
Total Europe:		**3,540**		**1,170**	

Alfeld. The Alfeld Mill is located to the south of Hannover, Germany, and was originally commissioned in 1706. It has a paper production capacity of 270,000 tons and a pulp production capacity of 120,000 tons per annum. It produces uncoated woodfree and speciality paper products with a variety of finishes. In the first fiscal quarter of 2014 we completed the conversion of Alfeld's Paper Machine (PM) 2 from coated woodfree production to speciality packaging paper production. This conversion resulted in a reduction of 150,000 tons per annum of coated woodfree production capacity and the addition of 100,000 tons of speciality packaging paper production. In 1995, a major rebuild of Alfeld's PM 3 was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM 3 employs a fully integrated on-line coating and calendaring system. The Alfeld Mill produces totally chlorine-free (''TCF'') bleached sulphite pulp for its own use. In early 2002, a €50 million rebuild of Alfeld's PM 2 was completed.

Ehingen. The Ehingen Mill is located to the southeast of Stuttgart, Germany and was acquired by Hannover Papier, predecessor entity to Sappi Alfeld, in 1987. A paper machine with a capacity of 180,000 tons of coated woodfree paper per annum was commissioned in July 1991, expanding Ehingen from a market pulp mill into an integrated pulp and paper mill. During 1994, the construction of a high-rack warehouse was completed. As a result of upgrades during 1994 and 1996, Ehingen's total paper capacity was increased to 235,000 tons per annum. During June and July 2006, the paper machine was rebuilt and started up, together with a new coater, allowing a significant quality upgrade from single coated to triple coated woodfree paper with capacity of 275,000 tons per annum. The pulp mill's capacity is currently 140,000 tons per annum of TCF bleached sulphite pulp. The pulp is produced mainly for internal use, but is also sold to third party customers when market conditions are favorable.

Gratkorn. Paper has been produced at the Gratkorn, Austria site for more than four centuries. Following a major expansion and renovation project, the Gratkorn Mill has been transformed from an ageing five-machine mill into an upgraded two-machine mill. As a result of this project, Gratkorn currently has the capacity to produce 1 million tons of triple-coated woodfree paper on just two paper machines and 250,000 tons of TCF chemical pulp per annum. The machines at Gratkorn are among the largest and most efficient paper machines in the world. After the extension of Gratkorn's sheeting plant, it also has a sheet finishing capacity of over 860,000 tons per annum. In November 2013, we announced plans to invest in the pulp mill and PM 11 at Gratkorn in order to widen the product range capabilities of the mill. Work on these upgrades was completed in December 2014.

Kirkniemi. As part of the M-real Corporation acquisition in 2008, we acquired the assets comprising the Kirkniemi Mill, located 70 kilometers west of Helsinki, Finland. The mill was built in 1966 and has a production capacity of 760,000 tons of paper and 330,000 tons of mechanical pulp per annum. The Kirkniemi Mill produces Galerie Lite (coated ultra-lightweight paper with high bulk and opacity), Galerie Brite (coated lightweight paper with high bulk, soft gloss and improved brightness) and Galerie Fine (coated mechanical paper with high brightness, smoothness and improved opacity). In November 2013, we announced plans to invest over three years in the construction of a new power plant on the Kirkniemi site. Work on the power plant is continuing in fiscal 2015.

Lanaken. The Lanaken Mill, situated in Lanaken, Belgium, began commercial operations in 1966. It produces coated mechanical paper and lower weight wood-containing coated paper for offset printing. Coated mechanical paper for web offset presses is used primarily in the production of advertising materials and magazines. Lanaken's two paper machines have a total capacity of 510,000 tons per annum. One machine principally produces coated mechanical paper and was completely overhauled in 1992. An additional off-line coater was also installed during the upgrade to provide triple coating capability. The second paper machine produces lower-weight wood-containing paper. Its capacity was increased to 305,000 tons per annum as a result of an optimization process during the mid-1990s. The Lanaken Mill also produces chemi-thermo-mechanical pulp (CTMP) in an integrated plant which has a production capacity of 170,000 tons per annum. This enables the mill to supply approximately 60% of its own fiber requirements for paper production.

Maastricht. The Maastricht Mill is situated on the Maas River in Maastricht, The Netherlands and was originally commissioned in 1852. The mill has a production capacity of 280,000 tons of coated woodfree paper per annum from a single paper machine, PM 6. This machine was installed in 1962, was rebuilt in 1977 and underwent an extensive €102 million refurbishment and upgrade in 1996. The Maastricht Mill specializes in high basis-weight triple-coated woodfree paper for graphics applications.

Stockstadt. We acquired the shares of M-real Stockstadt GmbH, which holds the Stockstadt Mill located in Stockstadt, Germany, from the M-real Corporation during 2008. The mill was established in 1898 and has a production capacity of 445,000 tons of coated and uncoated woodfree paper as well as 160,000 tons of bleached chemical pulp per annum. The pulp is produced mainly for internal use, but is also sold to third party customers when market conditions are favorable.

North America

Dissolving wood pulp and coated and speciality paper are the main products produced and sold by our North American business, which contributed 25% of our sales in fiscal 2014 and 25% of our sales in the three months ended December 2014. For fiscal 2014 and the three months ended December 2014, our North American operations sold approximately 1.2 million tons and 262,000 tons, respectively, of pulp and paper products excluding dissolving wood pulp, and approximately 303,000 tons and 71,000 tons, respectively, of dissolving wood pulp. The following table sets forth the annual production capacity and products for fiscal 2014 at each of our three mills in the United States.

Mill	Mill Location	Production capacity ('000 tons) Paper	Paper Products	Production capacity ('000 tons) Pulp	Pulp Products
Cloquet	Minnesota	330	Coated woodfree paper	330	Dissolving wood pulp
Somerset	Maine	790	Coated woodfree paper	525	Bleached chemical pulp for own consumption and market pulp
Westbrook	Maine	40	Coated speciality paper	—	—
Total North America: . .		**1,160**		**855**	

Cloquet. The Cloquet Mill has two paper machines and an offline coater, producing premium coated paper. The newest paper machine and coater were installed in 1988 and 1989, respectively. The pulp mill was started up by the previous owner in 2000 at a total cost of US$525 million. The Cloquet paper machines have a production capacity of 330,000 tons of coated paper per annum, and following a US$170 million conversion project completed during fiscal 2013, the dissolving wood pulp mill has a production capacity of 330,000 tons per annum. The mill can produce pulp for paper as well as dissolving wood pulp, and has the ability to swing production between these grades depending on market conditions.

Somerset. The Somerset Mill is a low-cost producer and has a production capacity of 790,000 tons of paper and 525,000 tons of pulp per annum. Each of the three paper machines at the Somerset facility employs Sappi's patented on-line finishing technology. This technology combines the three phases (paper making, coating and finishing) in the manufacture of coated paper into one continuous process. This technology is well suited for the lighter weight coated woodfree papers produced at Somerset, as it allows for the production of high gloss, consistent quality products at high speeds. Investments in natural gas energy at the mill were completed in November 2014.

Westbrook. Westbrook is Sappi's original mill, with origins dating back to 1854. The mill is primarily a speciality paper production facility with a capacity of 40,000 tons of coated and uncoated casting release paper per annum. Its paper machine primarily produces base paper, which is coated off-line. Westbrook also has six speciality coaters, including four employing Sappi's patented Ultracast process. This process uses an electron beam to cure the coating against a finely engraved steel roll, resulting in a virtually exact replication of the roll pattern. We also have a research and development facility at Westbrook.

Our North American operations also include a coated paper sheeting and distribution facility in Allentown, Pennsylvania, which was completed in 1994, with a sheeting capacity of approximately 100,000 tons per annum.

Southern Africa

Dissolving wood pulp, paper pulp, coated, uncoated and commodity paper and forestry products are the main products produced and sold by our Southern African business, which is managed in three divisions: Sappi Specialised Cellulose, Sappi Paper and Paper Packaging, and Sappi Forests. Our Southern African operations contributed 24% of our sales in fiscal 2014 and 25% of our sales in the three months ended December 2014. For fiscal 2014 and the three months ended December 2014, our Southern African operations sold approximately 810,000 tons and 197,000 tons, respectively, of pulp and paper products excluding dissolving wood pulp, 896,000 tons and 229,000, respectively, of dissolving wood pulp, and 1,061,000 tons and 228,000 tons, respectively, of forestry products. Our three Southern African divisions are described below.

Sappi Specialised Cellulose

Sappi Specialised Cellulose produces dissolving wood pulp at our Saiccor and Ngodwana Mills, which have a combined production capacity of approximately 1 million tons per year.

Production is exported from South Africa and marketed and distributed internationally by Sappi Trading. The pulp principally produced is the type used in the manufacture of a variety of cellulose products, including viscose staple fibers or rayon, solvent spun fibers (lyocell) and viscose filament yarns. Both viscose and lyocell fibers are used in the manufacture of fashion and decorating textiles which have a soft, natural feel and good breathing properties. Given their particularly high absorbency properties, these fibers are also used in non-woven applications in the healthcare, industrial and disposable product markets. Dissolving wood pulp is also used in the manufacture of acetate flake, which is used in products such as filter tow for cigarette filters, high quality yarns and fabrics, and LCD screens. It is also used to manufacture microcrystalline cellulose, which is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various ethers for the chemical industry. It is also used to manufacture cellophane film for use in a variety of packaging applications.

Saiccor. Saiccor was established in 1951 and was acquired by us in 1988. It is the world's largest single producer of dissolving wood pulp. In 1995, we completed an approximately US$221 million expansion project to increase capacity by one third to 600,000 tons per annum. Capital expenditures during the period from October 2005 to the end of September 2010 were approximately US$615 million. Included in this period were a modernization project to de-bottleneck production at Saiccor at a cost of US$40 million and an amount of US$551 million spent on an expansion project to increase Saiccor's dissolving wood pulp capacity to 800,000 tons per annum. Construction on the expansion project commenced in August 2006 and was originally scheduled for completion in the first half of calendar 2008, but the project was subject to delays and cost increases, with the increased capacity only coming on line in September 2008 and achieving full operational efficiency only in April 2009.

Ngodwana. In May 2011, we announced an approximately US$340 million expansion of the Ngodwana Mill to change its product portfolio to include expected annual production of 210,000 tons of dissolving wood pulp. This expansion project was completed in fiscal 2013, and the mill began full production of dissolving wood pulp in fiscal 2014.

The timber consumption of both the Saiccor and Ngodwana Mills in the production of dissolving wood pulp comprises primarily Forest Stewardship Council (''FSC'')-certified eucalyptus hardwoods. These relatively fast growing trees are grown in relatively close proximity to the mills, contributing to the mills' comparatively low production costs for dissolving wood pulp.

Sappi Paper and Paper Packaging

The following table sets forth the annual production capacity and products for fiscal 2014 at each of our five pulp and paper mills and our waste paper recycling facilities in South Africa.

Mill	Production capacity ('000 tons) Paper	Paper Products	Production capacity ('000 tons) Pulp	Pulp Products
Cape Kraft	60	Waste based linerboard and corrugating medium	—	—
Enstra	200	Uncoated woodfree, corrugating medium and business paper	—	—
Ngodwana	230	Kraft linerboard	200	Unbleached chemical pulp
	140	Newsprint	110	Mechanical pulp, for own consumption
Stanger	110	Uncoated woodfree paper and tissue paper(1)	60	Bleached bagasse pulp for own consumption
Tugela	210	Corrugating medium	130	Neutral Sulfite Semi Chemical pulp for own consumption
Sappi ReFibre	—	—	250	Waste paper collection and recycling for own consumption
Total Southern Africa paper and paper packaging:	**950**		**750**	

(1) Production of coated woodfree paper ceased at the Stanger Mill in February 2015.

Cape Kraft. The Cape Kraft Mill was built during 1980, commissioned in 1981 and upgraded in 1995. The mill presently has a capacity to produce 60,000 tons of linerboard and corrugating medium per annum, which it sells principally to the corrugating industry in the Western Cape. The mill uses approximately 67,000 tons of waste paper to produce 60,000 tons of packaging paper per annum. The fact that the mill's product is produced from 100% recycled paper provides a competitive advantage in our markets, which are becoming increasingly environmentally aware.

Enstra. The Enstra Mill is an uncoated paper mill, with a capacity of 200,000 tons of elemental chlorine-free uncoated woodfree paper products per annum. In 1996, the Enstra Mill completed a US$96 million capital expenditure program. This program increased capacity by 50,000 tons per annum and resulted in improved production efficiencies and product quality. The product range at the Enstra Mill caters to the business forms, scholastic, office, envelope and general printing industries. At the end of February 2012, the 105,000 tons bleached hardwood pulp mill at Enstra was closed.

Ngodwana. The Ngodwana Mill was expanded between 1981 and 1985 from an unbleached kraft mill with a capacity of 100,000 tons per annum to a modern integrated mill with a capacity of approximately 230,000 tons of linerboard and white top liner as well as 140,000 tons of newsprint per annum. Following the partial conversion of the mill to dissolving wood pulp production in 2013, the mill produces nearly 200,000 tons of unbleached pulp and 110,000 tons of mechanical pulp per annum. The mill markets paper, paper packaging and pulp products locally and internationally. The mill is a large consumer of waste paper, which is used in the production of packaging paper. In 1995, the mill commissioned the world's first ozone bleaching plant, thus eliminating the use of elemental chlorine and significantly reducing mill effluent.

Stanger. The Stanger Mill commenced operations in 1976 producing coated woodfree paper, but now produces uncoated woodfree paper and tissue paper. It is unique in South Africa as it uses bagasse (the fibrous residue of sugar cane) as its basic raw material to produce uncoated papers and tissue. A US$26 million upgrade of the mill's paper machine was completed in August 2001, increasing the paper capacity to 80,000 tons per annum. The mill also produces 30,000 tons of tissue and 60,000 tons of bleached bagasse pulp per annum. We also completed an elemental chlorine free bleach plant upgrade during 2006 at a cost of US$11 million. During September 2014, it was announced that Stanger Mill would close the finishing house and coater machine, and as a result would only produce uncoated woodfree paper and tissue paper going forward. Production of coated woodfree paper ceased at the Stanger Mill in February 2015.

Tugela. The Tugela Mill is an integrated unbleached kraft mill, with a capacity of 210,000 tons of packaging paper per annum. The mill supplies kraft linerboard and corrugating medium. The Kraft Linerboard machine was upgraded in 1996 at a cost of approximately US$81 million. During fiscal 2011, we announced the permanent suspension of production from the 60,000 ton containerboard machine at the Tugela Mill. During March 2012, we closed the kraft pulp mill and a 10,000 ton kraft paper machine at Tugela. In October, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine at Tugela.

Sappi ReFibre. Sappi ReFibre (formerly Sappi Waste Paper) collected approximately 274,000 tons and 233,000 tons of waste paper during fiscal 2014 and 2013, respectively. Most of the waste paper is supplied to our mills as it represents approximately 30% of the fiber requirements of our packaging grades.

Sappi Forests

Sappi Forests supplies or procures all of our South African operations' fibre requirements of approximately 5.1 million tons per annum. This fibre comes from owned or contracted sources situated in Mpumalanga (54%) and KwaZulu Natal (46%) provinces. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps.

	Hectares
Owned by us in South Africa	381,000
Leased by us or managed directly in South Africa	8,000
Projects in South Africa (owned and managed by farmers to which we provide technical advice and support)	106,000
Total	495,000

Securing raw material for the future is a vital element in the long-term planning of our Southern African business. Sappi Forests has an extensive research operation which concentrates on programs to improve the yield per hectare of forestland used. Significant progress has been made in developing faster-growing trees with enhanced fiber yields. Sophisticated nurseries have been developed to accommodate the seedling requirements of our Southern African operations. Approximately 38 million seedlings are grown annually at Sappi Forests nurseries and by contract growers in South Africa. In addition, during fiscal 2011, we announced a joint proposal with AsgiSA (Accelerated and Shared Growth Initiative for South Africa) to accelerate the establishment and management of 30,000 hectares of commercial tree plantations by 2020 in the Eastern Cape province of South Africa.

The plantation industry in South Africa faces an increasing threat from pests and diseases. Sappi Forests is a leader in research and development, continuing to mitigate these risks through improved site species matching, the deployment of improved genetic planting stock and the introduction of specific hybrids from our conventional breeding programs. The construction of the Clan nursery, with a capacity of 17 million cuttings (vegetatively propagated plants), was completed in September 2014, and provides Sappi Forests with the required facilities to rapidly deploy the improved genetic planting stock to mitigate against these threats.

The sawmill division operates one mill, the Lomati sawmill, with a total production capacity of 102,000 cubic meters per annum of structural timber for the building industry and components for the furniture and packaging industry.

During fiscal 2014 we completed the sale of our Usutu Forests business, which controlled approximately 67,000 hectares of softwood plantations in Swaziland. The sale was first announced in July 2013 in light of reduced softwood requirements of our South African operations following the dissolving wood pulp conversion project at our Ngodwana Mill.

Marketing and Distribution

Overview

The further integration of our international marketing and distribution systems is one of our main strategic objectives. In order to attain this objective, we have adopted a system whereby the marketing and distribution of our woodfree and mechanical paper products, as well as our packaging and speciality paper products, is performed by our operating business in the respective region, supplemented by Sappi Trading network outside these core regions. The marketing and distribution of our dissolving wood pulp is performed by our Specialised Cellulose business, assisted by Sappi Trading when and where applicable. We operate 34 sales offices interntionally across six continents.

We sell the majority of our woodfree and mechanical paper products through merchants. We also sell paper directly to printers and converters, and dissolving wood pulp directly to producers of viscose staple fiber and other products. We generally deliver products sold to converters from the mill or via a distribution warehouse. Electronic business-to-business interaction has become more important to us, and we will continue to focus on increasing service and efficiency. Systems and structures have been put in place to continue these efforts.

Merchants are authorized to distribute our North American, European and South African paper products by geographic area and to carry competitors' product lines to cover all segments of the market. Merchants perform numerous functions, including holding inventory, sales promotion and marketing, taking credit risk on sales and delivery, and distribution of the products. Merchants buy paper from us, add a mark up to the purchase price and on-sell it to the end customer. A merchant may either deliver to the customer from its own warehouse or arrange for delivery directly from the mill or one of our distribution warehouses.

Europe

Our European sales and marketing operations are organized into graphic papers (which comprise printing and writing paper) and speciality papers (which comprise paper for labeling, packaging and other speciality uses).

Our European sales and marketing operations are responsible for all sales of woodfree papers, mechanical papers as well as speciality papers in Europe. An export sales office manages exports to markets outside Europe through Sappi Trading and our North American and Southern African businesses.

Our centralized European logistics department was formed in early 1998. It is responsible for the development and optimization of the logistics function for the graphic and speciality papers business units as well as the re-engineering of the supply chain.

Under a distribution agreement entered into as part of the Acquisition, M-real Corporation granted us the exclusive right to market and sell the products of PM8, a coated paper machine at M-real Corporation's Husum Mill in Sweden, for an initial period of five years (since extended to the end of the 2016 calendar year) or, if earlier, until M-real Corporation sells the relevant mill. We are entitled to a commission on these sales while the agreement is in effect. PM 8 is the only asset producing coated woodfree paper and mechanical paper at Husum Mill and has an annual production capacity of 330,000 tons of Galerie Fine, a high quality mechanical coated paper, and Galerie Art, a coated woodfree paper with high brightness, smoothness and improved opacity. M-real have announced plans to discontinue graphic paper production at the Husum Mill, and we are negotiating a transition arrangement to shift production of certain affected products to our other European facilities.

North America

Our North American coated paper sales structure is organized in multiple regions with sales representatives located in all major market areas. In addition, six technical representatives, located in different regions in North America, support the sales effort. In fiscal 2014 and the three months ended December 2014, our North American sales force sold coated woodfree paper to approximately 10 merchants with distribution locations throughout the United States and Canada. By selling exclusively through merchant channels, we believe we have created a loyal group of merchant customers. Rather than competing with merchant distributors, the North American sales force focuses on generating demand with key printers, publishers and end users, which are then serviced by the merchant distributors.

Our North American speciality papers are sold directly to customers in North America through a dedicated speciality paper sales team and outside of North America through a direct sales force, agents and distributors.

29% and 26% of our North American sales volume for fiscal 2014 and the three months ended December 2014, respectively, were outside North America, with the vast majority representing dissolving wood pulp sales. Our sales of dissolving wood pulp outside North America are handled by our Southern African business, our paper sales to Europe are handled by our European business, and our paper sales in other regions are handled by Sappi Trading.

Southern Africa

In South Africa, packaging and speciality products are sold directly to corrugators and converters. A significant portion of fine paper volumes are sold directly rather than through merchants. Sappi Trading manages the exports of Sappi Southern Africa's products, in particular the marketing and distribution of dissolving wood pulp produced at the Saiccor and Ngodwana mills.

Customers

We sell our products to a large number of customers, many of whom have long-standing relationships with us. In the case of our paper and packaging paper products, these customers include merchants, converters and other direct consumers. In the case of dissolving wood pulp, these customers include producers of viscose staple fiber and other products.

Converter customers for our paper products include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2014 and the three months ended December 2014, include: Mpact, Nampak, Corruseal, APL, CTP group, Houers, Novelis, Orafol, Mayr-Melnhof, Constantia, Vaassen and Amcor. These customers use our products in the production of pressure-sensitive products, flexible packaging, packaging for the agricultural and industrial markets, as well as NWS labels. No converter customer, however, represented more than 10% of our total sales during fiscal 2014.

Merchant sales constitute the majority of our woodfree and mechanical paper sales in Europe and North America. Pricing of coated paper products is generally subject to change upon notice of 30 days with longer notice periods (typically 3 to 6 months) for some large end-use customers. Sales to converters may be subject to longer notice periods, which would generally not exceed 12 months. We have long-standing relationships with most of our customers, with volume and pricing generally agreed on a quarterly basis.

Sales to dissolving wood pulp customers are based on a combination of long-term contractual and spot arrangements, with various pricing mechanisms employed.

Europe

In Europe, our most significant merchant customers, based on sales during fiscal 2014 and the three months ended December 2014, include Igepa Group, PaperlinX, Papyrus, Antalis (owned by Sequana Capital), Inapa and Berberich. Two of these merchants, Antalis and Igepa Group, represented collectively approximately 24% of our total European sales during fiscal 2014.

North America

In North America, our most significant merchant customers, based on sales during fiscal 2014 and the three months ended December 2014, include Veritiv (created in 2013 through the merger of xpedx and Unisource Worldwide Inc.), Lindenmeyr Paper Company (owned by Central National Gottesman Inc.), Midland and a select number of regionally strong merchants. Lenzing and Birla (both of which are also producers of dissolving wood pulp) are two of our most important customers for the dissolving wood pulp produced at our Cloquet Mill.

Southern Africa

Our South African coated, uncoated and speciality paper products are distributed in southern Africa primarily through merchants. In addition, some large volume orders are sold directly to printers, converters and retailers. Our most significant regional fine paper customers include Makro SA, Peters Papers and Shoprite.

Our most significant South African packaging paper and newsprint customers, based on sales in fiscal 2014 and the three months ended December 2014, include The CTP Group and Seculo, which uses Sappi's newsprint. The most significant converter customers include Nampak Limited, Mpact, APL, Corruseal and Houers Co-operative.

A significant number of the viscose staple fiber manufacturers around the world purchase dissolving wood pulp from Sappi Specialised Cellulose. This includes large groups such as the Aditya Birla Group and the Lenzing Group (both of which are also producers of dissolving wood pulp). Most of our dissolving wood pulp sales contracts are multi-year contracts.

During both fiscal 2014 and the three months ended December 2014, approximately 60% of the total sales value of our South African operations was destined for the export market.

Competition

Overview

Although the markets for pulp and paper have regional characteristics, they are highly competitive international markets involving a large number of producers located around the world.

Historically, pulp and paper products were subject to relatively low tariff protection in major markets, with existing tariff protections being further reduced under the World Trade Organization (''WTO''). However, with ever-increasing amounts of low cost substitutes emerging from Asia, particularly from China, both the United States and Europe imposed import duties and tariffs on certain coated paper products during the 2011 calendar year. As a result of these duties and tariffs, imports of coated woodfree paper into North America and Europe from Asia, and particularly China, declined.

Competition in markets for our products is primarily based on price, quality, service, breadth of product line, product innovation and sales and distribution support. The speciality paper market, however, places greater emphasis on product innovation, quality and technical considerations.

The North American and Western European printing and writing paper sector, comprising coated and uncoated woodfree and mechanical products, implemented the closure of more than 9.3 million tons of annual production capacity between 2010 and 2014.

Europe

The market leaders in coated woodfree paper production in Europe are Sappi, Stora Enso, Burgo-Marchi Group, UPM-Kymmene and Lecta (which is owned by an affiliate of CVC Partners).

North America

The market leaders in coated woodfree paper production in the United States are Verso, Sappi, Appleton Coated LLC, and West Linn Paper. In January 2015, Verso announced the completion of the acquisition of NewPage Corporation, the former leader in coated woodfree paper production in the United States.

In respect of dissolving wood pulp, competitors include GP Cellulose, Fortress Paper and Rayonier Advanced Materials.

Southern Africa

The Mondi Paper Company Limited and Mpact Limited are significant competitors in the southern African market, specifically in the uncoated woodfree, newsprint and packaging paper sectors.

Coated woodfree paper imports, primarily from Europe and Asia, have gained an increasing share of the southern African woodfree paper market as a direct result of declining import duties which were removed in 2006 and the strengthening Rand. However, a portion of the imports originate from our European mills.

In recent years, the regional recycled containerboard capacity has increased by approximately 60,000 tons. Due to exchange rate fluctuations, a number of offshore containerboard suppliers have also entered the southern African packaging market.

In respect of dissolving wood pulp, competitors include Borregaard ChemCell and Bahia Pulp.

Supply Requirements

Overview

The principal supply requirements for the manufacture of our products are wood, water, pulp, energy and chemicals. We believe that we have adequate sources of these and other raw materials and supplies for the foreseeable future. However, global warming and carbon footprint imperatives are causing an increase in the use of sustainable, non-fossil fuel, sources for heat and electricity generation. Consequently, electricity generating companies, communes and private households are competing for the same raw materials, namely, wood and chips, in the same markets as us, thereby driving prices upwards.

For further information on regulation affecting our supplies, please see ''Environmental and Safety Matters—Environmental Matters—South Africa''.

Europe

Wood

Our European business purchases approximately 3.6 million cubic meters of pulpwood per annum for its pulp mills. The wood is purchased both on contract and in the open market. Wood supply contracts are typically fixed for one year in terms of volumes. Price agreements range from three months for wood chips to one year for logwood.

Logwood and wood chips used in the Gratkorn TCF pulp mill are purchased through the Papierholz Austria GmbH joint venture arrangement amongst Sappi, the Norske Skog Bruck mill Zellstoff Pöls, and the Frantschach Group. We hold a 42.5% ownership interest in Papierholz.

The wood chips used in the Lanaken Chemithermomechanical Pulp (''CTMP'') plant are purchased through Sapin S.A. (''Sapin''), a 50% joint venture company which we operate together with Norske Skog. Sapin was initially formed on November 25, 1986, pursuant to a joint venture agreement between the predecessors of Sappi Lanaken and Norske Skog. Under the agreement, as amended in September 2003, the parties agree to utilize Sapin exclusively to furnish the entire wood requirements of the joint venture partners' affiliated mills.

The wood requirements for our German mills are sourced via proNARO, a 50% joint venture company with SCA Hygiene Products GmbH, established January 2013. proNARO purchases wood for our three German mills as well as for SCA's operations in Mannheim.

Under a wood supply agreement, M-real Corporation's parent company (Metsäliitto Group) will supply us with up to 704,000 cubic meters of wood annually, substantially all of which is sourced in southern Finland, to the Kirkniemi Mill for a minimum period of 12 years from 2009 at market rates.

Pulp

Our European operations produce approximately 59% of our pulp requirements in the region. The remainder is mostly supplied through open market contracts, the biggest supplier being M-real Corporation, which supplies up to 376,000 tons of pulp per annum, for contracted periods of between 1 and 6 years.

Energy Requirements

Our European energy requirements are generally met by the internal generation of energy and external purchases of electricity, natural gas, biomass, and to a lesser extent, hard coal and oil. The delivery of electricity, natural gas, oil, coal and biomass is covered by various short- and mid-term supply agreements.

Since July 2007, Gratkorn has operated a combined heat and power plant (''CHP plant'') on site and has become an exporter of about 10 MW of electricity. The mill's additional energy requirements are met through the usage of biomass, natural gas and mineral coal fuels.

Substantially all of the electricity requirements of the Maastricht Mill are satisfied by a 60 MW CHP plant, which was operated as a 50% joint venture (VOF WarmteKracht—Maastricht Mill) between us and Essent until January 1, 2010. On this date, we acquired the remaining shareholding from Essent. The plant utilizes natural gas, which is procured from a Dutch supplier at market prices. All surplus electrical energy generated is supplied to the national grid.

The Lanaken Mill's energy requirements are generally met by purchases of natural gas and electricity. Certain of the energy requirements of the mill are furnished by a CHP plant, constructed and operated pursuant to a cooperation agreement between Sappi and the Belgian power company Electrabel. We are 50% co-owner of the gas turbine and hold 100% ownership in the heat recovery steam generator (HRSG). Both parties own 50% of the power and heat production. In addition, we are obligated to purchase steam from Electrabel under long-term supply agreements. The facility commenced operations in April 1997 and was equipped with a new gas turbine at the end of 2014. Lanaken Mill's remaining electricity requirements are satisfied by a supply contract with the national utility company Electrabel.

Alfeld and Ehingen generate all of their steam requirements and about 50% of their power needs from renewable resources and the remainder is purchased from an Austrian power company.

The electricity and steam requirements of the Kirkniemi Mill are met by on-site production of a 100MW gas fired CHP plant and biomass boiler, both owned and operated by Sappi. The large amount of natural gas required to operate the CHP plant is delivered by Gasum, the national gas supplier. The balance of the mill's power requirements is met through purchases of electricity from the public grid. Biomass and natural gas are purchased for the generation of additional steam. In November 2013, we announced a project to build a new power plant at the Kirkniemi Mill, which will flexibly use solid fuels such as bark from the mill's debarking process, other wood based fuels and coal. Any additional biomass required will be bought from local suppliers. We expect the new plant to be operational in July 2015.

Stockstadt generates about 50% of its power needs from renewable resources and the remainder is purchased from an Austrian power company. The mill's steam requirements are met through the usage of biomass and mineral coal as fuels.

Chemicals

Major chemicals used by our European operations include clays, carbonates, latexes, starches and base chemicals. We purchase most of these chemicals from a portfolio of suppliers, and in only one case are we dependent on a sole source of supply. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feed stocks, transportation costs and, in particular, the specific market supply and demand dynamics.

North America

Wood

In connection with the 1998 sale of our U.S. timberlands to Plum Creek Timber Company L.P., we are a party to a fiber supply agreement with Plum Creek with an initial term expiring in December 2023 and with three five-year renewal options. Under the supply agreement, our North American business is required to purchase from Plum Creek, and Plum Creek is required to sell to us, a guaranteed annual minimum of 318,000 tons of hardwood pulpwood, or approximately 11% of our annual pulpwood requirements in North America, at prices calculated based on a formula linked to market prices. We have the option to purchase additional quantities of hardwood pulpwood, harvested from these timberlands, at prices generally higher than the ones paid for the guaranteed quantities. The remainder of our North American pulpwood requirements is met through market purchases.

Pulp

Our North American mills, taken together, are fully integrated on an economic basis with respect to pulp usage and production. Mills that are not fully integrated make market purchases of softwood and hardwood pulps for paper-making, and mills that produce more pulp than they utilize make market sales of hardwood pulps and dissolving wood pulp. The Cloquet pulp mill can produce pulp for paper as well as dissolving wood pulp, and the mill has the ability to swing production between these grades depending on market conditions.

Our North American coated fine paper mills have achieved certification according to the chain of custody standards of the FSC, The Sustainable Forestry Initiative (''SFI'') and the Programme for the Endorsement of Forest Certification (''PEFC'') and our wood procurement group is certified to SFI's Fiber Sourcing standard. The mills also use post-consumer waste and offer products containing up to 30% recycled content in addition to using reprocessed fiber recovered from its existing operations.

Our North American business manufactures, in aggregate, pulp and fiber equivalent to approximately 104% of its own pulp requirements. This vertical integration reduces its exposure to fluctuations in the market price for pulp.

Energy Requirements

Our North American energy requirements are satisfied through wood and by-products derived from the pulping process, coal, fuel oils, purchased electricity, steam, natural gas, biomass and other sources.

A substantial majority of our North American electricity requirements are satisfied through our own on-site electricity generation or co-generation agreements. In October 2014, the company entered into a new two-year contract for Retail Electricity Supply of Net Load with NextEra Energy Services Maine, LLC for the retail supply of net load for the Somerset Mill. Under this contract, NextEra will provide approximately 85% of Somerset's electrical requirements at fixed contract pricing. In November 2014, we completed a series of natural gas upgrades at Somerset Mill.

The Westbrook Mill sells excess electricity which is co-generated through a number of Federal Energy Regulatory Commission-licensed hydroelectric facilities, in addition to its power boiler.

The Cloquet Mill is partly supplied with internally generated electricity. The facility includes a hydroelectric plant that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet Mill has entered into a take-or-pay agreement to purchase a portion of its power from Minnesota Power. We may terminate this agreement at any time subject to a four-year notice period.

In 2009, we began to use an alternative fuel mixture containing diesel fuel and ''black liquor'', a by-product of pulp production, at our Somerset and Cloquet mills, for which we received various alternative fuel mixture and biofuel producer tax credits during fiscal 2009 and 2010.

Chemicals

Major chemicals used by our North American operations include clays, carbonates, latexes and plastic pigments, starches, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the speciality business. We purchase these chemicals from a variety of suppliers. Most of these chemicals are subject to price fluctuations based on a number of factors, including energy and crude oil prices, the availability of feedstocks, transportation costs and the specific market supply and demand dynamics.

Southern Africa

Wood

Through its direct ownership of plantations and contractual agreements with independent commercial growers, Sappi Forests is able to meet the annual fibre requirements of the Southern African region of 5.1 million tons per annum. During fiscal 2014 we completed the sale of our Usutu Forests business, which controlled approximately 67,000 hectares of softwood plantations in Swaziland. The sale was first announced in July 2013 in light of reduced softwood requirements of our South African operations following the dissolving wood pulp conversion project at our Ngodwana Mill.

Pulp

Our Southern African operations, in aggregate, manufacture all of the unbleached pulp required for our own paper production in the region. Bleached pulp is purchased from local and international suppliers.

Energy Requirements

Our energy requirements in southern Africa are principally met through the purchases of coal and electricity, supplemented by purchases of fuel, oil and natural gas. Coal, both for steam generation and electricity production, and oil are purchased on contract. Much of the energy demand is met by utilizing internally generated biomass and spent liquors from the pulping process. Electricity is supplied by Eskom, the state-owned electricity company, or generated internally. During the course of 2009, we commissioned a new electricity generating turbine unit at our Saiccor Mill, and we now generate in excess of 50% of the total electricity requirements of the mill. This electricity is generated from bio-fuel and represents an increase of 30% in our internal generation capacity.

Energy costs for our Southern African operations have risen sharply in recent years, which has had a significant impact on costs in the region. In both fiscal 2014 and the three months ended December 2014, electricity purchased from Eskom amounted to approximately 15% of the variable costs in our South African operations. Eskom has also recently struggled to meet demand and has warned that electricity shortages and conditions of intermittent supply could persist for some time.

We have contractually agreed to sell up to 25MW of electricity generated from the Saiccor and Ngodwana mills to Eskom under the Short Term Power Purchase Programme, and have an export agreement in place at our Ngodwana Mill currently exporting 8MW. Furthermore, we are currently pursuing a number of renewable and co-generation energy projects in order to further increase our electricity self-sufficiency in the region and thus to reduce the impact of higher than inflation electricity increases and unreliable supply that are expected over the forthcoming few years.

Chemicals

Major chemicals used by our South African operations include caustic soda, calcium carbonates, latexes, starches, sulphur and sulphuric acid. We purchase these chemicals from a variety of South African and overseas suppliers, and there are generally adequate sources of supply. Most of these chemicals are subject to commodity price and foreign currency fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feedstock, transportation costs and the specific market supply and demand dynamics.

Environmental and Safety Matters

Environmental Matters

We are subject to a wide range of environmental laws and regulations in each of the various jurisdictions in which we operate, and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including remedial costs and civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), water supply, wastewater discharges and solid and hazardous wastes. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly.

Europe

Our European facilities are subject to extensive environmental regulation in the European Union and the various countries in which we operate. For example, the air emissions, water discharge and pollution control standards required by the Integrated Pollution Prevention and Control Directive

(IPPC) and contained in the permits for our mill operations in the European Union are based on Best Available Techniques (BAT). On September 30, 2014, minimum criteria for BAT applicable to the production of pulp, paper and board were published in the European Union. The deadline for implementation is September 2018. Member states may, however, issue stricter limits than established, or choose whether to recognize exemptions authorized, by the European Union, and the national standards applicable to our facilities and operations have not been formalized. Accordingly, we are not able to estimate the related costs with any certainty at this time.

Other laws and regulations that apply to all our facilities in the European Union include:

- The national European laws that regulate waste disposal and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonize existing European and national regulations to provide better protection of human health and the environment through the registration and evaluation of certain chemicals is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. We also registered some intermediate substances in our pulp production processes.
- A timber and timber product regulation adopted by the European Commission, the obligations of which will also apply to our European operations. We believe that we meet these requirements as we have an effective certification and risk assessment system in place.
- The European Emission Trading System (ETS), in which all our European mills participate for the trading of allowances to emit carbon.

Previously, we had a surplus of emission rights due to our efforts to reduce our energy needs and to increase the share of renewable fuel use. These were either traded between mills or sold onto the market. In the current phase, 2013-2020, the allocation is based on a product benchmark and we expect to fall short of emission rights in some years, as the benchmark is very low. Costs to obtain additional emissions rights for 2014 and 2015 were not material.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reduction costs effectively.

North America

Our North American operations are subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act and their respective state counterparts and implementing regulations.

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. 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.

We closely monitor state, regional and Federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a Federal program for regulating GHG emissions, Congress has considered comprehensive Federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalized or proposed several rules relating to emissions reporting and emissions reductions, including final rules issued in December 2012 known as the ''Boiler MACT'' which establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. Current indications are that installation of emissions control equipment will be required at each mill and that overall compliance under the final rules will require capital expenditures of up to US$10 million by January 31, 2017, pursuant to a one-year extension granted by the relevant authority. Approximately US$2.3 million of this cost is expected to be incurred in fiscal 2015, with the remainder to be included in the annual budgets for fiscal 2016 and 2017. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know precisely the effect, if any, of such legislation on our financial results and our operations.

Southern Africa

In South Africa, our operations are regulated by various environmental laws, regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act, which recognizes that water is a scare resource and ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both our manufacturing and forestry operations. Abstraction of water, discharge of effluent and the growing and management of forests are all regulated through a licensing system issued in terms of this Act.
- The National Environmental Management Act, which establishes the procedures and institutions to facilitate and promote co-operative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorizations and imposes a duty of care regarding environmental harm.
- The National Environmental Management: Air Quality Act (promulgated in 2005), which impose more stringent compliance limits on the South African operations in 2015 and then again in 2020. The stricter standards as per the Air Quality Act coming into effect in 2015 are not expected to have a material impact on our mills. Capital expenditure costs for the Ngodwana Mill, the facility most impacted by the 2020 rules, are estimated to be approximately ZAR100 million over the next three to five years, and include costs for various maintenance and improvement projects, as well as those required to comply with the new emissions rules.
- The National Environmental Management: Waste Act (enacted in July 2009), which regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

The South African Government ratified the Kyoto Protocol in July 2002. The Government is currently in the process of setting desired emission reduction outcomes (DEROs) with industry sectors to achieve the committed targets. This requirement was initially referred to in the National Climate Change Response White Paper (NCCRWP), which discusses mitigation plans which will show how companies intend to achieve their DEROs. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2014 until at least 2017.

Carbon tax legislation is expected to be introduced to the legislature in 2016 and its introduction poses a potential risk of additional costs going forward for our South African operations. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa (PAMSA), to motivate the carbon tax design to incorporate rebates for carbon sequestration. Sappi's process starts with the planting of trees and its total supply chain is carbon neutral. In addition, PAMSA is driving the development of a local factor to input into the carbon accounting method that applies to the unique circumstances of plantation forestry in South Africa. The initiative is being developed in conjunction with the Department of Environment and local research institutions, and is supported by a portion of the grant allocated to sector research and development, supplied by the Department of Science and Technologies.

Safety Matters

The forestry, timber and pulp and paper industries involve inherently hazardous activities including, among other things, the operation of heavy machinery. All countries in which we have significant manufacturing operations, including South Africa, the United States and European countries, regulate health and safety in the workplace. We actively seek to reduce the frequency of accidents in our workplaces and to improve health and safety conditions by extensive training and educational programs.

Our global safety improvement initiative, Project Zero, sets out the goal of no injuries. It involves implementing behavior-based safety programs throughout our Group and focusing on those activities which have in the past resulted in injuries or fatalities.

In the United States, our North American business must comply with a number of Federal and state laws regarding health and safety in the workplace. The most important of these laws is the Federal Occupational Safety and Health Act.

In Europe, we participate in various governmental worker accident and occupational health insurance programs. In Belgium and The Netherlands, these programs are funded by mandatory contributions by employers and employees. In Germany, employee liability insurance is funded by the employer. In Austria, employment accident insurance is funded by the employer while occupational health insurance is funded partly by employees. In Finland, employment accident insurance is funded by the employer while occupational health insurance is funded partly by employees. The administrative board of the assigned insurance consists of representatives of government, employers and employees. The safety and health issues are integrated into the management systems and all of our European mills comply with health and safety legislation and are OHSAS 18001 certified.

In South Africa, we must comply with a number of laws regulating workers' compensation for injuries and health and safety within the workplace, the most important of which are the Occupational Health and Safety Act (No. 85 of 1993) and related regulations and the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) (the ''COIDA''). We are in possession of a Letter of Good Standing signifying our compliance with the COIDA. During any project involving construction, such as the dissolving wood pulp conversion project at Ngodwana, we are also required to comply with the ''Construction Regulations''. Our South African businesses are audited every two years to evaluate compliance with applicable safety legislation. All Pulp and Paper mills are OHSAS 18001:2007, FSC and ISO 14001:2004 certified. Our Sappi Forests are all FSC certified and apply the principles of OHSAS 18001:2007 and ISO 14001:2004 for health, safety and environmental management.

Property, Plant and Equipment

For a description of the production capacity of our mills, see ''—Facilities and Operations''.

For a description of the plantations we own or have recently sold, see ''—Facilities and Operations—Southern Africa—Sappi Forests'' and ''—Supply Requirements—Southern Africa''.

For a description of our capital expenditures, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources''.

The following table sets forth the location and use of our principal headquarters, manufacturing and distribution facilities as at December 2014. These facilities are owned unless otherwise indicated.

Location	Use	Approximate Size[(1)]	Secured/Leased
Johannesburg, South Africa	Sappi Headquarters	14,904 m^2	
North America			
Boston, Massachusetts	Headquarters[(10)]	2,964 m^2	Leased
Skowhegan, Maine (Somerset Mill)	Manufacturing facility: coated paper, softwood and hardwood pulp	1,083.7 ha	Financing Collateral
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility	123.4 ha	
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp	433.6 ha	Financing Collateral
Allentown, Pennsylvania	Coated paper sheeting facility	12.4 ha	
Dayton, New Jersey	Distribution center[(3)]	33,243 m^2	Leased
South Portland, Maine	Financial and customer service office[(2)]	4,500 m^2	Leased
Chicago, Illinois	Distribution center[(9)]	20,909m^2	Leased
Europe			
Bornem, Belgium	Distribution center[(10)]	5,328m^2	Leased
Brussels, Belgium	Headquarters[(4)]	0.2 ha	Leased
Gratkorn, Austria	Manufacturing facility: coated paper and pulp[(8)]	104.1 ha	Financing Collateral, Partly Leased
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	14.6 ha	Financing Collateral
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	37.1 ha	
Alfeld, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	51.7 ha	
Ehingen, Germany	Manufacturing facility: coated paper and pulp	43.4 ha	
Wesel, Germany	Distribution center[(5)]	7.1 ha	Partly Leased
Stockstadt, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	60.2 ha	
Kirkniemi, Finland	Manufacturing facility: coated paper and pulp	186.3 ha	Financing Collateral
Southern Africa			
Johannesburg, South Africa	Headquarters[(7)]		
Sappi Specialised Cellulose			
Umkomaas, South Africa	Manufacturing facility: dissolving wood pulp[(6)]	195.7 ha	
Sappi Paper and Paper Packaging			
Ngodwana, South Africa	Manufacturing facility: linerboard, newsprint, kraft pulp and dissolving wood pulp	5,304.9 ha	
Tugela, South Africa	Manufacturing facility: linerboard, corrugating medium, sackkraft and industrial kraft	808.3 ha	
Cape Kraft, South Africa	Manufacturing facility: linerboard and corrugating medium	9.5 ha	
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp[(6)]	243.0 ha	
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp[(6)]	55.4 ha	Partly Leased
Sappi Forests			
Barberton, South Africa (Lomati Sawmill)	Sawmill	24.1 ha	

(1) The approximate size measurement relates to, in the case of manufacturing and distribution facilities, the perimeter of the property on which the principal manufacturing or distribution facilities are situated and, in the case of offices, the interior office space owned or leased.

(2) Lease was renewed commencing May 2015 for approximately 3,500 sq. meters and expires in 2025.

(3) Subject to a lease expiring September 30, 2015.

(4) Subject to leases expiring in 2021.

(5) The property is subject to a heritable building right (''Erbbaurecht'').

(6) Substantial assets are leased pursuant to finance lease agreements.

(7) Included under Sappi Limited headquarters.

(8) Part of the Gratkorn Mill is built on land leased from the Gratkorn municipality.

(9) Subject to a lease expiring in 2018.

(10) Subject to lease expiring in 2021.

Employees

The following table sets forth the number of employees as at December 2014 and the close of each fiscal year ended September 2014, 2013 and 2012.

	December	September		
	2014	2014	2013	2012
Europe	5,157	5,246	5,611	5,765
North America	2,107	2,097	2,188	2,185
Southern Africa	5,426	5,486	5,637	5,856
Sappi Trading	124	134	144	145
Other	99	101	85	88
Total	**12,913**	**13,064**	**13,665**	**14,039**

Europe

A substantial number of our European employees are represented by trade unions.

Our European operations are subject to industry wide collective agreements that are in place with trade unions in Germany, Finland, Austria and Belgium and which relate to its employees in each of the relevant mills. At our mills in The Netherlands, we have entered into shop-floor agreements with the respective trade unions. Although we have in the past and may in the future experience work stoppages and other labor conflicts, overall labor relations have been stable in Europe.

In addition to trade unions, we also consult with various local, national and European works councils. These works councils primarily serve in an advisory role. We are required, under certain circumstances, to keep the works councils informed of activities that affect the workforce and to consult with one or more of the works councils before proceeding with a course of action. This is especially relevant for any major reorganization.

During fiscal 2014, several restructuring plans announced in prior years were implemented, impacting 210 positions. In addition, we announced and started implementing various initiatives to improve the competitiveness, efficiency and cost base of our business. This impacted our Lanaken, Maastricht and Kirkniemi mills as well as certain central functions and impacted about 110 positions. The disposal of the Nijmegen Mill in June 2014 resulted in about 200 positions being transferred to the purchaser.

There were no work stoppages across our European organization during fiscal 2014 and the three months ended December 2014 except in Kirkniemi, where production was disrupted for less than one day following the announcement of the restructuring initiative mentioned in the prior paragraph.

North America

Approximately 66% of employees are represented by eleven collective bargaining agreements with seven different unions. The majority of our North American hourly employees are represented by the United Steelworkers (USW) union. The labor contracts with the USW for the Somerset Mill expire in August 2015. The labor contracts with the USW for the Cloquet Mill expired on November 14, 2014 and for the Westbrook Mill on August 21, 2014. The labor contracts are automatically extended until either party terminates on 10 days' notice. We are currently negotiating new contracts with the USW at both locations.

We have experienced no work stoppage in North America in the past twenty years and believe that our relationship with our employees is satisfactory. In maintaining this relationship, we hope to reach agreements with our unions as contracts expire. In the event that an agreement cannot be reached with any of the unions and a prolonged work stoppage ensues, curtailment of output could negatively impact our business.

Southern Africa

Approximately 60.2% of our Southern African permanent employees are represented by trade unions.

Our annual negotiations in the Pulp and Paper Chamber of the Industry Bargaining Council were concluded in July 2014 and in the Sawmilling Chamber in August 2014. Wages for Forestry workers are determined by Sectoral Determination for Forestry Workers and these were implemented in April 2014.

We have experienced no strike action in our Southern African operations since 2011. We have worked diligently to develop constructive and beneficial relationships with our recognized trade unions and to this end have developed the National Partnership Forum which is attended by senior Sappi management and trade union representatives. The objective of this forum is to discuss developments in the industry and matters of mutual interest which affects both parties.

The Employment Equity Act (No. 55 of 1998) requires certain employers to implement affirmative action measures designed to ensure that suitably qualified persons from previously disadvantaged groups have equal opportunities and are equitably represented in all occupational categories and levels in the workforce. In complying with the Act, we have developed the Transformation Charter which is a strategy document aimed at driving transformation and supports the Employment Equity initiatives. Sappi Southern Africa submitted its 2014/2015 Employment Equity Plan, which was accepted by the Department of Labour. The Department of Labour also performed an on-site review of the 2011-2014 Plan and were satisfied with Sappi's compliance with the Employment Equity Act. In order to address the underrepresentation of previously disadvantaged employees in some occupational categories in Sappi, special attention is being given to the promotions, appointments and new hire of employees in those categories.

The Skills Development Act (No. 97 of 1998), Skills Development Levies Act (No. 9 of 1999) and the National Qualifications Framework Act (67 of 2008), have continued to receive significant attention during fiscal 2014. Equity forums established under the Employment Equity Act are mandated to serve as Learning Forums, and their constitutions, roles and responsibilities continue to be encouraged. This process has been integrated into our transformation strategy. A skills levy of 1%, specified in accordance with the Skills Development Levies Act, was paid via Internal Revenue to the Fibre Processing and Manufacturing Sectoral Education Authority (''FPM SETA'') and we continue to utilize opportunities to apply for special discretionary grants to drive learning and development.

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 56% of employees presented themselves for HIV testing and counseling (HCT) ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2014 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 16.5% versus the South African workforce prevalence rate of 19.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.6% in 2013 to 0.4% in 2014.

In circumstances where headcount reductions are being considered, the legal consultation process has been followed with employees and their representatives. During fiscal 2014 we undertook a restructuring process in our head office which resulted in a headcount reduction of 45 employees. At Tugela Mill, Paper Machine 4 was mothballed and the commercial department at Enstra Mill was closed, with some of the duties being transferred to our head office. These changes affected 190 employees.

In October 2014 we announced the closure of the coater at Stanger Mill and the closure of Paper Machine 3 at Enstra Mill. The consultation process is currently underway. We do not foresee any forced redundancies as employees will be redeployed elsewhere in our Southern African operations and will also replace employees who have chosen to take a voluntary severance package.

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. 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 56 open land claims against Sappi. At the end of December 2014, the status of these claims are as follows: 9 claims (covering 8,654 hectares) have been agreed and sold, 25 claims (covering 50,587 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-four claims (covering 37,658 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 2014, the investigation remains in its early stages.

MANAGEMENT

Directors and Executive Management

The Memorandum of Incorporation of Sappi Limited provides that the Board of Directors (the ‘‘Board’’) must consist of not less than four nor more than twenty Directors at any time. The Board currently consists of fourteen Directors.

The business address for all of the Directors is 48 Ameshoff Street, Braamfontein, Johannesburg 2001, Republic of South Africa. The Directors are South African citizens except for Godefridus Beurskens (a Dutch citizen), Robert DeKoch and Karen Osar (United States citizens), Michael Fallon, Sir Nigel Rudd and Stephen Binnie (British citizens) and Dr. Rudolf Thummer (an Austrian citizen).

Non-executive directors

Dr. Daniël (Danie) Christiaan Cronjé
(Independent Chairman)

Age : 68

Qualifications : BCom (Hons), MCom, DCom

Nationality : South African

Appointed : January 2008

Sappi board committee memberships
Nomination and Governance Committee (Chairman) (Attends Audit Committee meetings, Human Resources and Compensation Committee meetings and Social, Ethics, Transformation and Sustainability Committee Meetings Ex Officio)

Skills, expertise and experience
Dr. Cronjé retired in July 2007 as Chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African Banking organization in which Barclays plc. obtained a majority share in 2005). Dr. Cronjé had been with ABSA Group since 1975 and held various executive positions including Group Chief Executive for four years and chairman for 10 years. Prior to that Dr. Cronjé was lecturer in Money and Banking at Potchefstroom University.

Godefridus (Frits) Peter Franciscus Beurskens
(Independent)

Age : 67

Qualifications : BSc Mechanical Engineering, MSc Industrial Engineering and Management Science

Nationality : Dutch

Appointed : October 2011

Sappi board committee memberships
Audit Committee

Other board and organization memberships
Board Director of Smurfit Kappa Group plc.
Member of a number of supervisory boards of Dutch companies / foundations
Advisory roles in the paper industry

Skills, expertise and experience
The Smurfit Kappa Group is a leader in paper-based packaging with annual sales of more than €7 billion globally. As president and chief executive officer of Kappa Packaging (€3 billion turnover), prior to its merger with the Smurfit Group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe’s largest companies operating in the production, development and sale of containerboard, corrugated board, solid board packaging, graphic board and speciality board. He is a past chairman of CEPI (the Confederation of European Paper Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer in the Order of Oranje Nassau and received a knighthood.

Robert (Bob) John DeKoch
(Independent)

Age : 62

Qualifications : BA (Chemistry), MBA

Nationality : American

Appointed : March 2013

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee

Other board and organization memberships
The Boldt Company (President)
Palmer Johnson Power Systems
New North, Inc (Chairman)
The Building for Kids

Skills, expertise and experience
Mr. DeKoch is the current President and Chief Operating Officer of The Boldt Company in Appleton, Wisconsin, USA. Prior to joining The Boldt Company, Mr. DeKoch served as a production manager and mill manager, as well as VP of manufacturing for Appleton Papers (USA). He has co-authored two books on leadership thinking.

Michael (Mike) Anthony Fallon
(Independent)

Age : 57

Qualifications : BSc (Hons) (First Class)

Nationality : British

Appointed : September 2011

Sappi board committee memberships
Audit Committee
Human Resources and Compensation Committee

Skills, expertise and experience
Mr. Fallon retired as an Executive Director of Nippon Sheet Glass Company Ltd (NSG Group) at the end of June 2012. Prior to retirement, Mr. Fallon was president of NSG's global automotive division heading up all the glass and glazing operations in the key automotive regions across the world. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisition experience. He was president of Pilkington operations in North America and has been director and chairman of companies in the United Kingdom, New Zealand and Finland.

Dr. Deenadayalen (Len) Konar
(Independent)

Age : 61

Qualifications : BCom, MAS, DCom, CA (SA), CRMA

Nationality : South African

Appointed : March 2002

Sappi board committee memberships
Audit Committee (Chairman)
Nomination and Governance Committee

Other board and organization memberships
Exxaro Resources Limited (Chairman)
Illovo Sugar Limited
Lonmin plc.
Alexander Forbes Group Holdings Limited
Mustek Limited (Chairman)
Steinhoff International Holdings Limited (Chairman)

Skills, expertise and experience
Previously professor and head of the Department of Accountancy at the University of Durban-Westville, Dr. Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (Co-chairman).

Nkateko Peter Mageza
(Independent)

Age : 60

Qualifications : FCCA (UK)

Nationality : South African

Appointed : January 2010

Sappi board committee memberships
Audit Committee Human Resources and Compensation Committee

Other board and organization memberships
Anglo American Platinum
Eqstra Holdings Limited (Chairman)
Ethos Private Equity (Pty) Limited
RCL Foods Limited (formerly Rainbow Chickens Limited)
Remgro Limited
MTN Group Limited

Skills, expertise and experience
Mr. Mageza joined the Sappi Board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and Executive Director of ABSA Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.

John (Jock) David McKenzie
(Independent)

Age : 67

Qualifications : BSc Chemical Engineering (cum laude), MA

Nationality : South African

Appointed : September 2007

Sappi board committee memberships
Human Resources and Compensation Committee Social, Ethics, Transformation and Sustainability Committee (Chairman)

Other board and organization memberships
Capitec Bank
Coronation Fund Managers
University of Cape Town Foundation (Chairman)
Rondebosch Schools Education Trust (Chairman)
Carleton Lloyd Education Trust (Chairman)

Skills, expertise and experience
Mr. McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the Chairman and Chief Executive Officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000-2003.

Mohammed Valli (Valli) Moosa
(Non-independent)

Age : 58

Qualifications : BSc (Mathematics)

Nationality : South African

Appointed : August 2010

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee

Other board and organization memberships
Anglo Platinum Limited (Chairman)
Imperial Holdings Limited
Lereko Investments Proprietary Limited (Deputy Chairman)
Various other associate companies of Lereko Investments Proprietary Limited
Sanlam Limited
Sun International Limited (Chairman)
WWF—SA (Chairman)

Skills, expertise and experience
Mr. Moosa is currently the Deputy Chairman of Lereko Investments Proprietary Limited, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. To name but a few, he was South African Minister of Constitutional Development; the President of the International Union for the Conservation of Nature; and Chairman of the UN Commission for Sustainable Development, and he served as a member of the National Executive Committee of the African National Congress until 2009.

Karen Rohn Osar
(Independent)

Age : 65

Qualifications : MBA, Finance

Nationality : American

Appointed : May 2007

Sappi board committee memberships
Audit Committee

Other board and organization memberships
Innophos Holdings, Inc. (also Chairperson of Audit Committee)
Webster Financial Corporation (also Chairperson of Audit Committee)

Skills, expertise and experience
Mrs. Osar was Executive Vice President and Chief Financial Officer of speciality chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was Vice President and Treasurer for Tenneco, Inc. and also served as Chief Financial Officer of Westvaco Corporation and as Senior Vice President and Chief Financial Officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a Managing Director of the Investment Banking Group. She has chaired several external board audit committees.

Bridgette Radebe
(Independent)

Age : 55

Qualifications : BA (Pol Sc and Socio)

Nationality : South African

Appointed : May 2004

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee

Other board and organization memberships
Mmakau Mining (Pty) Ltd (Executive Chairperson)
South African Mining Development Association (President)
New Africa Mining Fund (Founder and Board Trustee)

Skills, expertise and experience
Mrs. Radebe was the first black South African deep-level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines. She participated in the design of the South African Mining Charter and present mining legislation.

Anthony Nigel (Sir Nigel) Russell Rudd
(Lead Independent Director)

Age : 68

Qualifications : DL, Chartered Accountant

Nationality : British

Appointed : April 2006

Sappi board committee memberships
Human Resources and Compensation Committee (Chairman) Nomination and Governance Committee

Other board and organization memberships
Aquarius Platinum (Non-executive Director and Chairman Designate)
BBA Aviation plc (Chairman)
Business Growth Fund (Chairman)
Cyden Limited (Non-executive Director)
Heathrow Airport Holdings Limited (Chairman)
iPulse Limited (Non-executive Director)

Skills, expertise and experience
Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc. in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby Universities. In 1995 he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

Dr. Rudolf Thummer
(Independent)

Age : 67

Qualifications : Dr. Techn, Dipl-Ing

Nationality : Austrian

Appointed : February 2010

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee

Skills, expertise and experience
Dr. Thummer joined the Sappi Board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld Mill. In 1990 he was appointed Technical Director of Alfeld Mill. In 1992, Dr. Thummer became an Executive Board Member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen mills. In 1998 he moved to Sappi Fine Paper Europe based in Brussels as Technical Director and Executive Board Member. He served as Group Head Technology of Sappi Limited from January 1, 2006 up to his retirement at the end of December 2007.

Executive directors
Stephen (Steve) Robert Binnie
(Executive director and Chief Executive Officer)

Age : 47

Qualifications : BCom, BAcc, CA (SA), MBA

Nationality : British

Appointment Date : September 2012

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee
Attends meetings of all other board committees by invitation

Skills, expertise and experience
Mr. Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014. He joined Sappi in July 2012 as Chief Financial Officer designate and was appointed Chief Financial Officer and Executive Director from September 1, 2012. Prior to joining Sappi, he held various senior finance roles and was previously Chief Financial Officer of Edcon (Pty) Limited for 10 years after having been in a senior finance role at Investec Bank Limited for four years.

Glen Thomas Pearce
(Executive director and Chief Financial Officer)

Age : 51

Qualifications : BCom, BCom (Hons) CA(SA)

Nationality : South African

Appointment Date : July 2014

Sappi board committee memberships
Expected to attend Audit Committee meetings by invitation.

Skills, expertise and experience
Mr. Pearce joined Sappi Ltd in June 1997 as Financial Manager and subsequently held various senior finance roles in South Africa and in Belgium before being promoted to Chief Financial Officer and Executive Director of Sappi Ltd in July 2014. Prior to joining Sappi, he worked at Murray and Roberts Limited from 1992 to 1996.

Executive Management

Mark Gardner, President and Chief Executive Officer of Sappi North America

Age: 59
Qualifications: BSc (Industrial Technology)

Mr. Gardner was named President and Chief Executive Officer of Sappi North America (SNA) in 2007 and is responsible for leading all Sappi operations in the region. That same year, he was also appointed to the SNA board. He joined Sappi in 1981 and his experience includes serving as the Vice-President of Manufacturing and Vice-President of Supply Chain, prior to which he worked in a variety of production management roles at Sappi, including Production Manager at the Westbrook Mill, Paper Mill Manager at the Somerset Mill, Managing Director at the Muskegon Mill and Director of Engineering and Manufacturing Technology at the regional head office in Boston. In 2009, Mr. Gardner received the TAPPI (Technical Association of the Pulp and Paper Industry)/PIMA (Paper Industry Management Association) Executive of the Year Award. The award is the highest recognition for leadership and management given by PIMA. He currently serves as Vice Chairman on the board of directors of the American Forest & Paper Association. In September 2012, he was appointed to the Board of Trustees for the University of Maine System.

Alexander (Alex) Van Coller Thiel, Chief Executive Officer of Sappi Southern Africa

Age: 54
Qualifications: BSc Mechanical Engineering, MBA (Financial Management and IT)

Mr. Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003, he became the Director Logistics, reporting to the Chief Executive Officer of Sappi Europe. He was appointed as Group Head Procurement, Sappi Limited in January 2008 and Integration Executive, in charge of the integration of the acquired M-real business into Sappi's operations in September 2008. He led a project to redefine and implement Sappi's ''go-to-market'' strategy in Europe from October 2009. Mr. Thiel was appointed Chief Executive Officer of Sappi Southern Africa with effect from December 1, 2010.

Berend (Berry) John Wiersum, Chief Executive Officer of Sappi Europe

Age: 59
Qualifications: MA (Medieval and Modern History)

Mr. Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Europe. Prior to joining Sappi, Mr. Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director of Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Middle East and North Africa. Mr. Wiersum was Chairman of CEPI (Confederation of European Paper Industries) from 2011 - 2012.

Gary Bowles, Executive Vice President Sappi Specialised Cellulose

Age: 54
Qualifications: BSc Electrical Eng, PMD, EDP

Mr. Bowles joined Saiccor Mill in 1990. He served in various positions at the mill until he was appointed as General Manager of Sappi Saiccor Mill in 2004. In January 2011, he was appointed as Managing Director of Sappi Specialised Cellulose and in July 2011, Mr. Bowles joined the Group Management Team with responsibility for the increased need to coordinate the global marketing, sales and customer engagement responsibilities of our Specialised Cellulose business, while continuing to be responsible for dissolving wood pulp production in South Africa. In October 2013, he joined the Group Executive Committee as Executive Vice President Sappi Specialised Cellulose and joined the Sappi North American board, releasing his manufacturing role at the Sappi Saiccor Mill.

Andrea Rossi, Group Head Technology

Age: 61
Qualifications: BSc Eng (Hons), C Eng, FCMI

Mr. Rossi joined Sappi in 1989. Prior to becoming Group Head Technology, Mr. Rossi held numerous roles in the company including Project Director Sappi Saiccor 'Amakhulu' expansion project, Sappi Kraft Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra Mill, and Engineering Services Manager for Sappi Management Services.

Fergus Marupen, Group Head Human Resources

Age: 50
Qualifications: BA (Hons) Psychology, B.Ed (Education Management), MBA (Executive)

Mr. Marupen joined Sappi in March 2015 as Group Head Human Resources and as a member of both the Group Executive Committee and the Sappi Southern Africa Executive Committee.

Mr. Marupen joined us from Business Unity South Africa where he had been the Acting Chief Operating Officer for the past two years focusing on the day-to-day activities of the organisation, as well as its restructuring. Prior to that he was Group Executive Human Resources for ABSA where he oversaw the development and roll-out of HR strategies for ABSA's South African and African operations. He has also held executive management positions with Kumba Iron Ore and BHP Billiton (Energy Coal business).

Maarten van Hoven, Group Head Strategy and Legal

Age: 41
Qualifications: BProc, LLM (International Business Law)

Mr. van Hoven joined Sappi in December 2011. Mr. van Hoven, an admitted attorney of the High Court in South Africa, has held various positions at the South African Competition Commission, most recently as Divisional Manager: Mergers & Acquisitions. As well as being on the Group Executive Committee, he has joined the boards of Sappi Europe, Sappi North America and Sappi Southern Africa.

Executive Officers

The Executive Directors and the people listed as executive management above are the Executive Officers of Sappi.

The business address of Messrs. Stephen R. Binnie, Gary Bowles, Glen T. Pearce, Maarten von Hoven, Andrea Rossi, Fergus Marupen and Alexander van Coller Thiel is 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa. The business address of Mr. Mark R. Gardner is 255 State Street, Boston, MA 02109, United States. The business address of Mr. Berend J. Wiersum is 166, Chaussée de la Hulpe, B-1170 Watermael-Boitsfort, Belgium.

Compensation

The non-executive directors' fees are proposed by the Executive Committee and agreed by the Compensation Committee and approved by the Board, subject to final approval by shareholders.

See notes 35 to 37 to our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum for details, by director, on Directors' and Senior Management remuneration, Directors' service contracts, Directors' interests and Directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Trust.

See notes 35 to 37 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum for details of payments to senior management.

Board Practices

At every annual general meeting, as near as possible to, but not less than, one third of the directors (excluding any director appointed after the conclusion of the preceding annual general meeting) are required to retire from office but are eligible for re-election. The directors to retire are those who have been longest in office since their last election, or as between directors who have been in office for an equal length of time since their last election, in the absence of agreement, determined by lot. In addition, the appointment of any director appointed since the last annual general meeting will be required to be confirmed. Any director so appointed will also retire at the meeting and be eligible for re-election.

The following table sets forth the terms of office of the Directors.

Name	Start of term	Latest date of end of term
Godefridus Peter Franciscus Beurskens	2014	2017
Stephen Robert Binnie	2013	2016
Daniël Christiaan Cronjé	2015	2018
Robert John DeKoch	2014	2017
Michael Anthony Fallon	2014	2017
Deenadayalen Konar	2014	2017
Nkateko Peter Mageza	2015	2018
John David McKenzie	2015	2018
Mohammed Valli Moosa	2015	2018
Karen Rohn Osar	2013	2016
Glen Thomas Pearce	2015	2018
Bridgette Radebe	2014	2017
Sir Nigel Rudd	2015	2018
Rudolf Thummer	2013	2016

No retirement or other benefits arise from the retirement of Directors by rotation or on termination for any other reason.

Audit Committee

An Audit Committee of the Board was established in 1984 and assists the Board in discharging its responsibilities to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, Group policies, legal requirements and internal controls within the Group. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the Group's code of ethics.

The Audit Committee is appointed by shareholders at the annual general meeting each year and consists of five independent non-executive directors of the Board (Deenadayalen Konar (Chairman), Godefridus (Frits) Peter Franciscus Beurskens, Michael Anthony Fallon, Nkateko Peter Mageza and Karen Rohn Osar) and is directed by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The Chairman of the Group attends Committee meetings ex officio. The Audit Committee meets with senior management, which includes the Chief Executive Officer and the Chief Financial Officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the Committee and its Chairman. The Audit Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit Committee Chairman on a regular basis. The Audit Committee Chairman attends the annual general meeting. Deenadayalen Konar has been designated as the Audit Committee's financial expert.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis, and they meet at least four times per year.

Nomination and Governance Committee

The Nomination and Governance Committee of the Board consists of three independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group and of the Committee, Deenadayalen Konar and Sir Nigel Rudd). The Committee considers the composition of the Board, retirements and appointments of additional and replacement non-executive directors and makes appropriate recommendations to the Board. The Chief Executive Officer attends meetings by invitation.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee of the Board consists of four independent non-executive directors (Sir Nigel Rudd, the Chairman of the Committee, Michael Anthony Fallon, Nkateko Peter Mageza and John David McKenzie). The responsibilities of the

Committee are, among other things, to determine human resource policy and strategy, and regarding compensation, mainly to determine the remuneration and incentives in respect of the Chief Executive Officer and those executives reporting directly to the Chief Executive Officer. The Chairman of the Group attends meetings of the committee ex officio. The Chief Executive Officer attends meetings by invitation.

Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability Committee of the Board consists of four independent non-executive directors (John ''Jock'' David McKenzie (Chairman), Robert John DeKoch, Bridgette Radebe and Dr. Rudolf Thummer) and one non-executive director (Mohammed Valli Moosa), as well as the Chief Executive Officer, Mr. Stephen Robert Binnie. The Committee's mandate is essentially to oversee the Group's activities in the areas of social and ethics responsibilities, transformation responsibilities and sustainability strategies.

Corporate Governance

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. The Group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III) and applies the various principles. The Group is listed on the JSE Limited and complies in all material respects with the JSE listings requirements, regulations and codes.

Share Ownership

The Sappi Limited Share Incentive Trust (''Scheme'')

We have offered a share purchase scheme to eligible officers and employees since 1979. During March 1997, The Sappi Limited Share Incentive Trust, as amended from time to time (the ''Share Incentive Scheme''), was adopted at the Annual General Meeting of Sappi Limited. Under the Share Incentive Scheme, Officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors may be offered the opportunity to acquire ordinary shares (''Scheme Shares''), options to acquire ordinary shares (''Share Options'') or rights and options to enter into agreements with the Sappi Limited Share Incentive Trust to acquire shares (''Allocation Shares''). Participants may also be given the opportunity to acquire a combination of Scheme Shares, Share Options and Allocation Shares.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result, the Sappi Limited Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Scheme is the limitation of Trustees' and Sappi Limited Board of Directors' discretionary powers relating to prospective Scheme share issues to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Share Incentive Trust rules. The revised rules became effective in January 2011.

The Sappi Limited Performance Share Incentive Trust (''Plan'')

From the 2005 fiscal year we have also offered a performance share incentive plan to eligible officers and employees. Under the Sappi Limited Performance Share Incentive Trust (the ''Performance Share Incentive Plan''), officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered Conditional Contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the Human Resources and Compensation Committee of the Board (''Performance Criteria'') applicable to each Conditional Contract are met or exceeded, then Participants are entitled to receive such number of shares as specified in the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria entails a benchmarking of the company's total shareholder return and cash flow return on net assets against an appropriate peer group of companies.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result, the Sappi Limited Performance Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Plan is the limitation of Trustees' and Sappi Limited Board of Directors' discretionary powers relating to prospective plan conditional share awards to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Performance Share Incentive Trust rules. The revised rules became effective in January 2011.

For a detailed description of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust, see note 29 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

Black Economic Empowerment Trusts (''B-BBEE Trusts'')

In June 2010, Sappi completed a B-BBEE deal to comply with South African legislation to increase the participation of Historically Disadvantaged South Africans in the South African economy. The B-BBEE deal resulted in the B-BBEE Trusts and certain strategic partners holding, collectively, Ordinary and ''A'' Ordinary Shares equivalent to 4.5% of Sappi Limited, which corresponded to an effective 30% interest in Sappi's South African business post the deal. The 30% is in terms of the Forestry Charter and B-BBEE legislation in general.

Under the deal, ''A'' Ordinary shares were issued to the B-BBEE Trusts. These ''A'' Ordinary shares were financed by notional loans from Sappi Limited to the B-BBEE Trusts. The loans are repayable on August 30, 2019 when the shares convert to ordinary shares based on a conversion formula. The B-BBEE Trusts consist of three trusts, the ESOP Trust for the benefit of certain employees of Sappi's South African business, the MSOP Trust for the benefit of Black Managers of Sappi's South African business and the Sappi Foundation for the benefit of certain local communities in South Africa.

For a detailed description of the B-BBEE Trusts see note 29 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum and see ''Major Shareholders and Certain Transactions—Related Party Transactions''.

Directors and Executive Management

At the end of December 2014, certain Directors and Executive Management of Sappi had been granted an aggregate of 14,300 Share Options and 3,235,500 Performance Shares. None of the Directors and Executive Management of Sappi holds more than 1% of our issued share capital. See notes 35 to 37 to our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum for details individually by director and for senior management of participation in the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust.

The director Mr. M V Moosa is the Deputy Chairman of Lereko Investments Proprietary Limited and holds 31.8% of Lereko Investments. Lereko Investments holds 1,971,693 Sappi Limited shares as part of the B-BBEE transaction.

MAJOR SHAREHOLDERS AND CERTAIN TRANSACTIONS

Major Shareholders

The following table sets forth certain information with respect to the ownership of the ordinary shares, R1.00 par value, of Sappi Limited by the shareholders of record of Sappi Limited as of January 2, 2015, holding 5% or more of the outstanding ordinary shares.

Name of Registered Holder	Number of Shares	Percentage
Public Investment Corporation	74,537,706	14.2
All Directors and Executive Officers as a Group	3,596,720	0.6

The authorized share capital of Sappi Limited consisted of 325,000,000 Ordinary Shares as of September 28, 2008, was increased to 1,325,000,000 on November 4, 2008, and was subsequently reduced to 725,000,000 on March 2, 2009. On April 29, 2010, the authorized share capital was increased by 19,961,476 ''A'' Ordinary Shares with a par value of ZAR1.00 per ''A'' Ordinary Share. The ''A'' Ordinary Shares rank *pari passu* with the ordinary shares in all respects except for dividend entitlements, where the ''A'' Ordinary Shares are entitled to 50% of the dividends payable on the ordinary shares.

On June 11, 2010 Sappi issued 4,328,353 Ordinary Shares and 19,961,476 ''A'' Ordinary Shares, as part of the B-BBEE transaction. See ''—Related Party Transactions'' and notes 18 and 29 of our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum for details relating to the B-BBEE transaction.

As of January 25, 2015, the issued Ordinary Share capital consisted of 541,446,223 Ordinary Shares, of which 16,103,318 Ordinary Shares are held in treasury. The remaining 525,342,905 issued Ordinary Shares have full voting rights. The issued ''A'' Ordinary Share capital consisted of 19,961,476 ''A'' Ordinary Shares, issued as part of the B-BBEE transaction. The issued ''A'' Ordinary Shares are treated as treasury shares as the share trusts owning such shares are considered special purpose entities under IFRS. The ''A'' Ordinary treasury shares differ from the 16,103,318 Ordinary Shares held in treasury, in that the ''A'' Ordinary treasury shares have full voting rights. The Ordinary Shares are listed shares, whilst the ''A'' Ordinary shares are unlisted shares. The ''A'' Ordinary Shares have the potential to convert into Ordinary Shares in 2019. See ''—Related Party Transactions'' for a summary of the conversion into Ordinary Shares.

It is common in South Africa for shares to be held through nominees. As of January 2, 2015, the five largest ordinary share shareholders of record (all of which are nominees) owned approximately 57% of the shares. We believe that, as of January 2, 2015, based on registered addresses and disclosure by nominee companies, 18% of our shares were held beneficially in North America, 71% of our shares were held beneficially in South Africa and 11% of our shares were held beneficially in Europe and elsewhere, excluding the shares owned by our subsidiaries.

Pursuant to section 56 of the South African Companies Act, if a security of a public company is registered in the name of a person who is not the holder of the beneficial interest in all of the securities held by that person, that registered holder must disclose in writing to the company, within five business days after the end of every month during which a change has occurred (or more frequently to the extent provided by the requirements of a central securities depository), the identity of the person on whose behalf that security is held and the identity of each person with a beneficial interest in the securities so held, the number and class of securities held for each such person with a beneficial interest and the extent of each such beneficial interest. A company that knows or has reasonable cause to believe that any of its securities are held by one person for the beneficial interest of another may require either of these persons, by written notice, to confirm or deny this fact, to provide particulars to the extent of the beneficial interest held during the three years preceding the date of the notice and disclose the identity of each person with a beneficial interest in the securities held by that person. A further disclosure obligation, pursuant to section 122 of the South African Companies Act, requires that every person must notify a regulated company within three business days after that person either (i) acquires a beneficial interest in sufficient securities of a class issued by that company, such that as a result of the acquisition, the person holds a beneficial interest in securities amounting to 5% or a whole multiply of 5% of the issued securities of that class or (ii) disposes of a beneficial interest in sufficient securities of a class issued by that company such that, as a result of the disposition, the person no longer holds a beneficial interest in securities amounting to a particular multiple of 5% of the issued securities of that class. We have authorized JP Morgan Cazenove to conduct a monthly investigation into the beneficial ownership of Sappi Limited shares including those in nominee holdings. All beneficial holdings are investigated to determine whether there are any shareholders who hold 5% or more of our shares and these investigations have as of January 2, 2015, revealed the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Name of Shareholder	Number of Shares	Percentage
Public Investment Corporation	74,537,706	14.2

Further, as a result of these investigations, we have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that as of January 2, 2015, the following fund managers were responsible for 5% or more of the issued share capital of Sappi Limited.

Name of Fund Manager	Number of Shares Managed	Percentage
Allan Gray Limited	69,060,753	13.1
Investec Asset Management	65,137,624	12.4
Public Investment Corporation	61,189,863	11.6
Coronation Asset Management	56,458,726	10.7
Prudential Portfolio Advisors	46,462,471	8.8

Under South African law, there is no obligation on the part of our shareholders to disclose to us arrangements or understandings that may exist between or amongst them with respect to the holding or voting of shares unless such arrangement or understanding constitutes an affected transaction under the South African Companies Act. An ''affected transaction'' in respect of a company includes a transaction or series of transactions amounting to the disposal of all or the greater part of the assets or undertaking of the company, an amalgamation or merger involving the company, a scheme of arrangement between a company and its shareholders, the acquisition of, or announced intention to acquire, a beneficial interest in voting securities of the company, the announced intention to acquire a beneficial interest in the remaining voting securities of the company not already held by a person or persons acting in concert, a mandatory offer for the company's voting securities and a compulsory acquisition of the company's voting securities.

Related Party Transactions

Transactions between Sappi Limited and its subsidiaries, which are related parties of Sappi, or between Group companies have been eliminated on consolidation and are not disclosed herein. Details of transactions between the Group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
Joint ventures	2014	2013	2012	2014	2013	2012	2014	2013	2014	2013
					(US$ million)					
Jiangxi Chenming Paper Company Limited[(1)]	**—**	—	0.4	**—**	—	0.2	**—**	—	**—**	—
Sapin S.A.	**0.6**	0.6	0.6	**31.2**	28.1	28.3	**—**	—	**1.7**	0.9
proNARO GmbH[(2)]	**—**	—	—	**162.7**	96.4	—	**—**	—	**7.1**	4.0
Umkomaas Lignin (Pty) Ltd	**7.2**	7.2	8.2	**—**	0.2	0.3	**1.0**	1.5	**—**	—
Papierholz Austria GmbH	**—**	—	—	**115.7**	99.3	96.0	**—**	—	**5.1**	7.7
Energie Biberist AG[(3)]	**—**	—	—	**—**	—	5.6	**—**	—	**—**	—
	7.8	7.8	9.2	**309.6**	224.0	130.4	**1.0**	1.5	**13.9**	12.6

(1) The Group disposed of its 34% shareholding in this entity during the 2012 financial year.

(2) During fiscal 2013, the Group entered into a joint venture agreement to hold 50% of the equity interest in this entity.

(3) The Group disposed of Sappi Schweiz AG during the 2012 fiscal year. Sappi Schweiz AG held the 10% shareholding in Energie Biberist AG.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the Group are disclosed in note 27 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum. No expense has been recognized in fiscal 2014 for bad or doubtful debts in respect of the amounts owed by related parties.

Directors

See notes 35 to 37 to our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum for details, by director, on directors' remuneration, directors' service contracts, directors' interests and directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Plan.

Interest of directors in contracts

Other than Mr. Moosa's interest in the B-BBEE Transaction described above under ''—Management—Share Ownership—Directors and Executive Management'' and in note 29 to our Group annual financial statements for the year ended September 2014 contained elsewhere in this Offering Memorandum, the directors do not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

Broad Based Black Economic Empowerment (''B-BBEE'') Transaction

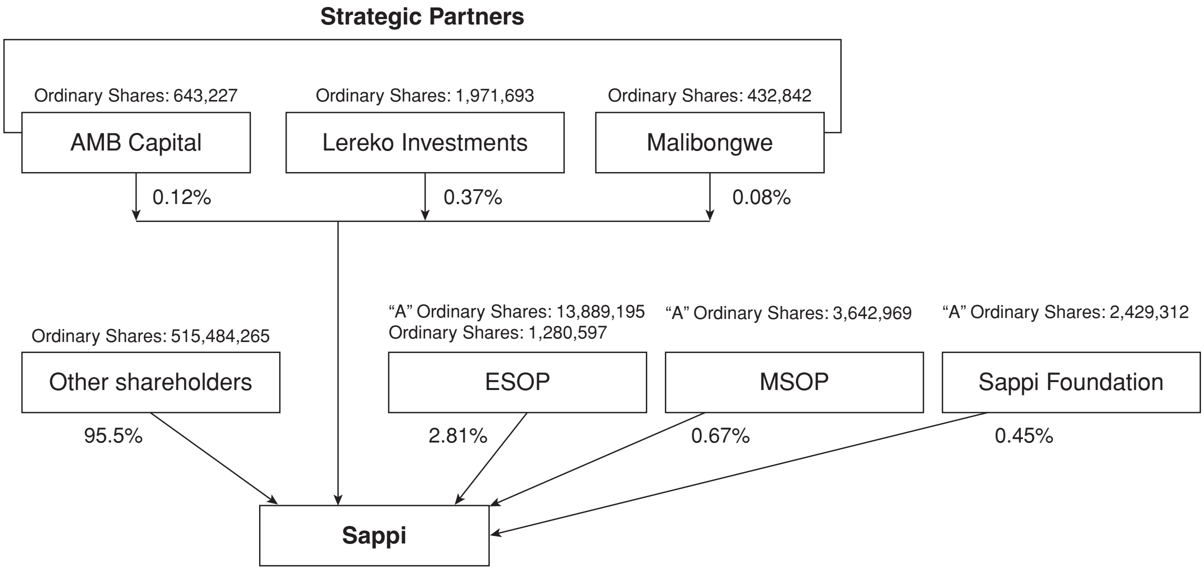
In June 2010, Sappi completed a Broad Based Black Economic Empowerment (''B-BBEE'') transaction (the ''B-BBEE Transaction''). The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (''HDSAs'') in the South African economy and, through B-BBEE legislation, formalized the country's approach in this regard. See ''Management's Discussion and Analysis of Fiscal Condition and Results of Operations—South African Economic and Political Environment''.

In April 2006 Sappi announced a B-BBEE transaction (the ''Plantation B-BBEE Transaction'') with Lereko Property Company Proprietary Limited (''LPC''), a B-BBEE company set up to house a consortium consisting of Lereko Investments Proprietary Limited, AMB Capital Limited and Malibongwe Women Development Trust (collectively, the ''Strategic Partners''), pursuant to which LPC acquired a 25% undivided share in Sappi's South African plantation land, excluding the value of the plantations, owned by Sappi and/or Sappi Southern Africa Limited (previously Sappi Manufacturing and Sappi Southern Africa Proprietary Limited), coupled with the right to develop the land not utilized for forestry operations. Sappi Southern Africa Limited retained the right of use over all the land under the underlying arrangements. As part of the Plantation B-BBEE Transaction, 30% of LPC was set aside for the benefit of certain categories of Sappi's South African employees, who did not participate in any Sappi share incentive scheme. The balance of the shareholding in LPC was held by Lereko Investments (46.19%), Malibongwe (10.14%) and AMB Capital (13.67%).

However, the Plantation B-BBEE Transaction did not meet Sappi's 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, Sappi decided to unwind the Plantation B-BBEE Transaction, which resided at a South African subsidiary level, and to implement the B-BBEE Transaction, a new sustainable transaction of equivalent value at the holding company level using its listed securities.

Sappi views B-BBEE as a key requirement for sustainable growth and social development in South Africa. The B-BBEE Transaction enabled Sappi to meet its B-BBEE targets in respect of B-BBEE equity ownership. The B-BBEE Transaction comprised two distinct parts. The first part entailed the issue of ordinary shares to the Strategic Partners and the Sappi employees who were to be participants in the Plantation B-BBEE Transaction, as part of the unwinding of the rights from that transaction. The second part consisted of the creation and issuance of a new class of unlisted equity shares referred to as ''A'' Ordinary shares. The ''A'' Ordinary shares were issued at their par value of ZAR1.00 to a trust for the benefit of certain Sappi employees including HDSAs (the ''ESOP Trust''), a trust for the benefit of certain Sappi managers that are HDSAs (the ''MSOP Trust'') and a trust for the benefit of tree growers and communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the ''Sappi Foundation Trust'', and together with the ESOP Trust and the MSOP Trust, the ''B-BBEE Trusts''). The issuance of the ''A'' Ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the B-BBEE Trusts. The B-BBEE Transaction resulted in the B-BBEE Trusts and the Strategic Partners holding, collectively, ordinary and ''A'' Ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and B-BBEE legislation in general.

Post transaction shareholding structure



The total value of the B-BBEE Transaction, based on the 30 day volume weighted average price (VWAP) of Sappi's ordinary shares as at Friday February 5, 2010, of ZAR33.50 amounted to ZAR814 million (US$115 million). As part of the B-BBEE transaction, Sappi issued an aggregate of 24.3 million shares, comprising 4.3 million Ordinary shares and 20 million ''A'' Ordinary shares. The value of their shareholding in LPC attributable to the Strategic Partners is ZAR102.1 million and the value of the South African employees' 30% entitlement in LPC, which will be held through the ESOP Trust, is ZAR42.9 million.

The ''A'' Ordinary shares rank *pari passu* with and have the same rights and obligations attached as the ordinary shares in all respects except for dividend entitlements where the ''A'' Ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The ''A'' Ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE.

Sappi will have the option to repurchase a number of ''A'' Ordinary Shares at the end of the Transaction in August 2019. The number of ''A'' Ordinary Shares Sappi may be entitled to repurchase will be calculated according to a repurchase formula set forth in Sappi's Memorandum of Incorporation. The number of any ''A'' Ordinary Shares that Sappi may elect to buy back in August 2019 will depend on the price performance of the Ordinary Shares over the period of the Transaction with the remaining ''A'' Ordinary Shares being distributed to the beneficiaries of the B-BBEE Trusts (or, in the case of the Sappi Foundation Trust, continued to be held by such trust) and converted into Ordinary Shares.

For financial reporting purposes the ''A'' Ordinary Shares are treated as treasury shares, as the B-BBEE Trusts owning such shares are considered special purpose entities under IFRS.

The B-BBEE deal involved the specific issue for cash of Ordinary Shares at full market value and ''A'' Ordinary Shares at par value.

DESCRIPTION OF OTHER FINANCING ARRANGEMENTS

Our existing indebtedness is comprised of 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 ''Use of Proceeds'', ''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 2014 contained elsewhere in this Offering Memorandum.

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.

As described in ''Summary—Recent Developments—Amended and Restated Revolving Credit Facility'', in connection with the Refinancing, we intend to enter into an Amended and Restated Revolving Credit Facility which will replace our Existing Revolving Credit Facility. As of the date of this Offering Memorandum, the definitive facility documentation for the Amended and Restated Revolving Credit Facility has not been agreed to or executed by the borrowers, guarantors and other parties expected to be parties thereto, so the summary of the terms of such documentation set forth below is subject to change, and there can be no assurance that such facility or other documentation described below will become available on the terms summarized below or at all.

Amended and Restated Revolving Credit Facility

In connection with the Refinancing, we intend to enter into an amended and restated revolving credit facility (the ''Amended and Restated Revolving Credit Facility'') providing for borrowings of up to €465 million and maturing in 2020. Borrowings under the Amended and Restated Revolving Credit Facility will be available for drawing in euro, US dollars or any other currency which is readily available and freely convertible into euro and which has been approved by all the lenders.

Borrowers

The borrowers under the Amended and Restated Revolving Credit Facility will be the Issuer and Sappi International SA. Other wholly owned subsidiaries of Sappi Limited may accede as borrowers under the Amended and Restated Revolving Credit Facility if such subsidiaries are approved by all the lenders.

Guarantees

The Amended and Restated Revolving Credit Facility will be guaranteed by Sappi Limited and by substantially the same subsidiaries of Sappi Limited that guarantee the notes. The obligations of the guarantors will be subject to certain customary limitations as shall be set forth in the Amended and Restated Revolving Credit Facility in order to comply with applicable laws in the various guarantors' jurisdictions of incorporation. The guarantees will 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 Amended and Restated Revolving Credit Facility at the request of Sappi Limited.

Guarantor coverage test

The Amended and Restated Revolving Credit Facility will contain guarantor coverage tests pursuant to which we will be required to test whether the aggregate EBITDA of the guarantors that are either the Issuer 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 the Issuer and its subsidiaries (the ''Guarantor Coverage Group''), respectively, each quarter. If this minimum percentage is not satisfied, additional subsidiaries will be required to accede to the Amended and Restated Revolving Credit Facility as additional guarantors to maintain compliance with these guarantor coverage tests. We will also be required to ensure a relevant Group company (excluding a southern African subsidiary) accedes to the Amended and Restated 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 Amended and Restated Revolving Credit Facility will be secured on a *pari passu* basis by substantially the same collateral that secures the obligations under the notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2021 Notes.

Amount and repayment of borrowings

Loans under the Amended and Restated Revolving Credit Facility will 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 Amended and Restated Revolving Credit Facility.

Interest rates and fees

The annual interest rate on loans is to be 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 Amended and Restated Revolving Credit Facility or, if such rating is not assigned, the long-term rating assigned to the Group. Interest on loans will be 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 will be required to pay a commitment fee equal to 40% of the then applicable margin *per annum* on the undrawn and uncancelled amount of the Amended and Restated Revolving Credit Facility and a utilization fee of 0.15% *per annum* (if the aggregate outstanding loans are less than 33⅓% of the maximum amount of the Amended and Restated Revolving Credit Facility), 0.25% *per annum* (if the aggregate outstanding loans are equal to or greater than 33⅓% and up to 66⅔% of the maximum amount of the Amended and Restated Revolving Credit Facility) or 0.40% *per annum* (if the aggregate outstanding loans are greater than 66% 2/3 of the maximum amount of the Amended and Restated Revolving Credit Facility) on the amount of the aggregate outstanding loans under the Amended and Restated Revolving Credit Facility.

Financial covenants

The Amended and Restated Revolving Credit Facility will include financial covenants which will require that:

- on each quarter end date, the ratio of EBITDA to consolidated net interest expense (as such terms shall be defined in the Amended and Restated 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 Amended and Restated 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
March 2015	4.25:1
June 2015-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 shall be defined in the Amended and Restated 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 Amended and Restated 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 Amended and Restated Revolving Credit Facility will contain 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 Amended and Restated Revolving Credit Facility will also contain, 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 Amended and Restated 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 Amended and Restated Revolving Credit Facility will contain 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 the Issuer'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 Amended and Restated Revolving Credit Facility.

Existing Revolving Credit Facility

On August 27, 2009, the Issuer and Sappi International SA, as borrowers, entered into a revolving credit facility (which, as amended and restated, is our ''Existing 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 Existing 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 Existing Revolving Credit Facility on September 19, 2013. The Existing Revolving Credit Facility is guaranteed by Sappi Limited and by substantially the same subsidiaries of Sappi Limited that guarantee the notes, and the obligations under the Existing Revolving Credit Facility are secured on a *pari passu* basis by substantially the same collateral that secures the obligations under the notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2021 Notes.

The annual interest rate on loans is calculated based on LIBOR or, for borrowings in euro, EURIBOR, plus a margin that varies between 1.650% and 4.750% *per annum* depending on the credit rating assigned to the Existing Revolving Credit Facility or, if such rating is not assigned, the long-term rating assigned to the Group, plus certain mandatory costs. We are also required to pay a commitment fee equal to 40% of the then applicable margin *per annum* on the undrawn and uncancelled amount of the Existing Revolving Credit Facility and a utilization fee of 0.25% *per annum* (if the aggregate outstanding loans are in an amount greater than 25% but less than or equal to 50% of the maximum amount of the Existing Revolving Credit Facility) or 0.50% *per annum* (if the aggregate outstanding loans are greater than 50% of the maximum amount of the Existing Revolving Credit Facility) on the amount of the aggregate outstanding loans under the Existing

Revolving Credit Facility. As of the date of this Offering Memorandum, the Existing Revolving Credit Facility is entirely undrawn.

The Existing Revolving Credit Facility includes an interest coverage covenant (ratio of EBITDA to consolidated net interest expense (as such terms are defined in the Existing Revolving Credit Facility) for the previous four consecutive quarters should not be less than 2.50:1 until March 2016) and a leverage covenant (ratio of net debt to EBITDA (as such terms are defined in the Existing Revolving Credit Facility) for the previous four consecutive quarters should not be greater than 4.25:1 for the quarter ending December 2014, 4.00:1 for the quarter ending March 2015, and 3.75:1 for all quarters ending June 2015 to March 2016).

If a lender so requires, the commitments of that lender under the Existing 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 in case any person or group of persons acting in concert acquire (directly or indirectly) more than 35% of the voting rights of Sappi Limited or in case of a sale of all or substantially all of the assets of our Group.

The Existing 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. Furthermore, we are restricted from paying any dividends where the aggregate amount would exceed 100% of the net aggregate profits of the Group (adjusted for special items and other adjustments), the ratio of total net debt to EBITDA specified in the latest compliance certificate exceeds 4 to 1, or an event of default has occurred and is continuing. The covenants are subject to exceptions and materiality thresholds.

The Existing Revolving Credit Facility also contains, among others, the following affirmative covenants: mandatory periodic reporting of financial and other information, notice upon the occurrence of events of default 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.

2018 and 2021 Secured Notes

On April 14, 2011, the Issuer issued €250 million 6.625% Senior Secured Notes due 2018 (the ''2018 Notes'') and US$350 million 6.625% Senior Secured Notes due 2021 (the ''2021 Notes''). The interest on the 2018 Notes and the 2021 Notes is payable semi-annually on April 15 and October 15 of each year, commencing on October 15, 2011. The 2018 Notes and the 2021 Notes mature on April 15, 2018 and April 15, 2021, respectively.

The Issuer may redeem all or part of the 2018 Notes prior to April 15, 2015 or all or part of the 2021 Notes prior to April 15, 2016, in each case, 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. The Issuer may redeem all or part of the 2018 Notes on or after April 15, 2015 or all or part of the 2021 Notes on or after April 15, 2016, in each case, at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% in respect of the 2018 Notes redeemed on or after April 15, 2017 and in respect of the 2021 Notes redeemed on or after April 15, 2019.

The 2018 Notes and the 2021 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of the Issuer that guarantee the notes. The 2018 Notes and 2021 Notes are secured by first-priority security interests, subject to permitted collateral liens, over substantially the same assets of Sappi Limited, the Issuer and the other subsidiary guarantors that secure the notes, the 2017 Notes, the 2019 Notes and the Existing 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 2018 Notes and 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 2018 Notes and 2021 Notes have the right to require the Issuer to repurchase all or any part of their 2018 Notes and 2021 Notes at a purchase price equal to 101% of the principal amount of the 2018 Notes or 2021 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2018 Notes and 2021 Notes was not registered under the Securities Act or any U.S. state securities laws. The 2018 Notes and 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 2018 Notes and 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 2014 included elsewhere in this Offering Memorandum.

2017 and 2019 Secured Notes

On July 5, 2012, the Issuer issued US$400 million 7.75% Senior Secured Notes due 2017 (the ''2017 Notes'') and US$300 million 8.375% Senior Secured Notes due 2019 (the ''2019 Notes''). The interest on the 2017 Notes is payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2013, and the interest on the 2019 Notes is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2012. The 2017 Notes and the 2019 Notes mature on July 15, 2017 and June 15, 2019, respectively.

The Issuer may redeem all or part of the 2017 Notes prior to April 15, 2017 or all or part of the 2019 Notes prior to June 15, 2015, in each case, 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. The Issuer 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 Issuer may redeem all or part of the 2019 Notes on or after June 15, 2015 at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% in respect of the 2019 Notes redeemed on or after June 15, 2015.

The 2017 Notes and the 2019 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of the Issuer that guarantee the notes. The 2017 Notes and 2019 Notes are secured by first-priority security interests, subject to permitted collateral liens, over substantially the same assets of the Sappi Limited, the Issuer and the other subsidiary guarantors that secure the notes, the 2018 Notes, the 2021 Notes and the Existing 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 and 2019 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 and 2019 Notes have the right to require the Issuer to repurchase all or any part of their 2017 Notes and 2019 Notes at a purchase price equal to 101% of the principal amount of the 2017 Notes or 2019 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2017 Notes and 2019 Notes was not registered under the Securities Act or any U.S. state securities laws. The 2017 Notes and 2019 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 and 2019 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 2014 included elsewhere in this Offering Memorandum.

OeKB Term Loan Facility

General

On July 10, 2012, the Issuer 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. 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 Offering Memorandum, the outstanding balance under the OeKB Term Loan Facility is €118 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

The Issuer 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 the Issuer that guarantee the notes. 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 Existing Revolving Credit Facility, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2021 Notes and that will secure the notes and, once entered into, the Amended and Restated Revolving Credit Facility.

Repayment of borrowings

The Issuer 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 (2.00% at BB+/Ba1 or higher, 2.50% at BB/Ba2, 2.75% at BB−/Ba3, 3.25% at B+/B1 and 4.75% at B/B2 or lower), plus certain mandatory costs. Initially, the margin is 2.75% 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 Existing Revolving Credit Facility. In connection with our entry into the Amended and Restated Revolving Credit Facility, we intend to amend and restate the OeKB Term Loan Facility to substantially conform these other material terms to those of the Amended and Restated 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 the notes 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 the Issuer, Sappi Lanaken NV, Sappi Deutschland GmbH, 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. The Issuer 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 the Issuer 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 2014, the external securitization funding under the trade receivables program was US$347 million. For further information, see notes 17 and 21 to our Group annual financial statements for the year ended September 2014 included elsewhere in this Offering Memorandum.

2032 Notes

In June 2002, the Issuer (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 2014 included elsewhere in this Offering Memorandum.

Intercreditor Agreement

General

On the closing date of this offering, the trustee for the notes acceded to an intercreditor agreement, dated as of August 27, 2009, as amended from time to time, among Sappi Limited, the Issuer, the several Guarantors, the other obligors, the security agent, the agent and lenders under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility) and any hedging creditor (the ''Intercreditor Agreement''). The trustee in respect of each of the 2017 Notes, 2018 Notes, 2019 Notes and the 2021 Notes acceded to the Intercreditor Agreement on the date such notes were issued. The trustee for the notes acceded to the Intercreditor Agreement on the Issue Date.

Upon completion of the Refinancing, the term ''Secured Creditors'' under the Intercreditor Agreement will include the security agent, the agent and lenders under the Amended and Restated Revolving Credit Facility, the trustee on behalf of holders of the 2017 Notes, the trustee on behalf of holders of the 2021 Notes, the trustee on behalf of holders of the notes, any hedging creditor, any future secured creditor and any receiver appointed by the security agent pursuant to any of the security documents.

The Intercreditor Agreement is governed by English law.

The Intercreditor Agreement includes terms that establish:

- the appointment of the security agent to hold the Collateral created by the security documents;
- the circumstances in which the security documents may be enforced;
- the order for applying proceeds from an enforcement in respect of the Collateral; and

- the circumstances in which the Collateral may be shared on a *pari passu* basis with additional third party creditors.

Priority of Secured Debt

The Intercreditor Agreement purports to rank the debt held by the Secured Creditors that is secured by the Collateral (the ''Secured Debt'') *pari passu* without any preference between any class of Secured Debt.

Enforcement

The classes of Secured Creditors permitted to instruct the security agent to enforce the security documents under the Intercreditor Agreement will be:

- the agent for the Existing Revolving Credit Facility (or, once entered into, the Amended and Restated Revolving Credit Facility), acting upon the instructions of the lenders whose commitments aggregate more than 66⅔% of total commitments thereunder or, if total commitments have been reduced to zero, lenders whose participations in the Revolving Credit Facility aggregate more than 66⅔% of the amount then outstanding thereunder;
- the trustee under the 2017 Notes indenture, acting upon the instructions of holders of at least 25% of the then outstanding 2017 notes;
- the trustee under the 2021 Notes indenture, acting upon the instructions of holders of at least 25% of the then outstanding 2021 Notes;
- the trustee under the Indenture, acting upon the instructions of holders of at least 25% of the then outstanding notes; and
- each agent acting on behalf of any other class of Pari Passu Lenders which provide Pari Passu Debt from time to time.

Pari Passu Debt can be incurred by one or more members of the Group from time to time in accordance with the terms of the Intercreditor Agreement and provided it is designated as Pari Passu Debt and subject to certain other conditions it shall be secured by the Collateral.

The Intercreditor Agreement provides that the hedging creditors will not have the right to instruct the security agent to enforce the security documents.

The Intercreditor Agreement specifies procedures that must be followed for a class of Secured Creditors to instruct the security agent to enforce the Collateral. One class of Secured Creditors must accelerate its indebtedness and deliver notice of its acceleration to the agents for the other Secured Creditors and the security agent. After delivery of an acceleration notice, the agents for the Secured Creditors are required to consult with one another and the security agent in good faith with a view to coordinating enforcement instructions for up to 10 business days commencing two days after delivery of the acceleration notice (the ''Consultation Period''). If the Collateral is enforceable in accordance with its terms at the conclusion of the Consultation Period, the class of Secured Creditors that accelerated their indebtedness may instruct the security agent to enforce or to refrain from enforcing the Collateral.

The agents are not required to consult if:

- the Collateral has become enforceable as a result of an insolvency event; or
- the agent that delivered the acceleration notice determines in good faith that consultation and delaying enforcement of the Collateral could reasonably be expected to have a material adverse effect on the ability to enforce any of the Collateral or the realization of proceeds of any enforcement of the Collateral.

If the security agent has not received instructions to enforce the Collateral after a Consultation Period or if it received instructions to refrain from enforcing the Collateral, an agent for one of the other classes of Secured Creditors may instruct the security agent to enforce the Collateral.

Instructions to enforce the Collateral must be in accordance with certain security enforcement principles including:

- It shall be the aim of any enforcement of the Collateral to achieve the ''Security Enforcement Objective'', which means maximizing, so far as is consistent with prompt and expeditious enforcement of the Collateral, the recovery by the Senior Creditors.
- On:
  - (a) a proposed enforcement of any of the Collateral over assets other than shares in a member of the Group, where the aggregate book value of such assets exceeds €1 million (or its equivalent); or
  - (b) a proposed enforcement of any of the Collateral over some or all of the shares in a member of the Group over which Collateral exists,

  the security agent shall (unless it is incompatible with, or unnecessary in respect of enforcement procedures in a relevant jurisdiction) obtain an opinion from a reputable internationally recognized investment bank or international accounting firm that the consideration for the sale is fair from a financial point of view after taking into account all relevant circumstances and that such sale is in accordance with the Security Enforcement Objective.

The security enforcement principles may be amended, varied or waived with the prior written consent of the majority Senior Creditors (being the relevant required majority of each class of Secured Creditors).

The security agent shall enforce the Collateral in accordance with enforcement instructions received and pursuant to the Security Enforcement Objective.

If the security agent has not received instructions to enforce the Collateral after a Consultation Period, if it received instructions to refrain from enforcing the Collateral, or if it receives no instructions it determines are in the best interests of achieving the Security Enforcement Objective, the security agent may act as it sees fit in accordance with the Security Enforcement Objective.

The enforcement of the security interests may be limited if a court-appointed trustee (*Kurator*) is appointed under Austrian law. Following the appointment of such court-appointed trustee, neither the trustee for the notes nor individual noteholders will have the power to instruct the security agent to enforce the noteholders' collective rights under the notes. No assurance can be given that such court-appointed trustee will exercise its powers in accordance with the best interests of the noteholders. In addition, the noteholders will not be able to direct the actions taken on their behalf by the court-appointed trustee. See ''Risks Related to the Notes and the Guarantees—You may not be able to independently exercise rights arising from the notes, to enforce claims under Austrian law or to instruct a court-appointed trustee (*Kurator*)''.

Enforcement Proceeds

Upon completion of the Refinancing, the Intercreditor Agreement will provide that, following any enforcement of the security documents, the claims of the security agent, any receiver appointed by the security agent pursuant to any of the security documents, the trustees and the agents will have first-ranking claims (without any priority between themselves to the proceeds of the enforcement action), followed by the claims of the obligations under the Existing Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the obligations under the 2017 Notes indenture, the obligations under the 2021 Notes indenture, the obligations under the Indenture, the obligations of any hedging creditor and the obligations under any other Secured Debt (including any Secured Debt owed to an additional Secured Creditor) ranking *pari passu* that has acceded to the Intercreditor Agreement pro rata according to the respective amounts among themselves. The balance (if any) will be paid to the Issuer and the Guarantors and any other obligors under the Secured Debt. The security agent will apply amounts received following enforcement, including recoveries from enforcement, in accordance with this priority.

The Intercreditor Agreement contains customary turnover and equalization provisions.

Appointment of Security Agent

The Intercreditor Agreement sets out the terms on which the security agent holds the benefit of the security documents. In the case of Secured Debt taking the form of syndicated loans or notes, the security agent shall deal only with the administrative representatives of the holders of such Secured Debt and not with such holders themselves.

The security agent shall not be obliged to take any action (including with respect to taking enforcement proceedings or enforcing the security documents) unless indemnified to its satisfaction. The security agent and its respective directors and officers shall be entitled to enter into transactions in the ordinary course of business with the obligors, any Secured Creditor and any other party to the Secured Debt documents or any of their respective subsidiaries or associated companies, without accounting for any profit resulting therefrom and may accept any office or position with the issuer, any Secured Creditor or any other party to the Secured Debt documents or any of their respective subsidiaries or associated companies.

Except as provided above, wherever in the security documents the security agent is required in connection with any exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Secured Creditors, it shall have regard only to the interest of the Secured Creditors as a whole and, in particular, but without prejudice to the generality of the foregoing, shall not be obliged to have regard to the consequences of such exercise for any individual Secured Creditor.

The security agent is not obliged to insure any Collateral, or require any other person to maintain or monitor the adequacy of such insurance, and will not be responsible for any loss, expense or liability which may be suffered as a result of the lack of, or inadequacy of, such insurance. The security agent has not undertaken and will not undertake any independent investigation, searches or other actions to verify the title of any security provider to the Collateral or compliance by any obligor with its respective representations, warranties and undertakings under the transaction documents. The security agent has not investigated or will not investigate the efficacy or enforceability of any of the security documents.

Parallel Debt

In certain jurisdictions, a security interest in the Collateral is not granted directly to the lenders under the Revolving Credit Facility (and, once entered into, the Amended and Restated Revolving Credit Facility), the trustee for the 2017 Notes, the trustee for the 2018 Notes, the trustee for the 2019 Notes, the trustee for the 2021 Notes and the trustee for the notes, but is granted only in favor of the security agent as beneficiary of parallel debt obligations (the ''Parallel Debt''). The Parallel Debt is in an amount up to the amount of debt held by the Secured Creditors (the ''Principal Obligations''). Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations.

Limitation on Principal Property as Security

The Intercreditor Agreement contains provisions intended to ensure that the security over Principal Property (as defined under the 2032 Notes) securing certain debt does not require any of the 2032 Notes to be secured equally and ratably with such secured debt.

The Intercreditor Agreement provides that, prior to the final redemption of the 2032 Notes, the obligations secured by security over Principal Property shall not exceed the lesser of (i) the Maximum Secured Amount and (ii) the Cap Amount and shall secure such obligations in the order set out in the Intercreditor Agreement. In this context, ''Maximum Secured Amount'' means the maximum amount of obligations that may be secured by security over Principal Property without requiring any 2032 Notes to be equally and ratably secured (taking into account any other lien to secure debt and sale and leaseback transactions that have the effect of reducing the amount of obligations that may be so secured), and ''Cap Amount'' means (i) initially, €430 million or (ii) the greatest amount to which the Maximum Secured Amount shall have been increased pursuant to any reestablishment of the Maximum Secured Amount as a result of the granting of security over Principal Property. As a result of the issuance of the notes, the Maximum Secured Amount will be reestablished at approximately €330 million.

The Intercreditor Agreement further provides that except for the granting of security in connection with certain financings contemplated by the Intercreditor Agreement, including the incurrence of *pari passu* debt, Sappi Limited will not permit any member of the group to incur any lien on any Principal Property to secure debt (a ''Third Party Lien''), or to enter into any sale and leaseback transaction on any Principal Property, in each case that results in a reduction of the Maximum Secured Amount below the Cap Amount as in effect (or at any time when the Maximum Secured Amount is less than the Cap Amount as in effect) at the time of such incurrence or entering into such transaction. The term ''Third Party Lien'' excludes security (i) granted in connection with certain financings contemplated by the Intercreditor Agreement, including the incurrence of *pari passu* debt, and (ii) the creation, incurrence or assumption of which is not prohibited by the terms of the 2032 Bonds.

In addition, in respect of any Third Party Lien, the Intercreditor Agreement requires Sappi Limited and the Issuer to procure that as a condition of the grant of such Third Party Lien, the relevant security document creating each such Third Party Lien shall contain limitations which provide that on a re-establishment of the Maximum Secured Amount pursuant to the granting of any security over Principal Property to an amount which is lower than the then applicable Cap Amount (a ''Downward Re-establishment''), the security over Principal Property granted pursuant to such Third Party Liens will be released to the extent necessary to avoid such Downward Re-establishment or released in full in the event that the amount by which the Maximum Secured Amount is decreased by such Downward Re-establishment would otherwise exceed the amount of Debt secured by such Third Party Liens. This provision does not, however, apply to Debt secured by Third Party Liens up to a maximum aggregate amount of €25 million outstanding at any time.

Sharing of Collateral

The Intercreditor Agreement provides that, subject to the terms of the financing documents for the Secured Debt, third party creditors of the Guarantors and other obligors holding indebtedness in an amount greater than a specified amount may accede to the Intercreditor Agreement as additional Secured Creditors with respect to such debt and thereby share in the Collateral on the terms set out in the Intercreditor Agreement.

The sharing of the Collateral is subject to certain limitations under relevant local law. Further, the pool of Secured Creditors and Secured Debt may be increased, thus resulting in a reduction in the pro-rated recovery of enforcement proceeds by the existing Secured Creditors.

Release of Collateral

The Intercreditor Agreement provides that the security agent may release the Collateral under certain conditions, including in connection with the enforcement of the security documents or in connection with the sale of assets permitted by relevant financing documents.

Amendments

The security agent has the right to make amendments which are minor or of a technical nature to the Intercreditor Agreement without any further consent from the Secured Creditors. In all other respects, the security agent shall take instructions from the Secured Creditors in accordance with the terms of the financing documents for the Secured Debt.

DESCRIPTION OF NOTES

Sappi Papier Holding GmbH (''*SPH*'' or the ''*Issuer*'') has issued €450 million aggregate principal amount of senior secured notes due 2022 (the ''*Notes*'') under an indenture dated as of March 23, 2015 (the ''*Indenture*'') among itself, as issuer, Sappi Limited (the ''*Parent*''), each of the Parent's other subsidiaries that guarantee the Notes (the ''*Subsidiary Guarantors*'') and The Bank of New York Mellon, as trustee (the ''*Trustee*''), in a private transaction that is not subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the ''*U.S. Securities Act*''). See ''Transfer Restrictions''. The terms of the Notes include those set forth in the Indenture. The Indenture will not incorporate or include, or be subject to, any of the provisions of the U.S. Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture, the Notes, the Collateral Documents and the Intercreditor Agreement. This does not restate those agreements in their entirety. We urge you to read the Indenture, the Collateral Documents and the Intercreditor Agreement because they, and not this description, define your rights as holders of the Notes. Copies of the Indenture, the form of Notes and the Intercreditor Agreement are available as set forth below under ''—Additional Information''.

Certain defined terms used in this description but not defined below under ''—Certain Definitions'' have the meanings assigned to them in the Indenture. You can find the definitions of certain terms used in this description under the subheading ''—Certain Definitions''. In this description, the terms ''Issuer'' or ''SPH'' refer only to SPH and the term ''Parent'' refers only to the Parent, and these terms do not refer to any of SPH's or the Parent's Subsidiaries.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

Brief Description of the Notes and the Note Guarantees

The Notes

The Notes:

- will be general obligations of the Issuer;
- will be secured as described under ''—Security'';
- will be *pari passu* in right of payment with all existing and future senior Indebtedness of the Issuer, including, upon completion of the Refinancing, the 2017 Notes, the 2021 Notes, the Revolving Credit Facility and the OeKB Term Loan Facility;
- will be senior in right of payment to any future subordinated Indebtedness of the Issuer; and
- will be unconditionally guaranteed by the Guarantors, subject to limitations under applicable law.

The Note Guarantees

The Notes will be guaranteed by the Guarantors. The words ''Subsidiary Guarantors'' refer to Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi Europe SA, Sappi International SA, Sappi Lanaken NV, Sappi Lanaken Press Paper NV, Sappi Finland I Oy, Sappi Deutschland Holding GmbH, Sappi Alfeld GmbH, Sappi Deutschland GmbH, Sappi Ehingen GmbH, Sappi Stockstadt GmbH, Sappi Netherlands B.V., Sappi Maastricht B.V., Sappi Pulp Asia Limited, SDW Holdings Corporation, S.D. Warren Company and Sappi Cloquet LLC.

Each Note Guarantee:

- will be a general obligation of the Guarantor;
- will be secured as described under ''—Security'';
- will be *pari passu* in right of payment with all existing and future senior Indebtedness of that Guarantor, including, upon completion of the Refinancing, the Guarantee of the 2017 Notes, the 2021 Notes, the Revolving Credit Facility and the OeKB Term Loan Facility by that Guarantor; and

• will be senior in right of payment to any future subordinated Indebtedness of that Guarantor.

Not all of the Parent's Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer, the Parent or to a Guarantor Subsidiary. During fiscal 2014 and the three months ended December 28, 2014, the Guarantors represented 71% of our sales and approximately 55% and 50%, respectively, of our total EBITDA excluding special items, and as of December 28, 2014, the Guarantors represented approximately 68% of our total assets. See the Guarantor/Non-Guarantor financial information included elsewhere in this Offering Memorandum for more detail about the division of the Parent's consolidated revenues and assets between its guarantor and non-guarantor Subsidiaries.

The operations of the Issuer and the Parent are conducted through their Subsidiaries and, therefore, the Issuer and the Parent depend on the cash flow of their respective Subsidiaries to meet their obligations, including the Parent's obligations under its Guarantee. The Notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Parent's non-guarantor Subsidiaries. Any right of the Parent, the Issuer or any Subsidiary Guarantor to receive assets of any of its non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganization (and the consequent right of the holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer, the Parent or such Subsidiary Guarantor is itself recognized as a creditor of the non-guarantor Subsidiary, in which case the claims of the Parent, the Issuer or such Subsidiary Guarantor, as the case may be, would still be subordinate in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Parent, the Issuer or such Subsidiary Guarantor. As of December 28, 2014, on a *pro forma* basis after giving effect to the Refinancing, the Parent's non-guarantor Subsidiaries would have had approximately US$596 million of third-party interest bearing liabilities outstanding.

As of the Issue Date, all of the Parent's Subsidiaries will be ''Restricted Subsidiaries'' for purposes of the Indenture. However, under the circumstances described below under the caption ''—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries'', the Parent will be permitted to designate Restricted Subsidiaries as ''Unrestricted Subsidiaries''. The Parent's Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. The Parent's Unrestricted Subsidiaries will not guarantee the Notes.

Principal, Maturity and Interest

The Issuer has issued €450 million in aggregate principal amount of Notes in this offering. The Issuer may issue additional Notes under the Indenture (the ''*Additional Notes*'') from time to time after this offering. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock''. The Notes and any Additional Notes that are actually issued will be treated as a single class for all purposes of the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, except as otherwise provided in the Indenture, provided that if any Additional Notes are not fungible with the Notes initially offered hereby for U.S. federal income tax purposes, such Additional Notes will have one or more separate CUSIP/ISIN numbers. Unless the context otherwise requires, references to the ''Notes'' for all purposes of the Indenture and in this ''Description of Notes'' include references to any Additional Notes that are actually issued. The Issuer has issued Notes in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will mature on April 1, 2022. The Notes will be paid at par on maturity.

Interest on the Notes will accrue at the rate of 3⅜% per annum. Interest on the Notes will be payable semi-annually in arrears on April 1 and October 1 commencing on October 1, 2015. Interest on overdue principal and interest, including Additional Amounts (as defined herein), if any, will accrue at a rate that is 1% higher than the interest rate on the Notes. The Issuer will make each interest payment to the holders of record of the Notes on the immediately preceding March 15 and September 15.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "*Paying Agent*") for the Notes in each of the City of London and, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, Luxembourg. The Issuer will ensure that it maintains a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing, or complying with or introduced in order to conform to, such directive. The initial Paying Agents will be The Bank of New York Mellon, London Branch in London and The Bank of New York Mellon (Luxembourg) S.A. in Luxembourg.

The Issuer will also maintain one or more registrars (each, a "*Registrar*") with offices in Luxembourg, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require. The Issuer will also maintain a transfer agent in each of London and Luxembourg. The initial Registrar will be The Bank of New York Mellon (Luxembourg) S.A. The initial transfer agent will be The Bank of New York Mellon, London Branch. The Registrar and the transfer agents will maintain a register reflecting ownership of Definitive Registered Notes (as defined herein) outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Issuer.

The Issuer may change the Paying Agents, the Registrars or the transfer agents without prior notice to the holders. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a newspaper having a general circulation in Luxembourg or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange.

Transfer and Exchange

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by one or more global Notes in registered form without interest coupons attached (the "*144A Global Note*"), and Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by one or more global Notes in registered form without interest coupons attached (the "*Reg S Global Note*"). The Reg S Global Note and the 144A Global Note are collectively referred to as the "Global Notes".

During the 40-day distribution compliance period, book-entry interests in the Reg S Global Note may be transferred only to non-U.S. Persons under Regulation S under the U.S. Securities Act or to persons whom the transferor reasonably believes are "qualified institutional buyers" within the meaning of Rule 144A under the U.S. Securities Act in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction.

Ownership of interests in the Global Notes (the "*Book-Entry Interests*") will be limited to Persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "Transfer Restrictions". In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Note, or the "*Restricted Book-Entry Interests*", may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Reg S Global

Note (the ''*Reg S Book-Entry Interests*'') only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 principal amount and integral multiples of €1,000 in excess thereof, upon receipt by the applicable Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under ''Transfer Restrictions''.

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in principal amount and integral multiples of €1,000 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, furnish information regarding the account of the transferee at Euroclear or Clearstream, as applicable, where appropriate, furnish certain certificates and opinions, and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder, other than any Taxes payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

Additional Amounts

All payments made by or on behalf of the Issuer under or with respect to the Notes (whether or not in the form of Definitive Registered Notes) or any of the Guarantors with respect to its Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any jurisdiction in which the Issuer or any Guarantor (including any successor entity) is then incorporated, engaged in business or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction from or through which payment is made by or on behalf of the Issuer or any Guarantor (including, without limitation, the jurisdiction of any Paying Agent) (each, a ''*Tax Jurisdiction*'') will at any time be required to be made from any payments made by or on behalf of the Issuer under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee, including, without limitation, payments of principal, redemption price, purchase price, interest or premium, the Issuer or the relevant Guarantor, as applicable, will pay such additional amounts (the ''*Additional Amounts*'') as may be necessary in order that the net amounts received and retained in respect of such payments by each holder (including Additional Amounts) after such withholding, deduction or imposition will equal the respective amounts that would have been received and retained in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been imposed but for the holder or the Beneficial Owner of the Notes being a citizen or resident or national of, incorporated in or carrying on a business in the relevant Tax Jurisdiction in which such Taxes are imposed or having any other present or former connection with the relevant Tax Jurisdiction other than the mere acquisition, holding, enforcement or the receipt of payment in respect of the Notes or with respect to any Note Guarantee;

(2) any Note presented for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(3) any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;

(4) any Taxes withheld, deducted or imposed on a payment to an individual and that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive;

(5) any Note presented for payment by or on behalf of a holder of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent;

(6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(7) any Taxes to the extent such Taxes are imposed or withheld by reason of the failure of the holder or Beneficial Owner of Notes, following the Issuer's written request addressed with reasonable prior written notice to the holder or Beneficial Owner, to comply with any certification, identification, information or other reporting requirements (to the extent such holder or Beneficial Owner is legally eligible to do so), whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the holder or Beneficial Owner is not resident in the Tax Jurisdiction);

(8) any Taxes payable under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the ''Code''), as of the Issue Date (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements (including any intergovernmental agreements between a non-U.S. jurisdiction and the United States) entered into pursuant thereto; or

(9) any combination of items (1) through (8) above;

nor will any Additional Amounts be paid with respect to any Taxes imposed on any payment of principal or interest on the Note or payments under the Note Guarantees in respect thereof to any holder who is either a fiduciary of a Beneficial Owner or a partnership to the extent such principal or interest payment would be required (under the tax laws of the jurisdiction of the Issuer or, if applicable, the tax laws of the jurisdiction of a Guarantor) to be included in the taxable income of either the Beneficial Owner (in the case of a fiduciary) or a partner (in the case of a partnership) if such Beneficial Owner or partner would not have been entitled to such Additional Amounts had such Beneficial Owner or partner been the holder of such Note.

In addition to the foregoing, the Issuer and the Guarantors will also pay and indemnify the holder for any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which are levied by any Tax Jurisdiction on the execution, delivery, registration or enforcement of any of the Notes, the Indenture, any Note Guarantee, or any Collateral Documents.

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificates must also set forth any other information reasonably necessary to enable the Paying Agents to pay Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such an Officer's Certificate as conclusive proof that such payments are necessary.

Upon written request, the Issuer or the relevant Guarantor will provide to the Trustee copies of receipts or, if such receipts are not obtainable, other documentation reasonably satisfactory to the Trustee evidencing the payment of any Taxes so deducted or withheld. Upon request, copies of those receipts or other documentation, as the case may be, will be made available by the Trustee to the holders of the Notes.

Whenever in the Indenture or in this ''Description of Notes'' there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under, or with respect to, any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Note Guarantees

The Notes will be guaranteed by the Parent and the Subsidiary Guarantors. These Note Guarantees will be joint and several obligations of the Guarantors.

The obligations of the Subsidiary Guarantors will be contractually limited under the applicable Note Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Subsidiary Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''. See ''Risk Factors—Risks Related to the Notes and the Guarantees—Fraudulent conveyance laws and other limitations on the enforceability and the amount of the guarantees and the security may adversely affect their validity and enforceability''. On the Issue Date, the Notes will be guaranteed on a senior basis by the following Guarantors:

- Austria: Sappi Austria Produktions-GmbH & Co. KG, Sappi Gratkorn GmbH and Sappi MagnoStar GmbH;
- Belgium: Sappi Europe SA, Sappi International SA, Sappi Lanaken NV and Sappi Lanaken Press Paper NV;
- Finland: Sappi Finland I Oy;
- Germany: Sappi Alfeld GmbH, Sappi Deutschland Holding GmbH, Sappi Deutschland GmbH, Sappi Ehingen GmbH and Sappi Stockstadt GmbH;
- Hong Kong: Sappi Pulp Asia Limited;
- Netherlands: Sappi Netherlands B.V. and Sappi Maastricht B.V.;
- South Africa: Sappi Limited; and
- United States: SDW Holdings Corporation, S.D. Warren Company and Sappi Cloquet LLC.

Note Guarantees Release

The Note Guarantee of a Subsidiary Guarantor (other than the Note Guarantee of Sappi International SA in the case of clause (9)) and of the Parent in the case of clauses (4), (5), (7) and (11), will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Parent or a Restricted Subsidiary, if the sale or other disposition does not violate the ''Asset Sale'' provisions of the Indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Subsidiary Guarantor (whether by direct sale or sale of a holding company) to a Person that is not (either before or after giving effect to such transaction) the Parent or a Restricted Subsidiary, if the sale or other disposition does not violate the ''Asset Sale'' provisions of the Indenture and the Subsidiary Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(3) if the Parent designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(4) as described under ''—Amendment, Supplement and Waiver'';

(5) upon repayment of the Notes;

(6) upon the release or discharge of the guarantee by such Subsidiary Guarantor of the Indebtedness that resulted in the creation of such Guarantee pursuant to the covenant described under ''Certain Covenants—Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries'' (but not the release of any Guarantee in effect on the Issue Date);

(7) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions ''—Legal Defeasance and Covenant Defeasance'' and ''—Satisfaction and Discharge'';

(8) upon the solvent liquidation or winding up of a Subsidiary Guarantor;

(9) if on any date following the Issue Date the Notes have achieved Investment Grade Status, the Issuer has delivered a written notice thereof to the Trustee and no Default has occurred and is continuing under the Indenture as of the date of delivery of such notice;

(10) in connection with an enforcement sale under the Intercreditor Agreement; or

(11) with respect to an entity that is not the successor Guarantor as a result of any transaction permitted by the covenant described under ''—Merger, Consolidation or Sale of Assets''.

Security

General

The Notes and the Note Guarantees will, to the extent that it is feasible under applicable laws, be secured by first-priority security interests (or, in the case of certain collateral, junior security interests) in the Collateral subject to the Permitted Collateral Liens and subject to certain limitations, as described under ''—Gratkorn Property Mortgages''. Upon completion of the Refinancing, Indebtedness under the 2017 Notes, the 2021 Notes, the Revolving Credit Facility and certain hedging arrangements (collectively, together with the obligations under the Indenture, the ''*Secured Obligations*'') will also be secured by security interests in the Collateral, which will be shared equally and ratably with the holders of the Notes. As of the date of this Offering Memorandum, the OeKB Term Loan Facility is unsecured; however, its terms require that upon the occurrence of certain events, including a downgrade to specified ratings or an event of default under that facility, the borrower will be required to secure the obligations thereunder with the Collateral. In connection with the issuance of the Notes, we have entered into new security agreements with respect to certain Collateral in or under the laws of England, Maine, Minnesota, Germany and Austria that will secure (or be deemed to secure) on a *pari passu* basis the Notes, the 2017 Notes, the 2021 Notes, the Revolving Credit Facility and certain hedging arrangements. The liens created by these security agreements will be junior to the liens created under existing collateral documents in connection with the 2009 Refinancing, the 2011 Refinancing and the 2012 Refinancing; however, under the terms of the Intercreditor Agreement such junior security interests will be deemed and treated as *pari passu* security interests with the security interests created in connection with the 2009 Refinancing, the 2011 Refinancing and the 2012 Refinancing. If the Intercreditor Agreement or the relevant provisions thereof were avoided or held to be unenforceable for any reason, holders of the Notes would not benefit from such *pari passu* treatment and be subordinated, with respect to such security interests, to senior security interests over the same Collateral securing other Indebtedness of the Parent, the Issuer and the Restricted Subsidiaries. Subject to the terms of the Indenture, the Intercreditor Agreement and other Indebtedness of the Parent and its Subsidiaries, other Indebtedness will be permitted to be secured by the Collateral in the future. The Collateral will be pledged pursuant to the Collateral Documents to the Security Agent (as defined below) (subject to the discussion of ''parallel debt'' under the caption ''—Collateral Documents'') on behalf of the holders of the Secured Obligations that are secured by the Collateral, including holders of the Notes. As of the date of this Offering Memorandum, it is expected that the Collateral will consist substantially of the following property and assets:

(1) certain land, plant and machinery (including certain movable machinery) owned by certain Subsidiaries of SPH that are Restricted Subsidiaries located at Sappi's production facilities in Gratkorn, Austria, Kirkniemi, Finland, Maastricht, The Netherlands, Skowhegan/Somerset, Maine, U.S.A., and Cloquet, Minnesota, U.S.A. Due to restrictions in the indenture for the SPH Bonds due 2032, the Collateral Documents will provide that the total Indebtedness that will be secured by these particular assets (including Indebtedness under the 2017 Notes, the 2021 Notes, the Revolving Credit Facility and certain hedging arrangements) will be limited to an amount not to exceed 15% of consolidated net tangible assets (as defined in, and determined in accordance with, the indenture for the SPH Bonds due 2032) of SPH. The limitation in the indenture for the SPH Bonds due 2032 is calculated based on the most recent balance sheet of SPH and its subsidiaries. As a consequence, the amount of Secured Obligations secured by such land, plant and machinery will be limited to such amount, and not all of the Indebtedness under the Notes (or the other Indebtedness that comprise the Secured Obligations) will be secured by such land, plant and machinery. Furthermore, the 15% threshold will be recalculated at the time any lien is granted on the Collateral to secure any *pari passu* Indebtedness by the Parent or any of its Restricted Subsidiaries in accordance with the terms of the Indenture and the Intercreditor Agreement and, at the time of such recalculation, such threshold may be higher or lower than the amount calculated as of the Issue Date. Based upon SPH's balance sheet as of December 28, 2014, the amount of Secured Obligations would have been limited to approximately €330 million. For example, the 15% threshold would be recalculated at the time any security is granted over the Collateral in favor of the lenders under the OeKB Term Loan Facility pursuant to the terms of such facility. In addition, as described under the caption ''—Excluded Assets'', certain property and assets located at, or associated with, these production facilities will not be included in the Collateral. Moreover, the Secured Obligations secured by the mortgage on the Cloquet production facility's real property will be limited to the approximate fair market value of the property at the time of the 2009 Refinancing, in order to minimize mortgage taxes. In addition, the mortgage over land and the mortgage over buildings situated on third-party land on which the Gratkorn production facility is located will be subject to certain limitations, as described under ''—Gratkorn Property Mortgages'';

(2) present and future ordinary shares, common stock or similar common equity interests (other than for directors' qualifying shares and equity interests of a similar nature) of each of the Issuer and the Subsidiary Guarantors (other than Sappi Pulp Asia Limited and SDW Holdings Corporation), Cloquet Terminal Railroad Company, Inc. (''CTRR''), Sappi Trading Pulp AG and Sappi Southern Africa Limited;

(3) present and future intercompany loans or receivables under loans that evidence financial indebtedness in excess of US$25.0 million under which the Issuer and certain of the Subsidiary Guarantors are the creditors under such loans. Loans where Sappi Trading Pulp AG is the creditor under such loans will be excluded. Loans or intercompany balances related to cash pooling and similar arrangements will not be included; and

(4) present and future inventory to the extent considered ''inventory'' under the Uniform Commercial Code (including, where applicable, raw materials, finished products and work-in-progress) owned by S.D. Warren Company and Sappi Cloquet LLC, but excluding any such inventory that is held on consignment and any accounts receivable arising from sales of inventory and the proceeds of such accounts receivable.

Under the Indenture, the Parent and the Restricted Subsidiaries will be permitted to incur additional Indebtedness in the future which may share in the Collateral, including additional Permitted Collateral Liens securing Indebtedness on a *pari passu* basis with the Notes. The amount of such Permitted Collateral Liens will be limited by the covenants described under the captions ''—Certain Covenants—Liens'' and ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock''. Under certain circumstances, the amount of such additional Indebtedness secured by Permitted Collateral Liens could be significant.

The proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations owed to the holders of the Notes. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. See ''Risk Factors—Risks Related to the Notes and the Guarantees—It may be difficult to realize the value of the Collateral securing the notes'' and ''Risk Factors—Risks Related to the Notes and the Guarantees—The value of the Collateral securing the notes may not be sufficient to satisfy the obligations under the notes''.

Excluded Assets

Certain assets, property and rights will be excluded from the Collateral described under ''—General'', including, without limitation, vehicles, leased assets (and rights under leases), any other assets owned or used by third parties (and the land on which such assets are located), and the assets and property described below. Prior to the execution of the Collateral Documents by the parties thereto, certain other assets and property may be identified and excluded from the Collateral under the terms of such Collateral Documents.

Sappi Gratkorn GmbH (''Sappi Gratkorn'') will provide an offer to grant a mortgage with respect to the land and plant it owns at the Gratkorn production facility, except with respect to a limited part of the land to be used as a public cycle path, which will not form part of the Collateral. Sappi MagnoStar GmbH (''Sappi MagnoStar'') has agreed to deliver an executed mortgage agreement with respect to buildings on third-party owned land (*Superädifikate*) it owns at such facility. Also, the Notes will be secured by an asset pledge agreement delivered by Sappi MagnoStar with respect to certain machinery it owns at that facility. In addition, Sappi Austria Produktions-GmbH & Co. KG will provide a security interest with respect to certain machinery and the pulp mill it owns at such facility. The Sappi MagnoStar-owned buildings are partly located on land owned by the municipality of Gratkorn, and such land is leased to Sappi MagnoStar. Neither such municipality-owned land nor Sappi MagnoStar's interest under the lease agreement for such land will form part of the Collateral.

Part of the land comprising the production facility at Maastricht, The Netherlands is occupied by a power plant that was owned and operated by a third-party power generation company at the time of the original grant of security over such facility in 2009. This power plant will not form part of the Collateral.

Each of S.D. Warren Company and Sappi Cloquet LLC will provide a security interest in respect of the land, plant and machinery it owns at the Somerset production facility and the Cloquet production facility, respectively. The Collateral granted by such Guarantors will exclude standing timber to be cut and any inventory held on consignment. Certain parts of the land in the vicinity of the Cloquet production facility are owned by CTRR. Although the equity interests of CTRR will be pledged as Collateral, neither such land nor any other property or assets owned by CTRR will be part of the Collateral. The Collateral granted in respect of the Somerset production facility will exclude fixtures and equipment related to the installation of sludge and ash handling facilities in connection with the expansion of a utilities plant.

Gratkorn Property Mortgages

Because of the substantial court fees that are levied upon the registration of mortgages over land and the deposit of mortgage agreements in respect of buildings on third-party land (*Superädifikate*) in Austria, and due to the substantial stamp duties that are levied in Austria upon the execution of mortgage agreements over land and plants which do not only secure loan receivables but also other claims (such as resulting from hedging arrangements), rather than providing duly perfected mortgages, Sappi Gratkorn will provide an offer to grant a mortgage over the land and plant it owns at the Gratkorn production facility and Sappi MagnoStar will deliver an executed mortgage agreement in respect of the buildings that are partly located on third-party land (*Superädifikate*) it owns at the Gratkorn production facility to the Security Agent. The grant of collateral over the machinery owned by Sappi MagnoStar and the machinery and pulp mill owned by Sappi Austria Produktions-GmbH & Co. KG are perfected separately from the mortgages over the Sappi Gratkorn property and the Sappi MagnoStar buildings pursuant to contractual pledges that are not required to be registered or filed with a public authority.

The mortgage offer with respect to the Sappi Gratkorn property will only be countersigned and registered by the mortgagee and the mortgage agreement with respect to the Sappi MagnoStar buildings will only be deposited in the land register of the competent court upon the occurrence of certain agreed events (including certain events of default under the Indenture). Until (and only if) such events occur and the Security Agent countersigns and registers the mortgage over the Sappi Gratkorn property or deposits the mortgage agreement with respect to the Sappi MagnoStar buildings in the land register, there will be no perfected mortgages in place, and there is a risk that the Security Agent's claim could be subordinated to prior perfected mortgages over, or attachments of, the Sappi Gratkorn property and the Sappi MagnoStar buildings. In addition, because the mortgages will not be perfected until the Security Agent seeks to enforce or perfect the security, this structure increases the risk of an insolvency administrator in any subsequent insolvency successfully challenging and avoiding the transaction in accordance with Austrian insolvency law. Moreover, upon occurrence of certain insolvency events in respect of Sappi Gratkorn or Sappi MagnoStar, the Security Agent will be barred from perfecting the security interests in respect of the Sappi Gratkorn property and the Sappi MagnoStar buildings. If the security interests in respect of the Sappi Gratkorn property or the Sappi MagnoStar buildings were avoided or held to be unenforceable, or if they were not perfected in due time for any reason, the Security Agent would not have any claims in respect of such security interests.

There will be four separate mortgage offers with respect to the land and plant at the Gratkorn production facility and four separate mortgage agreements with respect to the buildings at the Gratkorn production facility, dated August 27, 2009, April 13, 2011, July 3, 2012 and on or about the Issue Date. Each of these mortgage offers and mortgage agreements will incur registration and perfection fees upon the occurrence of certain trigger events to the extent they are registered and perfected, respectively. Under the terms of the Intercreditor Agreement, the Issuer has agreed to indemnify the Security Agent for all Perfection Costs (as defined in the Intercreditor Agreement). To the extent that the Issuer is unable to indemnify such Perfection Costs, the Security Agent will be required to pay the Perfection Costs associated with registration of each of the four mortgage offers and four mortgage agreements. The costs which will be incurred in connection with the perfection are as follows: (i) in respect to the mortgage offers, court fees for the registration of the mortgages in the land register of 1.2% of the secured amount and stamp duties for mortgage deeds upon countersignature of the mortgage offer by the Security Agent of 1.0% of the secured amount payable with respect to each of the mortgage offers; and (ii) in respect to the mortgage agreements, court fees for the submission of the mortgages to the land register of 1.2% of the secured amount payable with respect to each of the mortgage agreements. However, the Security Agent should be able to recover these Perfection Costs against the value of the land, plant and buildings secured by each mortgage as part of the amount secured by the mortgages (subject to the limitations contained therein).

Furthermore, in connection with Sappi MagnoStar's lease of the Gratkorn municipality-owned land, Sappi Gratkorn has been granted a purchase option by the municipality with respect to the municipality-owned land, exercisable within three months from the expiry of the lease at the end of 2015. If Sappi Gratkorn does not exercise this purchase option, the municipality has the option to purchase a part of the land (including buildings) at the Gratkorn facility owned by Sappi Gratkorn. Even if perfected, the mortgage over the Sappi Gratkorn-owned land will be subject to the municipality's purchase option, as both purchase options have been registered in the land register as pre-emption rights in order to preserve their rank. Upon any exercise of the purchase option by the municipality, Sappi Gratkorn would be contractually required to transfer the Sappi Gratkorn-owned land and Sappi MagnoStar would be contractually required to transfer the Sappi MagnoStar buildings, in each case to the municipality at a pre-determined price and free of encumbrances.

Collateral Documents

The Collateral Documents will define the terms of the security interests that secure the Notes and the Note Guarantees and the other Secured Obligations that will be secured by the Collateral. Subject to the terms of, and limitations under, the Collateral Documents, these security interests will secure the payment and performance when due of the obligations of the Issuer and the Guarantors under the Notes, the Indenture, the Note Guarantees and the Collateral Documents.

In certain jurisdictions, due to the laws and other jurisprudence governing the creation and perfection of security interests, the Intercreditor Agreement provides for the creation of ''parallel debt'' obligations in favor of the Security Agent, and the security interests in such jurisdictions will secure the parallel debt (and not the Indebtedness under the Notes and the other Secured Obligations). The parallel debt construct has not been tested under law in certain of these jurisdictions. See ''Limitations on Validity and Enforceability of the Guarantees and Security Interests and Certain Insolvency Law Considerations''.

Subject to the terms of the Indenture and the Collateral Documents, the Issuer and the Guarantors will have the right to remain in possession and retain exclusive control of the Collateral securing the Notes, to freely operate the Collateral and to collect, invest and dispose of any income therefrom.

On the Issue Date, the Collateral Documents will, as described under the caption ''—Intercreditor Agreement'', permit the Trustee, the trustee for the 2017 Notes, the trustee for the 2021 Notes and the agent for the Revolving Credit Facility to instruct the Security Agent to take enforcement action under the Collateral Documents following the occurrence of an event of default under such Indebtedness, such Indebtedness being declared due and payable and the requisite approval or consent of the holders of such Indebtedness.

Intercreditor Agreement

On the Issue Date, the Trustee acceded to an Intercreditor Agreement with, among others, the Security Agent, the trustee for the 2017 Notes, the trustee for the 2021 Notes and the agent for the Revolving Credit Facility. For a description of certain terms of the Intercreditor Agreement, see ''Description of Other Financing Arrangements—Intercreditor Agreement''.

Security Release

The Issuer and the Guarantors will be entitled to the release of property and other assets constituting Collateral from the Liens securing the Notes and the Note Guarantees under any one or more of the following circumstances:

(1) in connection with any sale or other disposition of the property and assets that does not violate the ''Asset Sale'' provisions of the Indenture;

(2) in the case of a Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

(3) as described under ''—Amendment, Supplement and Waiver'';

(4) upon repayment of the Notes;

(5) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions ''—Legal Defeasance and Covenant Defeasance'' and ''—Satisfaction and Discharge'';

(6) if the Parent designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets, and Capital Stock, of such Restricted Subsidiary;

(7) if on any date following the Issue Date the Notes have achieved Investment Grade Status (taking into account the expected release of the Collateral), the Issuer has delivered a written notice thereof to the Trustee and no Default has occurred and is continuing under the Indenture as of the date of delivery of such notice;

(8) as may be permitted pursuant to the covenant described under ''Certain Covenants—Impairment of Security Interest'';

(9) if the Issuer has delivered to the Trustee an Officer's Certificate stating that (a) all other Liens on the Collateral securing Indebtedness (other than Permitted Collateral Liens described in clauses (1) and (6) of the definition thereof) are released (or will be released simultaneously with the release of the Liens on the Collateral securing the Notes and the Note Guarantees) and (b) all Permitted Collateral Liens described in clause (1) (excluding those described in clause (1)(C)) of the definition thereof have been released or will be released following release of the Liens on the Collateral securing the Notes and the Note Guarantees;

(10) in connection with an enforcement sale under the Intercreditor Agreement; or

(11) in order to effectuate a merger, consolidation, conveyance, transfer or other business combination conducted in compliance with the covenant described under ''—Certain Covenants—Merger, Consolidation or Sale of Assets''.

Each of these releases shall be effected by the Security Agent without the consent of the holders of the Notes or any action on the part of the Trustee.

Optional Redemption

Optional Redemption of Notes

At any time prior to April 1, 2018, the Issuer may on one or more occasions redeem up to 35% of the aggregate principal amount of Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 103.375% of the principal amount of the Notes redeemed plus accrued and unpaid interest and Additional Amounts, if any, to the date of redemption (subject to the rights of holders of the Notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering; *provided that*:

(1) at least 65% of the aggregate principal amount of the Notes issued under the Indenture (excluding Notes held by the Parent and its Subsidiaries) remain outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

At any time prior to April 1, 2018, the Issuer may on one or more occasions redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus the Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and as described under ''—Redemption for Changes in Taxes'', the Notes will not be redeemable at the Issuer's option prior to April 1, 2018.

On or after April 1, 2018, the Issuer may on any one or more occasions redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on April 1 of the years indicated below, subject to the rights of holders of the Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price
2018	101.688%
2019	100.844%
2020 and thereafter	100.000%

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date.

Any redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

Redemption for Changes in Taxes

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in ''—Selection and Notice''), at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a ''*Tax Redemption Date*'') and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer or any Guarantor (including any successor entity) is or would be required to pay Additional Amounts, and the Issuer or Guarantor cannot avoid any such payment obligation by taking reasonable measures available to it, and the requirement arises as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations, or rulings promulgated thereunder) of the relevant Tax Jurisdiction affecting taxation which change or amendment becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture); or

(2) any change in, or amendment to, the existing official position or the introduction of an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice), which change, amendment, application or interpretation becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture).

The Issuer will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Issuer or Guarantor, as the case may be, would be obligated to make such payment or withholding if a payment in respect of the Notes were then due. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or Guarantor, as the case may be, will deliver the Trustee an opinion of counsel to the effect that there has been such change or amendment which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails a notice of redemption of the Notes as described above, the Issuer or Guarantor, as the case may be, will deliver to the Trustee an Officer's Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of the Notes.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such directive, will not be a change or amendment for such purposes.

Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Open Market Purchases

The Parent, the Issuer and their Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of Notes will have the right to require the Issuer to repurchase all or any part (equal to €100,000 or an integral multiple of €1,000 in excess thereof) of that holder's Notes pursuant to an offer (a ''*Change of Control Offer*'') on the terms set forth in the Indenture; *provided, however,* that the Issuer shall not be obliged to repurchase Notes as described under this ''Change of Control'' section in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under ''—Optional Redemption'' or all conditions to such redemption have been satisfied or waived. In a Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the ''*Change of Control Payment*''), subject to the rights of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date. Unless the Issuer has unconditionally exercised its right to redeem all of the Notes as described under ''—Optional Redemption'' or all conditions to such redemption have been satisfied or waived, within 30 days following any Change of Control, the Issuer will mail a notice to each holder of the Notes at such holder's registered address or otherwise deliver a notice in accordance with the procedures described under ''—Selection and Notice'', stating that a Change of Control Offer is being made and offering to repurchase Notes on the date (the ''*Change of Control Payment Date*'') specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the U.S. Securities Exchange Act of 1934, as amended (the ''*U.S. Exchange Act*''), and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agent will promptly mail (or cause to be delivered) to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Notes to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption ''—Optional Redemption'', unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of ''all or substantially all'' of the properties or assets of the Parent and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase ''substantially all'', there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Parent and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain. In addition, holders of the Notes should note that case law suggests that, in the event that incumbent directors are replaced as a result of a contested election, issuers may nevertheless avoid triggering a change of control under clauses similar to clause (4) of the definition of ''Change of Control'' if the outgoing directors were to approve the new directors for the purposes of that clause.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the holders of a majority in principal amount of the Notes prior to the occurrence of the Change of Control.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notices relating to the Change of Control Offer in a leading newspaper of general circulation in Luxembourg (expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Luxembourg Stock Exchange.

Asset Sales

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Parent (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Parent or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

  (a) any liabilities, as recorded on the balance sheet of the Parent or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Note Guarantee), that are assumed by the transferee of any such assets and as a result of which the Parent and its Restricted Subsidiaries are no longer obligated with respect to such liabilities or are indemnified against further liabilities;

(b) any securities, notes or other obligations received by the Parent or any such Restricted Subsidiary from such transferee that are converted by the Parent or such Restricted Subsidiary into cash or Cash Equivalents within 120 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

(c) any Capital Stock or assets of the kind referred to in clauses (3) or (5) of the next paragraph of this covenant;

(d) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Parent and each other Restricted Subsidiary are released from any Guarantee of such Indebtedness in connection with such Asset Sale; and

(e) consideration consisting of Indebtedness of the Issuer or any Guarantor (other than Indebtedness that is by its terms subordinated to the Notes or any Note Guarantee) received from Persons who are not the Parent or any Restricted Subsidiary.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, the Parent (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds (at the option of the Parent or Restricted Subsidiary):

(1) to purchase the Notes pursuant to an offer to all holders of Notes; *provided that*, all holders shall be offered the same offer price for the Notes, plus accrued and unpaid interest to (but not including) the date of purchase (a ''*Notes Offer*'');

(2) to purchase, prepay or redeem or repay Indebtedness which is *pari passu* in right of payment with the Notes or any of the Note Guarantees and secured in whole or part by the Collateral and, subject to the proviso below, if the Indebtedness repaid is revolving credit indebtedness, to correspondingly reduce commitments with respect thereto;

(3) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary;

(4) to make a capital expenditure;

(5) to acquire other assets (other than Capital Stock) that are used or useful in a Permitted Business; or

(6) to the extent such Net Proceeds derive from an Asset Sale in respect of an asset which immediately prior to such Asset Sale did not constitute Collateral, to repurchase, prepay, redeem or repay Indebtedness and, subject to the proviso below, if the Indebtedness repaid is revolving credit indebtedness, to correspondingly reduce commitments with respect thereto, of a Restricted Subsidiary which is not a Guarantor, or Indebtedness of the Issuer or a Guarantor that is by its terms not subordinated to the Notes or the applicable Note Guarantee;

(7) enter into a binding commitment to apply the Net Proceeds pursuant to clause (3), (5) or (6) above; *provided that* such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such acquisition or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365-day period; or

(8) any combination of the foregoing;

provided, however, (x) if the Indebtedness repaid pursuant to clauses (2) and (6) above is revolving credit indebtedness, the commitments with respect thereto shall not be required to be cancelled to the extent the aggregate principal amount of repayments of revolving credit indebtedness made pursuant to such clauses since the Issue Date does not exceed US$200 million and (y) if the assets sold constitute Collateral, subject to the Agreed Security Principles, the Parent shall pledge or shall cause the applicable Restricted Subsidiary to pledge any acquired Capital Stock or assets (to the extent such assets were of a category of assets included in the Collateral as of the Issue Date) referred to in clause (3) or (5) above in favor of the Notes on a first-ranking basis (subject to pre-existing Liens and Permitted Collateral Liens).

Pending the final application of any Net Proceeds, the Parent (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales that are not used as provided in the second paragraph of this covenant will constitute ''*Excess Proceeds*''.

The Issuer may also at any time, and the Issuer will within 30 Business Days after the Excess Proceeds exceed US$25.0 million, make an offer (an ''*Asset Sale Offer*'') to all holders of the Notes and may make an offer to all holders of other Indebtedness that is *pari passu* with the Notes or any Note Guarantees with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets, to purchase, prepay or redeem the maximum principal amount of Notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premia, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price for the Notes in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Parent may use those Excess Proceeds for general corporate purposes and any other purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis (or in the manner described under ''—Selection and Notice''), based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset to zero.

The Issuer will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer or a Notes Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale Offer or Notes Offer provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale Offer or Notes Offer provisions of the Indenture by virtue of such compliance.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption on a pro rata basis (or, in the case of Notes issued in global form as discussed under ''—Book-Entry, Delivery and Form'', based on a method that most nearly approximates a pro rata selection as the Trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depository requirements.

No Notes of €100,000 or less can be redeemed in part and only Notes in integral multiples of €1,000 will be redeemed. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note. Subject to the terms of the applicable redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream, as applicable, for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, any such notice to the holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding.

Certain Covenants

Suspension of Covenants when Notes Achieve Investment Grade Status

If on any date following the Issue Date:

(1) the Notes have achieved Investment Grade Status; and

(2) no Default or Event of Default has occurred and is continuing on such date,

then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (such period, the ''*Suspension Period*''), the covenants specifically listed under the following captions in this ''Description of Notes'' will no longer be applicable to the Notes and any related default provisions of the Indenture will cease to be effective and will not be applicable to the Parent and its Restricted Subsidiaries:

(1) ''—Repurchase at the Option of Holders—Asset Sales'';

(2) ''—Restricted Payments'';

(3) ''—Incurrence of Indebtedness and Issuance of Preferred Stock'';

(4) ''—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries'';

(5) ''—Designation of Restricted and Unrestricted Subsidiaries'';

(6) ''—Transactions with Affiliates'';

(7) ''—Impairment of Security Interest''; and

(8) clause (4) of the first and second paragraphs of the covenant described under ''—Merger, Consolidation or Sale of Assets''.

Such covenants and any related default provisions will again apply according to their terms from the first day after the Suspension Period ends. Such covenants will not, however, be of any effect with regard to the actions of the Parent and the Restricted Subsidiaries properly taken during the continuance of the Suspension Period; *provided* that (1) with respect to the Restricted Payments made after the end of the Suspension Period, the amount of Restricted Payments will be calculated as though the covenant described under the caption ''—Restricted Payments'' had been in effect prior to, but not during, the Suspension Period, (2) all Indebtedness incurred, or Disqualified Stock or preferred stock issued, during the Suspension Period will be classified as having been incurred or issued pursuant to clause (2) of the second paragraph of the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'' and (3) all Liens incurred during the Suspension Period pursuant to the alternative covenant with respect to ''Liens'' set forth in the second paragraph of the caption ''Liens'' will be deemed to have existed on the Issue Date and to have been incurred pursuant to clause (6) of the definition of ''Permitted Liens''. In addition, the Indenture will also permit, without causing a Default or Event of Default, the Parent or any of the Restricted Subsidiaries to honor any contractual commitments or take actions in the future after any date on which the Notes cease to have Investment Grade Status as long as the contractual commitments were entered into during the Suspension Period and not in anticipation of the Notes no longer having Investment Grade Status. Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset to zero.

There can be no assurance that the Notes will ever achieve or maintain Investment Grade Status.

Restricted Payments

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of the Parent's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Parent or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Parent's or any of its Restricted Subsidiaries' Equity Interests in their capacity as holders (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Parent or any of its Restricted Subsidiaries and other than dividends or distributions payable to the Parent or a Restricted Subsidiary);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Parent) any Equity Interests of the Parent or any direct or indirect parent entity of the Parent held by Persons other than the Parent or a Restricted Subsidiary;

(3) make any principal payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Parent, the Issuer or any Guarantor that is expressly contractually subordinated to the Notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among the Parent and any of its Restricted Subsidiaries), except (i) a payment of principal at the Stated Maturity thereof or (ii) the purchase, repurchase or other acquisition of Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or scheduled maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition; or

(4) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as ''*Restricted Payments*''), unless, at the time of any such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Parent would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least US$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock''; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Parent and its Restricted Subsidiaries since the 2014 Notes Issue Date (and not returned or rescinded) (excluding Restricted Payments permitted by clauses (2), (3), (4), (6), (7), (11) and (14) of the next succeeding paragraph), is less than the sum, without duplication, of:

(i) 50% of the Consolidated Net Income of the Parent for the period (taken as one accounting period) from June 29, 2009 to the end of the Parent's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(ii) 100% of the aggregate net cash proceeds and the Fair Market Value of property or assets received by the Parent since the 2014 Notes Issue Date as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Parent (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock of the Parent or convertible or exchangeable debt securities of the Parent, in each case that have been converted into or exchanged for Equity Interests of the Parent (other than Equity

Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Parent); *plus*

(iii) to the extent that any Restricted Investment that was made after the 2014 Notes Issue Date was or is, as the case may be, (a) sold or otherwise cancelled, liquidated or repaid, or (b) made in an entity that subsequently became or becomes, as the case may be, a Restricted Subsidiary, 100% of the aggregate net cash proceeds received by the Parent or Restricted Subsidiary or in the case of non-cash consideration, the Fair Market Value of the property or assets received by the Parent or Restricted Subsidiary or the Parent's Restricted Investment as of the date such entity became or becomes, as the case may be, a Restricted Subsidiary or such Restricted Investment is sold or otherwise cancelled, liquidated or repaid; *plus*

(iv) to the extent that any Unrestricted Subsidiary of the Parent designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the Fair Market Value of the property or assets received by the Parent or Restricted Subsidiary or the Parent's Restricted Investment in such Subsidiary as of the date of such redesignation to the extent such investments reduced the Restricted Payments capacity under this clause (c) and were not previously repaid or otherwise reduced; *plus*

(v) 100% of any dividends or distributions received by the Parent or a Restricted Subsidiary after the 2014 Notes Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Parent for such period.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the Indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Parent) of, Equity Interests of the Parent (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Parent; *provided that* the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph and will not be considered to be net cash proceeds from an Equity Offering for purposes of the ''Optional Redemption'' provisions of the Indenture;

(3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Parent or any Restricted Subsidiary that is contractually subordinated to the Notes or to any Note Guarantee with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Parent or any Restricted Subsidiary held by any current or former officer, director, employee or consultant of the Parent or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided that* the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed US$5.0 million in any calendar year (with unused amounts in any calendar year being carried over to the next succeeding two years); and *provided*, *further*, that such amount in any calendar year period may be increased by an amount not to exceed the cash proceeds from the sale of Equity Interests of the Parent or a Restricted Subsidiary received by the Parent or a Restricted Subsidiary during such calendar year period, in each case to members of management, directors or consultants of the Parent, any of its Restricted Subsidiaries or any of its direct or indirect parent companies to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making

of Restricted Payments pursuant to clause (c)(ii) of the preceding paragraph or clause (2) of this paragraph;

(5) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options;

(6) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Parent or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant described below under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'';

(7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Parent or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(8) advances or loans to any future, present or former officer, director, employee or consultant of the Parent or a Restricted Subsidiary to pay for the purchase or other acquisition for value of Capital Stock of the Parent or a Restricted Subsidiary, or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or other agreement or arrangement; *provided* that the total aggregate amount of Restricted Payments made under this clause (8) does not exceed US$5.0 million in any calendar year and US$25.0 million in the aggregate since the Issue Date;

(9) advances or loans to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust or the trustees of any such plan or trust, *provided* that the total aggregate amount of Restricted Payments made under this clause (9) does not exceed US$6.0 million in any calendar year;

(10) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary to the holders of its Equity Interests (other than the Parent or any Restricted Subsidiary) on no more than a pro rata basis;

(11) payment of any Securitization Fees and purchases of Securitization Assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(12) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Parent or any South African Restricted Subsidiary pursuant to transactions in connection with the BBBEE Act;

(13) so long as no Default or Event of Default has occurred and is continuing, the declaration or payment by the Parent of dividends or the making of any other payments or distributions on account of the Parent's Equity Interests, in an amount *per annum* not to exceed 6% of the Parent's Market Capitalization; *provided* that on a *pro forma* basis after giving effect to such dividends, payments or distributions the Consolidated Leverage Ratio does not exceed 4.0 to 1.0; or

(14) so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments in an aggregate amount not to exceed US$50.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. Unsecured Indebtedness shall not be deemed to be subordinate or junior to Secured Indebtedness by virtue of its nature as unsecured Indebtedness, and no Indebtedness will be deemed to be subordinate or junior to any other Indebtedness solely by virtue of being secured with different collateral or by virtue of being secured on a junior priority basis or by virtue of the application of waterfall or other payment-ordering provisions affecting different tranches of Indebtedness under Credit Facilities.

Incurrence of Indebtedness and Issuance of Preferred Stock

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, ''*incur*'') any Indebtedness (including Acquired Debt), and the Parent will not and will not permit the Issuer or any Subsidiary Guarantor to, issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries (other than the Issuer) to issue any shares of preferred stock; *provided*, *however*, that the Parent may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, the Issuer, the Subsidiary Guarantors and any Finance Subsidiary may incur Indebtedness (including Acquired Debt) and issue Disqualified Stock and the Subsidiary Guarantors and any Finance Subsidiary may issue preferred stock, if the Fixed Charge Coverage Ratio for the Parent's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, in each case determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, and the application of proceeds therefrom had occurred, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, ''*Permitted Debt*''):

(1) the incurrence by the Issuer, any Guarantor, a Finance Subsidiary and any Permitted Obligor of additional Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed €1.3 billion, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premia and other costs and expenses incurred in connection with such refinancing, *less* the aggregate amount of all Net Proceeds of Asset Sales applied by the Parent or any of its Restricted Subsidiaries since the Issue Date to repay any term Indebtedness under a Credit Facility or to repay any revolving credit Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder, in each case incurred pursuant to this clause (1), pursuant to the covenant described above under the caption ''—Repurchase at the Option of Holders—Asset Sales''; *provided*, *however*, in no event shall any such reduction reduce the availability under this clause (1) to less than €1.15 billion at any one time outstanding;

(2) Indebtedness of the Parent or any Restricted Subsidiary outstanding on the Issue Date after giving effect to the use of proceeds of the Notes;

(3) the incurrence by the Issuer and the Guarantors of Indebtedness represented by the Notes issued on the Issue Date and the related Note Guarantees and any ''parallel debt'' obligations under the Intercreditor Agreement or the Collateral Documents;

(4) Indebtedness or Disqualified Stock of the Parent or the Issuer, Disqualified Stock of any Subsidiary Guarantor and Indebtedness or preferred stock of any Restricted Subsidiary represented by Capital Lease Obligations, mortgage or project financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price, lease expense, rental payments or cost of design, construction, installation or improvement of property, plant or equipment or other assets (including Capital Stock) used in the business of the Parent or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness, Disqualified Stock and preferred stock incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness, Disqualified Stock and preferred stock incurred pursuant to this clause (4), not to exceed US$200.0 million at any time outstanding;

(5) Permitted Refinancing Indebtedness or Disqualified Stock of the Parent, the Issuer or any Subsidiary Guarantor and Permitted Refinancing Indebtedness or preferred stock of any Restricted Subsidiary in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness, Disqualified Stock and preferred stock (other than intercompany Indebtedness) that was permitted by the Indenture to be incurred by the Parent, Issuer, Subsidiary Guarantor or Restricted

Subsidiary, as the case may be, under the first paragraph of this covenant or clauses (2), (3), (5) or (14) of this paragraph;

(6) the incurrence by the Parent or any Restricted Subsidiary of intercompany Indebtedness owing to the Parent or any Restricted Subsidiary; *provided, however*, that:

(a) if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and ((i) except in respect of the intercompany current liabilities incurred in the ordinary course of business in connection with the cash management operations of the Parent and its Restricted Subsidiaries and (ii) only to the extent legally permitted (the Parent and its Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors of officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness)) expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Issuer, or the Note Guarantee, in the case of a Guarantor;

(b) if a South African Restricted Subsidiary is the obligor on such Indebtedness, such intercompany Indebtedness complies with the requirements of clause (1) of the definition of Permitted Investments; and

(c) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Parent or a Restricted Subsidiary and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Parent or a Restricted Subsidiary, will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Parent or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any Restricted Subsidiary to the Parent or to any of its Restricted Subsidiaries of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Parent or a Restricted Subsidiary; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Parent or a Restricted Subsidiary,

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by the Parent or any Restricted Subsidiary of Hedging Obligations in the ordinary course of business and not for speculative purposes;

(9) the Guarantee by the Parent or any Restricted Subsidiary of Indebtedness of the Parent or any Restricted Subsidiary to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided that* if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed; and *provided further*, that this clause (9) will not permit (a) the Guarantee by any Restricted Subsidiary other than Sappi International SA of (i) the SPH Bonds due 2032 or (ii) any Indebtedness incurred under clause (5) of this paragraph, the proceeds of which are used to renew, refund, refinance, replace, defease or discharge the SPH Bonds due 2032 or any Permitted Refinancing Indebtedness in respect thereof unless such Indebtedness is secured by the Collateral; (b) the Guarantee by SPH or any of its Restricted Subsidiaries of Indebtedness of (i) any South African Restricted Subsidiary or (ii) any Guarantee provided by Sappi Limited in respect of the Indebtedness of a South African Restricted Subsidiary (other than, in each case, for Guarantees of payments to customers to be made by any South African Restricted Subsidiary), or (c) the Guarantee by any South African Restricted Subsidiary of any Indebtedness of SPH or any of its Restricted Subsidiaries;

(10) the incurrence by the Parent or any of its Restricted Subsidiaries of Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, captive insurance companies, bankers' acceptances, performance and surety bonds in the ordinary course of business and (b) the financing of insurance premiums in the ordinary course of business;

(11) the incurrence by the Parent or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within ten (10) Business Days;

(12) Indebtedness represented by Guarantees of any Management Advances;

(13) Indebtedness incurred in a Qualified Securitization Financing;

(14) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Parent or a Restricted Subsidiary); *provided, however*, with respect to this clause (14), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Parent would have been able to incur US$1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving effect to the incurrence of such Indebtedness pursuant to this clause (14) or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such acquisition or other transaction;

(15) Indebtedness arising from agreements of the Parent or a Restricted Subsidiary providing for customary indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Equity Interests of a Subsidiary; *provided that*, in the case of a disposition, the maximum liability of the Parent and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Parent and its Restricted Subsidiaries in connection with such disposition;

(16) Indebtedness of the Parent and its Restricted Subsidiaries in respect of joint ventures in an aggregate principal amount at any time outstanding not to exceed US$50.0 million *plus* the amount of such Indebtedness outstanding on the Issue Date;

(17) the incurrence by any South African Restricted Subsidiary of Indebtedness in an aggregate principal amount at any time outstanding, including all Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (17), not to exceed ZAR7.5 billion and guarantees by a South African Restricted Subsidiary in respect of such Indebtedness;

(18) Indebtedness of the Parent and its Restricted Subsidiaries in respect of (A) letters of credit, surety, performance or appeal bonds, completion guarantees, judgment, advance payment, customs, VAT or other tax guarantees or similar instruments issued in the ordinary course of business of such Person and not in connection with the borrowing of money, including letters of credit or similar instruments in respect of self-insurance and workers compensation obligations, and (B) any customary cash management, cash pooling or netting or setting off arrangements; *provided, however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing;

(19) Guarantees by the Parent or any Restricted Subsidiary granted to any trustee of any management equity plan or stock option plan or any other management or employee

benefit or incentive plan or unit trust scheme, so long as the aggregate principal amount of all such Indebtedness incurred in any calendar year shall not exceed US$6.0 million;

(20) Any counter-indemnity or similar obligations of the Parent or any Restricted Subsidiary in respect of bills of exchange or similar instruments, so long as the aggregate principal amount of all bills of exchange benefiting from such counter-indemnities or obligations shall not exceed €30.0 million outstanding at any one time in the aggregate;

(21) Indebtedness represented by guarantees of pension fund obligations of the Parent or any Restricted Subsidiary required by law or regulation;

(22) (i) Indebtedness of the Parent or any Restricted Subsidiary arising from transactions under or in connection with the BBBEE Act so long as the aggregate principal amount of all such Indebtedness does not exceed US$50.0 million outstanding at any one time in the aggregate (excluding any Indebtedness incurred pursuant to clause (ii)) and (ii) Guarantees of Indebtedness made in connection with the BBBEE Act to facilitate the purchase of Equity Interests of the Parent or any South African Restricted Subsidiary or in respect of put/call arrangements under which the Parent will acquire Equity Interests of the Parent or any South African Restricted Subsidiary (or a Person that owns Equity Interests of the Parent or any South African Restricted Subsidiary); and

(23) Indebtedness or Disqualified Stock of the Parent and Indebtedness, Disqualified Stock or preferred stock of any Restricted Subsidiary in an aggregate principal amount at any time outstanding, including all Indebtedness, Disqualified Stock and preferred stock incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness, Disqualified Stock and preferred stock incurred pursuant to this clause (23), not to exceed the greater of US$175.0 million and 3.0% of Total Assets.

Neither the Issuer nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Note Guarantee on substantially identical terms; *provided*, *however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor solely by virtue of being unsecured, by virtue of being secured with different collateral or by virtue of being secured on a junior priority basis or by virtue of the application of waterfall or other payment-ordering provisions affecting different tranches of Indebtedness under Credit Facilities.

For purposes of determining compliance with this ''Incurrence of Indebtedness and Issuance of Preferred Stock'' covenant:

(1) in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (23) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Issuer, in its sole discretion, will be permitted to classify such item of Indebtedness on the date of its incurrence and will only be required to include the amount and type of such Indebtedness in one of such clauses and will be permitted on the date of such incurrence to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, or, except with respect to Indebtedness incurred under clause (1) or clause (17) of the definition of Permitted Debt, which may not be reclassified, from time to time to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant;

(2) Indebtedness under the Revolving Credit Facility outstanding on the Issue Date will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt and may not be reclassified. Indebtedness incurred by South African Restricted Subsidiaries outstanding on the Issue Date (other than Hedging Obligations) will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (17) of the definition of Permitted Debt and may not be reclassified;

(3) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are incurred pursuant to any Credit Facility and are being treated as incurred

pursuant to clause (1), (4) or (23) of the second paragraph above or the first paragraph of this covenant and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included; and

(4) if, due to a change in IFRS as in effect as of the date of the Indenture, any item of Indebtedness classified in one of the categories of Permitted Debt described in clauses (1) through (23) of the second paragraph of this covenant ceases to be eligible under IFRS to be so classified, the Issuer, in its sole discretion, will be permitted to continue to classify such item of Indebtedness under such clause.

The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness, the reclassification as Indebtedness of preferred stock or operating leases, or of commitments or obligations not previously treated as Indebtedness, in each case due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant. For purposes of determining compliance with any US dollar-denominated, ZAR-denominated or euro-denominated restriction on the incurrence of Indebtedness, the US dollar-equivalent, ZAR-equivalent or euro-equivalent, as applicable, principal amount of Indebtedness denominated in a different currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided, however*, that (i) if such Indebtedness denominated in a non-US dollar, non-ZAR or non-euro currency is subject to a Currency Exchange Protection Agreement with respect to US dollars, ZAR, or euro, as applicable, the amount of such Indebtedness expressed in US dollars, ZAR or euro, as applicable, will be calculated so as to take account of the effects of such Currency Exchange Protection Agreement; and (ii) the US dollar-equivalent, ZAR-equivalent or euro-equivalent, as applicable, of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date. For purposes of determining compliance with any US dollar-denominated, ZAR-denominated or euro-denominated restrictions on the incurrence of Indebtedness in instances in which both the refinancing Indebtedness and the Indebtedness being refinanced are incurred under the same such restriction, the principal amount of any refinancing Indebtedness incurred in the same currency as the Indebtedness being refinanced will be the US dollar-equivalent, ZAR-equivalent or euro-equivalent, as applicable, of the Indebtedness refinanced determined on the date such Indebtedness was originally incurred, except that to the extent that:

(1) such US dollar-equivalent, ZAR-equivalent or euro-equivalent, as applicable, was determined based on a Currency Exchange Protection Agreement, in which case the refinancing Indebtedness will be determined in accordance with the preceding sentence; and

(2) the principal amount of the refinancing Indebtedness exceeds the principal amount of the Indebtedness being refinanced, in which case the US dollar-equivalent, ZAR-equivalent or euro-equivalent, as applicable, of such excess, as appropriate, will be determined on the date such refinancing Indebtedness is being incurred.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness, and

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

    (i) the Fair Market Value of such assets at the date of determination; and

    (ii) the amount of the Indebtedness of the other Person.

In addition, the principal amount of any Disqualified Stock of the Parent or a Restricted Subsidiary, or preferred stock of a Restricted Subsidiary, outstanding as of any date will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof.

Liens

The Parent will not and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind securing Indebtedness on any of their property or assets, now owned or hereafter acquired, except (1) in the case of any property or asset that does not constitute Collateral, Permitted Liens; and (2) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens and, only to the extent contemplated under ''Repurchase at the Option of Holders—Asset Sales'', pre-existing Liens.

During any Suspension Period, the Issuer may elect by written notice to the Trustee and the holders of the Notes to be subject to an alternative covenant with respect to ''Liens'', in lieu of the first paragraph of this covenant. Under this alternative covenant, the Parent will not and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien on any Principal Property securing any indebtedness for borrowed money (''Suspension Debt'') or interest on any Suspension Debt (or any liability of the Parent or any of its Restricted Subsidiaries under any guarantee or endorsement or other instrument under which the Parent or any of its Restricted Subsidiaries is contingently liable, either directly or indirectly, for Suspension Debt or interest on Suspension Debt), other than Permitted Liens pursuant to clauses (1), (3), (4), (6), (7), (8), (9), (14), (17), (18), (19), (20), (22), (23), (24), (26), (33), (34), (35), (36), (37), clause (12) (but only to the extent the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness was secured pursuant to the aforementioned clauses of the definition of ''Permitted Liens'') and clause (38) (with respect to Liens described in the foregoing clauses) of the definition of ''Permitted Liens'', without also at the same time or prior to that time securing all payments due under the Indenture and the Notes on an equal and ratable basis with (or prior to) the Suspension Debt so secured until such time as such Suspension Debt is no longer secured by such Lien. Notwithstanding the foregoing, during a Suspension Period, the Parent and its Restricted Subsidiaries will be permitted to create, incur, assume or otherwise cause or suffer to exist or become effective Liens on any Principal Property to secure Suspension Debt or interest on any Suspension Debt (or any liability of the Parent or any of its Restricted Subsidiaries under any guarantee or endorsement or other instrument under which the Parent or any of its Restricted Subsidiaries is contingently liable, either directly or indirectly, for Suspension Debt or interest on Suspension Debt), and renew, extend or replace such Liens, without securing the Notes, if the amount of Suspension Debt outstanding at the time secured by the Liens on any Principal Property created, incurred or assumed after the date on which the Parent and its Restricted Subsidiaries become subject to this alternative covenant and otherwise prohibited by the Indenture does not exceed 15% of Consolidated Net Tangible Assets.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Parent or any Restricted Subsidiary, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Parent or any Restricted Subsidiary;

(2) make loans or advances to the Parent or any Restricted Subsidiary; or

(3) sell, lease or transfer any of its properties or assets to the Parent or any Restricted Subsidiary,

provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Parent or any Restricted Subsidiary to other Indebtedness incurred by the Parent or any Restricted Subsidiary, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Indebtedness and Credit Facilities as in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided that* the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(2) the Indenture, the Notes, the Note Guarantees in respect of the Notes, the OeKB Term Loan Facility, the 2017 Indenture, the 2017 Notes, the 2017 Note Guarantees, the 2021 Indenture, the 2021 Notes, the 2021 Note Guarantees, the Revolving Credit Facility, the Intercreditor Agreement and the Collateral Documents;

(3) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'' and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided that* the restrictions therein are not materially less favorable to the holders of the Notes than is customary in comparable financings (as determined in good faith by the Parent) or the Parent determines at the time of the incurrence of such Indebtedness that such encumbrances or restrictions will not adversely affect, in any material respect, the Issuer's ability to make principal or interest payments on the Notes;

(4) applicable law, rule, regulation or order or the terms of any license, authorization, concession or permit;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired (including by way of merger or consolidation) by the Parent or any of its Restricted Subsidiaries or designated as a Restricted Subsidiary as in effect at the time of such acquisition or designation (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition or designation), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired or designated; *provided that*, in the case of Indebtedness, such Indebtedness was permitted to be incurred by the terms of the Indenture;

(6) customary non-assignment and similar provisions in contracts, leases and licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(8) any agreement for the sale or other disposition of the Capital Stock or all or substantially all of the property and assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(9) Permitted Refinancing Indebtedness; *provided that* the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described above under the caption ''—Liens'' that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment), which limitation is applicable only to the assets that are the subject of such agreements;

(12) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies or imposed by leases, in each case, under contracts entered into in the ordinary course of business;

(13) any encumbrance or restriction of a Securitization Subsidiary effected in connection with a Qualified Securitization Financing; *provided, however*, that such restrictions apply only to such Securitization Subsidiary;

(14) Hedging Obligations; and

(15) any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (14), or in this clause (15); *provided that* the terms and conditions of any such encumbrances or restrictions are no more restrictive in any material respect than those under or pursuant to the agreement so extended, renewed, refinanced or replaced.

Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries

The Parent will not cause or permit any Restricted Subsidiary (which is not the Issuer or a Guarantor), directly or indirectly, to guarantee, assume or in any other manner become liable with respect to any Indebtedness of any Restricted Subsidiary under the Revolving Credit Facility or the OeKB Term Loan Facility or any refinancing Indebtedness in respect thereof, unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Note Guarantee on the same terms as the other Note Guarantees by the Guarantors except that:

(1) such Note Guarantee need not be secured unless the guarantee under the Revolving Credit Facility, the OeKB Term Loan Facility or any refinancing Indebtedness in respect thereof is secured;

(2) if such Indebtedness is by its terms expressly subordinated to the Notes or any Guarantee, any such assumption, guarantee or other liability of such Restricted Subsidiary with respect to such Indebtedness shall be subordinated to such Restricted Subsidiary's Note Guarantee at least to the same extent as such Indebtedness is subordinated to the Notes or any other Guarantee;

(3) no Note Guarantee shall be required if such Guarantee could reasonably be expected to give rise to or result in (A) personal liability for the officers, directors or shareholders of such Restricted Subsidiary, (B) any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to such Restricted Subsidiary or (C) any significant cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (B) undertaken in connection with, such Guarantee, which cannot be avoided through measures reasonably available to the Restricted Subsidiary; and

(4) each such Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

The first paragraph of this covenant shall not apply to the granting by such Restricted Subsidiary of a Permitted Lien or Permitted Collateral Lien under circumstances which do not otherwise constitute the guarantee of Indebtedness.

Merger, Consolidation or Sale of Assets

The Parent will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Parent is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Parent and its

Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Parent is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Parent) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union, Switzerland, South Africa, Canada, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Parent) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Parent under the Notes, the Indenture, the Intercreditor Agreement and the Collateral Documents;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) the Parent or the Person formed by or surviving any such consolidation or merger (if other than the Parent), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least US$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'' or (ii) have a Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction; and

(5) the Parent delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer comply with this covenant.

The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union, Switzerland, South Africa, Canada, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Issuer under the Notes, the Indenture, the Intercreditor Agreement and the Collateral Documents;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least US$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'' or (ii) have a Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction; and

(5) the Issuer delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer comply with this covenant.

A Guarantor (other than a Guarantor whose Note Guarantee is to be released in accordance with the terms of the Note Guarantee and the Indenture as described under ''—Note Guarantees'') will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not such Guarantor is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of such Guarantor and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) such Guarantor is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union, Switzerland, South Africa, Canada, Hong Kong, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of such Guarantor under the Notes, the Indenture, the Intercreditor Agreement and the Collateral Documents;

(3) immediately after giving *pro forma* effect to such transaction (and treating any Indebtedness which becomes an obligation of the surviving corporation as a result of such transaction as having been incurred by the surviving corporation at the time of such transaction), no Default or Event of Default exists; or

(4) the Parent delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer comply with this covenant.

This ''Merger, Consolidation or Sale of Assets'' covenant will not apply to any sale, assignment, transfer, conveyance, lease or other disposition of assets, or consolidation or merger among the Issuer and the Guarantors or among any Guarantors; *provided* that, if the Issuer is not the surviving entity, the relevant Guarantor will assume the obligations of the Issuer under the Indenture, the Intercreditor Agreement and (to the extent applicable) the Collateral Documents. Clauses (3) and (4) of the first paragraph and clause (3) of the second and third paragraphs of this covenant will not apply to any merger or consolidation of the Parent, the Issuer or any Guarantors with or into an Affiliate solely for the purpose of reincorporating the Parent, the Issuer or such Guarantor in another jurisdiction.

Any Indebtedness that becomes an obligation of the Parent (or a successor Parent) or any Restricted Subsidiary (or that is deemed to be incurred by any Person that becomes a successor Parent or a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with the first two paragraphs of this covenant, and any Permitted Refinancing Indebtedness with respect thereto, shall be deemed to have been incurred in compliance with the covenant described under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock''.

Transactions with Affiliates

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Parent (each, an ''*Affiliate Transaction*'') involving aggregate payments or consideration in excess of US$2.5 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Parent or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent or such Restricted Subsidiary with a Person who is not an Affiliate; and

(2) the Parent delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$15.0 million, a resolution of the Board of Directors of the Parent set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Parent; and, in addition,

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$25.0 million, an opinion of an accounting, appraisal or investment banking firm of international standing, or other recognized independent expert of international standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is (i) fair from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, collective bargaining agreement, consulting agreement, employee benefit arrangements with any employee, consultant, officer or director of the Parent or any Restricted Subsidiary, including under any stock option, stock appreciation rights, stock incentive or similar plans, entered into in the ordinary course of business;

(2) transactions between or among the Parent and/or its Restricted Subsidiaries (including an entity that becomes a Restricted Subsidiary as a result of such transaction);

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Parent) that is an Affiliate of the Parent solely because the Parent owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Parent or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Disqualified Stock) of the Parent to Affiliates of the Parent;

(6) Restricted Payments that do not violate the provisions of the Indenture described above under the caption ''—Restricted Payments'' or any transaction specifically excluded from the definition of Restricted Payment;

(7) Permitted Investments (other than Permitted Investments described in clauses (3), (13) and (16) of the definition thereof);

(8) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not materially more disadvantageous to the holders of the Notes than the original agreement as in effect on the Issue Date;

(9) Management Advances and any waiver or transaction with respect thereto;

(10) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, that are fair to the Parent or the Restricted Subsidiaries in the reasonable determination of the members of the Board of Directors of the Issuer or the Parent or the senior management thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from a Person who is not an Affiliate; and

(11) any transaction effected as part of a Qualified Securitization Financing.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Parent may designate any Restricted Subsidiary (other than the Issuer or any successor to the Issuer) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Parent and its Restricted

Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption ''—Restricted Payments'' or under one or more clauses of the definition of Permitted Investments, as determined by the Parent. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Parent may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of the Parent as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a copy of a resolution of the Board of Directors of the Parent giving effect to such designation and an Officer's Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption ''—Restricted Payments''. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'', the Parent will be in Default of such covenant. The Board of Directors of the Parent may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption ''—Incurrence of Indebtedness and Issuance of Preferred Stock'', calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Payments for Consent

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to all holders of the Notes and is paid to all holders of the Notes that so consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement (the ''Consenting Holders''), *provided* that the Parent may in its sole discretion also furnish or cause to be furnished such consideration, in whole or in part, to any holder of Notes other than the Consenting Holders.

Notwithstanding the foregoing, the Parent and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude holders of the Notes in any jurisdiction where (a) the solicitation of such consent, waiver or amendment, including in connection with an exchange offer or offer to purchase for cash, or (b) the payment of the consideration therefor (x) would require the Parent or any of its Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Parent in its sole discretion determines (acting in good faith) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent documents used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction if such filing is not subject to any separate substantive review by such authorities); or (y) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Maintenance of Listing

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Official List of the Luxembourg Stock Exchange for so long as such Notes are outstanding; *provided* that if at any time the Issuer determines that it will not maintain such listing, it will use its commercially reasonable efforts to obtain (prior to the delisting of the Notes from the Official List of the Luxembourg Stock Exchange, if applicable) and maintain a listing of such Notes on another recognized stock exchange or exchange regulated market in Western Europe.

Impairment of Security Interest

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the holders of the Notes, and the Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the holders of the Notes and the other beneficiaries described in the Collateral Documents and the Intercreditor Agreement, any interest whatsoever in any of the Collateral; *provided* that (a) nothing in this provision shall restrict the discharge or release of the Collateral in accordance with the Indenture, the Collateral Documents and the Intercreditor Agreement and (b) the Parent and its Restricted Subsidiaries may incur Permitted Collateral Liens.

The Indenture will provide that, at the direction of the Issuer and without the consent of the holders of the Notes, the Trustee and the Security Agent may from time to time enter into one or more amendments to the Collateral Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein, (ii) provide for Permitted Collateral Liens, (iii) comply with the terms of the Intercreditor Agreement, (iv) add to the Collateral, (v) evidence the succession of another Person to the Issuer or a Guarantor and the assumption by such successor of the obligations under the Indenture, the Notes, the applicable Note Guarantee and the Collateral Documents, in each case, in accordance with ''—Merger, Consolidation or Sale of Assets'', (vi) provide for the release of property and assets constituting Collateral from the Lien of the Collateral Documents or the release of the Guarantee of a Guarantor, in each case, in accordance with (and if permitted by) the terms of the Indenture, (vii) conform the Collateral Documents to this ''Description of Notes'', (viii) evidence and provide for the acceptance of the appointment of a successor Trustee or Security Agent or (ix) make any other change thereto that does not adversely affect the holders of the Notes in any material respect; *provided*, *however*, that except for the reasons specified in clauses (i) through (ix), no Collateral Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced (including by releasing and retaking a Lien over the Collateral), unless contemporaneously with such amendment, extension, replacement (including by releasing and retaking a Lien over the Collateral), restatement, supplement, modification or renewal, the Issuer delivers to the Trustee either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, or a certificate of the Board of Directors of the Parent, confirming the solvency of the Parent and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, supplement, modification or replacement or (2) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement (including by releasing and retaking a Lien over the Collateral), the Lien or Liens securing the Notes created under the Collateral Documents so amended, extended, renewed, restated, supplemented, modified or replaced are, to the extent applicable, valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement. In the event that the Issuer complies with this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification or replacement with no need for instructions from the holders of the Notes.

Reports

So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(1) within 120 days after the end of the Parent's fiscal year beginning with the fiscal year ending September 27, 2015, annual reports containing the following information:
    (a) audited consolidated balance sheet of the Parent as of the end of the two most recent

fiscal years and audited consolidated income statements and statements of cash flow of the Parent for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information of the Parent, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations (but only to the extent that such *pro forma* financial information has been required to be disclosed for such acquisitions, dispositions, or recapitalizations by the JSE Limited or other regulatory authority) that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (unless such *pro forma* information has been provided in a previous report pursuant to clause 2 or 3 below); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations (including a discussion by business segment), financial condition and liquidity and capital resources of the Parent; (d) a summary description of the business, management and shareholders of the Parent, material affiliate transactions and material debt instruments; and (e) risk factors and material recent developments; *provided* that any item of disclosure provided under this clause (1)(a), (c), (d) or (e) that is substantially comparable and similar in scope to the corresponding item of disclosure in the Parent's most recent annual report will be deemed to satisfy the Parent's obligations under this clause (1) with respect to such item;

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Parent beginning with the fiscal quarter ending March 29, 2015, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the quarterly and year to date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Parent, together with condensed footnote disclosure; (b) *pro forma* income statement and balance sheet information of the Parent, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations (but only to the extent that such *pro forma* financial information has been required to be disclosed for such acquisitions, dispositions, or recapitalizations by the JSE Limited or other regulatory authority) that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates; (c) an operating and financial review of the unaudited financial statements (including a discussion by business segment), including a discussion of the consolidated financial condition and results of operations of the Parent and any material change between the current quarterly period and the corresponding period of the prior year; and (d) material recent developments; *provided* that (for so long as the JSE Listings Requirements require interim reports) any item of disclosure that complies in all material respects with the requirements applicable under the JSE Listings Requirements for interim reports with respect to such item will be deemed to satisfy the Parent's obligations under this clause (2) with respect to such item; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring of the Parent and the Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Parent or change in auditors of the Parent or any other material event that the Parent announces publicly, a report containing a description of such event (but only to the extent that such acquisition, disposition, restructuring, change or event has been required to be publicly announced or disclosed by the JSE Listings Requirements for so long as the Parent is subject thereto).

The annual report required by the preceding paragraph will include, in respect of the Guarantors and the non-Guarantors, figures with respect to: sales; operating profit (loss); EBITDA; working capital; net property, plant and equipment; and total assets; *provided*, *however*, that this requirement shall not be applicable during a Suspension Period. In addition, if the Parent has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Parent and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Parent.

All financial statements shall be prepared in accordance with IFRS. Except as provided for above, no report need include separate financial statements for the Parent or Subsidiaries of the Parent or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum.

In addition, for so long as any Notes remain outstanding and if the Parent is neither subject to Section 13 or 15(d) of the U.S. Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, the Parent has agreed that it will furnish to the holders of the Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

Contemporaneously with the furnishing of each such report discussed above, the Parent will also (a) file a press release with the appropriate internationally recognized wire services in connection with such report or (b) post such report on the Parent's website. In the event that the Parent becomes subject to the reporting requirements of Section 13(a) or 15(d) of the U.S. Exchange Act, or elects to comply with such provisions, the Parent will, for so long as it continues to file the reports required by Section 13(a) with the Commission, make available to the Trustee the annual reports, information, documents and other reports that the Parent is or would be required to file with the Commission pursuant to such Section 13(a) or 15(d). The Parent will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, at the offices of the Paying Agent in Luxembourg or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Luxembourg Stock Exchange.

Additional Intercreditor Agreement

The Indenture will provide that, at the request of the Issuer, at the time of, or prior to, the incurrence of any Indebtedness secured by, or that is permitted to share the Collateral, the Issuer, the relevant Guarantors, the Trustee and the Security Agent shall enter into an additional intercreditor agreement on terms substantially similar to the Intercreditor Agreement or an amendment to the Intercreditor Agreement (which amendment in the good faith judgment of the Issuer does not adversely affect the rights of the holders of the Notes in any material respect), it being understood that an increase in the amount of Indebtedness being subject to the terms of the Intercreditor Agreement or additional intercreditor agreement will be deemed to be on substantially similar terms to the Intercreditor Agreement and will be deemed not to adversely affect the rights of the holders of the Notes and will be permitted by this covenant if, in each case, the incurrence of such Indebtedness and any Lien in its favor is permitted by the covenants described above under the captions ''—Incurrence of Indebtedness and Issuance of Preferred Stock'' and ''—Liens''; *provided* that such Intercreditor Agreement or additional intercreditor agreement will not impose any personal obligations on the Trustee or the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Trustee under the Indenture or the Intercreditor Agreement.

The Indenture will also provide that, at the direction of the Issuer and without the consent of the holders of the Notes, the Trustee and the Security Agent shall from time to time enter into one or more amendments to the Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of such agreement, (2) increase the amount or types of Indebtedness covered by such agreement that may be incurred by the Issuer or a Guarantor that is subject to such agreement (including with respect to the Intercreditor Agreement or any additional intercreditor agreement, the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes), (3) add Restricted Subsidiaries to the Intercreditor Agreement or an additional intercreditor agreement, (4) further secure the Notes (including Additional Notes), (5) make provision for equal and ratable pledges of the Collateral to secure Additional Notes, (6) implement any Permitted Collateral Liens, (7) amend the Intercreditor Agreement or any additional intercreditor agreement in accordance with the terms thereof or (8) make any other change to any such agreement that does not adversely affect the holders of the Notes in any material respect.

The Indenture will also provide that, in relation to the Intercreditor Agreement or any additional intercreditor agreement, the Trustee (and Security Agent, if applicable) shall consent on behalf of the holders of the Notes to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided*, *however*, that such transaction would comply with the covenant described under the caption ''—Restricted Payments''.

The Indenture will provide that each holder of a Note, by accepting such Note, shall be deemed to have agreed to and accepted the terms and conditions of each Intercreditor Agreement and additional intercreditor agreement, and any amendments thereto, and the Trustee or the Security Agent shall not be required to seek the consent of any holders of the Notes to perform its obligations under and in accordance with this covenant and shall be authorized by holders of the Notes to enter into any one or more additional intercreditor agreements or amendments to the Intercreditor Agreement as contemplated above.

Events of Default and Remedies

Each of the following is an ''*Event of Default*'':

(1) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Notes;

(3) failure by the Issuer to make a Change of Control Offer or Asset Sale Offer or to purchase Notes in accordance with the provisions described under ''—Repurchase at the Option of the Holders—Change of Control'' and ''—Asset Sales'' or failure by the Issuer or the relevant Guarantor, for 30 days after written notice to the Parent by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, voting as a single class, to comply with any other provision described under the captions ''—Repurchase at the Option of Holders—Change of Control'' or ''—Asset Sales'';

(4) failure by the Parent, the Issuer or relevant Guarantor to comply with the provisions described under the caption ''—Certain Covenants—Merger, Consolidation or Sale of Assets'';

(5) failure by the Parent, the Issuer or relevant Guarantor for 60 days after written notice to the Parent by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, voting as a single class, to comply with any of the agreements in the Indenture (other than a default in performance, or breach, or a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4));

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Parent or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Parent or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee exists on, or is created after, the Issue Date, if that default:

    (a) is caused by a failure to pay principal of such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a ''*Payment Default*''); or

    (b) results in the acceleration of such Indebtedness prior to its express maturity,

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates US$35.0 million or more;

(7) failure by the Parent or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of US$25.0 million (exclusive of any amounts that an insurance company has acknowledged liability for), which final judgments shall not have been discharged or waived and there shall have been a period of 60 consecutive days during

which a stay of enforcement of such judgment or order, by reason of an appeal, waiver or otherwise, shall not have been in effect;

(8) any security interest created by the Collateral Documents ceases to be in full force and effect (except as permitted by the terms of the Indenture, the Intercreditor Agreement or the Collateral Documents or pursuant to limitations on enforceability, validity or effectiveness imposed by applicable law) with respect to Collateral having a Fair Market Value in excess of US$5.0 million or an assertion by the Parent or any of its Restricted Subsidiaries, in any pleading in any court of competent jurisdiction, that any Collateral having a Fair Market Value in excess of US$5.0 million is not subject to a valid, perfected security interest (except in accordance with the terms of the Indenture, the Intercreditor Agreement or the Collateral Documents or pursuant to limitations on enforceability, validity or effectiveness imposed by applicable law) and any such Default continues for 10 days;

(9) except as permitted by the Indenture (including with respect to any limitations) or pursuant to limitations on enforceability, validity or effectiveness imposed by applicable law, any Note Guarantee of the Parent or a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect and any such Default continues for 10 days, or the Parent or any Guarantor which is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, or any Person acting on behalf of any such Guarantor, denies or disaffirms its obligations under its Note Guarantee; and

(10) certain events of bankruptcy or insolvency described in the Indenture with respect to the Parent, the Issuer or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Parent or the Issuer, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately and may instruct the Security Agent to enforce any Collateral pursuant to the terms of the Intercreditor Agreement.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of the Notes unless such holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense. Except (subject to the provisions described under ''Amendment, Supplement and Waiver'') to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such holder has previously given the Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (6) of the first paragraph of this section has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (6) shall be remedied or cured, or waived by the holders of the Indebtedness that gave rise to such Event of Default, or such Indebtedness shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (a) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (b) all existing Events of Default, except nonpayment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

The holders of not less than a majority in aggregate principal amount of the Notes outstanding may, on behalf of the holders of all outstanding Notes, waive any past Default under the Indenture and its consequences, except a continuing Default

(a) in the payment of the principal of, premium, if any, any Additional Amounts or interest on any Note held by a non-consenting holder (which may only be waived with the consent of holders of the Notes holding at least 90% of the aggregate principal amount of the Notes outstanding under the Indenture), or

(b) for any Note held by a non-consenting holder, in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each Note affected by such modification or amendment.

Holders may not enforce the Collateral Documents, except as provided in the Intercreditor Agreement.

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. Within thirty (30) days of becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Note Guarantees, the Collateral Documents or the Intercreditor Agreement, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes, by accepting a Note, waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officer's Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes issued under the Indenture and all obligations of the Guarantors discharged with respect to their applicable Note Guarantees (''*Legal Defeasance*'') except for:

(1) the rights of holders of such outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts and premium, if any) on, such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to such Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture (''*Covenant Defeasance*'') and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, all Events of Default described under ''—Events of Default and Remedies'' (except those relating to payments on the Notes or, solely with respect to the Issuer, bankruptcy or insolvency events) will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the Notes, cash in euro, non-callable European Government Obligations or a combination of cash in euro and non-callable European Government Obligations, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest (including Additional Amounts and premium, if any) on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to such Trustee of United States counsel confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to such Trustee of United States counsel confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) the Issuer must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of the Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and

(5) the Issuer must deliver to the Trustee an Officer's Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided otherwise in the succeeding paragraphs, the Indenture, the Notes, the Note Guarantees, the Intercreditor Agreement or the Collateral Documents may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture or the Notes or the Note Guarantees may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), without the consent of each holder of Notes affected, an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting holder):

(1) reduce the principal amount of such Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any such Note or alter the provisions with respect to the redemption of such Notes (other than provisions relating to the covenants described above under the caption ''—Repurchase at the Option of Holders'');

(3) reduce the rate of or change the time for payment of interest, including default interest, on any such Note;

(4) impair the right of any holder of such Notes to receive payment of principal of and interest on such holder's Notes on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such holder's Notes or any Guarantee in respect thereof;

(5) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, such Notes (except a rescission of acceleration of such Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);

(6) make any such Note payable in money other than that stated in the Notes (except to the extent the currency stated in the Notes has been succeeded or replaced pursuant to applicable laws);

(7) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of such Notes to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes;

(8) waive a redemption payment with respect to any such Note (other than a payment required by one of the covenants described above under the caption ''—Repurchase at the Option of Holders'');

(9) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Intercreditor Agreement;

(10) release the Lien on Collateral granted for the benefit of holders of such Notes, except in accordance with the terms of the Collateral Documents, the Indenture and the Intercreditor Agreement; or

(11) make any change in the preceding amendment and waiver provisions.

Notwithstanding the immediately preceding paragraph, the Indenture will provide that any Guarantee or Lien on the Collateral will be released in connection with any sale or other disposition of property or assets (including Capital Stock) that does not violate the ''Asset Sales'' provisions or the covenant described under the caption ''—Certain Covenants—Restricted Payments'' of the Indenture (as such provision or covenant may be amended from time to time with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding and, in the case of any such amendment, the consent of at least a majority in aggregate principal amount of the Notes then outstanding will suffice for such release). Notwithstanding the preceding, without the consent of any holder of the Notes, the Issuer, the Guarantors, the Trustee, and the Security Agent may amend or supplement the Indenture, the Notes or the Note Guarantees and any Collateral Document:

(1) to cure any ambiguity, defect, inconsistency or error;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code);

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to holders of the Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such holder in any material respect;

(5) to conform the text of the Indenture, the Note Guarantees, the Collateral Documents or the Notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees, the Collateral Documents or the Notes;

(6) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(7) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(8) to add additional parties to the Intercreditor Agreement or any Collateral Documents to the extent permitted hereunder and thereunder;

(9) in the case of the Collateral Documents, to mortgage, pledge, hypothecate or grant a security interest in favor of the Security Agent for the benefit of the holders of the Notes or parties to the Revolving Credit Facility, in any property which is required by the Collateral Documents or the Revolving Credit Facility (as in effect on the Issue Date) to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent, or to the extent necessary to grant a security interest in the Collateral for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the Indenture or the Intercreditor Agreement or any additional intercreditor agreement and the covenant described under ''Certain Covenants—Impairment of Security Interest'' is complied with; or

(10) to provide for any Restricted Subsidiary to provide a Note Guarantee in accordance with the covenants described under ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' and ''—Certain Covenants—Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries'', to add Note Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Note Guarantee or Lien (including the Collateral and the Collateral Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is permitted under the Indenture, the Collateral Documents, the Intercreditor Agreement or any additional intercreditor agreement.

The consent of the holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the holders of the Notes under the Intercreditor Agreement, any additional intercreditor agreement and the Collateral Documents will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in euro, non-callable European Government Obligations or a combination of cash in euro and non-callable European Government Obligations in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) the Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(3) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been complied with; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

Judgment Currency

Any payment on account of an amount that is payable in euro (the ''*Required Currency*'') which is made to or for the account of any holder of Notes or the Trustee in lawful currency of any other jurisdiction (the ''*Judgment Currency*''), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Issuer or any Guarantor, shall constitute a discharge of the Issuer or the Guarantor's obligation under the Indenture and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of the Required Currency which such holder or the Trustee, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of the Required Currency that could be so purchased is less than the amount of the Required Currency originally due to such holder or the Trustee, as the case may be, the Issuer and the Guarantors shall indemnify and hold harmless such holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Indenture or the Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder of Notes or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

Concerning the Trustee

If the Trustee becomes a creditor of the Issuer or any Guarantor, the Indenture limits the right of the Trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

The Issuer and the Guarantors jointly and severally will indemnify the Trustee for certain claims, liabilities and expenses incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with its duties.

The Trustee shall have a first priority lien shared with other agents on any amounts collected by it for payment of its fees, expenses and indemnities ahead of the holders of the Notes. At all other times, the Trustee and other agents have only their express duties under the Indenture and no implied duties shall be assumed.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF.

Additional Information

Anyone who receives this Offering Memorandum may, following the Issue Date, obtain copies of the Indenture without charge by writing to the Issuer at Brucker Strasse 21, Gratkorn, A-8101, Austria.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Parent's annual audited consolidated financial statements and the Parent's unaudited consolidated interim financial statements may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Luxembourg or, to the extent and in the manner permitted by such rules, on the official website of the Luxembourg Stock Exchange. Copies of the Intercreditor Agreement may also be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Luxembourg.

Consent to Jurisdiction and Service of Process

The Indenture will provide that the Issuer and each Guarantor will appoint S.D. Warren Company as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantees brought in any federal or state court located in the City of New York and will submit to such jurisdiction.

Enforceability of Judgments

Since a substantial portion of the assets of the Issuer and the Guarantors (other than the U.S. Guarantors) are outside the United States, any judgment obtained in the United States against the Parent, the Issuer or any Guarantor (other than the U.S. Guarantors) may not be collectable within the United States.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed 10 years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Governing Law

The Indenture, the Notes and the Note Guarantee, and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby. The Intercreditor Agreement and any non-contractual obligation arising out of or in connection with the Intercreditor Agreement is governed by the law of England.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

''*2009 Refinancing*'' means certain refinancing transactions undertaken by the Parent in 2009, including the issuance of the 2014 Notes and the use of proceeds therefrom, the execution of the Revolving Credit Facility and the incurrence of borrowings under an OeKB facility.

''*2011 Refinancing*'' means certain refinancing transactions undertaken by the Parent in 2011, including the issuance by the Issuer of the €250 million Senior Secured Notes due 2018 and the 2021 Notes and the use of proceeds therefrom and the amendment and restatement of the Revolving Credit Facility.

''*2012 Refinancing*'' means certain refinancing transactions undertaken by the Parent in 2012, including the issuance by the Issuer of the 2017 Notes and the US$300 million Senior Secured Notes due 2019 and the use of proceeds therefrom and the execution of the OeKB Term Loan Facility.

''*2014 Indenture*'' means the indenture governing the 2014 Notes, as amended, supplemented, restated or otherwise modified from time to time.

''*2014 Notes*'' means, collectively, the €350 million Notes due 2014 and the US$300 million Notes due 2014 issued by PE Paper Escrow GmbH and any additional notes issued under the 2014 Indenture.

''*2014 Notes Issue Date*'' means July 29, 2009, the date on which the 2014 Notes were first issued.

''*2017 Indenture*'' means the indenture governing the 2017 Notes, as amended, supplemented, restated or otherwise modified from time to time.

''*2017 Note Guarantee*'' means the Guarantee by each guarantor thereof, of the Issuer's obligations under the 2017 Indenture and the 2017 Notes, executed pursuant to the provisions of the 2017 Indenture.

''*2017 Notes*'' means the US$400 million Senior Secured Notes due 2017 issued by the Issuer and any additional notes issued under the 2017 Indenture.

''*2021 Indenture*'' means the indenture governing the 2021 Notes, as amended, supplemented, restated or otherwise modified from time to time.

''*2021 Note Guarantee*'' means the Guarantee by each guarantor thereof, of the Issuer's obligations under the 2021 Indenture and the 2021 Notes, executed pursuant to the provisions of the 2021 Indenture.

''*2021 Notes*'' means the US$350 million Senior Secured Notes due 2021 issued by the Issuer and any additional notes issued under the 2021 Indenture.

''*Acquired Debt*'' means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

''*Affiliate*'' of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, ''control'', as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms ''controlling'', ''controlled by'' and ''under common control with'' have correlative meanings.

''*Agreed Security Principles*'' means the Agreed Security Principles set out in an annex to the Indenture, as applied reasonably and in good faith by the Parent or the Issuer.

''*Applicable Premium*'' means, with respect to any Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of such Note; or

(2) the excess of:

   (a) the present value at such redemption date of (i) the redemption price of such Note at April 1, 2018 (such redemption price being set forth in the table appearing above under the caption ''—Optional Redemption''), *plus* (ii) all required interest payments due on such Note through April 1, 2018 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Bund Rate as of such redemption date *plus* 50 basis points; over

   (b) the principal amount of such Note.

''*Asset Sale*'' means:

(1) the sale, lease, conveyance or other disposition of any assets by the Parent or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Parent and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption ''—Repurchase at the Option of Holders—Change of Control'' and/or the provisions described above under the caption ''—Certain Covenants—Merger, Consolidation or Sale of Assets'' and not by the provisions described under the caption ''—Repurchase at the Option of Holders—Asset Sales'' and *provided further*, however, that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption ''—Certain Covenants—Merger, Consolidation and Sale of Assets'' and not by the provisions described under the caption ''—Repurchase at the Option of Holders—Asset Sales''; and

(2) the issuance of Equity Interests by any Restricted Subsidiary or the sale by the Parent or any of its Restricted Subsidiaries of Equity Interests in any of the Restricted Subsidiaries (in each case, other than directors' qualifying shares).

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than US$10.0 million;

(2) a transfer of assets or Equity Interests between or among the Parent and any Restricted Subsidiary;

(3) an issuance of Equity Interests by a Restricted Subsidiary to the Parent or to a Restricted Subsidiary;

(4) the sale, lease or other transfer of inventory, timber, trading stock or other assets in the ordinary course of business and any sale or other disposition of damaged, retired, surplus, worn-out or obsolete assets or assets that are no longer useful in the conduct of the business of the Parent and its Restricted Subsidiaries;

(5) licenses and sublicenses by the Parent or any of its Restricted Subsidiaries in the ordinary course of business;

(6) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption ''—Liens'';

(8) the sale or other disposition of cash or Cash Equivalents;

(9) a Restricted Payment that does not violate the covenant described above under the caption ''—Certain Covenants—Restricted Payments'', a Permitted Investment or any transaction specifically excluded from the definition of Restricted Payment;

(10) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(12) the lease or license in respect of land to a trading counterparty to whom the Parent or Restricted Subsidiary, as applicable, provides services on that land in the ordinary course of its trading;

(13) the disposition of assets to a Person who is providing services (the provision of which have been or are to be outsourced by the Parent or any Restricted Subsidiary to such Person) related to such assets;

(14) any sale, transfer, lease or other disposition of any assets or rights of a South African Restricted Subsidiary in connection with the BBBEE Act of up to €50.0 million; *provided* that any cash or Cash Equivalents received must be applied in accordance with the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'';

(15) any sale, transfer or other disposition of Securitization Assets in connection with any Qualified Securitization Financing;

(16) any sale, transfer, lease, exchange or other disposition of timberlands and other timber assets in southern Africa; *provided* that any cash or Cash Equivalents received must be applied in accordance with the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'';

(17) any disposition of assets or property in connection with claims under the Restitution of Land Rights Act, including any amendment, supplement, replacement or successor thereto, or laws or regulations of a similar or related nature; *provided* that any cash or Cash Equivalents received must be applied in accordance with the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'';

(18) any sale, transfer, lease, exchange or other disposition (including pursuant to a derivative transaction) of carbon credits; *provided* that (i) clause (1) of the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'' is, at the time of such transaction or at the time of payment or payments, satisfied and (ii) any cash or Cash Equivalents received must be applied in accordance with the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'';

(19) any sale that is a result of a compulsorily or involuntary acquisition by any governmental authority; *provided* that any cash or Cash Equivalents received must be applied in accordance with the covenant described under ''—Repurchase at the Option of Holders—Asset Sales'';

(20) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable; and

(21) any issuance, sale or disposition of Equity Interests, Indebtedness or other securities of an Unrestricted Subsidiary.

''*Asset Sale Offer*'' has the meaning assigned to that term under the caption ''—Repurchase at the Option of Holders—Asset Sales''.

''*BBBEE Act*'' means the Broad Based Black Empowerment Economic Act (No. 53 of 2003), including any amendment, supplement, replacement or successor thereto, and any legislation or regulation of a similar or related nature adopted in The Republic of South Africa and any notice, regulation, code of good practice or sector charter published, or any industry guidelines or scorecards established, thereunder.

''*Beneficial Owner*'' has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular ''person'' (as that term is used in Section 13(d)(3) of the U.S. Exchange Act), such ''person'' will be deemed to have beneficial ownership of all securities that such ''person'' has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms ''Beneficially Owns'' and ''Beneficially Owned'' have a corresponding meaning.

''*Board of Directors*'' means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

''*Bund Rate*'' means, as of any redemption date, the rate per annum equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) ''*Comparable German Bund Issue*'' means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to April 1, 2018, and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to April 1, 2018, *provided*, *however*, that, if the period from such redemption date to April 1, 2018 is less than one year, a fixed maturity of one year shall be used;

(2) ''*Comparable German Bund Price*'' means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) ''*Reference German Bund Dealer*'' means any dealer of German Bundesanleihe securities appointed by the Issuer in good faith; and

(4) ''*Reference German Bund Dealer Quotations*'' means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Issuer of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany time on the third Business Day preceding the relevant date.

''*Business Day*'' means a day other than a Saturday, Sunday or other day on which banking institutions in Johannesburg, London, Luxembourg, New York or Vienna or a place of payment under the Indenture are authorized or required by law to close.

''*Capital Lease Obligation*'' means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

''*Capital Stock*'' means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

''*Cash Equivalents*'' means:

(1) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the European Union, the United States of America, South Africa, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union, the United States of America, South Africa, Switzerland or Canada, as the case may be, and which are not callable or redeemable at the Parent's option;

(2) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by (a) a bank or trust company which is organized under, or authorized to operate as a bank or trust company under, the laws of a member state of the European Union, the United States of America or any state thereof, South Africa, Switzerland or Canada; *provided* that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated ''A-3'' or higher by Moody's or ''A−'' or higher by S&P or the equivalent rating category of another internationally recognized rating agency or (b) a bank or trust company (including successors thereto) which, at anytime since the 2014 Notes Issue Date through the Issue Date, has issued to the Parent or any Restricted Subsidiary overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and

(5) interests in investment companies or money market funds, in each case, at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

''*Change of Control*'' means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Parent and its Restricted Subsidiaries taken as a whole to any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the U.S. Exchange Act)), other than to a Restricted Subsidiary;

(2) the adoption of a plan relating to the liquidation or dissolution of the Parent;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Parent, measured by voting power rather than number of shares;

(4) the first day on which a majority of the members of the Board of Directors of the Parent are not Continuing Directors; or

(5) the Parent consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Parent, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Parent or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Parent outstanding immediately prior to

such transaction constitutes or is converted into or exchanged for a majority of the outstanding shares of the Voting Stock of such surviving or transferee Person (immediately after giving effect to such transaction).

''*Change of Control Offer*'' has the meaning assigned to that term under the caption ''—Repurchase at the Option of Holders—Change of Control''.

''*Clearstream*'' means Clearstream Banking, société anonyme, or any successor securities clearing agency.

''*Collateral*'' means the property and assets securing the Notes and the Note Guarantees as described under the caption ''—Security'' that become Collateral pursuant to the Collateral Documents and any property and assets that secure the Notes and/or the Note Guarantees.

''*Collateral Documents*'' means the security agreements, pledge agreements, collateral assignments and related agreements, as amended, supplemented, restated, renewed, refunded, replaced, restructured, repaid, refinanced or otherwise modified from time to time, creating the security interests in the Collateral as contemplated by the Indenture.

''*Consolidated EBITDA*'' means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus* the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(1) provision for taxes based on income or profits of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(2) the Fixed Charges of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(3) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges and expenses (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(4) any expenses, charges or other costs related to any Equity Offering permitted by the Indenture or related to any Permitted Investment, acquisition, disposition or recapitalization or the incurrence of Indebtedness permitted to be incurred under the covenant described above under the caption ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' whether or not successful, in each case, as determined in good faith by the Parent; *plus*

(5) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any non-wholly-owned Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; *minus*

(6) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (13) of the definition of Consolidated Net Income), other than the reversal of a reserve for cash charges in a future period in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with IFRS.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary (other than the Issuer or any Guarantor) shall be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income (loss) of such Restricted Subsidiary was included in calculating Consolidated Net Income for the purposes of this definition and to the extent that a corresponding amount would be permitted at the date of determination to be dividended to the Parent or the Issuer by such Restricted Subsidiary without any direct or indirect consensual restriction pursuant to the terms of its charter and all agreements or instruments applicable to that

Restricted Subsidiary or its stockholders (other than any restriction specified in clause (3) of the definition of ''Consolidated Net Income'').

''*Consolidated Leverage*'' means, as of any date of determination, the total amount of indebtedness in respect of borrowed money of the Parent and its Restricted Subsidiaries on a consolidated basis (excluding Hedging Obligations and Qualified Securitization Financings).

''*Consolidated Leverage Ratio*'' means as of any date of determination, the ratio of (a) the Consolidated Leverage on such date to (b) the Consolidated EBITDA of the Parent for the four most recent full fiscal quarters ending immediately prior to such date for which internal financial statements are available. For purposes of calculating the Consolidated EBITDA for such period:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the date of determination, or that are to be made on the date of determination, will be given *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer or the Parent and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of on or prior to the date of determination (including transactions giving rise to the need to calculate such Consolidated Leverage Ratio), will be excluded;

(3) any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period; and

(4) any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculation shall be determined in good faith by a responsible financial or accounting officer of the Issuer or the Parent and may include anticipated expense and cost reduction synergies. In determining the amount of indebtedness in respect of borrowed money outstanding on any date of determination, *pro forma* effect will be given to any incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of indebtedness in respect of borrowed money on such date. Any undrawn amounts under revolving credit Indebtedness shall be deemed not to be outstanding.

''*Consolidated Net Income*'' means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary), determined in accordance with IFRS and without any reduction in respect of preferred stock dividends; *provided* that:

(1) any goodwill or other intangible asset impairment charges will be excluded;

(2) the net income (loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary which is a Subsidiary of the Person;

(3) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph under the caption ''—Certain Covenants—Restricted Payments'', any net income (loss) of any Restricted Subsidiary (other than the Issuer or any Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Parent or the Issuer (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) by operation of the terms

of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the Indenture, the OeKB Term Loan Facility or the Revolving Credit Facility, (c) restrictions pursuant to the 2017 Notes or the 2017 Indenture or the 2021 Notes or the 2021 Indenture, (d) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the holders of the Notes than such restrictions in effect on the Issue Date under the Revolving Credit Facility, and (e) any restriction listed under clauses (1), (2), (3), (4), (9) or, to the extent it relates to restrictions listed under the foregoing clauses, clause (15) of the second paragraph of the covenant described under the caption ''Certain Covenants—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries''; except that the Parent's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Parent or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary (other than the Issuer or any Guarantor), to the limitation contained in this clause); and

(4) any net gain (or loss) realized upon the sale or other disposition of any asset or operations of the Parent or any Restricted Subsidiaries (including pursuant to any sale leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Parent) or in connection with the sale or disposition of securities will be excluded;

(5) any extraordinary, exceptional or unusual gain, loss or charge or any profit or loss on the disposal of property, investments and businesses, asset impairments, financial impacts of natural disasters (including fire, flood and storm and related events) and non-cash gains or losses on the price fair value adjustment of plantations (net of tax effects), or any charges or reserves in respect of any restructuring, redundancy, integration or severance or any expenses, charges, reserves or other costs related to acquisitions, the Refinancing, the 2009 Refinancing, the 2011 Refinancing, the 2012 Refinancing, any other incurrence of Indebtedness permitted to be incurred under the covenant described above under the caption ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' or any BBBEE Act transaction will be excluded;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity-based awards will be excluded;

(7) all deferred financing costs written off and premium paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness will be excluded;

(8) any one time non-cash charges or any increases in amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of another Person or business or resulting from any reorganization or restructuring involving the Parent or its Subsidiaries will be excluded;

(9) any ineffectiveness recognized in earnings related to qualifying hedge transactions in respect of Hedging Obligations will be excluded;

(10) any cash payments to the Parent or any Restricted Subsidiary in respect of (a) carbon credit sales, (b) alternative fuel tax credits or sales or (c) programs of a similar or related nature will be included;

(11) any increase in charges associated with employee benefits as a result of changes to IAS 19 Employee Benefits or any similar accounting pronouncement will be excluded; and

(12) the cumulative effect of a change in accounting principles will be excluded.

''*Consolidated Net Tangible Assets*'' means, as of any date of determination, the total amount of assets of the Issuer on a consolidated basis, including deferred pension costs, after deducting therefrom:

(i) all current liabilities (excluding any indebtedness or obligations under capital leases classified as a current liability);

(ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and financing costs and all similar intangible assets; and

(iii) appropriate adjustments on account of minority interests of other Persons holding stock in any Subsidiary of the Issuer;

all as set forth in the Issuer's and its Subsidiaries' most recent consolidated balance sheet internally available (but, in any event, as of a date within 150 days of the date of determination) and computed in accordance with IFRS.

''*Consolidated Senior Secured Leverage*'' means, as of any date of determination, the total amount of Senior Secured Indebtedness of the Parent and its Restricted Subsidiaries on a consolidated basis (excluding Hedging Obligations and Qualified Securitization Financings).

''*Consolidated Senior Secured Leverage Ratio*'' means as of any date of determination, the ratio of (a) the Consolidated Senior Secured Leverage on such date to (b) the Consolidated EBITDA of the Parent for the four most recent full fiscal quarters ending immediately prior to such date for which internal financial statements are available. For purposes of calculating the Consolidated EBITDA for such period:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the date of determination, or that are to be made on the date of determination, will be given *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer or the Parent and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of on or prior to the date of determination (including transactions giving rise to the need to calculate such Consolidated Senior Secured Leverage Ratio), will be excluded;

(3) any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period; and

(4) any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculation shall be determined in good faith by a responsible financial or accounting officer of the Issuer or the Parent and may include anticipated expense and cost reduction synergies. In determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect will be given to any incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness on such date; *provided*, *however*, that the *pro forma* calculation of Consolidated Senior Secured Leverage shall not give effect to any Senior Secured Indebtedness incurred on the date of determination to be secured by a Lien pursuant to clause (1), (2) or (4) of the definition of Permitted Collateral Liens. Any undrawn amounts under revolving credit Indebtedness shall be deemed not to be outstanding.

''*Contingent Obligations*'' means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness (the ''primary obligations'') of any other Person (the ''primary obligor''), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

   (a) for the purchase or payment of any such primary obligation; or

   (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

''*continuing*'' means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

''*Continuing Directors*'' means, as of any date of determination, any member of the Board of Directors of the Parent who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

''*Credit Facilities*'' means one or more debt facilities, instruments or arrangements incurred by the Issuer, any Guarantor, Permitted Obligor or any Finance Subsidiary (including the Revolving Credit Facility, the OeKB Term Loan Facility or commercial paper facilities and overdraft facilities) or commercial paper facilities, overdraft facilities, indentures, trust deeds, debentures, fiscal agency agreements or note purchase agreements, in each case, with banks, other institutions, insurance companies, funds or investors, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit, notes, commercial paper, debentures, overdrafts or other corporate debt instruments or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks or institutions and whether provided under the Revolving Credit Facility or the OeKB Term Loan Facility or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term ''Credit Facilities'' shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Parent as additional borrowers, issuers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

''*Currency Exchange Protection Agreement*'' means, in respect of any Person, any foreign exchange contract, currency swap agreement, currency option, cap, floor, ceiling or collar or agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates as to which such Person is a party.

''*Default*'' means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

''*Designated Indebtedness*'' means any Indebtedness in an aggregate principal amount of at least US$25.0 million (including the amount of all undrawn commitments and matured and contingent reimbursement obligations pursuant to letters of credit thereunder) that is designated as Designated Indebtedness by delivery to the Trustee of an Officer's Certificate.

''*Disqualified Stock*'' means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that the Notes mature. Notwithstanding the preceding sentence, (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale (howsoever defined or referred to) will not constitute Disqualified Stock if the terms of such Capital Stock provide that the issuer thereof may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption ''—Certain Covenants—Restricted Payments''. For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Stock, such Fair Market Value to be determined as set forth herein.

''*Equity Interests*'' means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

''*Equity Offering*'' means a public or private sale either (1) of Equity Interests of the Parent by the Parent (other than Disqualified Stock and other than offerings registered on Form S-8 (or any successor form) under the U.S. Securities Act or any similar offering in other jurisdictions) or (2) of Equity Interests of a direct or indirect parent entity of the Parent to the extent that the net proceeds therefrom are contributed to the equity capital of the Parent or any of its Restricted Subsidiaries.

''*Euroclear*'' means Euroclear Bank SA/NV or any successor securities clearing agency.

''*European Government Obligations*'' means direct obligations of, or obligations guaranteed by, a member state of the European Union, and for the payment of which such member state of the European Union pledges its full faith and credit.

''*Fair Market Value*'' means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by an Officer.

''*Finance Subsidiary*'' means a wholly owned subsidiary that is formed for the purpose of borrowing funds or issuing securities and lending the proceeds to the Issuer or a Guarantor and that conducts no business other than as may be reasonably incidental to, or related to, the foregoing.

''*Fixed Charge Coverage Ratio*'' means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Subsidiaries which are Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made occurs (the ''*Calculation Date*''), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer or the Parent) to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period; *provided*, *however*, that the *pro forma* calculation of Fixed Charges shall not give effect to (i) any Indebtedness incurred on the Calculation Date pursuant to the provisions described in the second paragraph under the caption ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the proceeds of Indebtedness incurred pursuant to the provisions described in the second paragraph under the caption ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock''.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer or the Parent and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Subsidiaries which are Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness).

''*Fixed Charges*'' means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of interest income) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments), the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings (but excluding, in each case, all deferred financing costs written off and premium paid or other expenses incurred directly in connection with any repurchase or early extinguishment of Indebtedness); *plus*

(2) the consolidated interest expense of such Person and its Subsidiaries which are Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Subsidiaries which are Restricted Subsidiaries or secured by a Lien on assets of

such Person or one of its Subsidiaries which are Restricted Subsidiaries, to the extent such Guarantee or Lien is called upon; *plus*

(4) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; *plus*

(5) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary, other than dividends on Equity Interests payable to the Parent or a Restricted Subsidiary, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined national, state and local statutory tax rate of such Person, expressed as a decimal, as estimated in good faith by a responsible accounting or financial officer of the Issuer or the Parent.

Notwithstanding any of the foregoing, Fixed Charges shall not include any payments on any operating leases, including without limitation any payments on any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under (i) IFRS or (ii) IFRS as in effect on the Issue Date.

''*Guarantee*'' means a guarantee other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business, of all or any part of any Indebtedness (whether arising by agreements to keep-well, to take or pay or to maintain financial statement conditions, pledges of assets or otherwise).

''*Guarantors*'' means the Parent and any Restricted Subsidiary that executes a Note Guarantee in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

''*Hedging Obligations*'' means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates, including Currency Exchange Protection Agreements, or commodity prices.

''*IFRS*'' means International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency and, except as otherwise specified, as in effect on the date of any calculation or determination required hereunder.

''*Indebtedness*'' means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables and accrued liabilities arising in the ordinary course of business that are not more than 120 days past due and Guarantees thereof):

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments for which such Person is responsible or liable;

(3) representing reimbursement obligations in respect of letters of credit, bankers' acceptances or similar instruments (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of incurrence);

(4) representing Capital Lease Obligations (subject to clause (1) of the next succeeding paragraph);

(5) representing the balance deferred and unpaid of the purchase price of any property or services due more than one year after such property is acquired or such services are completed; and

(6) representing net obligations under any Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such person at such time);

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability on a balance sheet (excluding the footnotes thereto) of the specified Person prepared in accordance with IFRS. In addition, the term ''Indebtedness'' includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The term ''Indebtedness'' shall not include:

(1) any lease of property which would be considered an operating lease under (i) IFRS or (ii) IFRS as in effect on the Issue Date;

(2) Contingent Obligations in the ordinary course of business;

(3) in connection with the purchase by the Parent or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing;

(4) for the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes; or

(5) any guarantee or joint or several liability arising under a Dutch fiscal unity for corporate income tax or a statement as referred to in Article 2:403 of the Dutch Civil Code.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amount of funds borrowed and then outstanding under such facility.

''*Intercreditor Agreement*'' means the agreement among the Security Agent, the trustee for the 2017 Notes, the trustee for the 2021 Notes, the agent for the Revolving Credit Facility, the trustee for the Notes and the other parties named therein, as amended from time to time.

''*Investment Grade Status*'' shall occur when the Notes are rated Baa3 or better by Moody's and BBB− or better by S&P (or, if either such entity ceases to rate the Notes, the equivalent investment grade credit rating from any other ''nationally recognized statistical rating organization'' as defined in section 3(a)(62) of the U.S. Exchange Act selected by the Issuer as a replacement agency).

''*Investments*'' means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as Investments on a balance sheet (excluding the footnotes) prepared in accordance with IFRS; *provided, however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If the Parent or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Parent will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Parent's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption ''—Certain Covenants—Restricted Payments''. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

''*Issue Date*'' means March 23, 2015.

''*JSE*'' means an exchange formerly known as the Johannesburg Stock Exchange and operated by JSE Limited.

''*Lien*'' means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement or any lease in the nature thereof.

''*Management Advances*'' means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent or any Restricted Subsidiary:

(1) in respect of travel, entertainment or moving related expenses incurred in the ordinary course of business;

(2) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or

(3) in the ordinary course of business and (in the case of this clause (3)) not exceeding US$5.0 million in the aggregate outstanding at any time.

''*Manufacturing Facility*'' means any mill, manufacturing plant or other manufacturing facility including, in each case, the equipment therein.

''*Market Capitalization*'' means an amount equal to (i) the total number of issued and outstanding shares of Capital Stock of the Parent on the date of the declaration of the relevant dividend or on the date of the declaration or formal approval of the relevant distribution or other payment, as applicable, multiplied by (ii) the arithmetic mean of the closing prices per share of such Capital Stock on the JSE for the 30 consecutive trading days immediately preceding the date of the declaration of such dividend or the date of the declaration or formal approval of the relevant distribution or other payment, as applicable.

''*Moody's*'' means Moody's Investors Service, Inc.

''*Net Offering Proceeds*'' with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

''*Net Proceeds*'' means the aggregate cash proceeds and Cash Equivalents received by the Parent or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of:

(1) the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale;

(2) all distributions and other payments required to be made to minority interest holders (other than the Parent or any Subsidiary) in Subsidiaries or joint ventures as a result of such Asset Sale;

(3) taxes paid or payable as a result of the Asset Sale;

(4) any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with IFRS; and

(5) all payments made on any Indebtedness which is secured by any assets subject to such Asset Sale, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law, be repaid out of the proceeds from such Asset Sale.

''*Non-Recourse Debt*'' means Indebtedness as to which neither the Parent nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise.

''*Note Guarantee*'' means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

''*Obligations*'' means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

''*OeKB Term Loan Facility*'' means the facility agreement for an amount of up to €136.0 million entered into on July 10, 2012, as amended and restated on September 18, 2013, among SPH, as borrower, Parent and certain of Parent's Subsidiaries, as guarantors, UniCredit Bank Austria AG, as mandated lead arranger and agent, and certain financial institutions listed therein as lenders, as amended, restated, supplemented, waived, replaced (whether or not upon termination, and whether with the original lenders or otherwise), restructured, repaid, refunded, refinanced or otherwise modified from time to time, including any agreement extending the maturity thereof, refinancing, replacing or otherwise restructuring all or any portion of the Indebtedness under such agreement or agreement or any successor or replacement agreement or agreements or increasing the amount loaned or issued thereunder (subject to compliance with the covenant described under ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'') or altering the maturity thereof.

''*Officer*'' means the Chief Executive Officer or the Chief Financial Officer of the Parent or a responsible accounting or financial officer of the Parent or the Issuer.

''*Officer's Certificate*'' means a certificate signed on behalf of either the Parent or the Issuer by an Officer.

''*Parent*'' means Sappi Limited and its successors and assigns.

''*Permitted Business*'' means (a) any businesses, services or activities engaged in by the Parent or any of the Restricted Subsidiaries on the Issue Date and (b) any businesses, services and activities engaged in by the Parent or any of the Restricted Subsidiaries that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

''*Permitted Collateral Liens*'' means:

(1) Liens on the Collateral to secure (A) the 2017 Notes outstanding on the Issue Date (and the 2017 Note Guarantees with respect to such notes); (B) the 2021 Notes outstanding on the Issue Date (and the 2021 Note Guarantees with respect to such notes); and (C) the Notes (and the Note Guarantees in respect of the Notes) issued on the Issue Date and, in each of (A), (B) and (C) any Permitted Refinancing Indebtedness in respect thereof that is Designated Indebtedness (and Permitted Refinancing Indebtedness in respect of such Permitted Refinancing Indebtedness that is Designated Indebtedness), *provided* that each of the parties thereto will have entered into the Intercreditor Agreement; and *provided further* that the Collateral securing such Indebtedness secures the Notes or the Note Guarantees on a senior or *pari passu* basis;

(2) Liens on the Collateral to secure Indebtedness under Credit Facilities that is Designated Indebtedness permitted by clause (1) of the definition of Permitted Debt, *provided* that, subject to the last proviso in this definition, the Collateral securing such Indebtedness also secures the Notes or the Note Guarantees on a senior or *pari passu* basis; *provided further* that each of the parties thereto will have entered into the Intercreditor Agreement;

(3) Liens on the Collateral to secure Indebtedness of the Issuer or a Guarantor that is Designated Indebtedness; *provided* that on the date of such incurrence and after giving pro forma effect thereto the Consolidated Senior Secured Leverage Ratio would have been no more than 2.5 to 1.0; *provided further* that the Collateral securing such Indebtedness secures the Notes on a senior or *pari passu* basis; and *provided further* that each of the parties thereto will have entered into the Intercreditor Agreement;

(4) Liens on the Collateral to secure Indebtedness permitted by the first paragraph of the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' or clause (23) of the definition of ''Permitted Debt'', *provided* that the assets and properties securing such Indebtedness will also secure the Notes on a senior or *pari passu* basis, *provided further* that the aggregate amount of such Indebtedness secured by Liens under this clause (4) does not at any time exceed the greater of US$175.0 million and 3.0% of Total Assets;

(5) Liens on the Collateral securing the Parent's or any Restricted Subsidiary's obligations under Hedging Obligations other than Hedging Obligations in respect of commodity prices permitted by clause (8) of the definition of ''Permitted Debt'', *provided* that each of the parties thereto will have entered into the Intercreditor Agreement;

(6) Liens on the Collateral arising by operation of law or that are described in one or more of clauses (4), (5), (6), (7), (8), (9), (18), (19), (22), (23), (35) and (37) of the definition of ''Permitted Liens''; and

(7) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (6) above, *provided* that any such extension, renewal or replacement will be no more restrictive in any material respect than the Lien so extended, renewed or replaced and will not extend in any material respect to any additional property or assets and the Collateral securing such Lien secures the Notes or the Note Guarantees on a *pari passu* basis;

provided that, in the case of each of clauses (1), (2), (3), (4) and (7) the assets and properties, if any, securing Indebtedness incurred under the Revolving Credit Facility also secure the Notes and the Note Guarantees on a senior or *pari passu* basis; and *provided further,* to the extent the Revolving Credit Facility requires the Parent or any Subsidiary to grant security in respect of the shares of a Guarantor, no such security shall be required if such security could be reasonably expected to give rise to or result in: (A) personal liability for the officers, directors or shareholders of such Restricted Subsidiary, (B) any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to such Restricted Subsidiary or (C) any significant cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (B) undertaken in connection with such Lien, which cannot be avoided through measures reasonably available to the Restricted Subsidiary.

''*Permitted Investments*'' means:

(1) any Investment in the Parent or in a Restricted Subsidiary; *provided* that any Investment in the form of cash by SPH or any of its Restricted Subsidiaries directly in a South African Restricted Subsidiary must be made in the form of intercompany Indebtedness and the receivable under such Indebtedness must be assigned to secure the obligations under the Notes and may secure the obligations under other Indebtedness that is required to be secured by such Lien on a *pari passu* or junior basis;

(2) any Investment in cash and Cash Equivalents;

(3) any Investment by the Parent or any Restricted Subsidiary in a Person, if as a result of such Investment:

  (a) such Person becomes a Restricted Subsidiary; or

  (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Parent or a Restricted Subsidiary;

(4) any Investment made as a result of the receipt of non-cash consideration or deemed non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption ''—Repurchase at the Option of Holders—Asset Sales'';

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Parent;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Parent or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes;

(7) any Investment in a Securitization Subsidiary or any Investment by a Securitization Subsidiary in any other Person in connection with a Qualified Securitization Financing, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or any related Indebtedness;

(8) Investments in receivables owing to the Parent or any Restricted Subsidiary created or acquired in the ordinary course of business;

(9) Investments represented by Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'';

(10) Investments in the Notes, the 2017 Notes, the 2021 Notes, the SPH Bonds due 2032, the South African Notes and any other Indebtedness of the Parent or any Restricted Subsidiary;

(11) any Guarantee of Indebtedness permitted to be incurred by the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(12) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(13) Investments acquired after the Issue Date as a result of the acquisition by the Parent or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into the Parent or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption ''—Merger, Consolidation or Sale of Assets'' after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(14) Management Advances;

(15) Investments in consortia, joint ventures and similar arrangements formed in connection with the BBBEE Act, including the Lereko Property Consortium transactions in an aggregate amount when taken together with all other Investments made pursuant to this clause (15) that are at the time outstanding not to exceed US$50.0 million;

(16) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (16) that are at the time outstanding not to exceed the greater of US$300.0 million and 4.25% of Total Assets, *provided*, that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to ''Certain Covenants—Restricted Payments'', such Investment, if applicable, shall thereafter be deemed to have been made pursuant to clause (1) or (3) of the definition of ''Permitted Investments'' and not this clause;

(17) Investments in payroll, travel, relocation, entertainment and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(18) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of ''Permitted Liens'' or made in connection with Liens permitted under the covenant described under the caption ''—Certain Covenants—Liens''; and

(19) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the Indenture.

''*Permitted Liens*'' means:

(1) Liens in favor of the Parent or any of the Restricted Subsidiaries;

(2) Liens on property of a South African Restricted Subsidiary (other than ordinary shares of Sappi Southern Africa Limited) to secure Indebtedness of South African Restricted Subsidiaries permitted by the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'';

(3) Liens on property (including Capital Stock) of a Person existing at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Parent or any Restricted Subsidiary; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary or such merger or consolidation, were not incurred in contemplation thereof and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary or is merged with or into or consolidated with the Parent or any Restricted Subsidiary;

(4) Liens to secure the performance of statutory obligations, trade contracts, insurance, surety or appeal bonds, workers compensation obligations, leases, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(5) Liens to secure Indebtedness permitted by clause (4) of the second paragraph of the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'' covering only the assets acquired with or financed by such Indebtedness;

(6) Liens existing on the Issue Date;

(7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded;

(8) Liens imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens, in each case, incurred in the ordinary course of business;

(9) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely impair their use in the operation of the business of such Person and any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(10) Liens created for the benefit of (or to secure) the Notes (or the Note Guarantees);

(11) Liens securing Indebtedness under Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant entitled ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'';

(12) Liens to secure any Permitted Refinancing Indebtedness (excluding Liens to secure Permitted Refinancing Indebtedness initially secured pursuant to clause (21) of this definition) permitted to be incurred under the Indenture; *provided*, *however*, that:

   (a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (*plus* improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premia, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(13) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(14) filing of Uniform Commercial Code financing statements under U.S. state law (or similar filings under applicable jurisdiction) in connection with operating leases in the ordinary course of business;

(15) bankers' Liens, rights of setoff or similar rights and remedies as to deposit accounts, Liens arising out of judgments or awards not constituting an Event of Default and notices of lis pendens and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(16) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(17) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(18) Leases, licenses, subleases and sublicenses of assets in the ordinary course of business;

(19) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of assets entered into in the ordinary course of business;

(20) Liens on Securitization Assets and related assets incurred in connection with any Qualified Securitization Financing;

(21) Liens incurred by the Parent or any Restricted Subsidiary with respect to obligations that do not exceed US$175.0 million at any one time outstanding;

(22) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Parent or any Restricted Subsidiary has easement rights or on any real property leased by the Parent or any Restricted Subsidiary and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(23) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(24) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(25) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(26) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of the Parent or any Restricted Subsidiary's business or operations as Liens only for Indebtedness to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;

(27) Liens over cash paid into an escrow account pursuant to any purchase price retention arrangement as part of any permitted disposal by the Parent or a Restricted Subsidiary on condition that the cash paid into such escrow account in relation to a disposal does not represent more than 15% of the net proceeds of such disposal;

(28) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(29) Liens on any proceeds loan made by the Parent or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted under the Indenture and securing that Indebtedness;

(30) Liens created on any asset of the Parent or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of the Parent or a Restricted Subsidiary securing any loan to finance the acquisition of such assets;

(31) Liens over treasury stock of the Parent or a Restricted Subsidiary purchased or otherwise acquired for value by the Parent or such Restricted Subsidiary pursuant to a stock buy-back scheme or other similar plan or arrangement;

(32) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of any Restricted Subsidiary that is not a Guarantor or a Guarantee of any such Indebtedness by the Parent;

(33) Liens on property at the time the Parent or a Restricted Subsidiary acquired the property; *provided* that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and do not extend to any other property owned by the Parent or any Restricted Subsidiary;

(34) Liens securing or relating to industrial revenue, pollution control or other tax exempt bonds;

(35) Liens on escrowed proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose;

(36) any limited recourse Lien to secure Indebtedness incurred in connection with any project financing; *provided* that the assets or revenues which are subject to that Lien are:

(a) assets which are the subject of the applicable project; or

(b) claims, revenues or proceeds which arise from the use or operation, failure to meet specifications, failure to complete, expropriation, sale or loss of or damage to, those assets;

(37) Liens arising under articles 24 or 25 of the General Terms and Conditions (*Algemene Bankvoorwaarden*) of any member of the Dutch Bankers' association (*Nederlandse Vereniging van Banken*) or any similar term applied by a financial institution pursuant to general terms and conditions; and

(38) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (37) (but excluding clauses (5), (21), and (23)); *provided* that any such Lien is limited to all or part of the same property or assets (*plus* improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced.

''*Permitted Obligor*'' means any Restricted Subsidiary that is an obligor under the Revolving Credit Facility, the OeKB Term Loan Facility or any refinancing Indebtedness in respect thereof that is not required to Guarantee the Notes pursuant to the covenant described under ''—Certain Covenants—Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries''.

''*Permitted Refinancing Indebtedness*'' means any Indebtedness of the Parent or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, exchange, defease or discharge other Indebtedness of the Parent or any of its Restricted Subsidiaries (other than intercompany Indebtedness (other than any proceeds loan)); *provided* that:

(1) the aggregate principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (*plus* all accrued interest on the Indebtedness and the amount of all fees and expenses, including premia, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has (a) a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged or (ii) after the final maturity date of the Notes and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; *provided*, *however*, that only clause (a)(ii) of this paragraph (2) shall apply to any Permitted Refinancing Indebtedness in respect of the SPH Bonds due 2032.

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is expressly, contractually, subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the holders of the Notes or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and

(4) if the Issuer or any Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged, such Indebtedness is incurred either by the Issuer, a Finance Subsidiary or by a Guarantor.

''*Person*'' means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

''*Principal Property*'' means any Manufacturing Facility that (i) is owned by the Issuer or a Subsidiary of the Issuer, (ii) has a gross book value (without deduction of any applicable depreciation reserves) on a date as of which the determination is being made of more than 3% of the Consolidated Net Tangible Assets of the Issuer and (iii) has not been determined in good faith by the Board of Directors of the Issuer not to be materially important to the total business conducted by the Issuer and its Subsidiaries, taken as a whole.

''*Qualified Securitization Financing*'' means any financing pursuant to which the Parent or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any other Person or grant a security interest in, any accounts receivable (and related assets) in any aggregate principal amount equivalent to the Fair Market Value of such accounts receivable (and related assets) of the Parent or any of its Restricted Subsidiaries; *provided* that (a) the covenants, events of default and other provisions applicable to such financing shall be customary for such transactions and shall be on market terms (as determined in good faith by the Parent's board of directors of senior management) at the time such financing is entered into, (b) the interest rate applicable to such financing shall be a market interest rate (as determined in good faith by the Parent's board of directors or senior management) at the time such financing is entered into and (c) such financing shall be non recourse to the Parent or any of its Restricted Subsidiaries except to a limited extent customary for such transactions.

''*Refinancing*'' has the meaning given to such term in the Offering Memorandum.

''*Restricted Investment*'' means an Investment other than a Permitted Investment.

''*Restricted Subsidiary*'' means any Subsidiary of the Parent that is not an Unrestricted Subsidiary, including the Issuer.

''*Revolving Credit Facility*'' means the credit agreement entered into on August 27, 2009 and amended and restated on April 28, 2011 and on September 19, 2013 among SPH and Sappi

International SA, as borrowers, the Parent and certain of the Parent's Subsidiaries, as guarantors, and certain financial institutions, as amended, restated, supplemented, waived, replaced (whether or not upon termination, and whether with the original lenders or otherwise), restructured, repaid, refunded, refinanced or otherwise modified from time to time, including any agreement or indenture extending the maturity thereof, refinancing, replacing or otherwise restructuring all or any portion of the Indebtedness under such agreement or agreements or any successor or replacement agreement or agreements or increasing the amount loaned or made available thereunder (subject to compliance with the covenant described under ''—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock'') or altering the maturity thereof.

''*S&P*'' means Standard & Poor's Ratings Group.

''*Securitization Assets*'' means any accounts receivable, inventory, royalty or revenue streams from sales of inventory (including, in each case, related assets and proceeds) subject to a Qualified Securitization Financing.

''*Securitization Fees*'' means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not the Parent or a Restricted Subsidiary in connection with any Qualified Securitization Financing.

''*Securitization Repurchase Obligation*'' means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

''*Securitization Subsidiary*'' means a Subsidiary of the Parent (or another Person formed for the purposes of engaging in a Qualified Securitization Financing in which the Parent or any Subsidiary of the Parent makes an Investment and to which the Parent or any Subsidiary of the Parent transfers Securitization Assets and related assets) which engages in no activities other than in connection with the financing of Securitization Assets of the Parent or its Subsidiaries, all proceeds thereof and all rights (contractual and other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of the Parent as a Securitization Subsidiary.

''*Security Agent*'' means the security agent for the Collateral named in the Collateral Documents.

''*Senior Secured Indebtedness*'' means, as of any date of determination, the principal amount of any Indebtedness for borrowed money that is secured by a Lien.

''*Significant Subsidiary*'' means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries which are Restricted Subsidiaries (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Parent or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Parent.

''*South African Notes*'' means any debt securities issued by the Parent or any South African Restricted Subsidiary from time to time.

''*South African Restricted Subsidiary*'' means a Restricted Subsidiary that is organized under the laws of the Republic of South Africa or is a Subsidiary thereof and is not a Guarantor.

''*SPH*'' means Sappi Papier Holding GmbH.

''*SPH Bonds due 2032*'' mean the SPH 7.50% Guaranteed Notes due 2032.

''*Stated Maturity*'' means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

''*Subsidiary*'' means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

''*Tax*'' means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other additional amounts related thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax).

''*Taxes*'' and ''*Taxation*'' shall be construed to have corresponding meanings.

''*Total Assets*'' means the total consolidated assets of Sappi Limited, as shown on the most recent balance sheet (excluding the footnotes thereto) of Sappi Limited prepared in accordance with IFRS.

''*Unrestricted Subsidiary*'' means any Subsidiary of the Parent (other than the Issuer or any successor to the Issuer) that is designated by the Board of Directors of the Parent or Issuer as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption ''—Certain Covenants—Transactions with Affiliates'', is not party to any agreement, contract, arrangement or understanding with the Parent or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Parent or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Parent; and

(3) is a Person with respect to which neither the Parent nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

''*Voting Stock*'' of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

''*Weighted Average Life to Maturity*'' means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amounts of such Indebtedness.

BOOK-ENTRY, DELIVERY AND FORM

General

The notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act (''Rule 144A'') will initially be represented by global notes in registered form without interest coupons attached (the ''144A Global Notes''). The 144A Global Notes will be deposited, on the closing date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear Bank SA/NV (''Euroclear'') and Clearstream Banking, *société anonyme* (''Clearstream'').

The notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the ''Regulation S Global Notes'' and, together with the 144A Global Notes, the ''Global Notes''). The Regulation S Global Notes will be deposited, on the closing date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream. Prior to the date that is 40 days after the later of the commencement of the offering or the closing date, beneficial interests in the Regulation S Global Notes may be held only through Euroclear and Clearstream.

Global Notes will be issued in denominations of €100,000 and any integral multiple of €1,000 in excess of €100,000. Notes in denominations of less than €100,000 will not be available.

Ownership of interests in the 144A Global Notes (''144A Book-Entry Interests'') and ownership of interests in the Regulation S Global Notes (the ''Regulation S Book-Entry Interest,'' and together with the 144A Book-Entry Interests, the ''Book-Entry Interests'') will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the notes are in global form, ''holders'' of Book-Entry Interests will not be considered the owners or ''holders'' of notes for any purpose.

So long as the notes are held in global form, Euroclear and/or Clearstream, as applicable (or their respective nominees), will be considered the holders of Global Notes for all purposes under the Indenture. As such, participants must rely on the procedures of Euroclear and/or Clearstream and indirect participants must rely on the procedures of Euroclear and/or Clearstream and the participants through which they own Book-Entry Interests in order to transfer their interests or exercise any rights of holders under the Indenture.

Neither we nor the trustee under the Indenture nor any of our or its agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of the Indenture, owners of Book-Entry Interests will receive definitive notes in registered form (the ''Definitive Registered Notes''):

- if either Euroclear and Clearstream notifies us that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by us within 120 days;
- if we notify the trustee in writing that the applicable Global Note shall be so exchangeable; or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an event of default under the Indenture and enforcement action is being taken in respect thereof under the Indenture.

In such an event, the registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear and/or

Clearstream or the Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in ''Transfer Restrictions,'' unless that legend is not required by the Indenture or applicable law.

In such an event, the registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream or us (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in ''Transfer Restrictions'', unless that legend is not required by the Indenture or applicable law.

In the case of the issuance of Definitive Registered Notes, payment of principal of, and premium, if any, and interest on the notes shall be payable at the place of payment designated by us pursuant to the Indenture; *provided* that, at our option, payment of interest on a note may be made by check mailed to the person entitled thereto at such address as shall appear on the note register.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the registrar or at the office of a transfer agent, we will issue and the trustee will authenticate a replacement Definitive Registered Note if the trustee's and our requirements are met. We or the trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect ourselves, the trustee, the registrar or the paying agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. We may charge for any expenses incurred in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by us pursuant to the provisions of the Indenture, we, in our discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

So long as the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, we will publish a notice of any issuance of Definitive Registered Notes in a daily leading newspaper having general circulation in Luxembourg (which we expect to be the Luxemburger Wort) or on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

To the extent permitted by law, we, the Guarantors, the trustee, the paying agents, the transfer agents and the registrar shall be entitled to treat the registered holder as the absolute owner thereof.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that under existing practices of Euroclear and Clearstream, if fewer than all of the notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no Book-Entry Interest of less than €100,000 principal amount at maturity, or less, may be redeemed in part.

Payments on Global Notes

Payments of amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and additional amounts) will be made by us to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to the common depository for

Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Indenture, the Issuer and the trustee will treat the registered holder of the Global Notes (*i.e.*, Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer nor the trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest;
- Euroclear, Clearstream or any participant or indirect participant; or
- the records of the common depositary.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in ''street name''.

Currency and Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interest in such notes through Euroclear/Clearstream in euro.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the notes, Euroclear and Clearstream reserve the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in Euroclear or Clearstream will be effected in accordance with Euroclear's and Clearstream's rules, as applicable, and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

The Global Notes will bear a legend to the effect set forth under ''Transfer Restrictions''. Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under ''Transfer Restrictions''.

Through and including the 40th day after the later of the commencement of the offering of the notes and the closing of the offering (the ''40-day Period''), beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note for such notes only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the trustee a certificate (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under ''Notice to Investors'' and ''Transfer Restrictions'' and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such note by surrendering it to the registrar or a transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Note in a denomination less than €100,000 will be issued.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither us nor the initial purchasers are responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The notes represented by the Global Notes will be listed on the official list of the Luxembourg Stock Exchange and admitted for trading on its Euro MTF Market. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, any Guarantor, the trustee or the Principal Paying Agent will have any responsibility for the performance by Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the notes will be made in euro. Book-Entry Interests owned through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear and Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAXATION

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any notes under the laws of their country of citizenship, residence or domicile. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date hereof, all of which laws and interpretations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

United States Federal Income Tax Considerations

General

This section summarizes the material U.S. tax consequences to holders of notes. However, the discussion is limited in the following ways:

- The discussion only covers you if you buy your notes at the issue price in the initial offering;
- The discussion only covers you if you hold your notes as a capital asset (that is, for investment purposes), and if you are not subject to special tax rules, such as those applicable to banks, dealers, traders that elect to mark to market, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, investors liable for the alternative minimum tax, U.S. expatriates, persons that do not use the U.S. dollar as their functional currency, tax-exempt entities or persons holding the notes as part of a hedge, straddle, conversion or other integrated financial transaction;
- The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of notes;
- The discussion does not cover you if you are a partner in an entity treated as a partnership for U.S. federal income tax purposes. If a partnership holds notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership;
- The discussion is based on current law. Changes in the law may change the tax treatment of the notes;
- The discussion does not cover tax consequences arising under the Medicare contribution tax on net investment income, the U.S. federal estate and gift tax laws or any state, local or foreign law.

If you are considering buying notes, we suggest that you consult your tax advisor about the tax consequences of holding the notes in your particular situation.

U.S. Federal Income Taxation of U.S. Holders

For the purposes of this discussion, a ''U.S. Holder'' is a beneficial owner of a note that is:

- an individual U.S. citizen or resident alien;
- a corporation—or entity taxable as a corporation for U.S. federal income tax purposes—that was created under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (a) that is subject to the control of a U.S. person and the primary supervision of a U.S. court or (b) which has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Stated Interest

- This discussion assumes that the notes will be issued with no more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes.

- Stated interest on the notes will be includible in your gross income as ordinary interest income upon receipt or as it accrues in accordance with your usual method (cash or accrual) of tax accounting.
- If you are a cash method U.S. Holder (including most individual holders), you must report stated interest on the notes in your income when you receive it. You will be taxed on the U.S. dollar value of any euros you receive as interest. The U.S. dollar value will be determined based on the spot rate on the date when you receive the payments, regardless of whether the payment is in fact converted to U.S. dollars.
- If you are an accrual basis U.S. Holder, you must report stated interest on the notes in your income as it accrues under one of two methods. You can use the average euro exchange rate during the relevant interest accrual period (or, if that period spans two taxable years, during the portion of the interest accrual period in the relevant taxable year). Alternatively, an accrual basis U.S. Holder may elect to convert accrued euro interest into a U.S. dollar value at the spot exchange rate on the last day of the accrual period (or, if an accrual period straddles the U.S. Holder's taxable year, at the spot exchange rate on the last day of the taxable year). If accrued interest actually is received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead convert the accrued interest at the spot exchange rate on the date of receipt. Any currency conversion election will apply to all debt instruments that the electing U.S. Holder holds or acquires at or after the beginning of the first taxable year to which the election applies. The election cannot be revoked without the consent of the IRS.
- If you are an accrual basis U.S. Holder, you will have exchange gain or loss equal to the difference between the U.S. dollar value of the euros received upon payment (or upon disposition of the note), translated at the spot rate on the date such payment is received, and the U.S. dollar value of the accrued interest previously included in income, regardless of whether the payment is in fact converted to U.S. dollars. Such gain or loss will generally constitute ordinary income or loss and be treated as U.S. source income or loss.
- In the event that Additional Amounts are paid in respect of withholding or deductions for taxes imposed on payments on the notes (as described under ''Description of the Notes—Additional Amounts''), such Additional Amounts will be taxable to a U.S. Holder as ordinary income, as received or accrued, in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. The amount taxable to a U.S. Holder will also include all taxes withheld or deducted in respect thereof. Thus, a U.S. Holder may be required to report income in an amount greater than the cash it receives in respect of payments on the notes. A U.S. Holder may be eligible to claim a credit or deduction in respect of such taxes for purposes of computing such U.S. Holder's U.S. federal income tax liability, subject to certain limitations.
- Interest (including Additional Amounts described in the immediately preceding paragraph) generally will be income from sources outside the U.S. and, for purposes of the U.S. foreign tax credit, generally will be considered passive category income. You should consult your tax advisor concerning the applicability of the foreign tax credit and source of income rules to income attributable to the notes.

Sale or Retirement of Notes

On your sale or retirement of your note:

- You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the note. Your tax basis in the note is the U.S. dollar cost paid for it, subject to certain adjustments.
- If you collect euros upon the maturity of a note, or if you sell such note for foreign currency, you will recognize gain or loss based on the U.S. dollar value of the euros or foreign currency you receive. For a note that is publicly traded for U.S. federal income tax purposes, this value is determined for cash basis U.S. Holders and electing accrual method U.S. Holders based on the spot rate on the settlement date for the sale of the note, and for non-electing accrual basis U.S. Holders on the date for the sale. If the note is not publicly traded for U.S. federal income tax purposes (or if you are a non-electing accrual method U.S.

Holder), you will realize exchange gain or loss to the extent the U.S. dollar value of the euro or foreign currency received based on the spot rate on the date of settlement differs from the U.S. dollar value on the date of sale. Both cash and accrual method U.S. Holders will then have a tax basis in the euros or other foreign currency equal to the U.S. dollar value of the euro or other foreign currency based on the spot rate in effect on the date of the settlement.

- Your gain or loss will generally be U.S. source capital gain or loss (except to the extent that such gain arises from currency fluctuations between your purchase date and settlement date), and will be long-term capital gain or loss if you held the note for more than one year. If you are a non-corporate holder, you may be eligible for reduced rates of taxation on any long-term capital gain that you recognize. Your ability to deduct capital losses may be limited. You should consult your tax advisor as to the foreign tax credit implications of the sale or retirement of notes.
- Any gain or loss on the sale or retirement of a note will be ordinary income to the extent it arises from currency fluctuations between your purchase date and settlement date as measured based on your purchase price of the note. Any gain or loss on the sale of euros or other foreign currency will also be ordinary income and will be treated as U.S. source income.
- If you sell the note between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the note but has not yet been paid by the sale date. That amount is treated as ordinary interest income (taxable as such unless previously accrued) and not as sale proceeds.
- In general, any currency loss claimed by you with respect to a note will be treated as a ''reportable transaction'' for U.S. federal income tax purposes to the extent that the amount of the loss equals or exceeds certain threshold amounts (US$50,000 in the case of individuals or trusts, whether or not the loss flows through from an S corporation or partnership, and US$10 million in the case of corporate taxpayers). You should consult your own tax advisors concerning the application of the reportable transaction regulations to your investment in a note, including any requirement to file IRS Form 8886.

Satisfaction and Discharge

If we were to obtain a discharge of the Indenture with respect to all of the notes then outstanding, as described in ''Description of Notes—Satisfaction and Discharge'', such discharge would generally be deemed to constitute a taxable exchange of the notes outstanding for other property. In such case, a U.S. Holder would be required to recognize capital gain or loss in connection with such deemed exchange. In addition, after such deemed exchange, a U.S. Holder might also be required to recognize income from the property deemed to have been received in such exchange over the remaining life of the transaction in a manner or amount that is different than if the discharge had not occurred. U.S. Holders should consult their tax advisors as to the specific consequences arising from a discharge in their particular situations.

Information with Respect to Foreign Financial Assets

Individuals that own ''specified foreign financial assets'' with an aggregate value in excess of US$50,000 are generally required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the individual's circumstances, higher threshold amounts may apply. ''Specified foreign financial assets'' include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts held for investment that have non-United States issuers or counterparties and (iii) interests in non-United States entities. The notes may be treated as specified foreign financial assets. You may be subject to this information reporting regime and be required to file IRS Form 8938 listing these assets with your U.S. federal income tax return. Failure to file information reports may subject you to penalties. You are urged to consult your own tax advisor regarding your obligations to file information reports with respect to the notes.

U.S. Federal Income Taxation of Non-U.S. Holders

This section applies to you if you are a ''non-U.S. Holder'', meaning that you are a beneficial owner of a note that is not a ''U.S. Holder'' as defined above.

Subject to the discussion of backup withholding below, you will not be subject to U.S. federal income tax, including withholding tax, on interest that you receive on a note unless you are engaged in a trade or business in the United States and the interest on the note is treated for tax purposes as ''effectively connected'' to that trade or business (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that you maintain in the United States). If you are engaged in a U.S. trade or business and the interest income is deemed to be effectively connected to that trade or business, you generally will be subject to U.S. federal income tax on that interest in the same manner as if you were a U.S. Holder. In addition, if you are a foreign corporation, your interest income subject to tax in that manner may increase your liability under the U.S. branch profits tax.

Subject to the discussion of backup withholding below, you will not be subject to U.S. federal income tax, including withholding tax, for any gain that you realize when you sell a Note unless:

- that gain is effectively connected for U.S. federal tax purposes to any U.S. trade or business in which you are engaged (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that you maintain in the United States), in which case, such gain generally will be subject to U.S. federal income tax in the manner described above with respect to interest income that is effectively connected; or
- if you are an individual, you (i) are in the United States for 183 days or more in the taxable year in which you sell the note or (ii) have a tax home (as defined in the Code) in the United States in the taxable year in which you sell the note or the gain is attributable to any office or other fixed place of business that you maintain in the United States.

Information Reporting and Backup Withholding

Under the tax rules concerning information reporting to the IRS:

- Assuming you hold your notes through a broker or other securities intermediary, the intermediary must provide information to the IRS and to you on IRS Form 1099 concerning interest and retirement proceeds on your notes, unless an exemption applies.
- Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is generally your social security number. You are also required to comply with other IRS requirements concerning information reporting.
- If you are subject to these requirements but do not comply, the intermediary must withhold at a rate currently equal to 28% of all amounts payable to you on the notes (including principal payments). This is called ''backup withholding''. In addition, you may in certain circumstances be subject to penalties imposed by the IRS. If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability, provided that you timely furnish certain required information to the IRS.
- All individuals who are U.S. Holders are subject to these requirements. Some holders, including all tax-exempt organizations and individual retirement accounts, are exempt from these requirements.
- Non-U.S. Holders are generally exempt from information reporting and backup withholding requirements on payments made to them within the United States, but may be required to establish their exemption by certifying their status on an IRS Form W-8BEN, W-8BEN-E, W-8ECI or W-8IMY, as applicable.

Austrian Tax Considerations

The following discussion is intended to provide a prospective investor in the notes with a summary of the material Austrian tax consequences of holding and selling the notes. This discussion applies to both Austrian as well as non-Austrian private residents and commercial investors, as well as Austrian and non-Austrian resident corporations. This discussion covers only

Austrian law. The discussion does not consider all of the tax consequences that may be relevant to a particular holder in light of the holder's circumstances or holders subject to special rules, such as dealers in securities, banks or life insurance companies or tax-exempt organizations. This summary is based on Austrian law as in force at the date of this Offering Memorandum. The laws and their interpretation by the tax authorities may change and such changes may also have retroactive effect. Austrian tax authorities may also adopt a view different from that outlined below.

This summary of Austrian tax issues is based on the assumption that the notes are legally and actually publicly offered in the form of securities and do not qualify as equity or units in a non-Austrian investment fund for Austrian tax purposes. The tax consequences may substantially differ if the notes are not legally and actually publicly offered in the form of securities or if the notes are qualified as equity instruments or units in a non-Austrian investment fund within the meaning of § 188 of the Austrian Investment Fund Act 2011 (*Investmentfondsgesetz 2011,* ***InvFG 2011***).

The Issuer does not assume responsibility for the deduction of withholding tax at source.

Austrian resident investors

Individuals

Interest and realized capital gains from the notes are taxable at a special personal income tax rate of 25% if the notes are legally and factually publicly offered for Austrian tax purposes. The taxable capital gain from the notes is the difference between the sales price or redemption amount and the acquisition price, in each case including accrued interest (however, excluding incidental acquisition cost in case of private individual investors). Expenses in direct economic connection with income and capital gains from notes which are subject to the special 25% tax rate are not deductible.

Austrian withholding tax at a rate of 25% is triggered if interest is paid by an Austrian paying agent (Austrian bank or Austrian branch of a non-Austrian bank) or if payments of realized capital gains from the sale/redemption of notes are made (i) by an Austrian depository or (ii) in the absence of an Austrian depository, by an Austrian paying agent *provided* the non-Austrian depository is a non-Austrian branch or group company of such paying agent and processes the payment and credits the proceeds in cooperation with the paying agent.

For individuals holding the notes as private assets (unless it is income from employment), the deduction of such 25% Austrian withholding tax constitutes final taxation (*Endbesteuerung*) so that no further income or capital gains tax will be assessed and the income or capital gain is not to be included in the investor's income tax return. In case of individuals holding the notes as private assets, losses from the notes can only be set-off against interest income (excluding, *inter alia*, interest income from bank deposits or interest from other claims vis-à-vis banks), capital gains and income from derivatives (*inter alia*, if in the form of securities) from other financial assets and cannot be carried forward. As of January 1, 2013 an Austrian depository, if any, has to offset losses arising on the deposits of a private individual investor subject to and in accordance with the provisions of § 93(6) Austrian Income Tax Act (*Einkommensteuergesetz*, ***EStG***).

For individuals holding the notes as business assets, the deduction of such 25% Austrian withholding tax constitutes a final taxation (*Endbesteuerung*) in relation to interest income so that no further income tax will be assessed on interest income from the notes but capital gains have to be declared in the income tax return and are subject to the special income tax rate of 25%. Depreciations and capital losses from notes must be primarily set-off against capital gains from other financial assets and income from derivatives and appreciations in value of such assets, a remaining loss can only be set-off to the extent of 50% against other types of income (and carried forward).

In the absence of a paying agent or depository located in Austria, the taxpayer must include interest income or capital gains under the publicly offered notes in his personal income tax return and income tax is assessed at a special 25% income tax rate unless, under the Swiss or Liechtenstein withholding tax acts implementing the bilateral withholding tax agreements between Austria and Switzerland (in force since January 1, 2013) or between Austria and Liechtenstein (in force since January 1, 2014), a Swiss or Liechtenstein paying agent (i.e., a paying agent within the meaning of such withholding tax agreements) has withheld final withholding tax discharging the investor's Austrian income tax liability.

Taxpayers, whose regular progressive personal income tax is lower than 25%, may opt for taxation of the income from the notes (together with all other income subject to the special 25% tax rate) at their regular personal income tax rate (*Veranlagungsoption*).

Withdrawals (*Entnahmen*) and other transfers of notes from an investor's securities account will be deemed to be a disposal unless certain requirements pursuant to § 27 (6)(1)(a) EStG are met such as a transfer to a securities account owned by the same taxpayer (i) with the same Austrian bank, (ii) with another Austrian bank if the taxpayer instructs the transferring bank (securities depository) to disclose the acquisition costs of the notes to the transferee bank or (iii) with a foreign bank (securities depository), if the taxpayer instructs the transferring Austrian bank to notify to the competent Austrian tax office or, where the transferring bank is also a foreign bank (securities depository), the taxpayer notifies the acquisition cost and certain other information to the competent Austrian tax office within one month. A transfer of notes without consideration to a securities account of another taxpayer will not result in a disposal if, where the transferring bank is an Austrian bank, the transferor evidences the transfer without consideration to the transferring bank or instructs the transferring bank to notify the competent tax office, or, where the transferring bank is a foreign bank, the taxpayer notifies the acquisition cost and certain other information to the competent Austrian tax office within one month.

Special rules apply if an investor transfers his or her tax residence or deposit account outside of Austria or transfers the notes to a non-resident or if Austria loses for other reasons its taxation right with respect to the notes to other countries (exit tax, with an option for deferred taxation in the case of a transfer to an EU member state or certain member states of the European Economic Area).

Corporate investors

Corporate investors deriving business income from the notes may avoid the application of Austrian withholding tax by filing a declaration of exemption (*Befreiungserklärung*) pursuant to § 94 (5) EStG with the Austrian paying agent or Austrian depository. Income including any capital gain derived from the notes by a corporate investor is subject to Austrian corporate income tax at the general tax rate of 25%, with any withholding tax being creditable. For corporate investors the restrictions for the set-off of tax losses are not applicable. Tax losses can be set-off against all other income. Tax loss carry forwards are generally possible subject to certain limitations applicable under Austrian law (e.g., no set-off of losses by more than 75% of the taxable profit in a given year).

There is, *inter alia*, a special tax regime for private foundations established under Austrian law (*Privatstiftungen*).

Non-Austrian resident investors

Before January 1, 2015, interest income including any capital gains derived from the notes by individuals who do not have a domicile or their habitual place of abode in Austria or by corporate investors that do not have their corporate seat or their place of management in Austria (''non-Austrian residents'') is not taxable in Austria provided that the income is not attributable to an Austrian permanent establishment (for withholding tax under the EU Savings Directive see below).

In case of payments to non-Austrian residents, an Austrian paying agent or Austrian depository could abstain from levying the 25% Austrian withholding tax pursuant to § 94 (5) and (13) EStG.

If any Austrian withholding tax is deducted by an Austrian paying agent or Austrian depository, the tax withheld shall be refunded to the non-Austrian resident investor upon application which has to be filed with the competent Austrian tax authority within five calendar years following the year of the imposition of the Austrian withholding tax.

As of January 1, 2015, limited Austrian tax liability will be extended to interest within the meaning of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz, EU-QuStG*; implementing Directive 2003/48/EC of 3 June 2003) received by an individual not covered by EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (EU Savings Directive). As a consequence, in particular, non-EU-resident individuals may be subject to such limited tax liability. It is a prerequisite that the obligation to levy 25% Austrian withholding tax is triggered. This is the case if interest is paid by a paying agent located in Austria or by the issuer of the notes if paid directly to the investor due to the absence of an Austrian or foreign paying agent. The above-mentioned exemption from the deduction of withholding tax pursuant to § 94 (13) EStG should not apply in these cases.

Where non-Austrian residents receive income from the notes as part of business income taxable in Austria (i.e., the notes and the income resulting therefrom are attributable to an Austrian permanent establishment), they will generally be subject to the same tax treatment as Austrian resident business investors.

EU Savings Directive

The EU Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the ''Savings Directive'') provides for an exchange of information between the authorities of EU member states regarding interest payments made in one member state to beneficial owners who are individuals and resident for tax purposes in another member state. Austria has implemented the Savings Directive by way of the EU Withholding Tax Act (*EU-Quellensteuergesetz*) which provides for a withholding tax rather than for an exchange of information. Such EU withholding tax is levied on interest payments within the meaning of the EU Withholding Tax Act made by a paying agent located in Austria to an individual resident for tax purposes in another member state of the European Union or certain dependent and associated territories. Further, withholding tax will be deducted—on a pro rata temporis basis—in case of changes of the individual's withholding tax status such as changes of his country of residence or transfer of his securities to a deposit account outside of Austria. The EU withholding tax currently amounts to 35%.

No EU withholding tax is deducted if the EU-resident investor provides the paying agent with a certificate drawn up in his name by the tax office of his member state of residence. Such certificate has to indicate, among other things, the name and address of the investor, the paying agent as well as the bank account number of the individual investor or the identification number of the notes (§ 10 EU Withholding Tax Act). It is expected that the changes to the EU Withholding Tax Act—implementing Council Directive 2014/48/EU of March 24, 2014 amending Directive 2003/48/EC on taxation of savings income in the form of interest payments—will enter into effect by January 1, 2017.

Other Taxes

There should be no transfer tax, registration tax or similar tax payable in Austria by investors as a consequence of the acquisition, ownership, disposition or redemption of the notes.

The Austrian inheritance and gift tax (*Erbschafts- und Schenkungssteuer*) was abolished with effect as of August 1, 2008. However, gifts from or to Austrian residents have to be notified to the tax authorities within a three-month notification period. There are certain exemptions from such notification obligation, e.g., for gifts among relatives that do not exceed an aggregate amount of EUR 50,000 per year or gifts among unrelated persons that do not exceed an aggregate amount of EUR 15,000 within five years or for gratuitous transfers to foundations following under the Austrian Foundation Ta Act as described below. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred.

Furthermore, certain gratuitous transfers of assets to private law foundations and comparable legal estates are subject to foundation transfer tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Transfer Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in cases of transfers *mortis causa* of financial assets within the meaning of sec. 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from these financial assets is subject to income tax at a flat rate of 25%. The tax rate is in general 2.5% based on the fair market value of the assets transferred (*minus* any debts), with a higher rate of 25% applying in special cases. Special provisions apply to transfers of assets to non-transparent foundations and similar vehicles (*Vermögenstrukturen*) falling within the scope of the tax treaty between Austria and Liechtenstein.

Foreign Account Tax Compliance Act (FATCA)

On April 29, 2014, Austria concluded an intergovernmental agreement (Model II) with the United States in order to facilitate the implementation of FATCA for Austrian financial institutions (i.e., custodial institutions, depository institutions, investment entities or specific insurance companies) and to allow the provision of certain information on accounts held by ''U.S. Persons'' to the U.S. Internal Revenue Service (IRS). ''U.S. Persons'' are considered U.S. citizens or resident individuals, partnerships or corporations organized in the United States or under the laws of the United States or any State thereof and certain trusts (subject to the jurisdiction of a court within the United States with one or more U.S. persons have the authority to control all substantial decisions of the trust, or estate of a decedent that is a citizen or resident of the United States) or an estate of a decedent that is a citizen or resident of the United States. If the respective U.S. account holder does not allow the financial institution to forward account specific information to the IRS, the financial institution is still obliged to forward aggregated information on the account to the IRS and such information may serve as basis for group requests by the IRS to the Austrian tax administration in order to obtain more specific information on such accounts.

It is to note that there is currently no guidance on the impact of FATCA and the intergovernmental agreement on Austrian financial institutions and their reporting and withholding responsibilities. In particular, it is not yet certain how the United States and Austria will implement withholding on ''foreign passthru payments'' (which may include payments on the notes) or if such withholding will be required at all. We believe that we are not a financial institution within the meaning of FATCA and the intergovernmental agreement.

U.S. Persons are advised to contact their tax advisor with respect to the consequences of FATCA and the intergovernmental agreement on their investment.

South African Taxation

In the event that Sappi Limited makes a payment in respect of its guarantee, it is not required under current South African tax law to withhold or deduct any taxes from any payment made by it in terms of the guarantee.

European Union Tax Reporting and Withholding

Directive 2003/48/EC (the ''Savings Directive'') of the Council of the European Union, relating to the taxation of savings income, became effective on July 1, 2005. Under the Savings Directive, if a paying agent for interest on a debt claim (and/or other similar income) is resident in one member state of the European Union and an individual who is the beneficial owner of the interest is a resident of another member state, then the former member state is required to provide information (including the identity of the recipient) to authorities of the latter member state. ''Paying agent'' is defined broadly for this purpose and generally includes any agent of either the payor or payee. Belgium (until 2010), Luxembourg and Austria have opted instead to withhold tax on the interest during a transitional period (in Austria currently at a rate of 35%), subject to the ability of the individual to avoid withholding taxes through voluntary disclosure of the investment to the individual's member state. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-members of the European Union to the exchange of information relating to such payments. In addition, certain non-members of the European Union (Switzerland, Liechtenstein, Andorra, Monaco and San Marino), as well as dependent and associated territories of the United Kingdom and The Netherlands, have adopted equivalent measures effective on the same date, and some (including Switzerland) have exercised the option to apply withholding taxes as described above. In addition, the member states have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in a member state to an individual beneficial owner resident in one of those territories.

On March 24, 2014, the European Council formally adopted a Council Directive amending the Savings Directive (the ''Amending Directive''). The Amending Directive broadens the scope of the requirements described above. Member States have to adopt the national legislation necessary to comply with the Amending Directive until January 1, 2016. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of ''interest payment'' to cover additional types of income which are similar to interest income. In addition, as a result of the Amending Directive, Luxembourg ended the transitional period described above as of January 1, 2015 and Austria, foreseeably, will do so as of January 1, 2017.

PLAN OF DISTRIBUTION

We offered the notes through the initial purchasers. Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, UniCredit Bank AG, Citigroup Global Markets Limited, Erste Group Bank AG, KBC Bank NV, The Royal Bank of Scotland plc and Standard Chartered Bank are the initial purchasers of the notes (the ''initial purchasers''). Subject to the terms and conditions contained in a purchase agreement between us and the initial purchasers, we have agreed to sell to the initial purchasers, and the initial purchasers severally have agreed to purchase from us, the entire principal amount of the notes.

The initial purchasers have agreed to purchase all of the notes being sold pursuant to the purchase agreement if any of these notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the nondefaulting initial purchasers may be increased or the purchase agreement may be terminated. The initial purchasers have advised us that they propose initially to offer the notes at the price listed on the cover page of this Offering Memorandum. After the initial offering of the notes, the initial purchasers may vary the offering price from time to time without notice. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of us in such jurisdiction.

We have agreed to indemnify the initial purchasers and the directors, officers, employees and affiliates of each of the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities. The Issuer and each Guarantor waives to the fullest extent permitted by applicable law any claims it may have against the initial purchasers arising from an alleged breach of fiduciary duty in connection with the offering of the notes.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Notes Are Not Being Registered

The initial purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The initial purchasers will not offer or sell the notes except

- to persons they reasonably believe to be ''qualified institutional buyers'', as defined in Rule 144A under the Securities Act or
- pursuant to offers and sales to non-US persons that occur outside the United States within the meaning of Regulation S.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to US persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act. The initial purchasers may participate in the offer or sale of the notes in the United States through any affiliate or agent which is registered with the U.S. Securities and Exchange Commission as a U.S. registered broker dealer. Certain of the initial purchasers, including Erste Group Bank AG, are not U.S. registered broker dealers and will not effect any offer or sale of notes in the United States except through one or more U.S. registered broker dealers as permitted by FINRA.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under ''Transfer Restrictions''.

No Sale of Similar Securities

We have agreed, subject to certain exceptions (including with respect to (i) bonds sold by the Issuer and to be placed predominantly in the Austrian market and (ii) any debt raised by Sappi Southern Africa Limited or any of its subsidiaries in the South African market), not to sell or transfer any debt securities for a period of 90 days from the date of this Offering Memorandum (if the sale of the notes to the initial purchasers shall have occurred) without first obtaining the written consent of the Joint Global Coordinating Bookrunners.

New Issue of Notes

The notes are new issues of securities with no established trading market. We have applied to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market; however, we cannot assure you that such listing will be maintained. The initial purchasers have advised us that they presently intend to make a market in the notes after completion of this offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice.

Initial Settlement

Delivery of the notes was made against payment on the notes on the date specified on the cover page of this Offering Memorandum, which was seven business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Securities Exchange Act of 1934, as amended (the ''Exchange Act'')) following the date of pricing of the notes (this settlement cycle is being referred to as ''T+7'').

Price Stabilization and Short Positions

In connection with the offering, the Stabilizing Manager (or persons acting on its behalf) may engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the Stabilizing Manager (or persons acting on its behalf) creates a short position in the notes in connection with the offering, *i.e.*, if it sells more notes than are listed on the cover page of this Offering Memorandum, it may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the Stabilizing Manager make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the Stabilizing Manager make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Any stabilizing action, if commenced, must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the notes.

Other Relationships

The initial purchasers or their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, and expect to receive, customary fees and commissions for these transactions. J.P. Morgan Europe Limited will act as security agent for the notes and, once entered into, facility agent and security agent under the Amended and Restated Revolving Credit Facility, and currently acts as facility agent under the Existing Revolving Credit Facility and security agent under the Existing Revolving Credit Facility and Intercreditor Agreement. In addition, affiliates of the initial purchasers are lenders under the Existing Revolving Credit Facility and, once entered into, are expected to act as lenders under the Amended and Restated Revolving Credit Facility.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the notes. The notes and the guarantees have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes (including the guarantees) are being offered and sold only (i) to ''qualified institutional buyers'' (as defined in Rule 144A under the Securities Act) (''QIBs'') in compliance with Rule 144A and (ii) to persons other than U.S. persons (as defined in Rule 902 under the Securities Act) (''Foreign Purchasers'') in offshore transactions (as defined in Rule 902 under the Securities Act) in compliance with Regulation S.

In addition, until 40 days after the later of the commencement of the Offering and the Closing Date an offer or sale of the notes (including the guarantees) within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of the notes hereunder (other than each of the initial purchasers) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A and Regulation S are used herein as defined therein):

(1) it is purchasing the notes (including the guarantees) for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account (i) is a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (ii) is a Foreign Purchaser and is aware that the sale is being made in accordance with Regulation S;

(2) it acknowledges that the notes (including the guarantees) have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold except as set forth below;

(3) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any notes (including the guarantees) or any beneficial interests in any notes (including the guarantees) prior to the date which is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the date of original issue and the last date on which the Issuer or any affiliate of the Issuer was the owner of the notes (or any predecessor thereto), it will do so only (A)(i) to the Issuer, the Guarantors or any subsidiary thereof, (ii) to a person whom the seller, and any person acting on its behalf, reasonably believes is a QIB that is purchasing for its own account or for the account of a QIB or QIBs, in a transaction complying with Rule 144A, (iii) in an offshore transaction in compliance with Regulation S or (iv) pursuant to any other available exemption from registration under the Securities Act, or (B) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities law of any state of the United States;

(4) it agrees to, and each subsequent holder is required to, notify any purchaser of the notes from it of the resale restrictions referred to in clause (3) above, if then applicable;

(5) if it is a person other than a Foreign Purchaser, it understands and agrees that notes initially offered to QIBs in reliance on Rule 144A will be represented by a Rule 144A Global Note, and that before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the trustee with a written certification (the form of which certification can be obtained from the trustee as to compliance with the transfer restriction referred to above);

(6) If it is a Foreign Purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the ''distribution compliance period'' (as defined below), you shall not make any offer or sale of the notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of

Rule 902 under the US Securities Act. The ''distribution compliance period'' means the 40-day period following the issue date for the notes;

(7) it understands that the notes will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITIES ACT''), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER FOR THE BENEFIT OF THE ISSUER AND THE GUARANTORS AND ANY OF THEIR SUCCESSORS IN INTEREST (1) REPRESENTS THAT (A) IT IS A ''QUALIFIED INSTITUTIONAL BUYER'' (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION, (2) AGREES THAT IT WILL NOT PRIOR TO THE DATE WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR] [IN THE CASE OF REGULATION S NOTES: 40 DAYS] (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY [RULE 144] [REGULATION S] UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE DATE OF ORIGINAL ISSUE AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THE NOTES (OR ANY PREDECESSOR THERETO) (THE ''RESALE RESTRICTION TERMINATION DATE'') RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR A BENEFICIAL INTEREST IN THIS NOTE EXCEPT (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) TO A PERSON THAT THE SELLER, AND ANY PERSON ACTING ON ITS BEHALF, REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. PROVIDED THAT THE ISSUER, THE TRUSTEE AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE US SECURITIES ACT OR PURSUANT TO CLAUSE (D) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THAT AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, THE TRUSTEE AND THE REGISTRAR IS COMPLETED AND DELIVERED BY THE TRANSFEROR. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS. AS USED HEREIN, THE TERMS ''OFFSHORE TRANSACTION'', ''UNITED STATES'', AND ''U.S. PERSON'' HAVE THE MEANING GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT;

(8) each purchaser, by its purchase of the notes, shall be deemed to have represented and covenanted that it is not acquiring the notes for or on behalf of, and will not transfer the notes to, any pension or welfare plan as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended (''ERISA'') or plan (as defined in Section 4975 of the Code), except that such purchase for or on behalf of a pension or welfare plan shall be permitted:

   (a) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such collective investment fund, and the other applicable conditions of Prohibited Transaction Class Exemption 91-38 issued by the Department of Labor are satisfied;

(b) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which, at any time while the notes are outstanding, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total of all assets in such pooled separate account, and the other applicable conditions of Prohibited Transaction Class Exemption 90-1 issued by the Department of Labor are satisfied;

(c) to the extent such purchase is made on behalf of a plan by (i) an investment adviser registered under the Investment Advisers Act of 1940, as amended (the ''1940 Act''), that had, as of the last day of its most recent financial year, total assets under its management and control in excess of US$85.0 million and had stockholders' or partners' equity in excess of US$1 million, as shown in its most recent balance sheet prepared in accordance with generally accepted accounting principles, or (ii) a bank as defined in Section 202(a)(2) of the 1940 Act with equity capital in excess of US$1.0 million as of the last day of its most recent financial year, (iii) an insurance company which is qualified under the laws of more than one state to manage, acquire or dispose of any assets of a pension or welfare plan, which insurance company has, as of the last of its most recent financial year, net worth in excess of US$1.0 million and which is subject to supervision and examination by a state authority having supervision over insurance companies or (iv) a savings and loan association, the accounts of which are insured by the Federal Deposit Insurance Corporation, that has made application for and been granted trust powers to manage, acquire or dispose of assets of a Plan by a State or Federal authority having supervision over savings and loan associations, which savings and loan association has, as of the last day of its most recent fiscal year, equity capital or net worth in excess of US$1 million and, in any case, such investment adviser, bank or insurance company is otherwise a qualified professional asset manager, as such term is used in Prohibited Transaction Class Exemption 84-14 issued by the Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliate thereof) or employee organization and managed by such investment adviser, bank or insurance company, do not represent more than 20% of the total client assets managed by such investment adviser, bank or insurance company at the time of the transaction, and the other applicable conditions of such exemption are otherwise satisfied;

(d) to the extent such plan is a governmental plan (as defined in Section 3 of ERISA) which is not subject to the provisions of Title I of ERISA or section 4975 of the Code;

(e) to the extent such purchase is made by or on behalf of an insurance company using the assets of its general account, the reserves and liabilities for the general account contracts held by or on behalf of any plan, together with any other plans maintained by the same employer (or its affiliates) or employee organization, do not exceed 10% of the total reserves and liabilities of the insurance company general account (exclusive of separate account liabilities), *plus* surplus as set forth in the National Association of Insurance Commissioners Annual Statement filed with the state of domicile of the insurer, in accordance with Prohibited Transaction Class Exemption 95-60, and the other applicable conditions of such exemption and otherwise satisfied;

(f) to the extent such purchase is made by an ''in-house asset manager'' within the meaning of Part IV(a) of Prohibited Transaction Class Exemption 96-23, such manager has made or properly authorized the decision for such plan to purchase the notes under circumstances such that Prohibited Transaction Class Exemption 96-23 is applicable to the purchase and holding of the notes; or

(g) to the extent such purchase will not otherwise give rise to a transaction described in Section 406 of ERISA or Section 4975(c)(1) of the Code, other than a transaction for which a statutory or administrative exemption is available; *provided* that the purchase, holding and subsequent disposition of the notes are permissible under state, local, non-U.S. or other laws or regulations that are similar to Section 406 of ERISA or Section 4975 of the Code;

(9) it acknowledges that prior to any proposed transfer of notes or beneficial interests in Global Notes (in each case other than pursuant to an effective registration statement) the holder of such notes or beneficial interests in Global Notes may be required to provide an opinion of counsel, certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Indenture; and

(10) it acknowledges that the Issuer, the Guarantors and the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by it by virtue of its purchase of notes is no longer accurate, it shall promptly notify the Issuer, the Guarantors and the initial purchasers. If it is acquiring any notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indenture to effect exchanges or transfer of interests in Global Notes, see ''Book Entry, Delivery and Form''.

LEGAL MATTERS

Certain legal matters in connection with the offering of the notes will be passed upon for us by Cravath, Swaine & Moore LLP, London, England, as to matters of U.S. federal and New York State law, and by Bowman Gilfillan Inc., Johannesburg, South Africa, as to matters of South Africa law. Certain legal matters will be passed upon for the initial purchasers by Latham & Watkins (London) LLP, as U.S. counsel for the initial purchasers and by Werksmans Attorneys, Johannesburg, South Africa, as South Africa counsel to the initial purchasers.

INDEPENDENT AUDITORS

The Group consolidated annual financial statements of Sappi Limited and subsidiaries as of September 2014, 2013 and 2012 and for each of the three years in the period ended September 2014 included in this Offering Memorandum have been audited by Deloitte & Touche, independent auditors, as stated in their reports included herein.

The consolidated financial statements of Sappi Papier Holding GmbH and subsidiaries as of September 2014 and for the period ended September 2014 included in this Offering Memorandum have been audited by Deloitte Audit Wirtschaftsprüfungs GmbH, independent auditors, as stated in their report included herein.

AVAILABLE INFORMATION

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. However, pursuant to the Indenture and so long as the notes are outstanding, we will furnish periodic information to holders of the notes. See ''Description of Notes—Certain Covenants—Reports''.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market, and the rules of that exchange so require, copies of the Issuer's organizational documents, the Indenture and our most recent consolidated financial statements published may be inspected and obtained at the office of the Paying Agent. See ''Listing and General Information''.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer of the notes is incorporated in Austria and its registered office is in Austria. Sappi Limited, the Parent Guarantor, is a public company incorporated in the Republic of South Africa and its principal executive offices are located in Johannesburg. The Subsidiary Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) are incorporated in and have their respective principal executive offices in Austria, Belgium, Finland, Germany, The Netherlands and Hong Kong. The majority of the directors and executive officers of Sappi Limited, the Issuer and the Subsidiary Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) are non-residents of the United States, and a substantial portion of the assets of Sappi Limited, the Issuer and the Subsidiary Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon Sappi Limited, the Issuer or the Subsidiary Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) or such persons or to enforce against any of them in U.S. courts judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the United States, and there is doubt as to the enforceability in Austria, South Africa and the home jurisdictions of the Subsidiary Guarantors (other than S.D. Warren Company, SDW Holdings Corporation and Sappi Cloquet LLC) of civil liabilities predicated upon the Federal securities laws of the United States, either in original actions or in actions for enforcement of judgments of U.S. courts.

The United States and Austria do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a Federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. Federal securities laws, will not be enforceable, either in whole or in part, in Austria. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in Austria, such party may submit to the Austrian court the final judgment rendered in the United States. Under such circumstances, a judgment by a Federal or state court of the United States against the Issuer or its managing directors will be regarded by an Austrian court only as evidence of the outcome of the dispute to which such judgment relates, and an Austrian court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND SECURITY INTERESTS AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a summary description of certain limitations on the validity and enforceability of the guarantees and the security interests for the notes, and a summary of certain insolvency law considerations in some of the jurisdictions in which the Issuer, the Guarantors and other relevant subsidiaries of Sappi are organized. The description is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the notes, the guarantees and the security interests. Prospective investors in the notes should consult their own legal advisors with respect to such limitations and considerations.

European Union

The Issuer and several of the Guarantors are organized under the laws of Member States of the E.U.

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the ''E.U. Insolvency Regulation''), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State (other than Denmark) where the company concerned has its ''center of main interests'' (as that term is used in Article 3(1) of the E.U. Insolvency Regulation). The determination of where any such company has its ''center of main interests'' is a question of fact on which the courts of the different Member States may have differing and even conflicting views despite the decisions of the European Court of Justice on such matters.

The term ''center of main interests'' is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the E.U. Insolvency Regulation that any such company has its ''center of main interests'' in the Member State in which it has its registered office, Preamble 13 of the E.U. Insolvency Regulation states that the ''center of main interests'' of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and ''is therefore ascertainable by their parties''. The European Court of Justice has held in this context that the rebuttable presumption of the ''center of main interests'' being located in the Member State in which a company has its registered office shall only be rebutted if facts objective and ascertainable by third parties provide evidence that the place of its registered office is not its ''center of main interests'' (such as if the company does not have any business activity in the jurisdiction of its registered office). In that respect, factors such as where board meetings are held, the location where the company conducts the majority of its business and the location where the large majority of the company's creditors are established may all be relevant in the determination of the place where the company has its ''center of main interests''.

If the center of main interests of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the E.U. Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the E.U. Insolvency Regulation. Insolvency proceedings opened in one Member State under the E.U. Insolvency Regulation are to be recognized in the other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the ''center of main interests'' of a debtor is in one Member State (other than Denmark) under Article 3(2) of the E.U. Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open ''territorial proceedings'' only in the event that such debtor has an ''establishment'' in the territory of such other Member State. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. If the company does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open territorial proceedings in respect of such company under the E.U. Insolvency Regulation.

Austria

Insolvency

The Issuer and the Austrian Guarantors are incorporated under the laws of Austria, thus a rebuttable presumption exists that these entities also have their respective ''center of main interests'' in Austria.

In the event of an insolvency of a company having its ''center of main interests'' in Austria, insolvency proceedings may be initiated in Austria. Such proceedings will be governed by Austrian law (for example, if the ''center of main interests'' of such company is within Austria or if such company has an ''establishment'' in the territory of the Republic of Austria or, where the E.U. Insolvency Regulation does not apply, if such company has assets in Austria). Under certain circumstances, insolvency proceedings may also be opened in Austria in accordance with Austrian law with respect to the assets of companies that are not organized under Austrian law.

The following is a brief description of certain aspects of Austrian insolvency law. The law relating to insolvency is regulated by the Austrian Insolvency Act (*Insolvenzordnung*) (the ''AIA'') which entered into force on July 1, 2010.

Insolvency proceedings (*Insolvenzverfahren*) are opened by a court in the event that the debtor is insolvent (*zahlungsunfähig*) (*i.e.,* unable to pay its debts as and when they fall due) or over-indebted within the meaning of the AIA (*überschuldet*) (*i.e.,* its liabilities exceed the liquidation value of its assets in combination with a negative prognosis on its ability to continue as a going concern (*negative Fortbestehensprognose*)). Under Austrian law, insolvency proceedings may be initiated either by the debtor or a creditor by filing an application to that effect with a court of competent jurisdiction. If insolvency proceedings are initiated upon a creditor's request, such creditor will have to show that the debtor is insolvent or over-indebted. In the event that the debtor is at imminent risk of being unable to pay its debts as and when they fall due (*drohende Zahlungsunfähigkeit*), insolvency proceedings may be initiated only upon the debtor's request.

If the debtor has submitted, together with its application requesting the opening of insolvency proceedings, an application for the commencement of restructuring proceedings (*Sanierungsverfahren*), the court may order the opening of either (i) insolvency proceedings or (ii) restructuring proceedings. The legal provisions regulating restructuring proceedings do not apply to insolvency proceedings.

Depending on whether the debtor submits a restructuring plan *(Sanierungsplan)* together with the application for the opening of insolvency proceedings, the initiated proceedings may be in the form of restructuring proceedings (*Sanierungsverfahren*) or insolvency proceedings. If it is the debtor that has applied for the initiation of insolvency proceedings and has submitted to the court a restructuring plan (*Sanierungsplan*) that offers a recovery rate of at least 20% payable to the unsecured creditors over a maximum period of two years, any proceedings so initiated by the court will be in the form of restructuring proceedings. A debtor may also submit a restructuring plan in the course of insolvency proceedings that are already in progress whereupon such proceedings will continue as restructuring proceedings. For the debtor's restructuring plan to be approved by the court it should meet certain criteria specified by law.

The purpose of a restructuring plan is to enable a debtor to be released from a portion of its debts (not to exceed 80% of the aggregate amount thereof) and to continue its business operations. A restructuring plan has to be approved by a ''qualified majority'' of the debtor's unsecured creditors. A ''qualified majority'' refers to a majority of the debtor's unsecured creditors present at the respective court hearing, *provided* that such majority represents more than 50% of the aggregate amount of all claims of the unsecured creditors being present at such hearing. Once the debtor has complied with the terms of a restructuring plan that was duly approved by the creditors and confirmed by the court, it will be released from its remaining outstanding unsecured debts. Unsecured creditors whose claims under the restructuring plan have not been satisfied in accordance with the plan's terms may enforce their individual claims against the debtor, in which case the restructuring proceedings will be continued as insolvency proceedings.

If the restructuring proceedings have been initiated and the debtor has submitted a restructuring plan that offers a recovery rate of at least 30% to the unsecured creditors over a maximum two-year period after the approval of such restructuring plan, the debtor qualifies for self-administration (*Sanierungsverfahren mit Eigenverwaltung*).

Unless the debtor qualifies for self-administration, it is not allowed as of the date of the opening of the insolvency or the restructuring proceedings, as the case may be, to dispose of the assets belonging to the insolvency estate (*Insolvenzmasse*). The opening of insolvency proceedings takes effect on the day following the publication of the court's order opening such proceedings in the official online database of Austrian insolvencies (*www.edikte.justiz.gv.at*). After the opening of insolvency proceedings, transactions of the debtor with respect to assets belonging to the insolvency estate have no effect against the creditors of the insolvency estate.

With its decision to open the insolvency proceedings, the court will appoint an insolvency administrator (*Insolvenzverwalter*) and may, depending on the nature and the size of the debtor's business (either *ex officio* or upon the request of the creditors' meeting (*Gläubigerversammlung*)), appoint a creditors' committee (*Gläubigerausschuss*) charged with monitoring and assisting the insolvency administrator in the discharge of its duties. After the opening of insolvency proceedings (and unless the debtor qualifies for self-administration) only the insolvency administrator is entitled to act on behalf of the insolvency estate.

Under Austrian law, an insolvency administrator's role is to continue the debtor's business with a view to enabling a potential reorganization of the debtor's business either by implementing the debtor's restructuring plan or by a sale of the debtor's business. If neither a restructuring plan nor a sale of the debtor's business is possible, the insolvency administrator will discontinue the debtor's business operations. As a result of the ensuing insolvency proceedings, the debtor's assets will be liquidated and the proceeds realized thereby will be distributed to the debtor's creditors, with the debtor remaining liable for any portion of its debts not satisfied by such proceeds.

If the debtor qualifies for self-administration, the court will proceed with the appointment of a restructuring administrator (*Sanierungsverwalter*) to monitor the activities of the debtor. In such case, certain transactions are either subject to the restructuring administrator's approval or may be performed only by the restructuring administrator.

Unsecured creditors (*Insolvenzgläubiger*) wishing to assert their claims against the debtor need to participate in the insolvency proceedings and must file their claim with the competent court within the time period set out in the court order opening the insolvency proceedings. At the respective hearing (examination hearing (*Prüfungstagsatzung*)), the insolvency administrator has to declare whether it acknowledges or contests each of the claims filed with the court. If the insolvency administrator acknowledges a creditor's claim, such creditor will be entitled to participate in the insolvency proceedings and the pro rata distribution to unsecured creditors that will follow. If a creditor's claim is contested by the insolvency administrator, the creditor will have to seek enforcement of its claim in civil proceedings and only then participate in the insolvency proceedings.

Claims of unsecured creditors which were created before the opening of the insolvency proceedings rank *pari passu* among themselves. Certain claims which lawfully arose against the insolvency estate after the opening of the insolvency proceedings (privileged claims (*Masseforderungen*)) enjoy priority in insolvency proceedings. Claims which are secured by collateral, such as a mortgage, a pledge over bank accounts or shares, an assignment of receivables for security purposes or a security transfer of moveable assets (preferential claims (*Absonderungsrechte*)), are entitled to preferential payment in the distribution of the proceeds resulting from the realization of the charged asset. Creditors who have a right to preferential treatment may participate in the pro rata distribution to the unsecured creditors only to the extent that the proceeds from the realization of the assets charged to them did not cover their claims or if they have waived their right to preferential treatment. Secured creditors do not have a voting right with respect to the approval of the restructuring plan to the extent their claim is covered by security. Claims relating to the payment of taxes, social security contributions and employee compensation are not, as such, privileged or preferential claims under Austrian law.

The costs of the insolvency proceedings and certain liabilities accrued during such proceedings constitute privileged claims (*Masseforderungen*) and rank prior to all other unsecured claims (*Insolvenzforderungen*). Claims of creditors with a right of segregation of assets

(*Aussonderungsberechtigte*), such as creditors with a retention of title or trustors, remain unaffected by the opening of insolvency proceedings.

Once insolvency proceedings have been opened it is no longer possible to obtain an execution lien with respect to assets belonging to the insolvency estate. All execution proceedings against the debtor are subject to an automatic stay (*Vollstreckungssperre*). Execution liens obtained within the last 60 days prior to the opening of insolvency proceedings expire upon the opening of such insolvency proceedings unless the insolvency proceedings are terminated due to lack of funds to cover the cost of such proceedings.

Appointment of a Trustee (*Kurator*)

In the event that the rights of the noteholders are put at risk due to lack of joint representation, a court of competent jurisdiction (*Kuratelgericht*) may appoint a trustee (*Kurator*) to represent the interests of all noteholders in matters concerning their collective rights (*gemeinsame Rechte*) pursuant to the Austrian Act on Trustees (*Kuratorengesetz*) and the Austrian Act Supplementing the Act on Trustees (*Kuratorenergänzungsgesetz*). In particular, this may be the case if insolvency proceedings are initiated against the Issuer. Such court-appointed trustee may be so appointed upon the request of an interested party (e.g., a noteholder) or upon the initiative of the competent court in case of insolvency.

The court-appointed trustee will have the exclusive right to exercise the collective rights of the noteholders on their behalf. Consequently, an individual noteholder or the trustee for the notes may not bring individual action unless the matter concerns a special relationship between such individual noteholder and/or trustee for the notes and the Issuer. A noteholder will have the right to join any action commenced by the court-appointed trustee against the Issuer as a third party (*Intervenient*).

Noteholders will not be able to direct the actions taken on their behalf by the court-appointed trustee. If the court-appointed trustee has to take action that would due to its importance require approval from the court, the court has to ensure that a meeting of noteholders convenes in order to permit noteholders to interview the court-appointed trustee and to elect three representatives (*Vertrauensmänner*) and three alternative representatives (*Ersatzmänner*). The representatives (*Vertrauensmänner*) must keep themselves informed of the actions taken by the court-appointed trustee by way of continuous direct communication with the court-appointed trustee and, if required, inspect the relevant files and documents. In addition, the representatives will have to assist the court-appointed trustee in the discharge of his duties by providing advice on relevant matters. A court decision approving an act of a court-appointed trustee may be appealed by a noteholder, a representative (*Vertrauensmann*) or an alternative representative (*Ersatzmann*).

The powers of the court-appointed trustee to exercise the collective rights of the noteholders would deprive the noteholders and the trustee for the notes of their ability to exercise their rights under the transaction documents, including their rights to instruct the security agent to enforce the security and guarantees granted under the notes.

Limitation on Enforcement

One of the Austrian Guarantors, Sappi Gratkorn GmbH, has agreed to provide an offer to grant a mortgage with respect to the land and plant it owns in Gratkorn, Austria (''Gratkorn Property''), while another Austrian Guarantor, Sappi MagnoStar GmbH, will deliver an executed mortgage agreement with respect to buildings that are partly located on third-party land (*Superädifikate*) (''MagnoStar Buildings'') and machinery it owns at the plant in Gratkorn. In addition, Sappi Austria Produktions-GmbH & Co. KG will provide a security interest with respect to machinery and the pulp mill it owns at such facility.

Austrian law mortgages over land and plant as well as over buildings on third-party land are established by duly notarized written agreements between mortgagor and mortgagee and subsequent registration of the mortgage over land and plant in the land register of the locally competent district court and depositing the mortgage agreement concerning buildings on third-party land in the land register of the locally competent district court. A mortgage over land and plant will only be perfected as of the time of registration and a mortgage over buildings on third-party land will only be perfected as of the time the mortgage agreement is deposited in the land register of the competent court. As described in ''Description of Notes—Security'', because of the substantial court fees that are levied upon the registration of mortgages over land and depositing of mortgage agreements in respect of buildings on third-party land in Austria and also because of the substantial stamp duties that are levied in Austria upon the execution of mortgage agreements over land and plant, rather than providing duly perfected mortgages, Sappi Gratkorn GmbH will provide an offer to grant a mortgage over the Gratkorn Property and Sappi MagnoStar GmbH will deliver an executed mortgage agreement concerning the MagnoStar Buildings to the security agent. The mortgage offer with respect to the Gratkorn Property will only be countersigned and registered by the mortgagee and the mortgage agreement with respect to the MagnoStar Buildings will only be deposited in the land register of the competent court upon the occurrence of certain agreed events (including certain events of default under the Indenture). There will be four separate mortgage offers with respect to the Gratkorn Property and four separate mortgage agreements with respect to MagnoStar Buildings dated August 27, 2009, April 13, 2011, July 3, 2012 and on or about the Issue Date. Each of these mortgage offers and mortgage agreements will incur registration and perfection fees upon the occurrence of certain trigger events to the extent they are registered and perfected, respectively. Under the terms of the Intercreditor Agreement, the Issuer has agreed to indemnify the security agent for all Perfection Costs (as defined in the Intercreditor Agreement). To the extent that the Issuer is unable to indemnify such Perfection Costs, the security agent will be required to pay the Perfection Costs associated with registration of each of the four mortgage offers and four mortgage agreements. The costs which will be incurred in connection with the perfection are as follows: (i) in respect to the mortgage offers, court fees for the registration of the mortgages in the land register of 1.2% of the secured amount and stamp duties for mortgage deeds upon countersignature of the mortgage offer by the security agent of 1.0% of the secured amount payable with respect to each of the mortgage offers; and (ii) in respect to the mortgage agreements, court fees for the submission of the mortgages to the land register of 1.2% of the secured amount payable with respect to each of the mortgage agreements. However, the security agent should be able to recover these Perfection Costs against the value of the land, plant and buildings secured by each mortgage as part of the amount secured by the mortgages (subject to the limitations contained therein). Until (and only if) such events occur and the security agent countersigns and registers the mortgage over the Gratkorn Property or deposits the mortgage agreement with respect to the MagnoStar Buildings in the land register, there will be no perfected mortgages in place, and there is a risk that the security agent's claim could be subordinated to prior perfected mortgages over, or attachments of, the Gratkorn Property and/or the MagnoStar Buildings. In addition, because the mortgages will not be perfected until the security agent seeks to enforce or perfect the security, this structure increases the risk of an insolvency administrator in any subsequent insolvency successfully challenging and avoiding the transaction in accordance with Austrian insolvency law. Moreover, upon the occurrence of certain insolvency events in respect of Sappi Gratkorn GmbH, the security agent will be barred from perfecting the security interests in respect of the Gratkorn Property, and upon the occurrence of certain insolvency events in respect of Sappi MagnoStar GmbH, the security agent will be barred from perfecting the security interests in respect of the MagnoStar Buildings. If the security interests in respect of the Gratkorn Property or the MagnoStar Buildings were avoided or held to be unenforceable, or if they were not perfected in due time for any reason, the security agent would not have any claims in respect of such security interests. Furthermore, in connection with Sappi MagnoStar GmbH's lease of the Gratkorn municipality-owned land, Sappi Gratkorn GmbH has been granted a purchase option by the municipality with respect to the municipality-owned land, exercisable within three months from the expiry of the lease at the end of 2015. If Sappi Gratkorn GmbH does not exercise this purchase option, the municipality has the option to purchase a part of the land (including buildings) at the Gratkorn facility owned by Sappi Gratkorn GmbH. Even if perfected, the mortgage over the Sappi Gratkorn GmbH-owned land will be subject to the municipality's purchase option, as both purchase options have been registered in the land register as pre-emption rights in order to preserve their rank. Upon any exercise of the purchase option by the municipality, Sappi Gratkorn GmbH would be contractually required to transfer the Sappi Gratkorn GmbH-owned land and Sappi MagnoStar GmbH would be contractually required to transfer the MagnoStar Buildings, in each case to the municipality at a pre-determined price and free of encumbrances. If the security interest on the Gratkorn Property and/or the MagnoStar Buildings were avoided or held unenforceable for any reason, the security agent would cease to have any claim in respect of the security interest.

The grant of collateral over the machinery owned by Sappi MagnoStar GmbH and the machinery and pulp mill owned by Sappi Austria Produktions-GmbH & Co. KG will be perfected separately from the mortgages over the Gratkorn Property and the MagnoStar Buildings pursuant to contractual pledges that are not required to be registered or filed with a public authority.

The grant of collateral and the provision of upstream guarantees by the Austrian Guarantors is also subject to Austrian capital maintenance rules (*Kapitalerhaltungsvorschriften*) pursuant to Austrian corporate law, in particular Section 82 of the Austrian Act on Limited Liability Companies (*Gesetz über Gesellschaften mit beschränkter Haftung*) (''GmbHG'').

The GmbHG prohibits an Austrian limited liability company from disbursing its assets to its shareholders in circumstances other than as a distribution of profits (if, to the extent and as long as available for distribution under Austrian law), by a reduction of share capital or as liquidation surplus on liquidation of that corporation. Guarantees, share pledges and any other collateral granted by an Austrian limited liability company or limited partnership (the unlimited partner of which is a corporation) in order to guarantee or secure liabilities of a direct or indirect parent or sister company are considered disbursements under the GmbHG and are thus invalid (in whole or in part) and unenforceable if the granting of the guarantees or security interests by the Austrian Guarantor were not at arm's-length terms and for that Austrian Guarantor's corporate benefit. This nullity may also affect third parties (e.g. noteholders) if such third party knew or should have known (based on a gross negligence standard) that the respective transaction was not permitted pursuant to Austrian capital maintenance rules. Therefore, in order to enable Austrian subsidiaries to guarantee, or to grant collateral to secure, liabilities of a direct or indirect parent or sister company and in order to reduce the risk of violating the GmbHG and the resultant invalidity and unenforceability, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called ''limitation language'' in relation to subsidiaries incorporated or established in Austria. Pursuant to such limitation language, the grant of collateral and the provision of upstream and sidestream guarantees of Austrian subsidiaries are limited to the extent required to avoid a breach of the Austrian capital maintenance rules. Accordingly, e.g. the Indenture and the security documents will contain such limitation language and the guarantees of the Austrian Guarantors and the security will be so limited.

The Indenture for the notes will expressly provide substantially as follows:

(a) Nothing in the Indenture shall be construed to create any obligation of an Austrian Guarantor to act in violation of mandatory Austrian capital maintenance rules (*Kapitalerhaltungsvorschriften*), including, without limitation, § 82 *et seq*. of the GmbHG and § 52 *et seq*. of the Austrian Act on Joint Stock Companies (*Aktiengesetz-AktG*) (the ''Austrian Capital Maintenance Rules''), and all obligations of any Austrian Guarantor under the Indenture shall be limited in accordance with the Austrian Capital Maintenance Rules.

(b) If and to the extent the payment obligations of an Austrian Guarantor under the Indenture would not be permitted under the Austrian Capital Maintenance Rules or would render the directors of an Austrian Guarantor personally liable pursuant to Austrian law to any of the creditors of that Austrian Guarantor as a consequence of paying such amount, then such payment obligations shall be limited to the maximum amount permitted to be paid which would not trigger such directors' liability, *provided* that the amount payable shall not be less than (i) that Austrian Guarantor's balance sheet profit (including retained earnings) (*Bilanzgewinn*) as defined in § 224 (3) lit A no. IV of the Austrian Enterprise Code (*Unternehmensgesetzbuch—UGB*) as calculated by reference to the most recent (audited, if applicable) financial statements of that Austrian Guarantor then available *plus* (ii) any other amounts which are freely available for distribution to the shareholder(s) of that Austrian Guarantor under the GmbHG or AktG (as the case may be) and the UGB at the time or times payment under the guarantee is demanded from that Austrian Guarantor *plus* (iii) to the extent applicable, the aggregate amount of any proceeds from the issuance of the notes made available to that Austrian Guarantor and/or its subsidiaries *plus* (iv) the amount of any indebtedness capable of being discharged by way of setting-off that Austrian Guarantor's recourse claim following enforcement of the Indenture against any indebtedness owed by that Austrian Guarantor to the Issuer.

The terms of the security documents under which an Austrian Guarantor grants security will contain similar limitations.

No case law is available to confirm and it is thus not certain whether the limitations set forth in the Indenture and the security documents entered into by Austrian Guarantors, in particular regarding the limitation of the amount guaranteed or secured to an amount permitted under Austrian Capital Maintenance Rules, would be valid and enforceable under Austrian law and achieve the desired effect of legally preserving the guarantees and security interests to the extent possible or whether the guarantees and/or security interests could be deemed void in their entirety. Moreover, Austrian Capital Maintenance Rules are subject to ongoing court decisions and it cannot be ruled out that future court rulings may not further limit the access of creditors and/or shareholders to assets of subsidiaries constituted in the form of a corporation or of a limited partnership the general partner or general partners of which is or are corporations.

Parallel Debt

Under Austrian law, certain ''accessory'' security interests such as pledges require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The beneficial holders of interests in the notes from time to time will not be parties to the security documents. In order to permit the beneficial holders of the notes to benefit from a secured claim, the security documents will provide for the creation of a ''parallel debt''. Pursuant to the parallel debt, the security agent becomes the holder of a claim equal to each amount payable by an obligor under the notes. The pledges governed by Austrian law will directly secure the parallel debt. The parallel debt procedure has not been tested under Austrian law, and there is no certainty that the parallel debt procedure will eliminate or mitigate the risk of unenforceability posed by Austrian law.

Hardening Periods and Clawback

Under the voidance rules of the Austrian Insolvency Act (*Insolvenzordnung*) (the ''AIA''), an insolvency administrator may, by action of voidance or by defense of voidance, under certain circumstances, challenge any transaction (which term for the purposes of this section ''Hardening Periods and Clawback'' includes, without limitation, the granting of security and the guaranteeing, assuming and/or paying of debt). In particular, the following transactions are voidable with respect to the insolvent's creditors:

- *Voidance due to intent of discrimination (section 28/1-3 AIA)*: All transactions performed or entered into by the insolvent within 10 years prior to the commencement of insolvency proceedings with the intent known to the other party to discriminate against its creditors as well as all transactions through which the insolvent's creditors are discriminated against and which it performed or entered into during the last two years prior to commencement of insolvency proceedings, *provided* that the beneficiary of the transaction should have been aware of such intent. If the legal act was concluded with or for the benefit of certain connected persons (as defined by law) the burden of proof regarding the knowledge of the intention to discriminate is shifted to that connected person, i.e., the connected person must prove that he or she had no knowledge and was not negligent in having no knowledge, respectively. Should the debtor be a legal entity capable of being a party in a lawsuit, then members of the managing and supervisory bodies of the debtor as well as the debtor's shareholders with unlimited liability and the debtor's controlling shareholder or shareholders of at least 25% (pursuant to section 5 of the Austrian Substitute Equity Act—*Eigenkapitalersatz-Gesetz*) are deemed to be connected.
- *Voidance due to squandering of assets (section 28/4 AIA)*: Delivery, purchase and barter transactions undertaken by the insolvent in the last year prior to the commencement of insolvency proceedings are voidable, if the other party perceived or should have perceived the intent to discriminate against the insolvent's creditors through transactions below market value.
- *Voidance of transactions with no consideration and analogous transactions (section 29 AIA)*: In particular, transactions of the insolvent without consideration (except customary occasional gifts and transactions for a reasonable and proportionate amount towards a charitable cause or for the fulfillment of a legal obligation, a moral duty or consideration of decency) and acquisitions of property from the insolvent by order of authority if paid out of the insolvent's

funds are voidable, if performed or entered into in the last two years prior to the commencement of insolvency proceedings.

- *Voidance due to preferential treatment (section 30 AIA)*: Security or payment given to a creditor after the occurrence of the insolvent's inability to pay debts or after filing for the commencement of insolvency proceedings or in the last 60 days before such filing is voidable, if (i) the creditor obtained a security or payment it was not entitled to, (ii) the security or payment was given to persons who were aware or should have been aware of the intent of the insolvent to give them preferential treatment ahead of the debtor's other creditors, or (iii) the transaction was effected for the benefit of a connected person, unless such connected person (see above as to section 28/1-3 AIA) did not know and should not have known about the debtor's intention to give preferential treatment. A grant of security or payment under such circumstances is not voidable if the preferential treatment was given more than one year prior to the commencement of insolvency proceedings.

- *Voidance due to knowledge of the debtor's insolvency (section 31 AIA)*: Any transaction performed or entered into after the occurrence of the insolvent's inability to pay debts (*Zahlungsunfähigkeit*) or over-indebtedness within the meaning of the Austrian Insolvency Act (*Überschuldung*) or after the filing of a petition for the opening of insolvency proceedings may be challenged if:

  - such transaction constitutes payment or granting of security (*Befriedigung oder Sicherstellung*) to a connected person (see above as to section 28/1-3 AIA), or any other transaction entered into by the debtor with such connected person which is considered to be prejudicial to the debtor's creditors (*nachteilige Rechtsgeschäfte*), unless (i) with respect to such payment or granting of security, or to a transaction directly prejudicial to the debtor's creditors, such close relative did not have nor should have had knowledge of the debtor's inability to pay debts, over-indebtedness or the filing of a petition for the opening of insolvency proceedings and (ii) with respect to a transaction indirectly prejudicial to the debtor's creditors, the negative effect of such transaction on the insolvency estate was not objectively foreseeable at the time of entering into the transaction;

  - such transaction constitutes payment or granting of security (*Befriedigung oder Sicherstellung*) to a creditor, or any other transaction entered into by the debtor with a third party which is directly prejudicial to the debtor's creditors, *provided* that the debtor's counterparty knew or should have known of the debtor's inability to pay debts, over-indebtedness or the filing of a petition for the opening of insolvency proceedings; and

  - entered into by the debtor with a third party which is indirectly prejudicial to the debtor's creditors, *provided* that (i) the debtor's counterparty knew or should have known of the debtor's inability to pay debts, over-indebtedness or the filing of a petition for the opening of insolvency proceedings and (ii) such transaction's negative effect on the insolvency estate was objectively foreseeable at the time of entering into the transaction. Such transaction's negative effect is foreseeable, in particular, when a restructuring effort is obviously unsuitable (*offensichtlich untaugliches Sanierungskonzept*).

    A transaction is considered to be indirectly prejudicial (*mittelbar nachteilig*) if, even though it may be objectively balanced, *i.e.,* not directly prejudicial to the debtor's creditors, it nonetheless has a negative effect on the recovery rate of creditors.

  Transactions carried out more than six months prior to the opening of insolvency proceedings may not be voided pursuant to section 31 AIA.

The relevant hardening/suspect periods will commence upon perfection of the security interests only, which will be particularly relevant in regards to the deferred perfection of the mortgages over the Gratkorn Property and the MagnoStar Buildings. See ''Description of Notes—Security'' in this respect.

In addition to an insolvency administrator voiding transactions according to the Austrian Insolvency Act, a creditor who has obtained an enforcement order (*Vollstreckungstitel*) could possibly also void any transactions pursuant to the provisions of the Austrian Voidance Act

(*Anfechtungsordnung*) outside of formal insolvency proceedings. The conditions for such action vary to a certain extent from the rules described above, and the voidance periods are calculated from the date on which such other creditor exercises its voidance rights in court.

Belgium

Insolvency

The Belgian Guarantors are incorporated under the laws of Belgium. Consequently, provided that Belgium is the territory in which the relevant Belgian Guarantor's main interests are situated, in the event of an insolvency of any of the Belgian Guarantors, insolvency proceedings may be initiated in Belgium. Such proceedings would then be governed by Belgian law. Under certain circumstances, Belgian law also allows bankruptcy proceedings to be opened in Belgium over the assets of companies that are not established under Belgian law.

The following is a brief description of certain aspects of Belgian insolvency law.

Belgian insolvency laws provide for two insolvency procedures: a judicial restructuring procedure (*gerechtelijke reorganisatie/réorganisation judiciaire*) and a bankruptcy procedure (*faillissement/faillite*).

Judicial Restructuring

The judicial reorganization procedure is regulated by the Act of January 31, 2009 on the Continuity of Enterprises (the ''*Act on the Continuity of Enterprises*''), as amended from time to time including by the Act of May 27, 2013.

A debtor may file a petition for judicial restructuring if the continuity of the enterprise is at risk, whether immediately or in the future. If the net assets of the company have fallen under 50% of the company's registered capital, the continuity of the enterprise is always presumed to be at risk.

From the filing of the petition and as long as the court overseeing a judicial restructuring has not issued a ruling on the restructuring petition, the debtor cannot be declared bankrupt or wound up by court order. In addition, during the period between the filing of the petition and the court's decision, none of the debtor's assets may be disposed of by any of its creditors as a result of the enforcement of any security interests that such creditors may hold with respect to such assets.

Within a period of 14 days as from the filing of the petition and subject to the satisfaction of the filing conditions, the court will declare the judicial restructuring procedure open, allowing a temporary moratorium for a maximum period of six months. At the request of the debtor and pursuant to the report issued by the delegated judge, the moratorium period can be extended up to 12 months. In exceptional circumstances (such as due to the size of the business, the complexity of the case or the impact of the procedure on employment), and if the interests of the creditors so allow, the court may order an additional extension of the moratorium period for six months.

The granting of the moratorium operates as a stay. No enforcement measures with respect to pre-existing claims in the moratorium can be continued or initiated against any of the debtor's assets from the time that the moratorium is granted until the end of the period. During the duration of the moratorium, no attachments can be made with regard to pre-existing claims.

Conservatory attachments that existed prior to the opening of the judicial restructuring retain their conservatory character, but the court may order their release, provided that such release does not have a material adverse effect on the situation of the creditor concerned.

Receivables pledged by the debtor in favor of a creditor prior to the opening of the judicial restructuring procedure are not covered by the moratorium provided that the receivables are pledged specifically to that creditor from the moment the pledge is created, and the holder of such pledged receivables is permitted to take enforcement measures against the estate of the initial counterparty of the debtor (*e.g.*, the debtor's customers) during the moratorium. A pledge on financial instruments within the meaning of the Financial Collateral Law of December 15, 2004 can be enforced notwithstanding the enforcement prohibition imposed by the moratorium (unless considered an abuse of right). In the case of a pledge on cash held on accounts, the enforcement prohibition applies, save if there is a payment default or if certain other conditions are met. Personal guarantees granted by third parties in favor of the debtor's creditors are not covered by the enforcement prohibition imposed by the moratorium, nor are the debts payable by co-debtors, subject to certain exceptions or limitations in respect of guarantees granted by individuals.. The moratorium also does not prevent the voluntary payment by the debtor of claims covered by the moratorium to the extent such payment is necessary for the continuity of the enterprise.

During the judicial restructuring procedure, the board of directors and management of the debtor continue to exercise their management functions. However, upon request of the debtor or any other interested party and to the extent it is deemed useful for reaching the aims of the restructuring, the court may appoint, in its decision to open the judicial restructuring procedure or at any other point in time during the course of the procedure, a judicial administrator (*gerechtsmandataris/mandataire de justice*) to assist the debtor during the restructuring. The court may also appoint a judicial administrator, upon request of any interested party or the public prosecutor, in the event of manifestly grave shortcomings of the debtor or any of its corporate bodies. In addition, in the event of a manifestly gross error or manifest bad faith, a court-appointed temporary director (*voorlopig bestuurder/administrateur provisoire*) may be appointed.

The restructuring procedure aims to preserve the continuity of a company as a going concern. Consequently, the initiation of the procedure does not terminate any contracts, and contractual provisions which provide for the early termination or acceleration of the contract upon the initiation or approval of a restructuring procedure, and certain contractual terms such as default interest, may not be enforceable during such a procedure. The Belgian law on judicial restructuring provides that a creditor may not terminate a contract on the basis of a debtor's default that occurred prior to the restructuring procedure if the debtor remedies such default within a 15-day period following the notification of such default.

As an exception to the general rule of continuity of contracts, the debtor may cease performing a contract during the restructuring procedure, *provided* that the debtor notifies the creditor and the decision is necessary for the debtor to be able to propose a reorganization plan to its creditors or to transfer all or part of the company or its assets. The exercise of such right does not prevent the creditor from exercising its right to suspend the performance of its own obligations under the contract.

Judicial Restructuring by Collective Agreement, by Amicable Settlement or by Court-ordered Transfer of Enterprise

A judicial restructuring procedure may result in an amicable settlement between the debtor and two or more of its creditors, a collective agreement or a court-ordered transfer of enterprise.

The type of restructuring may change during the proceedings and may also depend on the position of the court and/or third parties.

In the case of an amicable settlement, the parties to such amicable settlement will be bound by the terms they have agreed.

In the case of a judicial restructuring by collective agreement, the creditors agree to a restructuring plan during the restructuring procedure.

Within a period of 14 days following the ruling declaring the judicial restructuring procedure open, the debtor must inform each of its creditors individually of the amount of their claims against the debtor as recorded in the books of the debtor, as well as of details regarding security interests, if applicable. Creditors with pre-existing claims, as well as any other interested party that claims to be a creditor, can challenge the amounts and the ranking of the secured claims declared by the debtor. The court can determine the disputed amounts and ranking of such claims on a preliminary basis for the purpose of the restructuring procedure. In addition, the court can, upon joint request by the debtor and the creditor, change the amount and the ranking of the claim initially declared by the debtor at the latest 15 days before the date on which the creditors will vote on the reorganization plan. If a creditor has not challenged the amount and the ranking of its claim at least 14 days in advance of the date on which the creditors will vote on the approval of the reorganization plan, the amount of its claim will remain unchanged for voting purposes as well as for the purposes of the reorganization plan.

The debtor must complete and finalize a restructuring plan during the moratorium period, with the assistance of a court-appointed administrator, as the case may be. The plan may include measures such as the reduction or rescheduling of liabilities and interest obligations and the swap of debt into equity. The plan may be based on a differentiated treatment of the various creditors.

The plan must be filed with the Clerk's Office of the Commercial Court at least 20 days in advance of the date on which the creditors will vote on the approval of the restructuring plan. The plan will be approved if a double majority of creditors (both in headcount and in principal amount due) vote in favor, it being understood that the court needs to ratify the restructuring plan prior to it taking effect. The plan will be binding on the debtor and on all creditors (including the ones who voted against the plan or abstained).

The court-ordered transfer of all or part of the debtor's enterprise can be requested by the debtor in his petition or at a later stage in the procedure. It can be requested by the public prosecutor, by a creditor or by any party who has an interest in acquiring, in whole or in part, the debtor's enterprise, and the court can order such transfer in specific circumstances.

The court-ordered transfer will be organized by a judicial administrator (*gerechtsmandataris/mandataire de justice*) appointed by the court. Following the transfer, the recourse of the creditors will be limited to the transfer price.

Bankruptcy

A bankruptcy procedure may be initiated by the debtor, by unpaid creditors, upon the initiative of the public prosecutor's office, by the provisional administrator of the debtor's assets, by the liquidator of the debtor's assets or by the liquidator of ''*main insolvency proceedings*'' opened in another EU member state (other than Denmark) in accordance with the EU Insolvency Regulation. Once the court ascertains that the requirements for bankruptcy are met, the court will establish a date by which all creditors' claims must be submitted to the court for verification.

Conditions for a bankruptcy order (*déclaration de faillite/aangifte van faillissement*) are that the company must be in a situation of cessation of payments (*cessation de paiements/staking van betaling*) and be unable to obtain further credit (*ébranlement de crédit/wiens krediet geschokt is*). Cessation of payments is generally accepted to mean that the debtor is not able to pay its debts as they fall due. Such situation must be persistent and not merely temporary. In bankruptcy, the debtor loses all authority and decision rights concerning the management of the bankrupt business. The bankruptcy receiver (*curateur/curator*) becomes responsible for the operation of the business and implements the sale of the debtor's assets, the distribution of the sale proceeds to creditors and the liquidation of the debtor. The rights of creditors in the process are limited to being informed of the course of the bankruptcy proceedings on a regular basis by the receiver. Creditors may oppose the sale of assets by bringing an action before the court, or may request the temporary continued operation of the business.

The bankruptcy receiver must decide whether or not to continue performance under ongoing contracts (*i.e.*, contracts existing before the bankruptcy order). The bankruptcy receiver may elect to continue the business of the debtor, *provided* the bankruptcy receiver obtains the authorization of the court and such continuation does not cause any prejudice to the creditors. However, two exceptions apply:

(i) the parties to an agreement may contractually agree that the occurrence of a bankruptcy constitutes an early termination or acceleration event; and

(ii) *intuitu personae* contracts (*i.e.*, contracts whereby the identity of the other party constitutes an essential element upon the signing of the contract) are automatically terminated as of the bankruptcy judgment since the debtor is no longer responsible for the management of the company. However, parties may agree to continue to perform under such contracts.

The bankruptcy receiver may elect not to perform the obligations of the bankrupt party which are still to be performed after the bankruptcy under any agreement validly entered into by the bankrupt party prior to the bankruptcy. The counterparty to such agreement may make a claim for damages in the bankruptcy and such claim will rank *pari passu* with claims of all other unsecured creditors and/or seek a court order to have the relevant contract dissolved. The counterparty may not seek injunctive relief or require specific performance of the contract.

The enforcement rights of individual creditors are suspended upon the rendering of the court order opening bankruptcy proceedings and, after such order is made, only the bankruptcy receiver may proceed against the debtor and liquidate its assets. However, such suspension does not apply to a pledge of financial instruments or cash held on account.

For creditors with claims secured by movable assets, such suspension would normally be limited to the period required for the verification of the claims. At the request of the bankruptcy receiver, the suspension period may be extended for up to one year from the bankruptcy judgment. Such extension requires a specific order of the court which can only be made if the further suspension will allow for a realization of the assets without prejudicing the secured creditors *provided* that those secured creditors have been given the opportunity to be heard by the court.

For creditors with claims secured by immovable assets, the intervention of the bankruptcy receiver is necessary to pursue the sale of the assets. The bankruptcy receiver will do so upon an order of the court, given either at its request or at the request of a mortgagee. A first-ranking mortgagee will generally be entitled to pursue the enforcement of its mortgage as soon as the report of claims has been finalized; the court may suspend such enforcement for a period of not more than one year from the date of the bankruptcy if the suspension will allow for a realization of the assets without prejudicing the mortgagee, *provided* that the mortgagee has been given the opportunity to be heard by the court.

As from the date of the bankruptcy judgment, no further interest accrues against the bankrupt debtor on its unsecured debt.

The debts of the bankrupt estate generally will be ranked as to priority on the basis of complex rules. The following is a general overview of certain of these rules:

- *Estate debt:* Costs and indebtedness incurred by the bankruptcy receiver during the bankruptcy proceedings, the so called ''estate debts'', have a senior priority. In addition, if the bankruptcy receiver has contributed to the realization and enforcement of secured assets, such costs will be paid to the bankruptcy receiver in priority out of the proceeds of the realized assets before distributing the remainder to the secured creditors.
- *Security interests:* Creditors that hold a security interest have a priority right over the secured asset (whether by means of appropriation of the asset or on the proceeds upon realization).
- *Privileges:* Creditors may have a particular privilege on certain or all assets (*e.g.*, tax claims, claims for social security premiums, etc.). Privileges on specific assets rank before privileges on all assets of the debtor.
- *Pari passu:* Once all estate debts and creditors having the benefit of security interests and privileges have been satisfied, the proceeds of the remaining assets will be distributed by the bankruptcy receiver amongst the unsecured creditors who rank *pari passu* (unless a creditor agreed to be subordinated).

Limitation on Enforcement

Corporate Benefit

The grant of a guarantee or collateral by a Belgian company for the obligations of another group company must be for the corporate benefit of the granting company.

Corporate benefit is not a well-defined term under Belgian law and its interpretation is left to the courts and legal authors. The corporate benefit rules and their application in the context of granting guarantees or collateral for the benefit of a group company are not clearly established under Belgian law and there is only limited case law on this issue.

The question of corporate benefit must be determined on a case-by-case basis. In determining what constitutes corporate benefit, it is generally accepted that the group interest can be taken into account if there is a common economic purpose. It has been questioned whether the interest of an ultimate holding company can be taken into account as part of the group's interest.

In determining whether a guarantee or collateral to secure obligations of a group company is for the benefit of the company granting the guarantee or collateral, consideration has to be given to any direct and/or indirect benefit that the company would derive from the transaction or being a group member. Two principles apply to such evaluation: (i) the risk taken by the company in issuing the guarantee or granting the collateral must be proportional to the direct and/or indirect benefit derived from the transaction or being a group member; and (ii) the financial support granted by the company should not exceed its financial capabilities.

If the corporate benefit requirement is not met, the directors of the company may be held liable (i) by the company for negligence in the management of the company and (ii) by third parties in tort. Moreover, the guarantee or collateral could be declared null and void and, under certain circumstances, the creditor that benefits from the guarantee or collateral could be held liable for up to the amount of the guarantee. Alternatively, the guarantee or collateral could be reduced to an amount corresponding to the corporate benefit or the creditor may be held liable for any guarantee amount in excess of such amount. These rules have been seldom tested under Belgian law, and there is only limited case law on this issue.

Belgian law does not provide clear guidelines on when a group transaction is within the individual group member's corporate benefit and when this proportionality test is met. Whether the corporate benefit requirement is met, is determined by the board of directors of the company granting the guarantee or collateral to determine. A transaction that is not for the corporate benefit of a company can also be challenged on the basis of other principles of law, including failure to perform in good faith, abuse of majority shareholder power, abuse of authority and the rules governing transactions entered into with a fraudulent intent to prejudice the company's creditors.

In order to enable Belgian subsidiaries to grant a guarantee and collateral to secure liabilities of a direct or indirect parent or sister company without the risk of violating Belgian rules on corporate benefit, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called ''limitation language'' in relation to subsidiaries incorporated or established in Belgium. Accordingly, the Indenture and the security documents will contain such limitation language and the guarantees of the Belgian Guarantors and the security will be so limited. However, including such limitation language is not conclusive evidence of the existence of corporate benefit.

The Indenture for the notes will expressly provide substantially as follows:

In the case of a Belgian Guarantor, with respect to the obligations of the Issuer or any guarantor under the Indenture which is not a subsidiary of such Belgian Guarantor, its liability under the guarantee clause of the Indenture shall not include any liability which would constitute illegal financial assistance pursuant to Articles 329, 430 and 629 of the Belgian Companies Code and shall be limited, at any time, to a maximum aggregate amount equal to the greater of:

(a) an amount equal to 90% of such Belgian Guarantor's net assets (as determined in accordance with article 617 of the Belgian Companies Code and accounting principles generally accepted in Belgium, but not taking intra-group debt into account as debts) as shown by its most recent audited annual financial statements on the date on which the relevant demand is made; and

(b) the aggregate amount outstanding on the date on which the relevant demand is made of (i) the principal amount made available to such Belgian Guarantor from the proceeds of the notes, and (ii) the aggregate amount of any intra-group loans or facilities made to it by any subsidiary of the Issuer's parent directly and/or indirectly using all or part of the proceeds of the notes (whether or not such intra-group loan is retained by the Belgian Guarantor for its own purposes or on-lent to a subsidiary of such Belgian Guarantor, but for the avoidance of doubt excluding any intra-group loan on-lent to any other subsidiary of the Issuer's parent).

The terms of the security documents granted by a Belgian Guarantor will limit enforcement to the same extent as the payment obligations under the Belgian Guarantor's guarantee of the notes.

Corporate Purpose

In addition, the grant of a guarantee or collateral by a Belgian company must fall within the corporate purpose of the company, as such purpose is stated in its articles of association, and the guarantee or collateral may not include any liability which would result in unlawful financial assistance within the meaning of article 629 of the Belgian Company Code.

Parallel Debt

Belgian law does not have the concept of trust; security is an ''accessory'' which must be granted to the same person to whom the secured debt is owed, except in the case of financial collateral within the meaning of the Financial Collateral Law of December 15, 2004.

In order to enable the security agent to hold security created under certain applicable laws (including Belgian law), the Intercreditor Agreement will provide for the creation of the ''parallel debt'' mirroring the obligations of the Issuer and the Guarantors towards the holders of the notes under the notes. The parallel debt structure is indeed commonly used for the purposes of taking Belgian law security in the context of transactions of this nature.

In the case of an insolvency of the security agent, the parallel debt structure means that the secured parties may be exposed to credit risk on the security agent, if payments in respect of the parallel debt and any proceeds received by the security agent cannot be separated from its other assets.

Although the parallel debt structure has become standard practice in Belgium, for transactions of this nature, the parallel debt structure has not yet been tested before Belgian courts. However, the concept and the validity thereof under Belgian law is supported by legal authors. Although various valid arguments exist under Belgian law to the effect that the security created in favor of the security agent, in its capacity as creditor of the parallel debt, would be valid, the possibility of a Belgian court finding otherwise cannot be excluded, given that there is no case law on this subject.

Lastly, Belgian pledges over financial collateral (such as shares of Belgian companies) will be granted to the security agent acting for itself and for the account of the secured parties pursuant to Article 5 of the Financial Collateral Law of December 15, 2004. This provision indeed allows for the creation of security over financial collateral held by an agent acting as representative for the secured parties, *provided* that the secured parties can be determined on the basis of the security agreement.

Hardening Periods and Fraudulent Transfer

In the event that bankruptcy proceedings are governed by Belgian law, certain business transactions may be declared ineffective against third parties if concluded or performed during a so-called ''hardening period''.

In principle, the cessation of payments (which constitutes a condition for filing for bankruptcy) is deemed to have occurred as of the date of the bankruptcy order. The court issuing the bankruptcy order may determine, based on serious and objective indications, that the cessation of payments occurred on an earlier date. Such earlier date may not be earlier than six months before the date of the bankruptcy order, except in the case where the bankruptcy order relates to a company that was dissolved more than six months before the date of the bankruptcy order in circumstances suggesting an intent to defraud its creditors, in which case the date of cessation of payments may be determined as being the date of such decision to dissolve the company. The period from the date of cessation of payments up to the declaration of bankruptcy is referred to as the ''hardening period'' (*période suspecte/verdachte periode*).

The business transactions entered into during the hardening period which may be declared ineffective against third parties include, amongst others, (i) transactions entered into on beneficial terms for the counterparty (*i.e.*, not at arm's-length), (ii) payments for debts which are not due and payments other than in money for debts due, and (iii) security provided for existing debt.

In addition, the bankruptcy receiver may request the court to declare payments of a Belgian Guarantor during the hardening period for debts due ineffective against third parties, *provided* that it can be proven that the creditor concerned was aware of the cessation of payment of the company.

Finally, regardless of any declaration by the commercial court of a hardening period, transactions with respect to which it can be demonstrated that they have been entered into with a fraudulent intent to prejudice other creditors, may be declared ineffective against such creditors.

Germany

Insolvency

Certain of the Guarantors are organized under the laws of Germany and currently are likely to have their ''center of main interest'' in Germany. In the event of insolvency of any such Guarantors, subject to the information presented under ''European Union'', any main insolvency proceedings would most likely be initiated in Germany. German law would then govern those proceedings. However, pursuant to the EU Insolvency Regulation, where a German company conducts business in more than one member state of the European Union, the jurisdiction of the German courts may be limited if the company's ''center of main interests'' at the time insolvency proceedings are initiated is found to be in a member state other than Germany (please see ''—European Union''). The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzverordnung*), may be less favorable to your interests as creditors than the insolvency laws of other jurisdictions, including in respect of priority of creditors, the ability to obtain post-petition interest as well as security interests and the duration of the insolvency proceedings, and hence may limit your ability to recover payments due on the notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Germany.

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court ex officio, but require that the debtor or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings under German law with respect to a debtor incorporated as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) or any other corporation or partnership not having an individual as a personally liable shareholder, can be initiated by either the debtor or the creditor in the event of over-indebtedness (*Überschuldung*) or illiquidity (*Zahlungsunfähigkeit*) of the debtor. A debtor is illiquid if it is unable to pay its debts as and when they fall due. A debtor is considered over-indebted when its liabilities exceed the value of its assets unless a continuation of the business is predominantly likely. Whether the debtor's liabilities exceed the value of its assets must be assessed on the basis of an over-indebtedness balance sheet to be drawn up on the basis of the liquidation values. If a limited liability company (*Gesellschaft mit beschränkter Haftung—GmbH*), a stock corporation (*Aktiengesellschaft—AG*), a European law stock corporation based in Germany (*Societas Europaea—SE*), any other limited liability company or any company not having an individual as personally liable shareholder finds itself in a situation of illiquidity and/or over-indebtedness, the management board or managing director of such company is obligated to file for insolvency without undue delay (*ohne schuldhaftes Zögern*) but not later than three weeks after such illiquidity and/or over-indebtedness was established. In addition, only the debtor can file for insolvency proceedings in case of impending illiquidity (*drohende Zahlungsunfähigkeit*), if it is imminently at risk of being unable to pay its debts as and when they fall due, whereas impending illiquidity does not give rise to an obligation for the management of the debtor to file for insolvency proceedings.

If a company faces imminent illiquidity and/or is over-indebted but not yet illiquid it may also file for a preliminary ''debtor-in-possession'' protection scheme (''*Schutzschirmverfahren*'') unless—from a third party perspective—there is no reasonable chance for a successful restructuring. Upon such filing by the debtor, the court will appoint a preliminary trustee (*vorläufiger Sachwalter*) and prohibit enforcement measures (other than with respect to immoveable assets). The court may also resolve other preliminary measures to protect the debtor from creditor enforcement actions for up to three months. During that period, the debtor shall prepare an insolvency plan which ideally will be implemented in ''debtor-in-possession'' proceedings (*Eigenverwaltung*) after main insolvency proceedings have been opened.

The insolvency proceedings are controlled by the competent insolvency court which monitors the due performance of the proceedings. Upon receipt of the insolvency petition (whether it aims for a debtor-in-possession protection scheme as outlined above or at ordinary insolvency proceedings), the insolvency court may take preliminary protective measures to secure the insolvency estate (*Insolvenzmasse*) during the preliminary proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor's assets other than immovable assets during these preliminary proceedings and will, in almost all cases, appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*), unless the debtor has applied for so-called ''debtor-in-possession'' proceedings (*Eigenverwaltung*), in which event the court will only appoint a preliminary trustee (*vorläufiger Sachwalter*) who will supervise the management of the affairs by the debtor. The duty of the preliminary administrator is, in particular, to safeguard and to preserve the insolvency estate (*Insolvenzmasse*), to verify the existence of a reason for the opening of insolvency proceedings (*Insolvenzeröffnungsgrund*) and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings.

During preliminary insolvency proceedings a ''preliminary creditors' committee'' (*vorläufiger Gläubigerausschuss*) will (absent certain exemptions) be set up if the debtor satisfies two of the following three requirements: (i) a balance sheet total in excess of €4,840,000 (after deducting an equity shortfall if the debtor is over indebted), (ii) revenues of at least €9,680,000 in the twelve months prior to the last balance sheet date and/or (iii) an annual average of fifty or more employees. The requirements apply to the respective entity without taking into account the assets of other group companies. The preliminary creditors' committee will be able to participate in certain important insolvency court decisions. It will have, for example, the power to influence the following: (i) the selection of a preliminary insolvency administrator or an insolvency administrator (*vorläufiger Insolvenzverwalter and Insolvenzverwalter*), (ii) orders for ''debtor in possession'' proceedings (*Anordnung der Eigenverwaltung*), and (iii) appointments of preliminary trustees (*vorläufige Sachwalter*).

The court orders the opening (*Eröffnungsbeschluss*) of insolvency proceedings if certain requirements are met, in particular if (i) the debtor is in a situation of illiquidity or impending illiquidity and/or over-indebted and (ii) there are sufficient assets to cover at least the cost of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient, the insolvency court will only open main insolvency proceedings if third parties, for instance creditors, advance the costs themselves. In the absence of such advancement, the petition for opening of insolvency proceedings will usually be refused for insufficiency of assets (*Abweisung mangels Masse*) following which the company will *inter alia* be deemed dissolved and put into liquidation.

Upon the opening of main insolvency proceedings, the right to manage and dispose over the business and assets of the debtor passes to the insolvency administrator (*Insolvenzverwalter*) who is appointed by the insolvency court unless the so-called ''debtor-in-possession'' (*Eigenverwaltung*) is ordered, in which event the court will only appoint a trustee (*Sachwalter*) who will supervise the management of the affairs by the debtor. The creditors are only entitled to change the individual appointed as insolvency administrator at the occasion of the first creditors' assembly (*erste Gläubigerversammlung*) with such change requiring that (i) a simple majority of votes cast (by heads and amount of insolvency claims) has voted in favor of the proposed individual to become insolvency administrator and (ii) the proposed individual is eligible as officeholder, i.e., sufficiently qualified, business-experienced and impartial.

The insolvency administrator has full administrative and disposal authority over the debtor's assets, whereas the debtor is no longer entitled to dispose of its assets. The insolvency administrator (or in case of debtor-in-possession, the debtor) may raise new financial indebtedness and incur other liabilities to continue the debtor's operations, and satisfaction of these liabilities as preferential debts of the insolvency estate (*Masseschulden*) will be preferred to any liabilities created by the debtor (or a preliminary insolvency administrator/trustee prior to the opening of formal insolvency proceedings (including secured debt, subject to preferential rights (*Absonderungsrechte*) and other security interests)). The insolvency administrator or trustee may, on the grounds of avoidance (*Insolvenzanfechtung*), also challenge transactions that are deemed detrimental to insolvency creditors and which were effected prior to the opening of formal insolvency proceedings. All creditors, whether secured or unsecured (unless they have a right to segregate an asset from the insolvency estate (*Aussonderungsrecht*) as opposed to a preferential right (*Absonderungsrecht*)), wishing to assert claims against the debtor need to participate in the insolvency proceedings. German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims separately, but can instead only enforce them in compliance with the rules set forth in the German Insolvency Code (*Insolvenzordnung*). Any individual enforcement action (*Zwangsvollstreckung*) already brought against the debtor by any of its creditors is subject to an automatic stay once formal insolvency proceedings have been opened (and may be subject to such stay already prior to the opening of formal insolvency proceedings). Secured creditors are generally not entitled to enforce any security interest outside the insolvency proceedings. In the insolvency proceedings, however, certain secured creditors have preferential rights (*Absonderungsrechte*) regarding the enforcement of their security interest. Depending on the legal nature of the security interest, entitlement to enforce such security is either vested with the secured creditor or the insolvency administrator. The insolvency administrator generally has the sole right (i) to realize any moveable assets within its possession which are subject to preferential rights (*Absonderungsrechte*) (e.g., pledges over movable assets and rights (*Mobiliarpfandrechte*) or transfers of title by way of security (*Sicherungsübereignung*)) as well (ii) to collect any claims that have been assigned by way of security (*Sicherungsabtretungen*). In case that the enforcement right is vested in the insolvency administrator, the enforcement proceeds, less certain contributory charges for (i) assessing the value of the secured assets (*Feststellungskosten*) and (ii) realizing the secured assets (*Verwertungskosten*) which, in aggregate, usually add up to 9 percent of the gross enforcement proceeds, and less German value added tax (*Umsatzsteuer*) at a rate of currently 19 percent thereon (if applicable), are paid to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims.

The unencumbered assets of the debtor serve to satisfy the creditors of the insolvency estate (*Massegläubiger*) first (including the costs of the insolvency proceedings). Typically, liabilities resulting from acts of the insolvency administrator after commencement of formal insolvency proceedings constitute liabilities of the insolvency estate. Thereafter, all unpreferred and unsecured claims (*Insolvenzforderungen*), in particular claims of unsecured creditors unless they are subordinated as a matter of statutory law, will be satisfied on a pro rata basis if and to the extent there is cash remaining in the insolvency estate of the debtor (*Insolvenzmasse*) after all security interests and prior-ranking liabilities have been settled and paid. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and which requires, among others and subject to certain exceptions, the consent of the debtor and the consent of each class of creditors in accordance with specific majority rules. Under German insolvency laws, it is possible to implement a debt-to-equity-swap through an insolvency plan. However, it will not be possible to force a creditor into a debt-to-equity conversion if it does not consent to such debt-to-equity-swap.

The right of a creditor to preferred satisfaction (*Absonderungsrecht*) may not necessarily prevent the insolvency administrator from using a movable asset that is subject to this right. The insolvency administrator, however, may then be required to compensate the creditor for the loss in value of such movable asset.

If the German Guarantors grant security over their assets to other creditors than the holders of the notes, such security may result in a preferred treatment of creditors secured by such security. The proceeds resulting from such collateral may not be sufficient to satisfy the holders of the notes under the guarantees granted by the German Guarantors after such secured creditors have been satisfied.

If a company faces imminent illiquidity and/or over-indebtedness it may also file for preliminary ''debtor in possession'' proceedings. In such a case and upon request of the debtor, the court will prohibit enforcement measures (other than with respect to immoveable assets) and may implement other preliminary measures to protect the debtor from creditor enforcement actions for a period of up to three months if an independent expert testifies that the restructuring of the debor's business is not obviously futile (*offensichtlich aussichtslos*). During such period, the debtor shall, together with its creditors and a preliminary trustee (*vorläufiger Sachwalter*), prepare an insolvency plan which ideally will be implemented in formal ''debtor in possession'' proceedings (*Eigenverwaltung*) after formal insolvency proceedings have been opened.

Under certain circumstances, restrictive covenants and undertakings in finance documents may result in the relevant creditor being considered to hold a ''shareholder-like position'' (*gesellschafterähnliche Stellung*) in the relevant debtor company. In that event, in an insolvency proceeding over the assets of such debtor, the claims against such debtor would be treated as a subordinated insolvency claim (*nachrangige Insolvenzforderungen*), meaning that dividends on such claim would only be made if all non-subordinated creditors' claims have been fully satisfied. Subordinated insolvency claims are not eligible to participate in the insolvency proceedings over the assets of the debtor unless the insolvency court handling the case has granted special permission allowing these subordinated insolvency claims to be filed, which is not granted in the majority of insolvency cases governed by German law as in most cases, the insolvency estate will not be sufficient to make any dividends on subordinated insolvency claims.

Under German insolvency law, there is no group insolvency concept, which means there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity has, from an insolvency laws point of view, to be dealt with separately. As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and vis-à-vis each entity have to be dealt with separately. In 2013, the German Federal Ministry of Justice (*Bundesjustizministerium*) released a draft Bill to Facilitate the Handling of Group Insolvencies (*Entwurf eines Gesetzes zur Erleichterung der Bewältigung von Konzerninsolvenzen*). The draft Bill stipulates *inter alia* that certain parties may apply for ''coordination proceedings'' (*Koordinationsverfahren*) and the appointment of a ''coordination insolvency administrator'' (*Koordinationsverwalter*) with the ability to propose a ''coordination plan'' (*Koordinationsplan*). It is currently unclear if and when, and whether in its current or modified form, this Bill might be adopted by parliament.

Powers of attorney granted by the debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings. In addition, most contracts become unenforceable at such time unless the insolvency administrator opts for performance.

Under German insolvency law, termination rights, automatic termination events or ''escape clauses'' entitling one party to terminate an agreement, or resulting in an automatic termination of an agreement, upon the opening of insolvency proceedings in respect of the other party, the filing for insolvency or the occurrence of reasons justifying the opening of insolvency proceedings (*insolvenzbezogene Kündigungsrechte oder Lösungsklauseln*) may be invalid if they frustrate the election right of the insolvency administrator whether or not to perform the contract unless they reflect termination rights applicable under statutory law. This may also relate to agreements that are not governed by German law.

Limitation on Enforcement

The German Guarantors are incorporated in Germany in the form of a German limited liability company (*Gesellschaft mit beschränkter Haftung* or ''*GmbH*''). Consequently, the granting of collateral (including a guarantee of the notes) by the German Guarantors is subject to certain provisions of the German Limited Liability Company Act (the ''*GmbHG*''), including rules on capital maintenance.

Sections 30 and 31 of the GmbHG (''Sections 30 and 31'') prohibit a GmbH from disbursing its assets to its shareholders to the extent that the amount of the GmbH's net assets (i.e., assets minus liabilities and liability reserves) is or would fall below, or increases or would increase an existing shortfall of, the amount of its stated share capital (*Begründung oder Vertiefung einer Unterbilanz*). Guarantees granted by a GmbH in order to guarantee liabilities of a direct or indirect parent or sister company are considered disbursements under Sections 30 and 31. Therefore, in order to enable German subsidiaries to guarantee liabilities of a direct or indirect parent or sister company without the risk of violating Sections 30 and 31 and to protect management from personal liability, it is standard market practice for credit agreements, indentures, guarantees and security documents to contain so-called ''limitation language'' in relation to subsidiaries in the legal form of a GmbH or limited liability partnership with a GmbH as its sole general partner (a GmbH & Co. KG) incorporated or established in Germany. Pursuant to such limitation language, the beneficiaries of the guarantees agree to enforce the guarantees against the German subsidiary only to the extent that such enforcement would not result in the GmbH's (or, in case of a GmbH & Co. KG, its general partner's) net assets falling below, or increasing an existing shortfall of, its stated share capital (provided that the determination and calculation of such shortfall is subject to certain adjustments and exemptions). Accordingly, any security and the Guarantees provided by the German Guarantors will contain such limitation language in the manner described. This could lead to a situation in which the respective guarantee granted by a GmbH or a GmbH & Co. KG cannot be enforced at all.

German capital maintenance rules are subject to evolving case law. Future court rulings may further limit the access of a shareholder to assets of its subsidiaries constituted in the form of a GmbH or of a GmbH & Co. KG, the general partner or general partners of which is or are a GmbH, which can negatively affect the ability of the German Guarantors to make payments under the Guarantees.

Furthermore, it cannot be ruled out that the case law of the German Federal Supreme Court (*Bundesgerichtshof*) regarding so-called destructive interference (*existenzvernichtender Eingriff*) (i.e., a situation where a shareholder deprives a German limited liability company of the liquidity necessary for it to meet its own payment obligations) may be applied by courts with respect to the enforcement of a subsidiary guarantee granted by a German Guarantor. In such case, the amount of proceeds to be realized in an enforcement process may be reduced, even to nil. According to a decision of the German Federal Supreme Court (*Bundesgerichtshof*), a security agreement may be void due to tortious inducement of breach of contract if a creditor knows about the distressed financial situation of the debtor and anticipates that the debtor will only be able to grant collateral by disregarding the vital interests of its other business partners. It cannot be ruled out that German courts may apply this case law with respect to the granting of a subsidiary guarantee by a German Guarantor.

In addition, under German law a secured party is, upon request by the relevant security grantor, obligated to release security if the realizable value of the security is significantly higher than the value of the obligations secured by such security.

Creditor's Liability

Furthermore, the beneficiary of a transaction effecting a repayment of the stated share capital of the grantor of the guarantee could moreover become personally liable under exceptional circumstances. The German Federal Supreme Court (*Bundesgerichtshof)* ruled that this could be the case if for example the creditor were to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of bonos mores (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the grantor of the guarantee is close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

Hardening Periods and Fraudulent Transfer

In the event of insolvency proceedings with respect to a German Guarantor, which would most likely be based on and governed by the insolvency laws of Germany, the guarantee or security interest provided by that entity could be subject to potential challenges by an insolvency administrator (*Insolvenzverwalter*) under the rules of avoidance (*Anfechtung*) as set out in the German Insolvency Code (*Insolvenzordnung*).

Under these rules, an insolvency administrator (or in the event of debtor-in possession proceedings, the trustee (*Sachwalter*)), may challenge acts (*Rechtshandlungen*) and transactions (*Rechtsgeschäfte*) that are deemed detrimental to the insolvency estate and have been effected prior to the opening of formal insolvency proceedings. Such challengeable transactions can include payments under any guarantee or security or the granting of any guarantee or security interest. In the event that a transaction is successfully challenged, the beneficiaries of such guarantee (such as the holders of notes) or such security interest would be under an obligation to repay the amount already received under the relevant security or guarantee, or to waive the guarantee or security interest.

In particular, a transaction detrimental to the insolvency estate may be challenged according to the German Insolvency Code (*Insolvenzordnung*) in the following cases:

- any act (*Rechtshandlung*) or transaction (*Rechtsgeschäft*) granting a creditor, or enabling an insolvency creditor to obtain security (*Sicherung*) or satisfaction for a debt (*Befriedigung*) can be avoided if such act was effected (i) in the last three months prior to the filing of a petition for the opening of insolvency proceedings, if at the time of the transaction the debtor was illiquid (*zahlungsunfähig*), which means such debtor was unable to pay its debt when due and the creditor had knowledge thereof, or (ii) after a petition for the opening of insolvency proceedings has been filed and the creditor had knowledge of such illiquidity or of the filing of such petition (or, in the case of either (i) or (ii), the creditor had knowledge of circumstances imperatively suggesting such illiquidity);
- any act (*Rechtshandlung*) or transaction (*Rechtsgeschäft*) granting a creditor, or enabling an insolvency creditor to obtain security or satisfaction to which such creditor was not entitled or which was granted or obtained in a form or at a time to which or at which such creditor was

not entitled to such security or satisfaction can be avoided if such act was effected in the month prior to the filing of a petition for the opening of insolvency proceedings or at any time thereafter; if such act was effected in the second and third month prior to the filing, it can be avoided if at the time of such act (i) the debtor was illiquid or (ii) the creditor knew that the transaction would be detrimental to the creditors of the debtor (or had knowledge of circumstances imperatively suggesting such detrimental effects);

- any transaction (*Rechtsgeschäft*) effected by the debtor which is directly detrimental to the creditors of the debtor, or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against a debtor is obtained or becomes enforceable if it was entered into, can be avoided if the transaction was effected (i) in the last three months prior to the filing of a petition for the opening of insolvency proceedings against the debtor, if at the time of the transaction the debtor was illiquid and the other party to the transaction had knowledge thereof or (ii) after a petition for the opening of insolvency proceedings has been filed against the debtor and the other party to the transaction had knowledge of either the debtor's illiquidity or such filing at the time of the transaction;
- any act performed by the debtor, including the granting of guarantees and security interest, during a period of ten years prior to the filing of the petition for the opening of insolvency proceedings or after such filing, if the debtor acted with the intention to prejudice its creditors, can be avoided if the other party had knowledge of such intention at the time of such act, with such knowledge being presumed if the other party knew that the debtor's illiquidity was imminent and that the transaction disadvantaged the other creditors;
- any act by the debtor without adequate consideration (e.g., whereby a debtor grants security for a third party debt) might be regarded as having been granted gratuitously (*unentgeltlich*); a gratuitous transaction can be avoided if it was effected in the four years prior to the filing of a petition for the opening of insolvency proceedings against the debtor;
- any non-gratuitous contract concluded between the debtor and a related party of the debtor which directly operates to the detriment of the creditors can be avoided unless such contract was concluded within two years prior to the filing for the opening of insolvency proceedings or the other party had no knowledge of the debtor's intention to disadvantage its creditors; in terms of corporate entities, the term ''related party'' includes, subject to certain limitations, members of the management or supervisory/advisory board, shareholders owning more than 25 percent of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and other persons that are spouses, relatives or members of the household of any of the foregoing persons;
- any act that provides security or satisfaction for a claim of a shareholder for repayment of a shareholder loan (*Gesellschafterdarlehen*) or an economically equivalent claim can be avoided (i) in the event it provided security, if the act was effected in the last ten years prior to the filing of a petition for opening of insolvency proceedings or thereafter or (ii) in the event it resulted in satisfaction, if the act was effected in the last year prior to the filing of a petition for commencement of opening proceedings or thereafter; or
- a transaction whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party can be avoided if the transaction was effected in the last year prior to the filing of a petition for opening of insolvency proceedings or thereafter and if a shareholder of the debtor had granted security or was liable as a guarantor (*Bürge*) (in which case the shareholder has to compensate the debtor for the amounts paid (subject to further conditions)).

In this context, ''knowledge'' is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (*e.g.*, an entity subject to the German insolvency laws) was subject to illiquidity, that a petition for the opening of insolvency proceedings has been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's imminent illiquidity and that the transaction prejudiced the debtor's creditors. With respect to a ''related party'', there is a general statutory presumption that such party had ''knowledge''.

If any of the guarantees given or any security interest granted by any of the German Guarantors were avoided or held unenforceable for any reason, a holder of the notes would cease to have any claim or benefit in respect thereof. Any amounts received from a transaction that has been avoided would have to be repaid to the insolvent estate and a holder of the notes would have a claim solely under the notes and the remaining security, if any.

Furthermore, even in the absence of an insolvency proceeding, a third-party creditor who has obtained an enforcement order (*Vollstreckungstitel*) but has failed to obtain satisfaction of its enforceable claims by a levy of execution, under certain circumstances, has the right to avoid certain transactions, such as the payment of debt and the granting of security pursuant to the German Act on Avoidance (*Anfechtungsgesetz*). The prerequisites for avoidance under the German Code on Avoidance differ to a certain extent from the rules described above under the German Insolvency Code (*Insolvenzordnung*) and the avoidance periods are calculated from the date when a creditor exercises its rights of avoidance in the courts.

Parallel Debt and Security Interests

Under German law, certain ''accessory'' security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor of the secured claim be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The holders of the notes will not be party to the security documents relating to the Collateral. In order for the holders of the notes to benefit from pledges granted to the security agent under German law, the security documents and the Intercreditor Agreement will provide for the creation of a ''parallel debt''. Pursuant to the parallel debt, the security agent becomes the holder of its own separate claim equal to each amount payable by an obligor under the notes and the guarantees. The pledges governed by German law will directly secure the parallel debt only. The parallel debt procedure has not been tested in court under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law. Further, if the parallel debt is novated from the security agent to a new security agent or another third party, any German law governed accessory security interests such as pledges (*Pfandrechte*) would be extinguished and would therefore need to be re-created with the consequence that hardening periods would start again from the date of recreation of security.

Enforcement

German law does not permit the appropriation of pledged assets directly by the pledgee upon enforcement of the pledge. The enforcement of a share pledge under German law usually requires the sale of the asset constituting the collateral through a formal process involving a public auction to which certain waiting periods and notice requirements apply.

The Netherlands

Insolvency

Certain of the Guarantors are incorporated in The Netherlands. Any insolvency proceedings relating to any of such Guarantors' guarantee would likely be based on Dutch insolvency law. Under certain circumstances, bankruptcy proceedings may also be opened in The Netherlands in accordance with Dutch law over the assets of companies that are not incorporated under Dutch law.

The following is a brief description of certain aspects of Dutch insolvency law.

There are two primary insolvency regimes under Dutch law in relation to corporations. The first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. In practice, bankruptcy proceedings may also be used to sell the business, or parts of the business, as a going concern. As such, a bankruptcy could function as a restructuring procedure as well as a liquidation procedure. A general description of the principles of both insolvency regimes is set out below.

An application for a moratorium of payments can only be made by the debtor itself. Once the request for a moratorium of payments is filed, the court will immediately (*dadelijk*) grant a provisional moratorium and appoint an administrator (*bewindvoerder*). A meeting of creditors is required to decide on the definitive moratorium. If a draft composition (*ontwerp akkoord*) is filed simultaneously with the application for a moratorium of payments, the court can order that the composition will be processed before a decision about a definitive moratorium. If the composition is accepted and subsequently confirmed by the court (*gehomologeerd*), the provisional moratorium ends. The definitive moratorium will generally be granted unless a qualified minority (more than one-quarter in amount of claims held by creditors represented at the creditors' meeting or more than one-third in number of creditors represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent. The moratorium of payments is only effective with regard to unsecured non-preferential creditors. Unlike Chapter 11 proceedings under US bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims during a moratorium of payments, under Dutch law, secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company in moratorium of payments to satisfy their claims as if there were no moratorium of payments. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. However, the court may order a ''cooling down period'' for a maximum period of four months during which enforcement actions by secured or preferential creditors are barred. Also in a definitive moratorium of payments, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the court. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the notes to effect a restructuring and could reduce the recovery of a holder of notes in Dutch moratorium of payments proceedings to the extent that the proceeds of the Dutch law security created for the benefit of the holder of the notes are insufficient to satisfy their claims. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be claimed in a composition.

Under Dutch law, a debtor can be declared bankrupt when it is no longer able to pay its debts when due. The bankruptcy can be requested by the debtor itself or a creditor whose claim is due and payable but left unpaid, provided that there is at least one other eligible creditor or, in exceptional circumstances (e.g., for reasons of public interest), by the public prosecutor.

If the court declares a company bankrupt, it will appoint a receiver (*curator*) (or several receivers, depending on the complexity of the proceedings) and a judge to supervise the insolvency proceedings. The receiver will realise the company's assets and distribute the proceeds to the company's creditors in accordance with the statutory order of payment. The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment), which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their claims. However, certain creditors (such as secured creditors and preferential creditors, including tax and social security authorities) will have special rights that take priority over the rights of other creditors. As a general rule, claims of unsecured and non-preferential creditors will have to be submitted to the receiver in bankruptcy to be verified. Any remaining funds will be distributed to the company's shareholders. Creditors of secured claims, such as the holders of the notes, and preferential creditors with respect to certain assets of a debtor, who expect that the proceeds of a future enforcement against the assets subject to the security or their preferred rights, as the case may be, will be insufficient to satisfy their claim in full, may request to receive the same rights as unsecured and non-preferential creditors with respect to the expected remainder of their claim, with preservation of their rights as a secured or preferential creditor in respect of the secured asset or the asset to which the relevant preferential right relates. If a secured creditor enforces its security rights prior to the expiry of the period for submitting claims for verification, and the proceeds of such enforcement are insufficient to satisfy its claim in full, the remainder of that claim may be submitted to the receiver in bankruptcy in order to be verified. ''Verification'' under Dutch law means that the receiver in bankruptcy determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings to the purpose of the distribution of the proceeds. A claim with an uncertain due date or which entitles the creditor to periodic payments shall be admitted for its value at the date of the bankruptcy order. Claims which become payable within one year after the day the debtor is declared bankrupt shall be considered matured. Claims which become payable one year after the commencement of bankruptcy proceedings shall be admitted for their value one year from the date of the commencement of the bankruptcy. Claims having an indeterminate or uncertain value or whose value is not expressed in Dutch currency or not expressed in money at all, shall be admitted for their estimated value in Dutch currency. Interest payments on claims existing at the time of the bankruptcy order that fall due after such time cannot be verified, unless secured by a pledge or mortgage. In that event, interest will be admitted *pro memoria*. To the extent that the interest is not covered by the proceeds of the security the creditor may not derive any rights from the admission. The existence, value and ranking of any claims submitted by the holders of the notes may be challenged in the Dutch bankruptcy proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver in bankruptcy, the insolvent debtor and all verified creditors may dispute the verification of any other claim that has been submitted for verification. Creditors whose claims or value thereof are disputed in the creditors meeting may be referred to separate court proceedings (*renvooi procedure*). As in moratorium of payments proceedings, in a bankruptcy a composition may be offered to creditors, which shall be binding on unsecured non-preferential creditors if (i) it is approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the court. The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a pro rata basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings. The actual effect depends largely on the way such subordination is construed.

Secured creditors, such as the holders of the notes, may enforce their rights against assets of the debtor that are subject to the security to satisfy their claims during a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a ''cooling down period'' for a maximum of four months during which all recourse actions (including action to enforce security) by secured creditors (other than estate creditors (*boedelschuldeisers*)), are prohibited unless such creditors have obtained leave from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets. Failing enforcement before such deadline, the receiver is permitted to sell the secured asset. After such a sale, the former holder of the security right remains entitled to a prioritised claim, but the underlying assets are no longer available for immediate recourse and the secured creditor will need to contribute to the general costs of the bankruptcy to be paid out of the proceeds realized by such a sale by the liquidator. If the proceeds of sale are insufficient to repay the debt owed to the secured creditor, the secured creditor will be treated as an unsecured creditor for the balance of its residual claims. Excess proceeds of enforcement must be returned to the bankruptcy estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Under Dutch law, as soon as a debtor is declared bankrupt, all pending executions of judgments against such debtor, as well as all attachments on the debtor's assets, will be terminated by operation of law. Litigation pending on the date of the bankruptcy order is automatically stayed.

Limitation on Enforcement

A transaction (such as the granting of a guarantee) entered into by a Dutch company may be nullified by that company or its receiver in bankruptcy if that transaction is a transgression of the corporate objects of that company, and, as a consequence, may not be valid, binding and enforceable against it. In determining whether the granting of such guarantee is in the interest of the relevant company, the Dutch courts would not only consider the text of the objects clause in the articles of association of the company but all relevant circumstances, including whether the company derives certain commercial benefits from the transaction in respect of which the guarantee was granted. In addition, if it is determined that there are no, or insufficient, commercial benefits from the transactions for the company that grants the guarantee, the company (or its bankruptcy receiver) may contest the enforcement of the guarantee, and it is possible that such challenge would be successful. Such benefit may, according to Dutch case law, consist of an indirect benefit derived by the company as a consequence of the interdependence of such company with the group of companies to which it belongs. In addition, it is relevant whether, as a consequence of the transaction, the continuity of such company would foreseeably be endangered. It remains possible that even if such strong financial and commercial interdependence exists, the transaction may be declared void if it appears that the transaction cannot serve the realization of the relevant company's objects.

It is unclear whether a transaction can be nullified for being a transgression of the corporate objects of a company if that transaction is expressly permitted according to the wording of the objects clause in the articles of association of that company. In a recent decision, a Dutch court of appeal ruled that circumstances such as the absence of corporate benefit are in principle not relevant if the relevant transaction is expressly permitted according to the objects clause in the articles of association of the company. However, there is no decision of the Dutch Supreme Court confirming this, and therefore there can be no assurance that a transaction which is expressly permitted according to the objects clause in the articles of association of a company cannot be nullified for being a transgression of the corporate objects of that company. The objects clauses in the articles of association of the Dutch Guarantors include the issuance of guarantees in favor of Group companies and third parties

If Dutch law applies, a guarantee or security governed by Dutch law may be voided by a court, if the document was executed through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress (*bedreiging*) or mistake (*dwaling*) of a party to the agreement contained in that document.

In order to enable Dutch subsidiaries that are either public limited liability companies (*naamloze vennootschappen*) or subsidiaries of such public limited liability companies to grant guarantees or other collateral to secure liabilities of a direct or indirect parent or sister company without the risk of violating Dutch rules on financial assistance, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called ''limitation language'' in relation to subsidiaries incorporated or established in The Netherlands. Pursuant to such limitation language, it is agreed between the relevant parties that such guarantee or collateral is deemed not to be given to the extent the same would constitute a violation of the Dutch rules on financial assistance. Accordingly, the Indenture will and the security documents do contain such limitation language and the guarantees of the Dutch Guarantors and the security will be so limited.

The Indenture will expressly provide substantially as follows:

The guarantee of any Guarantor incorporated in The Netherlands and any of its Subsidiaries shall be deemed to have been given only to the extent that such guarantee does not violate the prohibition on financial assistance with respect to the acquisition of shares in the capital for a Dutch public limited liability company, within the meaning of Section 2:98c of the Dutch Civil Code (*Burgerlijk Wetboek*).

Whether or not a guarantor is insolvent in The Netherlands, payment under a guarantee or a security document governed by Dutch law may be withheld under the doctrines of reasonableness and fairness (*redelijkheid en billijkheid*), force majeure and unforeseen circumstances (*onvoorziene omstandigheden*).

Parallel Debt

Under Dutch law, it is uncertain whether ''accessory'' security interests such as pledges require that the pledgee and the creditor be the same person. It is often assumed that such security interests cannot be held on behalf of third parties who do not hold the secured claim. The beneficial holders of the notes from time to time will not be party to the security documents. In order to permit the holders of the notes from time to time to have the benefit of a secured claim, the security documents will provide for the creation of a ''parallel debt''. Pursuant to the parallel debt, the security agent becomes the holder of a claim equal to each amount payable by an obligor under the notes. The pledges governed by Dutch law will directly secure the parallel debt. The parallel debt procedure has not been tested under Dutch law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Dutch law.

Hardening Periods and Fraudulent Conveyance

To the extent that Dutch law applies, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party's obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors or its receiver in bankruptcy, if (i) it performed such acts without an obligation to do so (*onverplicht*), (ii) generally the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (iii) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of its creditors (existing or future) would be prejudiced. In addition, in the case of such a bankruptcy, their receiver in bankruptcy may nullify its performance of any due and payable obligation (including (without limitation) an obligation to provide security for any of its or a third party's obligations) if (i) the payee *(hij die betaling ontving*) knew that a request for bankruptcy had been filed at the moment of payment, or (ii) the performance of the obligation was the result of concerted efforts by the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

For certain types of transactions that are entered into within one year before (a) the declaration of the bankruptcy, or (b) the moment the transaction is challenged by a creditor, the debtor and the counterparty to the transaction are legally presumed to have knowledge of the fact that the transaction will prejudice the debtor's creditors (subject to evidence of the contrary).

South Africa

Sappi Limited, the Parent Guarantor, is incorporated under the laws of the Republic of South Africa. The insolvency laws of South Africa may not be as favorable to your interests as a creditor as the laws of the jurisdiction with which you are familiar. In the event of insolvency, the claims of holders of notes under the guarantee of Sappi Limited would be subject to the insolvency laws of South Africa.

The following is a brief description of certain aspects of insolvency law in South Africa.

Insolvency in South Africa is currently regulated by the Insolvency Act, 1936 (''the Insolvency Act'') and the South African Companies Act, which incorporates part of the repealed Companies Act, 1973.

Any creditor, or the debtor itself, may initiate insolvency proceedings in South Africa. Generally a guarantor or an issuer will be subject to winding-up if it is unable to pay its debts as and when they become due.

In the period commencing on the date of the initiation of liquidation proceedings and ending on the effective date of liquidation, the debtor must refrain from any actions that are not in the ordinary course of business and which would reduce its assets. These actions are, once the order of liquidation is granted, retrospectively automatically void and South African courts are only likely to validate such actions if they amount to no more than the bona fide carrying of the company's operations in the ordinary course of business. Therefore, once a company is liquidated, all of its assets vest in a liquidator and that company can no longer dispose of any of its property.

The Insolvency Act makes provision for the setting aside of the certain dispositions made prior to the company's winding-up if such dispositions constitute ''impeachable transactions'', namely:

(i) a disposition of the debtor's property for no or little value which is made at a time when its liabilities exceed its assets or if immediately after the making of such disposition the liabilities of the debtor exceeded the value of its assets and the debtor is subsequently liquidated, the disposition can be set aside;

(ii) if a debtor made a disposition of its property, in the six month period prior to liquidation, at a time when its liabilities exceeded its assets, which disposition had the effect of preferring one of its creditors above another, and it is subsequently liquidated, the disposition can be set aside. If the person in whose favor the disposition was made proves that the disposition was made in the ordinary course of business and that it was not intended thereby to prefer one creditor above another, then such disposition may not be set aside;

(iii) if a debtor made a disposition of its property at a time when its liabilities exceeded its assets, with the intention of preferring one of its creditors above another, and it is thereafter liquidated, the court may set aside the disposition. A surety for the debtor and a person in a position by law analogous to that of a surety is deemed to be a creditor of the debtor concerned;

(iv) where the insolvent company, prior to insolvency and in collusion with another person, disposed of property belonging to the company in a manner which had the effect of prejudicing its creditor or preferring one creditor over another. There is legal authority which states that in order for any transaction to be set aside under this provision, the transaction must have been concluded with a fraudulent intention. In determining whether a disposition amounts to collusive dealing for purposes of preferring one creditor over another under the Insolvency Act, South African courts apply a test based upon a determination of the debtor's intention at the time the debtor entered into the transaction. The debtor's intention is determined with reference to factors such as whether the transaction in question was in the ordinary course of business. In essence, for a transaction to amount to a collusive dealing, such transaction would have to be made with an intention to defraud creditors; and

(v) every disposition made after the date of liquidation by the debtor is void, unless the court decides otherwise.

Other than with respect to a collusive dealing, a disposition which was completed and thereafter set aside by the court, or a disposition which was not completed, may give rise to a concurrent unsecured claim in competition with the creditors of the estate. Where the disposition was one of suretyship, guarantee or indemnity, the creditors in whose favor the suretyship, guarantee or indemnity was executed may compete with the creditors of the estate for an amount exceeding the amount of the excess of the insolvent company's assets over its liabilities immediately before making the disposition.

The voidable disposition provisions in the Insolvency Act will be avoided in circumstances where the parties are able to confirm that at the time of the disposition, the relevant party's assets exceeded its liabilities.

Under South African insolvency law, there are three types of creditors which exist for ranking purposes, namely:

- concurrent creditors;
- secured creditors; and
- preferential creditors.

Concurrent creditors do not enjoy any advantage over other creditors of the insolvent company. Concurrent creditors are paid out of the free residue of unsecured assets after any preferential creditors have been paid. Concurrent creditors all rank equally pro rata according to their claims. Should the free residue be insufficient to meet their claims, each receives a pro rata portion of its claim by way of a dividend.

A secured creditor is one who holds security for its claim in the form of a special mortgage, landlord's legal hypothec, pledge or right of retention. A secured creditor must have real security. A creditor whose claim is secured by suretyship or guarantee is not classed as a secured creditor but as a concurrent creditor. A secured creditor is entitled to be paid out of the proceeds of the sale of the property subject to the security, after payment of certain expenses and any secured claim which ranks higher. If the proceeds emanating from a sale of the encumbered property are insufficient to cover the secured creditor's claim, it has a concurrent claim for the balance. Should the secured creditor choose to rely exclusively on its security, it waives the right to participate in the free residue.

Preferential creditors are creditors whose claim is not secured but nevertheless ranks above the claims of concurrent creditors. Preferential creditors are entitled to payment out of the free residue of the estate (that portion which is not subject to any security interests) and rank in right of payment before concurrent creditors.

The South African Companies Act brought significant changes to the corporate law of South Africa, including introducing a new regime of "business rescue" for financially distressed companies, which could significantly affects the rights of creditors.

The South African Companies Act repealed the Companies Act, No. 61 of 1973, with the exception of the provisions that deal with the winding-up and liquidation of insolvent companies (which will remain in effect until new insolvency legislation is enacted). The South African Companies Act introduces significant changes to the corporate law of South Africa, corporate actions, and the responsibilities of directors. In addition the South African Companies Act introduces the concept of "business rescue", a concept similar to Chapter 11-bankruptcy proceedings in the United States or administration in the United Kingdom. Business rescue allows a company that is "financially distressed" and which appears to have a "reasonable prospect" of rescue to avoid liquidation by implementing a business rescue plan. Business rescue proceedings may be instituted by the board of directors of the company or by any "affected person" (including a shareholder, creditor, registered trade union or employee), on application to court or by the court of its own accord at any time during the course of any liquidation proceedings or proceedings to enforce any security against the company.

After initiating business rescue proceedings, the board of directors or the creditors, as the case may be, must appoint a business rescue practitioner, who will assume full management control of the company and supervise the board and pre-existing management during business rescue. The company must publish a notice of the appointment of a practitioner to each affected person. However, directors continue to exercise their functions, subject to the supervision of the practitioner. The practitioner, after consultation with the creditors, other affected persons and the management of the company, must prepare a business rescue plan for consideration and possible adoption at a meeting of creditors convened in accordance with the provisions of the South African Companies Act listing, among other things, all details of the plan envisaged to rescue the company.

The business rescue plan must be approved by holders of more than 75% of the creditors' voting interests that were voted and at least 50% of the independent creditors' voting interests that were voted. In addition, if the plan alters the rights of the holders of the company's securities, such holders must also approve the proposed business rescue plan. If not approved, the appointed business rescue practitioner may be required to revise the plan or other affected parties may consider buying the claims of dissenting creditors at liquidation value.

During a company's business rescue proceedings, the business rescue practitioner is empowered to suspend entirely, partially or conditionally, any contractual obligations to which the company is a party (other than an employment contract or an agreement on the terms of the ISDA master agreements) at the commencement of the business rescue period. Any cancellations of contractual obligations will be subject to court approval.

These powers have significant implications for claims of, and security held by, creditors. A practitioner may, for example, have the power to suspend provisions relating to creditors' rights, while maintaining provisions relating to creditors' performance obligations. The only recourse provided for the affected creditor in the South African Companies Act whose agreement with the company, or any provision thereof, has been suspended either entirely, partially or conditionally, during the course of business rescue proceedings is to institute a claim for damages against the company. However, where the creditor's right that is suspended relates to security held by the creditor, the creditor is still recognized as the secured creditor if the secured asset is sold.

During business rescue proceedings, a general moratorium is placed on legal proceedings against the company and no legal action, including enforcement action, against the company, or in relation to property of the company, may be commenced except with *inter alia* the written approval of the practitioner or leave of court.

The South African Companies Act provides a degree of protection of property interests of a party that has security over, or title interest in, property held by the company. It states that if the company wishes to dispose of any property in which another person has any security over, or title interest in, the company must obtain the prior consent of that other person, unless the proceeds of the disposal would be sufficient to fully discharge the indebtedness protected by that person's security or the title interest and, following the disposal, either promptly pays to that person the sale proceeds attributable to that property up to the amount of the company's indebtedness to that other person or provides security for the amount of those proceeds, to the reasonable satisfaction of that other person.

The business rescue regime is an entirely new regime and significant interpretive questions remain unanswered. Many of the important concepts are untested, and as such, it is impossible to predict what the impact of the regime ultimately will be.

Limitation on Enforcement

Sappi Limited will issue a guarantee and pledge the shares it holds in Sappi Southern Africa Limited, a South African entity, thereby creating a security interest in such shares through an existing pledge.

Under South African law, the formalities for establishing a valid security interest in an asset (including shares) are those of the place where the asset is situated. If the asset is situated in South Africa, formalities under South African law must be satisfied. The shares which form the subject of the pledge are for purposes of establishing a security interest, located in South Africa. In terms of the Exchange Control Regulations, issued under the Currency and Exchange Act, 1933, no South African resident may transfer any assets (including shares or the proceeds of such shares) out of South Africa without the prior approval the Financial Surveillance Department of the South Africa Reserve Bank (''SARB''). The SARB's current policy is to ''pre-approve'' certain types of transactions, payments and transfers for exchange control purposes. The issuing of a guarantee and the granting of security interests by South African residents is not a category of transaction that is pre-approved. Therefore, in order for a South African resident to issue a guarantee or to grant a security interest to a non-South African resident, the South African resident will be required to obtain the necessary approval from the SARB. In this regard, the SARB has provided an approval in respect of Sappi providing a guarantee and providing a pledge of the shares it holds in Sappi Southern Africa Limited. No further approval will be required for the repatriation of funds realized by the non-resident secured party subject to any other conditions set out in the SARB approval, such as providing notice to the SARB of the repatriation.

Parallel Debt

Due to the uncertainty involved in the utilisation of a security agent in the security arrangements, the Intercreditor Agreement provides for the creation of a ''parallel debt''. Pursuant to the parallel debt, the security agent becomes the holder of a claim equal to each amount payable by an obligor under the notes and the beneficial holders of the notes can benefit from a secured claim. The parallel debt procedure has not been tested under South African law, and there is no certainty that the parallel debt procedure will eliminate or mitigate the risk of unenforceability posed by South African law.

Switzerland

Insolvency

Sappi Trading Pulp AG is incorporated and domiciled in Switzerland. Insolvency and bankruptcy proceedings against it will therefore take place in Switzerland pursuant to the Swiss Federal Law on Debt Enforcement and Bankruptcy. Sappi Trading Pulp AG is not a Guarantor of the notes and will not provide security for the obligations under the notes, but the shares of Sappi Trading Pulp AG will be pledged by the Issuer as security for the obligations under the notes.

Parallel Debt

Under Swiss law, certain ''accessory'' security interests such as pledges (*Pfandrechte*) (e.g., the pledge in the shares of Sappi Trading Pulp AG) require that the pledgee and the creditor be the same person. Such security interests cannot be held for the benefit of a third party who does not itself hold the secured claim. In order to permit the security agent to enforce such an accessory security under Swiss law in its own name and own account, the Intercreditor Agreement will provide for the creation of a ''parallel debt''. Pursuant to the parallel debt, the security agent becomes the holder of a claim equal to each amount payable by an obligor under the notes and the indentures. The pledge governed by Swiss law will therefore secure the parallel debt only. There are no published court decisions confirming the validity of the parallel debt structure and the pledges granted to secure such parallel debt, and there is no certainty that Swiss courts will uphold such pledges if their validity is challenged.

Hong Kong

Insolvency

Sappi Pulp Asia Limited (the ''Hong Kong Guarantor'') is a company incorporated under Hong Kong law. In the event of an insolvency of the Hong Kong Guarantor, insolvency proceedings may be initiated in Hong Kong. Such proceedings will be governed by Hong Kong law. Under certain circumstances, insolvency proceedings may also be opened in Hong Kong in accordance with Hong Kong law with respect to companies that are not incorporated under Hong Kong law (for example, if such company is registered as a non-Hong Kong company in Hong Kong or has a sufficient connection with Hong Kong).

The following is a brief description of certain aspects of insolvency law in Hong Kong.

Under Hong Kong law, there are two main forms of liquidation (or winding-up) procedure:

(a) compulsory liquidation, which occurs following the court's acceptance of a petition presented by a company's contributory or creditor or the company itself. A creditor may petition for the winding up of a company on the ground that, among other things, the company ''is unable to pay its debts''. The Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) sets out the circumstances in which a company will be deemed to have such inability. These include:

    (i) failure to pay a debt of at least HK$10,000 within three weeks of service of a formal demand by a creditor;

    (ii) where execution process on a judgment or court process in favor of a creditor of the company has been returned unsatisfied in whole or in part; or

    (iii) where it is otherwise proved to the satisfaction of the court that the company is unable to pay its debts and, in determining whether a company is unable to pay its debt, the court will take into account the contingent and prospective liabilities of the company.

    In a compulsory winding-up, all legal proceedings against the company will be stayed once a winding-up order has been made or a provisional liquidator has been appointed, unless the leave of the court is obtained and subject to such terms as the court may impose.

(b) voluntary liquidation, a procedure conducted out of court which generally occurs where the shareholders of a company pass the requisite resolution to place the company into liquidation. If a majority of the company's directors have made a declaration of solvency issued within five weeks immediately preceding the date of the shareholders resolution or on that date but before the passing of the resolution stating that in their opinion, after having made a full inquiry into the affairs of the company, the company will be able to pay its debts in full within the 12 months after commencement of the winding-up, the liquidation will be a members' voluntary liquidation. In the absence of such a declaration, the liquidation will be a creditors' voluntary liquidation. In addition, there is a special procedure under section 228A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) for a majority of the directors of a company to resolve at a directors' meeting that a company be wound up on the grounds that it cannot, by reason of its liabilities, continue its business.

There are other grounds for granting a winding-up order, such as where the court is of the opinion that it is just and equitable that the company should be wound up.

Provisional liquidators may be appointed to protect the assets of a company between the date of petition for the company's winding-up and the date on which a winding-up order is made. The appointment of provisional liquidators triggers a stay on legal action or proceeding against the company without the leave of court. The court may be persuaded to appoint provisional liquidators where the assets of the company are in jeopardy or where the provisional liquidators would assist in exploring a restructuring (however, this latter ground is only available if the company is insolvent and there is also jeopardy to the assets of the company). A provisional liquidator's powers are limited by the terms of his or her appointment order.

Upon the appointment of a liquidator or a provisional liquidator, the right to manage and dispose of the business and assets of the company passes to the liquidator or (as the case may be) the provisional liquidator.

Hong Kong insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims separately. Accordingly, unsecured creditors may file their claims in the insolvency proceedings and will, subject to certain preferential payments to be paid first, receive a distribution from the liquidator on a *pari passu* basis.

There is no statutory reorganization in Hong Kong, but it is possible for creditors of a Hong Kong company to attempt to negotiate a consensual contractual restructuring agreement with the company.

Schemes of arrangement are provided under s669 of the Companies Ordinance (Cap. 622) and, although not strictly an insolvency procedure, involve a compromise or arrangement between a company and its creditors or members (or any class of them). A scheme will require the agreement of a majority in number representing three-fourths in value of the creditors (or class of them), or members (or class of them) and if approved by the court will become binding on all creditors or members (or the relevant class of them, as the case may be). The court maintains a discretion whether to sanction a scheme and will consider compliance with the statutory process, whether the majority approving the scheme is acting in good faith and whether the scheme is fair to all creditors in the circumstances. Where there are different classes of creditors (*e.g.*, contingent or unsecured) each class is required to hold separate meetings to discuss and consider the scheme proposals. The terms of each scheme of arrangement will vary; however, they often involve variation of contractual terms, waiver of part of creditor claims and exchanges of debt for equity. The process by which a scheme of arrangement is sanctioned does not provide any stay on legal action or proceeding against the company. Creditors therefore retain the ability to seek to enforce their claims through obtaining judgment or to present a winding-up petition, although the Hong Kong court has been persuaded to exercise its discretion to refuse to make a winding-up order whilst a restructuring proposal is put to creditors through a scheme.

In the event of a liquidation under Hong Kong law of the Hong Kong Guarantor, secured creditors can generally enforce their security outside the liquidation process (and the secured assets would not form part of the insolvency estate). The liabilities of the Hong Kong Guarantor to its unsecured creditors will, in effect, be satisfied only after payment of all secured indebtedness (to the extent of the assets securing that indebtedness) and after payment of all claims entitled to priority under Hong Kong insolvency law. Debts entitled to priority may include, among others, (a) all expenses properly incurred by the liquidator (including his remuneration) in a winding up; (b) certain amounts owed to the Government; and (c) certain amounts owed to employees. If the proceeds from the enforcement of the security are insufficient to cover the secured creditor's claim, the balance may be proved as unsecured debt in the liquidation.

There is no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the unsecured creditors.

Any interest accruing under or in respect of amounts due under a guarantee or any security or other finance documents to which the Hong Kong Guarantor is a party in respect of any period after the date of the winding-up order would only be recoverable, if the company is not, in the event, insolvent, from any surplus remaining after payment of all other debts proved in the proceedings.

Risk of Challenge and Insolvency

Under Hong Kong law, a transaction of a company may be void if it is beyond the powers of the directors and/or the company under such company's articles of association, or is not for a proper corporate purpose. Examples of the latter include: the transaction is not in the best interest of the company or the directors are not entering into the transaction for the furtherance of the substantive objects of the company. To comply with the corporate benefit requirement, in the case of upstream or cross-stream guarantees, it is usual practice for such guarantees to be approved by a shareholder resolution (preferably unanimous) authorizing or subsequently ratifying the giving of the guarantee. However, this does not prevent the possibility of challenge by a liquidator.

Under Hong Kong law, the provision of financial assistance by a company (formed and registered under the Companies Ordinance (cap. 622)) or any of its subsidiaries in relation to the acquisition of shares in the company is prohibited, if such financial assistance is, directly or indirectly, (i) for the purpose of the acquisition of shares in that company before or contemporaneously with the acquisition; or (ii) for the purpose of reducing or discharging a liability incurred for the purpose of such an acquisition. This means that any financial assistance given before, at the same time as or after the acquisition (including financial assistance given in relation to any refinancing of an acquisition loan) may be called into question. Accordingly, if any guarantee, security or indemnity given by the Hong Kong Guarantor constitutes unlawful financial assistance, unless certain statutory exceptions apply, then such guarantee, security or indemnity would be invalid.

Under Hong Kong insolvency law, any unfair preference made within six months (or two years in the case of transactions entered into with an ''associate'' (as defined in the Bankruptcy Ordinance (Cap. 6)) before the commencement of the winding up of a company may be rescinded at the discretion of the court or otherwise subject to such order as the court thinks fit for restoring the position to what it would have been if the company had not given that unfair preference. An unfair preference is given by a company to a person if the relevant act has the effect of putting a creditor, guarantor or surety of the company in a better position (in the event of the company going into insolvent liquidation) than if the action had not been taken. In order to be successful, the company must have been influenced by a desire to produce that result and provided that, at the time or as a result of the preference, the company was unable to pay its debts when they fall due or the value of its assets is less than the amount of its liabilities.

Under Hong Kong law, the disposition of property made by a company, with intent to defraud its creditors, shall be voidable, except if the deposition is for valuable consideration and in good faith, or upon good consideration and in good faith to any person not having, at the time of the disposition, notice of the intent to defraud creditors. This rule applies at all time, irrespective of when the transaction was entered into and/or whether the company was insolvent at the time or as a result of the disposition.

Under Hong Kong law, the court may, on the application of the liquidator, set aside the whole or part of the company's obligations (and make other orders) with respect to a transaction for, or involving, the provision of credit to the company if that transaction is or was extortionate and was entered into in the period of three years ending on the winding up of the company.

The Companies Ordinance requires the registration of certain types of charges created by a Hong Kong company or a non-Hong Kong company registered under Part 16 of the Companies Ordinance (Cap. 622) within one month from its creation. Such charges include floating charges on the undertaking or property of the company and certain fixed charges (such as land, book debts etc.). A fixed charge over certain assets is not considered as registrable under the Companies Ordinance (Cap. 622), such as deposit in a bank account. The consequence of failing to register such a charge within one month from its creation is that the charge is void against any creditor or liquidator of the company. Security over certain types of assets created under Hong Kong law may also be subject to other registration and/or perfection requirements (*e.g.*, a legal mortgage over land must be registered at the Hong Kong Land Registry within one month of its creation in order to preserve its priority).

A floating charge on the undertaking or property of a company is invalid if created in the period of twelve months ending with the commencement of the winding up of the company, unless it is proved that the company immediately after the creation of the charge was solvent, except to the amount of any cash paid to the company at the time of or subsequently to the creation of, and in consideration for, the charge (together with interest on such amount at the rate specified in the charge or at the rate of twelve percent (12%) per annum, whichever is the lesser).

If the guarantee or any security given by the Hong Kong Guarantor were avoided or held unenforceable for any reason, a holder of the notes would cease to have any claim in respect thereof.

Finland

Sappi Finland I Oy (''Sappi Finland'') is a Subsidiary Guarantor organized under the laws of Finland, and it has its registered office in Finland. Sappi Finland is also providing a grant of security to secure its guarantee of the notes. In the event of Sappi Finland's insolvency, insolvency proceedings may be initiated in Finland. Such proceedings would then be governed by Finnish law.

The following is a brief description of certain aspects of Finnish insolvency law.

The provisions of the Finnish Bankruptcy Act (*Konkurssilaki*), the Finnish Restructuring Act (*Laki yrityksen saneerauksesta*) and the Finnish Act on the Recovery of Assets to the Bankruptcy Estate (''Recovery Act'') (*Laki takaisinsaannista konkurssipesään*) are particularly relevant to this discussion.

Under Finnish Law, if a company is insolvent or is at risk of becoming insolvent, the company may be the subject of three alternative types of proceedings: company restructuring (*yrityssaneeraus*), bankruptcy (*konkurssi*) and liquidation (*selvitystila*). However, in practice, liquidation proceedings would be followed by bankruptcy of the company if the full settlement of all of the company's debts is not possible.

Company Restructuring

If a company is insolvent or is at risk of becoming insolvent, and it is probable that a restructuring will remedy the insolvency or prevent its recurrence otherwise than for a short period, an application for corporate restructuring can be made with a court by the debtor or by one or more creditors. Further, the initiation of restructuring proceedings is possible—in theory, even irrespective of the company's factual solvency situation—when at least two creditors whose total claims represent at least one fifth of the debtor's known debts and who are not related to the debtor, file a joint application with the debtor or declare that they support the debtor's application for restructuring.

If there are no specific barriers to restructuring under the Finnish Restructuring Act and, consequently, the court approves the application and opens restructuring proceedings, the court will simultaneously appoint a restructuring administrator (*selvittäjä*). The purpose of a company restructuring is to investigate whether the business has a reasonable chance to continue and, if so, to rehabilitate the company's viable business, ensure its continued viability and make arrangements with creditors. The Board of Directors and the Managing Director continue to act on behalf of the company during the restructuring proceedings. The restructuring administrator is entitled to review the company's books and business documents and obtain any information on the company's business activities, as well as to participate in meetings of the debtor's corporate bodies. The restructuring administrator's consent is required to certain legal acts of a significant nature of the debtor company specified in the Restructuring Act.

The commencement of restructuring proceedings, as a general rule, has no effect on the debtor's existing contracts. However, there are some exceptions set forth in the Finnish Restructuring Act regarding premature termination of certain contracts, such as lease agreements, unfulfilled contracts not deemed to be a regular part of the activities of the debtor and employment relationships.

Moratorium

Subject to certain exceptions, all existing claims against the company are suspended as of the commencement of the company restructuring. The suspension prohibits the enforcement and placing of security, the repayment and enforcement of the restructuring debts (although debts arising after the filing of the restructuring application can be repaid and enforced), and the seizure of assets. The court may order, on the request of the applicant or the debtor, that such prohibitions are in effect on an interim basis as of a date even prior to the commencement of restructuring proceedings (*i.e.*, shortly after the filing of the application for the restructuring proceedings). The suspensions are in force until the restructuring program has been verified by the district court or the proceedings have been, for reasons specified in the Restructuring Act, dismissed or interrupted.

Debts arising after the filing of the application must be repaid as they become due. The same applies to fees, charges and other running expenses (*e.g.*, lease payments) based on a continuous contractual relationship or on a continuous contract on use or possession, to the extent as these relate to the period subsequent to the filing of the application.

Debt Arrangements

Unsecured creditors have an equal status in the arrangements of the restructuring debts within the restructuring program.

Subject to certain restrictions set forth in the Finnish Restructuring Act, the following measures may be taken with respect to unsecured debts in the restructuring program: (i) change the repayment schedule; (ii) order that debt payments be considered as payments against principal first, and as payments of interest and other credit costs only second; (iii) reduce the obligation to pay interest and other credit costs with respect to the remaining term of a debt; and (iv) reduce the outstanding principal balance of unpaid debt. The restructuring program may also include the full or partial refinancing of debt.

Secured Debt

Secured debt means restructuring debt where the creditor holds an effective (against third parties) real security right to property that belongs to or is in the possession of the debtor, in so far as the value of the security at the commencement of the proceedings would have been enough to cover the amount of the creditor's claim after the deduction of liquidation costs and claims with a higher priority.

The following debt arrangements may be applied to secured debt: (i) change the repayment schedule; (ii) order that debt payments be applied as payments against principal first and as payments of interest and other credit costs second; or (iii) reduce the obligation to pay interest and other credit costs with respect to the remaining term of the debt. Even if the debt arrangement does not affect the existence or content of a creditor's real property security right, the security arrangements relating to the debt may be altered by replacing the security with other fully adequate security.

Payments on a secured debt shall be set so that at least the present value of the secured debt will be repaid within a reasonable period, not to materially exceed the remainder of the credit period without the consent of the creditor or, if the debt has become due in full, not to materially exceed one half of the original credit period. As for reducing interest and other credit costs, a court will take note of the length of the remaining credit period, so that the longer the remaining credit period, the smaller the reduction in interest and credit costs.

Approval of the Restructuring Program

The draft of the restructuring program will be drawn up by the restructuring administrator, and the court will ratify it subject to the approval of all the creditors or with the acceptance of the majority in the groups of creditors. However, there are some specific limitations under the Finnish Restructuring Act which apply even if the restructuring program is approved by all creditors or the majority in all groups of creditors. Furthermore, even if the majority does not exist in one or several groups of creditors, the restructuring program may nonetheless be approved at the request of the person who has prepared the draft, the administrator or the debtor, subject to the terms specified in the Recovery Act. In such case the restructuring claims of the creditors in favor of the program must represent at minimum one-fifth of all restructuring claims of the debtor company taken into consideration in the voting procedure in accordance with the Restructuring Act. The debtor may also submit a proposal to the court with respect to the restructuring program, which the court may consider in its discretion.

Bankruptcy

If a debtor fails to pay its debts when due and the inability to pay is not temporary, the debtor is considered to be insolvent. Under certain conditions, a debtor or a creditor may then file a bankruptcy application with the court. The debtor is, however, not obligated to file for bankruptcy. Under certain criteria, the management of the company may, however, assume personal liability if damage is caused to the company or a third party due to its negligence not to file for bankruptcy when the company is in the state of insolvency. If the application is granted, an estate administrator (*pesänhoitaja*) (or several estate administrators) of the bankruptcy estate will be appointed by the court.

The purpose of bankruptcy proceedings is to dissolve the company by selling all of its assets and distribute any possible surplus amount to creditors. Bankruptcy is a form of insolvency proceeding covering all the liabilities of the debtor, where the assets of the debtor are used in payment of the claims in bankruptcy. In order to achieve the bankruptcy's objective, the debtor's assets are, from the start of the bankruptcy, subject to the authority of the creditors. The creditors are represented by an estate administrator appointed by the court. The bankruptcy estate may (exceptionally) continue with the company's business operations and the disposition of property will be realized as soon as reasonably possible.

As a main rule, the bankruptcy estate has an option to choose whether to accede to or to terminate a contract entered into by the debtor. According to the Finnish Bankruptcy Act, the other contracting party has the right to request a declaration of whether the bankruptcy estate commits to a contract between the creditor and the debtor. If the estate declares, within a reasonable time, that it commits to the contract, as well as posts acceptable security for the performance of the contract, the contract cannot be terminated by the other contracting party for cause. However, the other contracting party may terminate the contract for cause if the contract is of a personal nature or there is another special reason for which it cannot be required to remain bound to the contract with the bankruptcy estate.

Notices to the Bankruptcy Estate with regard to Claims

In order to be entitled to a disbursement, a creditor must file a claim in bankruptcy in writing (''lodgement of claim''), by delivering it to the estate administrator no later than the deadline set by the estate administrator. However, there are some specific exceptions in the Finnish Bankruptcy Act according to which a claim is to be taken into account without it being filed.

The obligation to notify the bankruptcy estate of a claim is binding even on a creditor with a secured claim (Notice of claim secured by collateral). A creditor who holds assets belonging to the debtor as security for the debt of a third party must, at the request of and within a time limit set by the estate administrator, provide the information on receivables and collateral that should be provided in a claim letter (Notice of third party collateral). A creditor who holds a business mortgage over the assets of the debtor, as referred to in the Finnish Business Mortgages Act, as security of a claim against the debtor in bankruptcy or a debt owed by some other debtor, shall file the claim as provided in the Finnish Bankruptcy Act (Filing of a right based on a business mortgage).

A creditor who wishes to use his or her claim for set-off against a debt owed to the debtor must, when giving notice of the set-off, provide the estate administrator with the same information that would be provided in the lodgement of claim (Notice of a claim to be used for set-off). The notice of set-off must be made at the latest on the latest date for the filing of claims.

Disbursements

The estate administrator draws up a list of how the assets of the estate are to be disbursed to the creditors (draft disbursement list). The court verifies that the estate administrator's disbursement list meets the requirements set out in law and that the procedural provisions relating to the draft disbursement list have been observed.

Creditors have an equal right to a payment from the funds of the bankruptcy estate in the proportion of the amount of their claims, unless otherwise provided by law.

However, the following creditors have precedence over unsecured creditors to receive their claims in the following order:

- a pledgee and holder of lien;
- debt arising between the commencement and the discontinuation of the restructuring proceedings;

- a claim which is secured by business mortgage will receive prior to other claims a disbursement of 50% of the value of the mortgaged assets after claims with higher priority have first been paid.

The law prescribes claims that are to be settled lastly. In practice, the most significant of such claims are the interest accruing on the claim during the period subsequent to the commencement of the bankruptcy, a bond issued with a low priority and a subordinated loan (e.g., capital loan). The Finnish state has no preferential rights regarding taxes and other fiscal charges.

The assets of the bankruptcy estate are disposed of in the most advantageous manner so as to maximize the aggregate net proceeds, including by way of auctions, through advertising and direct solicitation of potential buyers. However, creditors that have an interest in collateral may exercise their right of liquidation of collateral regardless of the bankruptcy proceedings. The bankruptcy estate may at its own discretion prohibit the sale for a maximum of two months. The bankruptcy estate may sell collateral belonging to the estate only if the creditor protected by the collateral consents to the same or if the court grants a specific permission.

Recovery

General

Under Finnish law, recovery (i.e., claw back) is governed by the Recovery Act. According to the Finnish Restructuring Act, the grounds for recovery set out in the Recovery Act are also to be applied in restructuring proceedings.

On the basis of the Recovery Act, both the estate administrator(s) and the creditors who have lodged their claims in bankruptcy or whose claims have been taken into account otherwise in the disbursement list may seek to recover assets of the debtor. The administrator or the creditors may either file an action for recovery against the debtor’s counterparty in separate court proceedings or object to a lodged claim. Generally, an action for recovery must be filed within one year from the commencement of the bankruptcy proceedings. If the grounds for recovery appear after said one-year period, an action may be filed later if it is filed within three months from the date when the grounds for such action became or should have become apparent to the bankruptcy estate.

General grounds for recovery

The general rules for recovery apply to all transactions between an insolvent debtor (including a debtor who becomes insolvent partially due to the transaction) and the counterparty of the debtor.

A transaction concluded within five years prior to the date when the petition for bankruptcy or restructuring is filed with the court may be recovered if: (i) the transaction, either by itself or together with other transactions, improperly (a) favors a creditor at the expense of other creditors, (b) places property beyond the reach of other creditors, or (c) increases debts to the detriment of the creditors; (ii) the debtor, at the time of the transaction, was, or partly due to the transaction became, insolvent or, in case of a transaction considered to be a gift or a contract with the characteristics of a gift, over-indebted; (iii) the counterparty of the transaction knew or should have known of the insolvency or over-indebtedness, or the relevance of the transaction to the debtor’s economic situation; or (iv) the counterparty knew or should have known the facts mentioned above in item (i), on the basis of which the transaction is considered improper.

The grounds for recovery under Section 5 of the Recovery Act, which covers all transactions concluded between the debtor and a counterparty, are thus applicable only if the counterparty had qualified or should have had qualified knowledge of all the issues described above in (i) and (ii).

In general, only transactions performed within five years before the date when the petition for bankruptcy or restructuring is filed with the court (as well as transactions performed after such date) may be recovered on the basis of the general grounds for recovery. However, transactions between the debtor and certain (natural or legal) persons within the debtor’s sphere of interest may be recovered, regardless of the date of the transaction.

Specific grounds for recovery

Pursuant to the Recovery Act, certain transactions can be recovered regardless of the good faith of the counterparty in certain circumstances. Such transactions include, among other things:

(i) gifts and contracts with the characteristics of a gift; (ii) payment of debts; (iii) payment received through execution; (iv) set-off; and (v) the giving of security.

The most common grounds for recovery are dealt with in the following.

Payment of debts: With regard to the recovery of payment of debts, any debt paid later than three months prior to the date when the petition for bankruptcy or restructuring is filed with the court (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) unusual means of payment have been used; (ii) the payment was premature, or (iii) the amount of payment was considerable in comparison to the assets of the bankruptcy estate.

However, a payment may not be recovered if it, when all circumstances are taken into consideration, may be held as customary.

Security: Security given later than three months prior to the date when the petition for bankruptcy or restructuring is filed with the court (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) the parties had not agreed upon the security in connection with the granting of the credit; or (ii) the possession of the security had not been transferred, or any similar act (perfection) effecting the security had not been taken without unjustified delay from the granting of the credit.

Gift: A gift may be recovered, if it has been completed later than a year prior to the date when the petition for bankruptcy or restructuring is filed with the court. A gift, which has been completed before this but later than three years before the aforementioned date, may be recovered if it has been given to certain (natural or legal) persons within the debtor's sphere of interest and it is not shown that the debtor was not over-indebted or did not become over-indebted due to the gift. A sale, exchange or other agreement may also be recovered correspondingly, if disproportion of the performances between the parties while making an agreement was obvious to the extent that the agreement is considered as a gift. In Finnish legal praxis, legal transactions between group companies have been recovered as gifts or contracts with the characteristics of a gift if the compensation applied in the transaction is regarded only as one-sided.

Limitation on Enforcement

The Finnish Companies Act (*Osakeyhtiölaki*) contains a general clause pursuant to which the board of directors of a limited liability company must act with due care and promote the interests of the company. Under the Companies Act, the board of directors must assess that any collateral or guarantee arrangements into which the company is entering are motivated by business reasons and are in the company's commercial interest and that they would not as such lead to financial difficulties and that the company would be solvent and able to take care of its liabilities. Finnish corporate law does not recognise a ''group benefit'' so the arrangements need to be evaluated from the perspective of each individual company only. So the validity of a guarantee or collateral given by a Finnish company for obligations of a third party is subject to the relevant Finnish company deriving sufficient corporate benefit therefrom.

It is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called ''limitation language'' in relation to subsidiaries incorporated or established in Finland. Pursuant to such limitation language, the secured parties agree to enforce the collateral and the beneficiaries of the guarantees agree to enforce the guarantees against the Finnish subsidiary only to the extent that such enforcement does not result in a breach of Finnish corporate law. Accordingly, the Indenture and the security documents will contain such limitation language and the guarantee of Sappi Finland and the security will be so limited.

The Indenture for the notes will expressly provide substantially as follows:

(a) The liabilities and obligations guaranteed by Sappi Finland in its capacity as Guarantor under the Indenture shall not include, and Sappi Finland shall not be liable to perform or be deemed to have undertaken any liability or obligation in respect of, any liability or obligation the guaranteeing of which would be contrary to or would constitute a breach of mandatory provisions or principles of Finnish law, including without limitation
(i) Chapter 13, Section 1 of the Finnish Companies Act (1.9.2006/624, as amended)

regulating distribution of assets and (ii) other applicable mandatory provisions of Finnish corporate law.

(b) Furthermore, the maximum amount payable at any time by Sappi Finland I Oy under the Indenture shall not exceed an amount equal to the higher of the following:

  (i) the aggregate amount of (A) an amount no greater than the aggregate amount owing by Sappi Finland (directly or indirectly) to the Issuer under any intra-group loan agreement or loan agreements between Sappi Finland and the Issuer (or any direct or indirect subsidiary of the Issuer) existing on the date hereof and (B) the aggregate amount of funds available for distribution as a dividend of Sappi Finland according to the Companies Act on the date on which any guaranteed party exercises any of its rights, remedies, powers or discretions under the guarantee, or

  (ii) the aggregate amount of (A) the aggregate amount owing by Sappi Finland (directly or indirectly) to the Issuer under any intra-group loan agreement or loan agreements between Sappi Finland and the Issuer (or any direct or indirect subsidiary of the Issuer) existing on the date on which the Trustee exercises any of its rights, remedies, powers or discretions under the guarantee provided by Sappi Finland pursuant to the Indenture and (B) the aggregate amount of funds available for distribution as a dividend of Sappi Finland according to the Companies Act on the date on which any guaranteed party exercises any of its rights, remedies, powers or discretions under any guarantee provided by Sappi Finland pursuant to the Indenture, or

  (iii) any higher amount (based on any direct or indirect economic and operational benefit to Sappi Finland I Oy derived under the Indenture) to the extent not prohibited by Chapter 13, Section 1 of the Finnish Companies Act,

in each case less the aggregate amount at that time already paid or payable by Sappi Finland under any claim already made under its guarantee.

The terms of the security documents granted by Sappi Finland will limit enforcement to the same extent as the payment obligations under Sappi Finland's guarantee of the notes.

LISTING AND GENERAL INFORMATION

1. Application has been made for the notes to be listed on the Official List of the Luxembourg Stock Exchange and to be traded on the Luxembourg Stock Exchange's Euro MTF Market.

2. So long as the notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules of such exchange shall so require, copies of our Articles of Association and those of the Issuer and the Guarantors, the Indenture and guarantees, the Intercreditor Agreement, the security documents and the financial statements included in this Offering Memorandum will be available free of charge at the specified office of the Paying Agent in Luxembourg referred to in paragraph 5 below. So long as the notes are listed on the Official list of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules of such exchange shall so require, copies of all of our Group annual financial statements and those for all subsequent fiscal years will be available free of charge during normal business hours on any weekday at the offices of such Paying Agent in Luxembourg referred to in paragraph 5 below.

3. We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum and there has been no material adverse change in the prospects of the Issuer and Sappi Limited since December 28, 2014, the date of the last published consolidated financial information.

4. Neither we nor any of our subsidiaries is a party to any litigation that, in our judgment, is material in the context of the issue of the notes, except as disclosed herein.

5. We will appoint The Bank of New York Mellon (Luxembourg) S.A. as our Paying Agent and Transfer Agent in Luxembourg. We reserve the right to vary such appointment and shall publish notice of such change of appointment in a newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or the Luxembourg Stock Exchange's website, *www.bourse.lu*. The Paying Agent in Luxembourg will act as intermediary between the holders of the notes and us and so long as the notes are listed on the Official list of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules of such exchange shall so require, we will maintain paying and transfer agents in Luxembourg.

6. The creation and issuance of the notes was authorized by the Resolutions of the Issuer's Advisory Board on March 11, 2015, the Resolutions of the Issuer's Managing Directors on March 11, 2015, and the Resolutions of the Issuer's Shareholder on March 11, 2015. The notes have been accepted for clearance through the facilities of Euroclear and Clearstream. The ISIN for the notes sold pursuant to Rule 144A and the notes sold pursuant to Regulation S are XS1117297439 and XS1117298676, respectively. The Common Code numbers for the notes sold pursuant to Rule 144A and the notes sold pursuant to Regulation S are 111729743 and 111729867, respectively.

7. The Issuer

Sappi Papier Holding GmbH is an Austrian limited liability company registered with the Regional Civil Court of Graz, Austria under registration number FN 167931 h. Its registered office is at Brucker Strasse 21, A-8101 Gratkorn, Austria.

The Issuer was organized under the laws of Austria on March 3, 1998. The Issuer is of indefinite duration and has corporate objects including buying, holding, selling and managing holdings of all types (other than in banking businesses) and providing services to the companies of the Sappi Group. The Issuer has €72,700 of issued capital comprising of one class of ordinary voting shares, all of which are directly owned by Sappi Holding GmbH. The Issuer's share capital has been fully paid-up.

Separate annual financial statements are published for the Issuer and its subsidiaries and may be obtained at the offices of the Paying Agent in Luxembourg. No interim financial statements are published for the Issuer and its subsidiaries. As an indirect subsidiary of Sappi, the Issuer is also included in Sappi's financial statements. For information on the Issuer's equity and liabilities, see also the historical consolidated financial statements of the Issuer and its subsidiaries as of, and for the year ended, September 2014, as well as the notes thereto (including, but not limited to, note 16 on share capital, note 19 on interest-bearing borrowings and note 20 on other non-current liabilities).

The members of the Issuer's Advisory Board are Ms. Regina Prehofer and Messrs. Glen T. Pearce, Stephen R. Binnie and Werner Huber. The members of the Issuer's Managing Board are Messrs. Berend J. Wiersum, Jörg H. Pässler, Stephen Blyth, Mark R. Gardner and William Morrow.

Stephen R. Binnie also serves as Group Chief Executive Officer. Glen T. Pearce also serves as Group Chief Financial Officer. Jörg H. Pässler also serves as Group Treasurer. Berend J. Wiersum also serves as Chief Executive Officer of Sappi Europe. Stephen Blyth also serves as Chief Financial Officer of Sappi Europe SA. Mark R. Gardner also serves as Chief Executive Officer of Sappi North America.

The business address of Messrs. Glen T. Pearce and Stephen R. Binnie is 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa. The business address of Messrs. Berend J. Wiersum and Stephen Blyth is 166, Chaussée de la Hulpe, B-1170 Watermael-Boitsfort, Belgium. The business address of Mr. Mark R. Gardner is 255 State Street, Boston, MA 02109, United States. The business address of Mr. Jörg H. Pässler is Brucker Strasse 21, A-8101 Gratkorn, Austria. The business address of Ms. Regina Prehofer and Messrs. William Morrow and Werner Huber is Alserstrasse 21, A-1080 Vienna, Austria.

8. The Guarantors

Sappi Limited is a public company incorporated in the Republic of South Africa on December 17, 1936 under company registration number 1936/008963/06. Its principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa.

Sappi Gratkorn GmbH is an Austrian limited liability company registered with the Regional Civil Court of Graz under registration number FN 69000 x. Its registered office is at Brucker Strasse 21, A-8101 Gratkorn, Austria.

Sappi MagnoStar GmbH is an Austrian limited liability company registered with the Regional Civil Court of Graz under registration number FN 140031 d. Its registered office is at Brucker Strasse 21, A-8101 Gratkorn, Austria.

Sappi Austria Produktions-GmbH & Co. KG is an Austrian limited partnership registered with the Regional Civil Court of Graz under registration number FN 223882 p. Its registered office is at Brucker Strasse 21, A-8101 Gratkorn, Austria.

Sappi International SA is a Belgian limited liability company registered in the commercial register of Brussels under registration number 0449.887.582. Its registered office is at 166, Chaussée de la Hulpe, B-1170 Watermael-Boitsfort, Belgium.

Sappi Europe SA is a Belgian limited liability company registered in the commercial register of Brussels under registration number 0449.654.386. Its registered office is at 166, Chaussée de la Hulpe, B-1170 Watermael-Boitsfort, Belgium.

Sappi Lanaken Press Paper NV is a Belgian limited liability company registered in the commercial register of Tongeren under registration number 0426.966.779. Its registered office is at Montaigneweg 2, B-3620 Lanaken, Belgium.

Sappi Lanaken NV is a Belgian limited liability company registered in the commercial register of Tongeren under registration number 0420.732.352. Its registered office is at Montaigneweg 2, B-3620 Lanaken, Belgium.

SDW Holdings Corporation is a corporation incorporated under the laws of Delaware under registration number 13-3795926. Its registered office is at 255 State Street, Boston, MA 02109, United States.

Sappi Cloquet LLC is a limited liability company formed under the laws of Delaware under registration number 01-0627802. Its registered office is c/o S.D. Warren Company at 255 State Street, Boston, MA 02109, United States.

S.D. Warren Company is a corporation incorporated under the laws of Pennsylvania under registration number 23-2366983. Its registered office is at 255 State Street, Boston, MA 02109, United States.

Sappi Deutschland Holding GmbH is a German limited liability company registered in the commercial register of Hildesheim under registration number HRB 110140. Its registered office is at Mühlenmasch 1, D-31061 Alfeld (Leine), Germany.

Sappi Deutschland GmbH is a German limited liability company registered in the commercial register of Hannover under registration number HRB 59586. Its registered office is at Berliner Allee 14, D-30175 Hannover, Germany.

Sappi Alfeld GmbH is a German limited liability company registered in the commercial register of Hildesheim under registration number HRB 110356. Its registered office is at Muehlenmasch 1, D-31061 Alfeld (Leine), Germany.

Sappi Ehingen GmbH is a German limited liability company registered in the commercial register of Ulm under registration number HRB 490647. Its registered office is at Biberacher Strasse 73, D-89584 Ehingen (Donau), Germany.

Sappi Stockstadt GmbH is a German limited liability company registered in the commercial register of Aschaffenburg under registration number HRB 8118. Its registered office is at Obernburger Strasse 1-9, D-63811 Stockstadt, Germany.

Sappi Maastricht B.V. is a Dutch private company with limited liability registered with the chamber of commerce under registration number 14631722. Its corporate seat is at Maastricht, The Netherlands and its registered office is at Biesenweg 16, NL-6211AA Maastricht, The Netherlands.

Sappi Netherlands B.V. is a Dutch private company with limited liability registered with the chamber of commerce under registration number 14631721. Its corporate seat is at Maastricht, The Netherlands and its registered office is at Biesenweg 16, NL-6211AA Maastricht, The Netherlands.

Sappi Finland I Oy is a Finnish corporation registered in the Finnish trade register under registration number 2219145-0. Its registered office is at Kirkniemi, 08800 Lohja, Finland.

Sappi Pulp Asia Limited is a company incorporated under the laws of Hong Kong. Its company number is 925340 and its registered office is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Subsidiary Guarantors each engage in various activities ranging from holding real estate, plants and equipment to conducting certain operations of the Sappi Group as described elsewhere in this Offering Memorandum.

Index to Historical Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sappi Limited

We have audited the accompanying consolidated financial statements of Sappi Limited, which comprise the balance sheet as at September 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended September 2014, we have read the directors' report, the Audit Committee's report and the company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered Auditor

Per RC Campbell
Partner

12 December 2014

Johannesburg
South Africa

SAPPI

GROUP INCOME STATEMENT

for the year ended September 2014

	Note	2014	Restated 2013	Restated 2012
			US$ million	
Sales		**6,061**	5,925	6,347
Cost of sales	4	**5,370**	5,285	5,549
Gross profit		**691**	640	798
Selling, general and administrative expenses	4	**352**	384	414
Other operating expenses (income)		**33**	244	(41)
Share of profit from joint ventures		**(8)**	(7)	(2)
Operating profit	4	**314**	19	427
Net finance costs	5	**177**	186	306
Finance costs		**194**	195	328
Finance revenue		**(9)**	(7)	(12)
Net foreign exchange gains		**(7)**	(1)	(5)
Net fair value gain on financial instruments		**(1)**	(1)	(5)
Profit (loss) before taxation		**137**	(167)	121
Taxation charge	6	**2**	15	28
Profit (loss) for the year		**135**	(182)	93
Basic earnings (loss) per share (US cents)	7	**26**	(35)	18
Weighted average number of ordinary shares in issue (millions)		**522.5**	521.3	520.8
Diluted earnings (loss) per share (US cents)	7	**26**	(35)	18
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**526.6**	521.3	522.2

SAPPI

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2014

	Note	2014	Restated 2013	Restated 2012
		US$ million		
Profit (loss) for the year		**135**	(182)	93
Other comprehensive loss, net of tax	19	**(247)**	(210)	(58)
Item that will not be reclassified subsequently to profit or loss		**(152)**	14	45
Actuarial (losses) gains on post-employment benefit funds		**(152)**	51	(71)
Deferred tax on above item		**—**	(37)	116
Items that may be reclassified subsequently to profit or loss		**(95)**	(224)	(103)
Exchange differences on translation to presentation currency		**(71)**	(225)	(60)
Movement on available-for-sale financial assets		**(2)**	—	1
Movement in hedging reserves		**(23)**	3	(47)
Deferred tax on above items		**1**	(2)	3
Total comprehensive (loss) income for the year		**(112)**	(392)	35

SAPPI
GROUP BALANCE SHEET
at September 2014

	Note	2014	Restated 2013	Restated 2012
			US$ million	
Assets				
Non-current assets		**3,505**	3,787	4,031
Property, plant and equipment	10	**2,841**	3,078	3,157
Plantations	11	**430**	464	555
Deferred tax assets	12	**138**	92	154
Goodwill and intangible assets	13	**17**	20	22
Joint ventures	14	**16**	18	18
Other non-current assets	15	**50**	95	103
Derivative financial instruments	30	**13**	20	22
Current assets		**1,960**	1,846	2,137
Inventories	16	**687**	728	726
Trade and other receivables	17	**731**	747	800
Derivative financial instruments	30	**—**	1	—
Taxation receivable		**14**	18	7
Cash and cash equivalents	24.7	**528**	352	604
Assets held for sale	9	**—**	94	—
Total assets		**5,465**	5,727	6,168
Equity and liabilities				
Shareholders' equity		**1,044**	1,144	1,525
Ordinary share capital and share premium	18	**1,044**	1,148	1,391
Non-distributable reserves	20	**133**	158	171
Foreign currency translation reserve		**(239)**	(288)	(323)
Hedging reserves		**(58)**	(40)	(39)
Retained earnings		**164**	166	325
Non-current liabilities		**3,198**	3,371	3,328
Interest-bearing borrowings	21	**2,311**	2,499	2,358
Deferred tax liabilities	12	**272**	267	319
Derivative financial instruments	30	**52**	99	46
Other non-current liabilities	22	**563**	506	605
Current liabilities		**1,223**	1,206	1,315
Interest-bearing borrowings	21	**163**	99	261
Overdrafts		**—**	1	5
Derivative financial instruments	30	**7**	2	1
Trade and other payables		**996**	1,015	1,005
Taxation payable		**25**	12	26
Provisions	23	**32**	77	17
Liabilities associated with assets held for sale	9	**—**	6	—
Total equity and liabilities		**5,465**	5,727	6,168

SAPPI

GROUP STATEMENT OF CASH FLOWS

for the year ended September 2014

	Note	2014	Restated 2013	Restated 2012
		US$ million		
Cash retained from operating activities		**437**	246	411
Cash generated from operations	24.1	**566**	447	728
—Decrease (increase) in working capital	24.2	**34**	(20)	(102)
Cash generated from operating activities		**600**	427	626
—Finance costs paid	24.3	**(170)**	(171)	(206)
—Finance revenue received		**8**	7	11
—Taxation paid	24.4	**(1)**	(17)	(20)
Cash utilised in investing activities		**(194)**	(493)	(284)
Investment to maintain operations		**(148)**	(116)	(177)
Investment to expand operations(1)		**(147)**	(436)	(181)
Cash outflows on disposal of business	24.5	**(23)**	—	—
Proceeds on disposal of assets held for sale		**104**	—	—
Proceeds on disposal of other non-current assets	24.6	**6**	53	71
Other decrease in non-current assets		**14**	6	3
Cash effects of financing activities		**(36)**	(8)	(103)
Proceeds from interest-bearing borrowings		**—**	388	1,025
Repayment of interest-bearing borrowings		**(35)**	(389)	(1,066)
Cash costs attributable to refinancing transactions		**—**	(3)	(66)
Movement in bank overdrafts		**(1)**	(4)	4
Net movement in cash and cash equivalents		**207**	(255)	24
Cash and cash equivalents at beginning of year		**352**	604	597
Translation effects		**(31)**	3	(17)
Cash and cash equivalents at end of year	24.7	**528**	352	604

(1) Includes capitalised interest of US$9 million and US$6 million for the 2013 and 2012 financial years respectively.

SAPPI
GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended September 2014

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
					US$ million				
Balance—September 2011	520.5	64	1,361	1,425	163	(304)	5	189	**1,478**
Transfer from retained earnings	—	—	—	—	2	—	—	(2)	**—**
Share-based payments	—	—	—	—	12	—	—	—	**12**
Transfers of vested share options	0.3	—	2	2	(2)	—	—	—	**—**
Translation of parent company's ordinary share capital and share premium	—	(1)	(35)	(36)	—	36	—	—	**—**
Total comprehensive income	—	—	—	—	(4)	(55)	(44)	138	**35**
Balance—September 2012	520.8	63	1,328	1,391	171	(323)	(39)	325	**1,525**
Transfer to retained earnings	—	—	—	—	(9)	—	—	9	**—**
Share-based payments	—	—	—	—	11	—	—	—	**11**
Transfers of vested share options	0.7	—	3	3	(3)	—	—	—	**—**
Translation of parent company's ordinary share capital and share premium	—	(11)	(235)	(246)	—	246	—	—	**—**
Total comprehensive loss	—	—	—	—	(12)	(211)	(1)	(168)	**(392)**
Balance—September 2013	521.5	52	1,096	1,148	158	(288)	(40)	166	**1,144**
Transfer to retained earnings	—	—	—	—	(15)	—	—	15	**—**
Share-based payments	—	—	—	—	7	—	—	—	**7**
Transfers of vested share options	2.6	—	12	12	(7)	—	—	—	**5**
Translation of parent company's ordinary share capital and share premium	—	(5)	(111)	(116)	—	116	—	—	**—**
Total comprehensive loss	—	—	—	—	(10)	(67)	(18)	(17)	**(112)**
Balance—September 2014	524.1	47	997	1,044	133	(239)	(58)	164	**1,044**
Note				*18*	*20*				

1. Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and
- Listings Requirements of the JSE Limited.

The group annual financial statements are prepared on the historical-cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements. Adoption of new accounting statements and changes to accounting standards are dealt with in sections 2.4 and 2.6.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- the net interest on post-employment benefits is included in finance costs
- jointly controlled entities that are joint ventures are accounted for using the equity method
- property, plant and equipment is accounted for using the cost model
- actuarial gains or losses on post-employment benefits are recognised in OCI and
- the step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

The group annual financial statements are presented in United States Dollar (US$), as it is the major trading currency of the pulp and paper industry, and rounded to the nearest million except as otherwise indicated.

The preparation of the group annual financial statements was supervised by the Chief Financial Officer, GT Pearce CA(SA).

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 30 September 2013 to 28 September 2014 (52 weeks)
- 01 October 2012 to 29 September 2013 (52 weeks)
- 03 October 2011 to 30 September 2012 (52 weeks)

2. Accounting policies (Continued)

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group annual financial statements are presented in US Dollars, which is the group's presentation currency.

The functional currency of the parent company is ZAR. The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

2. Accounting policies (Continued)

The group used the following exchange rates for financial reporting purposes:

	2014	2013	2012
Period-end rate			
US$1 = ZAR	**11.2285**	10.0930	8.3096
€1 = US$	**1.2685**	1.3522	1.2859
Annual average rate			
US$1 = ZAR	**10.5655**	9.2779	8.0531
€1 = US$	**1.3577**	1.3121	1.2988

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The assets, liabilities and results of these entities are included in these group annual financial statements. The results of subsidiaries acquired or disposed of in the year are included in the group annual income statement from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the group annual financial statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, and assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or

2. Accounting policies (Continued)

financial liability except, for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- ***Financial assets and financial liabilities at fair value through profit or loss***

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- ***Financial liabilities at amortised cost***

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- ***Loans and receivables***

Loans and receivables are carried at amortised cost.

- ***Available-for-sale financial assets***

Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

- ***Loans and receivables***

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- ***Available-for-sale financial assets***

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

2. Accounting policies (Continued)

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is ten years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) Licence fees

Licence fees are amortised on a straight-line basis over the useful life of each licence.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

2. Accounting policies (Continued)

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except where the transfer of ownership is uncertain at the end of the lease period, in which case, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying values will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

2.2.9 Segment reporting

The group's reportable segments, which are determined based on how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost, other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay

2. Accounting policies (Continued)

for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

2.2.12 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those

2. Accounting policies (Continued)

instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo Simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs to this process include; the volatility of the group's share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.3 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 judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

2.3.1 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 recognised 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 CGU to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

2. Accounting policies (Continued)

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

A previously recognised 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 amortisation, had no impairment loss been recognised in prior periods.

Refer to note 10 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 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 capitalised 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 capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

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 judgement 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 the year, 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.

2.3.3 Taxation

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

2. Accounting policies (Continued)

(i) 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.

(ii) 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 realisation 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 recognised 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 recognising 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 recognised. In recognising 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 movement in unrecognised deferred tax assets.

(iii) 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 recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

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

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of

2. Accounting policies (Continued)

derivatives that are designated as hedging instruments are recognised 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 recognised in the same line of profit or loss as the change in the hedged item.

(ii) 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 recognised asset or liability, a highly probable forecast transaction or, the foreign currency risk in an unrecognised 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 recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI 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 OCI to the underlying asset or liability on the transaction date.

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) 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 OCI 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 recognised immediately in profit or loss.

Refer to notes 30 and 31 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.

2.3.5 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 recognised 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.

2. Accounting policies (Continued)

- ***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 tonne allocation method multiplied by unadjusted current market prices. Tonnes 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 recognised as silviculture costs in cost of sales (see note 4).

2.3.6 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.

2. Accounting policies (Continued)

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 recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. 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 recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised 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 recognised 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 recognised 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 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

A provision is recognised 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 judgement 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).

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 nature of provisions recorded.

2. Accounting policies (Continued)

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises 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 a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

Standards, interpretations and amendments to standards

The below mentioned standards, which have a material impact on the group annual financial statements, were adopted by the group for the year ended September 2014. These standards are required to be applied retrospectively.

- IAS 19 (Revised) *Employee Benefits*—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 accelerates the recognition of past service costs. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, there are certain changes to the presentation of defined benefit cost including more extensive disclosures.
- IFRS 10 *Consolidated Financial Statements*—IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. An investor controls an investee when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Additionally, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors.

The group also adopted the following standards and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IFRS 7 *Financial Instruments: Disclosures*—Offsetting Financial Assets and Financial Liabilities
- IFRS 11 *Joint Arrangements*—classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these
- IFRS 12 *Disclosure of Interest in Other Entities*

2. Accounting policies (Continued)

- IFRS 13 *Fair Value Measurements*—establishes a single source of guidance for fair value measurements under IFRS
- IAS 27 *Separate Financial Statements*—amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements and
- IAS 28 *Investments in Associates and Joint Ventures*—amendment to conform changes based on the issuance of IFRS 10 and IFRS 11.

2.5 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*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2019.

The new standards, amendments and revisions and their effective dates mentioned below are not expected to have a material impact on the group's results or financial position:

- IFRS 11 *Joint Arrangements*—Accounting for Acquisitions of Interests in Joint Operations—September 2017
- IFRS 14 *Regulatory Deferral Accounts*—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 2018
- IAS 19 *Defined Benefit Plans*—Employee Contributions—September 2015
- IAS 27 *Separate Financial Statements*—Equity Method in Separate Financial Statements—September 2017
- IAS 32 *Financial Instruments: Presentation*—Offsetting Financial Assets and Financial Liabilities—September 2015
- IAS 36 *Impairment of Assets*—Recoverable Amount Disclosures for Non-Financial Assets—September 2015
- IAS 39 *Financial Instruments: Recognition and Measurement*—Novation of Derivatives and Continuation of Hedge Accounting—September 2015
- IAS 41 *Agriculture*—Bearer Plants—September 2017
- IFRIC 21 *Levies*—September 2015 and
- Various improvements to IFRS.

2.6 Impact of new and revised accounting standards

Adoption of IAS 19 (Revised) ***Employee Benefits***

This standard, which is required to be applied retrospectively, was adopted by the group for the year ended September 2014. As a result of the change, the group now determines the net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of

2. Accounting policies (Continued)

contributions and benefit payments, to the net defined benefit liability (asset). Previously, the group determined interest income on plan assets based on the assets' long-term rate of expected return. The group also reclassified the net interest expense (income) from operating profit (loss) to finance costs as an accounting policy choice.

The impact on profit or loss and other comprehensive loss is as follows:

	2013			2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
			US$ million			
Group income statement						
Cost of sales	5,274	11	5,285	5,552	(3)	5,549
Selling, general and administrative expenses	384	—	384	417	(3)	414
Net finance costs	166	20	186	283	23	306
Taxation	25	(10)	15	34	(6)	28
(Loss) profit for the period	(161)	(21)	(182)	104	(11)	93
(Loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
Diluted (loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
Group statement of comprehensive income						
Item that will not be reclassified subsequently to profit or loss						
Actuarial gains (losses) on post-employment benefit funds	20	31	51	(88)	17	(71)
Tax effect of above item	(27)	(10)	(37)	122	(6)	116

Adoption of IFRS 10 *Consolidated Financial Statements*

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

Additionally, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that, although the insurance industry is governed by

2. Accounting policies (Continued)

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.

	2013			2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
	US$ million					
Group balance sheet						
Other non-current assets	62	33	95	62	41	103
Cash and cash equivalents	385	(33)	352	645	(41)	604
Net debt	2,214	33	2,247	1,979	41	2,020

3. Segment information

Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue is comprised mostly of the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp and coated, uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

3. Segment information (Continued)

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit (loss) excluding special items.

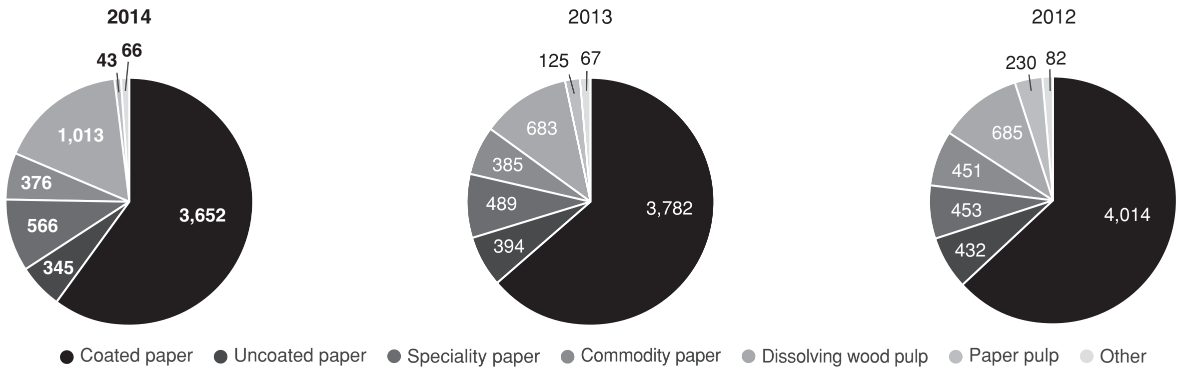
	North America			Europe			Southern Africa			Unallocated and eliminations[3]			Group		
		Restated			Restated			Restated			Restated			Restated	
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
	US$ million														
Income statement															
External sales[1]	**1,517**	1,377	1,438	**3,107**	3,155	3,350	**1,437**	1,393	1,559	**—**	—	—	**6 061**	5,925	6,347
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141	**248**	125	182	**5**	6	(2)	**346**	180	409
Special items—(losses) gains[2]	**(2)**	6	(7)	**(33)**	(142)	45	**12**	(8)	(25)	**(9)**	(17)	5	**(32)**	(161)	18
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186	**260**	117	157	**(4)**	(11)	3	**314**	19	427
EBITDA excluding special items[2]	**92**	135	167	**249**	183	337	**312**	204	275	**5**	6	(1)	**658**	528	778
Share of profit (loss) of equity investments	**—**	—	—	**—**	1	1	**8**	6	4	**—**	—	(3)	**8**	7	2
Depreciation and amortisation	**(74)**	(78)	(79)	**(174)**	(191)	(196)	**(64)**	(79)	(93)	**—**	—	(1)	**(312)**	(348)	(369)
Impairment reversals (impairments) of assets and investments	**—**	—	—	**2**	(63)	(1)	**(3)**	(92)	(9)	**—**	—	—	**(1)**	(155)	(10)
Profit on disposal of equity investments	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	11	**—**	—	11
(Loss) profit on disposal of assets and businesses	**—**	—	—	**(32)**	—	51	**3**	(2)	1	**—**	—	—	**(29)**	(2)	52
Fellings	**—**	—	—	**—**	—	—	**(59)**	(66)	(73)	**—**	—	—	**(59)**	(66)	(73)
Plantation fair value adjustment	**—**	—	—	**—**	—	—	**86**	166	68	**—**	—	—	**86**	166	68
Restructuring provisions (raised) released and closure costs	**(3)**	—	—	**11**	(79)	(5)	**(2)**	(17)	7	**—**	(1)	—	**6**	(97)	2
Post-retirement plan amendment	**—**	—	—	**21**	—	—	**—**	24	—	**—**	—	—	**21**	24	—
Other non-cash items	**(16)**	15	16	**2**	6	2	**4**	(7)	17	**3**	(12)	5	**(7)**	2	40
Balance sheet															
Capital expenditures	**53**	168	92	**153**	129	96	**49**	278	216	**1**	—	—	**256**	575	404
Segment assets[2]	**1,013**	1,046	919	**1,472**	1,594	1,776	**1,289**	1,556	1,646	**(35)**	(25)	20	**3,739**	4,171	4,361
Property, plant and equipment	**843**	864	774	**1,145**	1,245	1,314	**852**	968	1,067	**1**	1	2	**2,841**	3,078	3,157

(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to the Glossary in the Integrated Report for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

Sales by product



3. Segment information (Continued)

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

	North America			Europe			Southern Africa			Unallocated and eliminations[2]			Group		
		Restated			Restated			Restated			Restated			Restated	
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
	US$ million														
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141	**248**	125	182	**5**	6	(2)	**346**	180	409
Special items—(losses) gains[1]	**(2)**	6	(7)	**(33)**	(142)	45	**12**	(8)	(25)	**(9)**	(17)	5	**(32)**	(161)	18
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186	**260**	117	157	**(4)**	(11)	3	**314**	19	427

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America			Europe			Southern Africa			Unallocated and eliminations[2]			Group		
		Restated			Restated			Restated			Restated			Restated	
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
	US$ million														
EBITDA excluding special items[1]	**92**	135	167	**249**	183	337	**312**	204	275	**5**	6	(1)	**658**	528	778
Depreciation and amortisation	**(74)**	(78)	(79)	**(174)**	(191)	(196)	**(64)**	(79)	(93)	**—**	—	(1)	**(312)**	(348)	(369)
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141	**248**	125	182	**5**	6	(2)	**346**	180	409
Special items—(losses) gains[1]	**(2)**	6	(7)	**(33)**	(142)	45	**12**	(8)	(25)	**(9)**	(17)	5	**(32)**	(161)	18
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186	**260**	117	157	**(4)**	(11)	3	**314**	19	427
Net finance costs													**(177)**	(186)	(306)
Profit (loss) before taxation													**137**	(167)	121

Reconciliation of segment assets to total assets:

	Group		
		Restated	
	2014	2013	2012
	US$ million		
Segment assets[1]	**3,739**	4,171	4,361
Deferred tax assets	**138**	92	154
Cash and cash equivalents	**528**	352	604
Derivative financial instruments (included in current liabilities)	**7**	2	1
Trade and other payables	**996**	1,015	1,005
Provisions	**32**	77	17
Taxation payable	**25**	12	26
Liabilities associated with assets held for sale	**—**	6	—
Total assets	**5,465**	5,727	6,168

(1) Refer to the Glossary in the Integrated Report for the definition of the term.

(2) Primarily includes the group's treasury operations and its self-insurance captive.

4. Operating profit

Operating profit has been arrived at after charging (crediting):

	2014		Restated 2013		Restated 2012	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
	US$ million					
Raw materials, energy and other direct input costs	**3,355**	**—**	3,258	—	3,393	—
Wood (includes growth and felling adjustments[1])	**664**	**—**	641	—	723	—
Energy	**529**	**—**	547	—	565	—
Chemicals	**914**	**—**	946	—	1,028	—
Pulp	**1,039**	**—**	914	—	753	—
Other variable costs	**209**	**—**	210	—	324	—
Plantation price fair value adjustment	**(18)**	**—**	(87)	—	15	—
Employment costs	**860**	**190**	865	191	895	197
Depreciation	**296**	**14**	327	18	345	22
Delivery charges	**532**	**—**	510	—	526	—
Maintenance	**238**	**—**	254	—	253	—
Other overheads	**107**	**—**	158	—	122	—
Marketing and selling expenses	**—**	**97**	—	98	—	102
Administrative and general expenses	**—**	**51**	—	77	—	93
	5,370	**352**	5,285	384	5,549	414

4. Operating profit (Continued)

	2014	Restated 2013	Restated 2012
	US$ million		
Silviculture costs (included within cost of sales)	**58**	67	70
Leasing charges for premises	**13**	13	14
Leasing charges for plant and equipment	**15**	16	18
Remuneration paid other than to employees of the company in respect of	**26**	30	28
Technical services	**9**	14	14
Administration services	**17**	16	14
Auditor's remuneration	**7**	7	8
Audit and related services	**6**	6	6
Tax planning and tax advice	**1**	1	2
Research and development costs	**22**	23	24
Amortisation	**2**	3	2
Cost on derecognition of loans and receivables[2]	**9**	7	10
Impairments of assets and investments	**1**	155	10
Restructuring provisions and closure costs (reversed) raised	**(6)**	97	(2)
Profit on disposal of equity investments	**—**	—	(11)
Loss (profit) on disposal of assets and businesses	**29**	2	(52)
Post-retirement plan amendment	**(21)**	(24)	—
Black Economic Empowerment (BEE) charge	**2**	3	3
Employment costs consist of	**1,050**	1,056	1,092
Wages and salaries	**978**	953	984
Defined contribution plan expense	**34**	34	35
Defined benefit pension plan expense	**—**	26	29
Other defined benefit plan expense	**3**	3	2
Share-based payment expense	**5**	8	9
Other	**30**	32	33

(1) Changes in plantation volumes

	2014	2013	2012
Fellings	**59**	66	73
Growth	**(68)**	(79)	(83)

(2) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

5. Net finance costs

	2014	Restated 2013	Restated 2012
	US$ million		
Interest and other finance costs on liabilities carried at amortised cost	**177**	184	311
Interest on overdrafts	**1**	3	1
Interest on redeemable bonds and other loans	**175**	180	220
Premium and costs on early redemption of redeemable bonds and other loans	**—**	—	46
Accelerated amortisation on early settlement of redeemable bonds and other loans	**—**	—	42
Interest cost on finance lease obligations	**1**	1	2
Net interest on employee benefit liabilities	**17**	20	23
Interest capitalised to property, plant and equipment[1]	**—**	(9)	(6)
Finance revenue received on assets carried at amortised cost	**(9)**	(7)	(12)
Interest on bank accounts	**(7)**	(6)	(10)
Interest revenue on other loans and investments	**(2)**	(1)	(2)
Net foreign exchange gains	**(7)**	(1)	(5)
Net fair value gain on financial instruments	**(1)**	(1)	(5)
Realised gain on termination of swaps	**—**	—	(2)
Gain on amortisation of de-designated hedges	**—**	—	(3)
Hedge ineffectiveness			
loss (gain) on hedging instrument (derivative)	**5**	8	(3)
(gain) loss on hedged item	**(6)**	(9)	3
	177	186	306

(1) Borrowing costs incurred on the conversion project at Ngodwana Mill in Sappi Southern Africa have been capitalised at a rate of 7.7% and 9.3% for the 2013 and 2012 financial years respectively and, at Cloquet Mill in North America, at a capitalisation rate of 4.1% for both financial years.

6. Taxation charge

	2014	Restated 2013	Restated 2012
	US$ million		
Current taxation			
Current year	**19**	1	28
Prior year overprovision	**(2)**	(9)	(4)
Other company taxes	**—**	4	4
Deferred taxation			
Current year	**36**	26	4
Recognition of deferred tax asset[1]	**(53)**	(8)	—
Prior year underprovision (overprovision)	**2**	1	(2)
Attributable to tax rate changes	**—**	—	(2)
	2	15	28
Reconciliation of the tax rate			
Profit (loss) profit before taxation	**137**	(167)	121
Profit-making regions	**278**	149	249
Loss-making regions	**(141)**	(316)	(128)
Taxation at the average statutory tax rate	**35**	(42)	41
Profit-making regions at 27% (2013: 27%; 2012: 29%)	**74**	40	72
Loss-making regions at 28% (2013: 26%; 2012: 24%)	**(39)**	(82)	(31)
Net exempt income and non-tax deductible expenditure	**(53)**	(12)	(41)
Effect of tax rate changes	**—**	—	(2)
No tax relief on losses	**75**	52	58
No tax charge on profits	**(2)**	(3)	(26)
Derecognition of deferred tax assets	**—**	32	—
Recognition of deferred tax assets	**(53)**	(8)	—
Prior year adjustments	**—**	(8)	(6)
Other taxes	**—**	4	4
Taxation charge	**2**	15	28
Effective tax rate for the year	**1%**	(9%)	23%

In addition to income taxation charges to profit or loss, a deferred taxation relief of US$1 million (2013: US$39 million charge; 2012: US$119 million relief) has been recognised directly in other comprehensive income (refer to note 12).

(1) The group received a final examination report from the US Internal Revenue Service relating to the tax audit of Sappi North America. The report confirmed that the Alternative Fuel Mixture Credit received in prior years, which was previously treated as taxable by the group, was non-taxable and resulted in an additional deferred tax asset of US$53 million being raised by the group.

7. Basic earnings (loss) per share and headline earnings (loss) per share

Basic earnings (loss) per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

7. Basic earnings (loss) per share and headline earnings (loss) per share (Continued)

	2014			Restated 2013			Restated 2012		
	Profit US$ million	Shares million	Earnings per share US cents	Loss US$ million	Shares million	Loss per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**135**	**522.5**	**26**	(182)	521.3	(35)	93	520.8	18
Share options and performance shares under Sappi Limited Share Trust	**—**	**4.1**	**—**	—	—	—	—	1.4	—
Diluted EPS calculation	**135**	**526.6**	**26**	(182)	521.3	(35)	93	522.2	18

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR35.98 (2013: ZAR26.70; 2012: ZAR24.88) and exclude the effect of certain share options granted under The Sappi Share Incentive Scheme as well as share options granted under the BEE transaction as they would be antidilutive. During the 2013 financial year, all share options not exercised at year-end are considered to be antidilutive due to the loss per share incurred in that year.

There are 1.3 million (2013: 20.4 million; 2012: 12.8 million) share options on ordinary shares that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are antidilutive. In addition, refer to notes 18 and 29 for a discussion on the 'A' ordinary shares, all of which were antidilutive at the financial year-end.

Headline earnings (loss) per share[1]

Headline earnings (loss) per share is based on the group's headline earnings (loss) divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings (loss) to ordinary shareholders and headline earnings (loss):

	2014			Restated 2013			Restated 2012		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
					US$ million				
Attributable earnings (loss) to ordinary shareholders	**137**	**2**	**135**	(167)	15	(182)	121	28	93
Impairments of assets and investments	**1**	**—**	**1**	155	27	128	10	2	8
Profit on disposal of equity investments	**—**	**—**	**—**	—	—	—	(11)	—	(11)
Loss (profit) on disposal of assets and businesses	**29**	**1**	**28**	2	—	2	(52)	—	(52)
Headline earnings (loss)	**167**	**3**	**164**	(10)	42	(52)	68	30	38
Weighted average number of ordinary shares in issue (millions)			**522.5**			521.3			520.8
Headline earnings (loss) per share (US cents)			**31**			(10)			7
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**526.6**			521.3			522.2
Diluted headline earnings (loss) per share (US cents)			**31**			(10)			7

(1) Headline earnings—as defined in Circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.

8. Dividends

No dividends were declared in respect of the current and previous financial years.

9. Assets held for sale

During the year, Sappi Southern Africa disposed of its subsidiary, Usutu Forests Products Company Limited (Usutu), and other plantations for an amount of US$97 million and US$7 million respectively resulting in a profit on disposal of US$4 million. The amount for the sale of Usutu includes a vendor loan note of US$8 million which is repayable over six years at a rate of prime plus 2%.

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

	2014	2013
	US$ million	
Property, plant and equipment	—	6
Plantations	—	86
Trade and other receivables	—	2
Assets held for sale	—	94
Deferred tax liabilities	—	1
Other non-current liabilities	—	2
Trade and other payables	—	3
Liabilities associated with assets held for sale	—	6

Refer to note 11 for more detail on adjustments to plantations held for sale prior to disposal.

10. Property, plant and equipment

	2014	2013
	US$ million	
Land and buildings[1]		
At cost	**1,443**	1,535
Accumulated depreciation and impairments	**(846)**	(883)
	597	652
Plant and equipment[2]		
At cost	**6,814**	7,141
Accumulated depreciation and impairments	**(4,572)**	(4,721)
	2,242	2,420
Capitalised leased assets[3]		
At cost	**464**	514
Accumulated depreciation and impairments	**(462)**	(508)
	2	6
Aggregate cost	**8,721**	9,190
Aggregate accumulated depreciation and impairments	**(5,880)**	(6,112)
Aggregate book value[4]	**2,841**	3,078

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of plant and equipment.

(4) An amount of US$194 million (2013: US$160 million) relates to assets under construction.

10. Property, plant and equipment (Continued)

The movement of property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	Total
		US$ million		
Net book value at September 2012	653	2,459	45	**3,157**
Additions	56	510	—	**566**
Finance costs capitalised	—	9	—	**9**
Disposals	(1)	(13)	—	**(14)**
Transfers	8	53	(61)	**—**
Depreciation	(38)	(329)	22	**(345)**
Impairments	—	(164)	—	**(164)**
Impairment reversals	—	9	—	**9**
Transfers to assets held for sale (refer to note 9)	(4)	(2)	—	**(6)**
Translation differences	(22)	(112)	—	**(134)**
Net book value at September 2013	652	2,420	6	**3,078**
Additions	19	238	—	**257**
Disposals	(3)	(9)	—	**(12)**
Transfers	1	—	(1)	**—**
Depreciation	(34)	(273)	(3)	**(310)**
Impairments	—	(4)	—	**(4)**
Impairment reversals	—	4	—	**4**
Translation differences	(38)	(134)	—	**(172)**
Net book value at September 2014	597	2,242	2	**2,841**

Refer to note 25 for details of encumbrances.

September 2014 material asset impairments and impairment reversals

Europe

Sappi Lanaken

On the disposal of Nijmegen Mill, products previously produced by the mill have been relocated to other Sappi Europe mills. As a result, certain equipment at Lanaken Mill that was previously not required have been brought back into use resulting in an impairment reversal of US$2 million being recognised in other operating expenses in profit or loss.

Sappi Southern Africa

Enstra Mill and Tugela Mill

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in an amount of approximately US$2 million being written off to other operating expenses in profit or loss for the period at each mill.

Stanger Mill

During the year, plant that was previously impaired at Stanger Mill was disposed of resulting in an impairment reversal of US$2 million being recognised in other operating expenses in profit or loss.

10. Property, plant and equipment (Continued)

September 2013 material asset impairments and impairment reversals

Europe

As a result of the market decline and consequent overcapacity in the European coated paper markets, combined with high raw material costs which were not compensated for by higher selling prices, the group impaired certain assets and undertook certain strategic initiatives which resulted in asset impairments:

Coated mechanical cash-generating unit (CGU)

The coated mechanical CGU was valued on a value in use basis using a real pre-tax rate of 8.7%. This resulted in an impairment charge of US$25 million being recorded in other operating expenses in profit or loss.

Nijmegen Mill

In order to reduce costs and improve efficiencies, the group identified the need to concentrate production at fewer sites. The group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in the mill's plant and equipment being impaired and an impairment charge of US$38 million being recorded in other operating expenses in profit or loss.

Due to the relocation of production of certain products from Nijmegen Mill, the group incurred an impairment charge of US$2 million as a result of equipment being taken out of production at other Sappi mill sites. This impairment was recorded in other operating expenses in profit or loss.

Nijmegen Mill was sold during the 2014 financial year.

Alfeld Mill

The conversion of paper machine 2 at Alfeld Mill to produce speciality paper resulted in certain of the mill assets becoming redundant. As a result, an impairment charge of US$4 million was recorded in other operating expenses in profit or loss.

Central service departments

In line with decreasing volumes and to reduce fixed costs, certain central service departments were restructured resulting in certain information technology assets being made redundant. This resulted in an impairment charge of US$3 million in other operating expenses in profit or loss.

Kangas Mill

The group disposed of the previously impaired paper machine 4 at Kangas Mill. As the proceeds on disposal exceeded the carrying value of the asset, an impairment reversal of US$9 million was recorded in other operating expenses in profit or loss.

Southern Africa

Enstra Mill

As a result of difficult market conditions and input costs pressure, Enstra Mill was tested for impairment on a value in use basis which resulted in an impairment charge of US$32 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated using a real pre-tax discount rate of 9.12%.

10. Property, plant and equipment (Continued)

Tugela Mill

Due to ongoing losses at Tugela Mill, the mill was tested for impairment resulting in an impairment charge of US$47 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

Stanger Mill

As a result of difficult local market conditions as well as input costs pressure on the paper production facility at Stanger Mill, the paper production facility was tested for impairment resulting in an impairment charge of US$12 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

11. Plantations

	2014	2013
	US$ million	
Fair value of plantations at beginning of year	**464**	555
Additions	**—**	4
Gains arising from growth[1]	**65**	79
Fire, flood, storms and related events	**—**	(4)
In-field inventory	**(1)**	1
Gain arising from fair value price changes[1]	**7**	87
Harvesting—agriculture produce (fellings)[1]	**(57)**	(66)
Transferred to assets held for sale	**—**	(93)
Translation differences	**(48)**	(99)
Fair value of plantations at end of year	**430**	464

(1) At September 2013, plantations amounting to US$86 million were disclosed as assets held for sale. In accordance with IAS 41 Agriculture, these plantations were carried at fair value. Before the disposal of the plantations in the current period, gains arising from growth amounted to US$3 million, the price fair value adjustment amounted to US$11 million and timber worth US$2 million was felled in these plantations.

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations comprise pulpwood and sawlogs and are managed to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than twenty years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

11. Plantations (Continued)

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSC™ standards.

Plantations are stated at fair value loss 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* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 8.86%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons of timber per hectare while immature timber comprise approximately 105,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell and, volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

	2014	2013	2012
	US$ million		
Market price changes			
1% increase in market prices	**2**	2	4
1% decrease in market prices	**(2)**	(2)	(4)
Discount rate (for immature timber)			
1% increase in rate	**(2)**	(3)	(4)
1% decrease in rate	**2**	3	4
Volume assumption			
1% increase in estimate of volume	**4**	5	5
1% decrease in estimate of volume	**(4)**	(5)	(5)
Costs to sell			
1% increase in costs to sell	**(2)**	(2)	(3)
1% decrease in costs to sell	**2**	2	3
Growth assumptions			
1% increase in rate of growth	**1**	2	2
1% decrease in rate of growth	**(1)**	(2)	(2)

12. Deferred tax

	2014		Restated 2013	
	Assets	Liabilities	Assets	Liabilities
	US$ million			
Other liabilities, accruals and prepayments	**(48)**	**13**	(56)	43
Inventory	**6**	**2**	5	1
United States of America (USA) tax credits carry forward	**56**	**—**	55	—
Tax loss carry forward	**117**	**41**	118	60
Property, plant and equipment	**(30)**	**(239)**	(53)	(257)
Plantations	**—**	**(98)**	(26)	(124)
Other non-current assets	**13**	**—**	53	—
Other non-current liabilities	**24**	**9**	(4)	10
	138	**(272)**	92	(267)

12. Deferred tax (Continued)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

12. Deferred tax (Continued)

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

	2014	Restated 2013
	US$ million	
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**139**	5
Tax losses	**740**	756
USA tax credits carry forward[1]	**58**	59
	937	820
Attributable to the following tax jurisdictions:		
Austria	**632**	510
Belgium	**134**	99
Finland	**44**	50
Swaziland	**—**	23
The Netherlands	**69**	79
USA	**58**	59
	937	820
Expiry between one and five years	**155**	143
Expiry after five years	**34**	65
Indefinite life	**748**	612
	937	820
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**820**	645
No tax relief on losses	**209**	63
No tax charge on profits	**(1)**	(3)
Derecognition of deferred tax assets	**—**	32
Recognition of deferred tax assets	**—**	(8)
Disposal of unrecognised deferred tax asset	**(22)**	—
Prior year adjustments	**—**	62
Rate adjustments	**(9)**	—
Movement in foreign exchange rates	**(60)**	29
Balance at end of year	**937**	820
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**92**	154
Deferred tax liabilities	**(267)**	(319)
	(175)	(165)
Deferred tax benefit (charge) for the year	**15**	(19)
Other liabilities, accruals and prepayments	**(29)**	28
Inventory	**2**	(1)
USA tax credits	**—**	37
Tax loss carry forward	**47**	(35)
Property, plant and equipment	**25**	(4)
Plantations	**13**	(27)
Other non-current assets	**(30)**	(13)
Other non-current liabilities	**(13)**	(4)
Amounts recorded directly in other comprehensive income	**1**	(39)
Transfer to assets held for sale	**—**	1
Translation differences	**25**	47
Deferred tax balances at end of year	**(134)**	(175)
Deferred tax assets[2]	**138**	92
Deferred tax liabilities	**(272)**	(267)

(1) Our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses must be utilised prior to the utilisation of the CBTC. The CBTC expires during the 2016 financial year.

(2) The group raised an additional deferred tax asset of US$53 million in North America. To the extent future taxable profits arising from the reversal of existing taxable temporary differences will be available, assets have been set up in Belgium and North America. Profit forecasts, based on external sources and management judgement, provide sufficient evidence for the recognition of these assets.

13. Goodwill and intangible assets

	2014				2013			
	Goodwill	Licence fees	Brands	Total	Goodwill	Licence fees	Brands	Total
	US$ million							
Net carrying amount at beginning of year	**4**	**3**	**13**	**20**	4	3	15	22
Acquisition	**1**	**—**	**—**	**1**	—	—	—	—
Amortisation	**—**	**—**	**(2)**	**(2)**	—	—	(3)	(3)
Impairment	**(1)**	**—**	**—**	**(1)**	—	—	—	—
Translation difference	**—**	**—**	**(1)**	**(1)**	—	—	1	1
Net carrying amount	**4**	**3**	**10**	**17**	4	3	13	20
Cost (gross carrying amount)	**5**	**3**	**23**	**31**	4	3	25	32
Accumulated amortisation and impairments	**(1)**	**—**	**(13)**	**(14)**	—	—	(12)	(12)
Net carrying amount	**4**	**3**	**10**	**17**	4	3	13	20

The net carrying amount of goodwill relates to the coated woodfree cash-generating unit in Sappi Europe. The goodwill is not significant but has been assessed for impairment and no impairment was required.

Goodwill arising on acquisition relates to the business which owns the group's head office building. As the building had previously been capitalised as a finance lease, the premium paid on acquisition of this business was not considered to enhance the carrying value and, as a result, has been fully impaired.

14. Joint ventures

	2014	2013
	US$ million	
Group's share of carrying amount of joint ventures		
Material joint venture	**14**	17
Joint ventures that are not individually material	**2**	1
	16	18

Dividends received from joint ventures for the 2014 financial year was US$9 million (2013: US$3 million; 2012: US$3 million).

Details of material joint venture

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa and the development, production and sale of products based on lignosulphanate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with International Financial Reporting Standards are used to account for the joint venture's income to Sappi's year-end.

14. Joint ventures (Continued)

Summarised financial information of Umkomaas Lignin Proprietary Limited:

	2014	2013
	US$ million	
Current assets	**22**	26
Non-current assets	**15**	18
Current liabilities	**7**	7
Non-current liabilities	**2**	3
The above assets and liabilities include the following:		
Cash and cash equivalents	**5**	4
Current financial liabilities (excluding trade and other payables, and provisions)	**3**	3
Non-current financial liabilities (excluding trade and other payables, and provisions)	**2**	3

	2014	2013	2012
		US$ million	
Sales	**67**	61	59
Depreciation and amortisation	**2**	3	4
Finance costs	**—**	—	—
Finance revenue	**—**	—	—
Taxation charge	**6**	4	4
Profit from continuing operations	**16**	11	9
Other comprehensive income	**—**	—	—
Total comprehensive income	**16**	11	9

Reconciliation of the financial information to the carrying amount of the joint venture:

	2014	2013
	US$ million	
Net assets of the joint venture	**28**	34
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	17

Details of joint ventures that are not individually material

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December, which is a common date for entities operating in the joint ventures' countries of incorporation and which is the financial year-end of the other venturers.

Aggregate financial information for joint ventures that are not individually material:

	2014	2013	2012
		US$ million	
Profit (loss) from continuing operations	**—**	2	(7)
Profit (loss) from discontinuing operations	**—**	—	—
Other comprehensive income (loss)	**1**	(1)	—
Total comprehensive income (loss)	**1**	1	(7)

	2014	2013
	US$ million	
Carrying amount of these joint ventures	**2**	1

15. Other non-current assets

	2014	Restated 2013
	US$ million	
Investment funds	**9**	49
Defined benefit pension plan assets (refer to note 28)	**27**	29
Advances to tree growers	**5**	6
Other financial assets	**6**	6
Other	**3**	5
	50	95

16. Inventories

	2014	2013
	US$ million	
Raw materials	**145**	146
Work in progress	**64**	77
Finished goods	**334**	356
Consumable stores and spares	**144**	149
	687	728

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$9 million (2013: US$11 million; 2012: US$9 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$4,854 million (2013: US$4,849 million; 2012: US$5,009 million).

Refer to note 25 for inventory pledged as security.

17. Trade and other receivables

	2014	2013
	US$ million	
Trade accounts receivable, gross	**626**	642
Allowance for credit losses	**(9)**	(7)
Trade accounts receivable, net	**617**	635
Prepayments and other receivables	**114**	112
	731	747

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximates its fair value.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables (including the vendor loan note of US$8 million arising on the disposal of Usutu Forests Products Company Limited).

Trade receivables (including securitised trade receivables) represent 12.31% (2013: 12.89%) of turnover.

17. Trade and other receivables (Continued)

17.1 Reconciliation of the allowance for credit losses

Balance at beginning of year	**7**	10
Raised during the year	**5**	5
Released during the year	**(2)**	(7)
Utilised during the year	**—**	(1)
Translation differences	**(1)**	—
Balance at end of year	**9**	7

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2014

The following provides an analysis of the amounts that are past the contractual maturity dates:

	Not impaired	Impaired	Total
	US$ million		
Less than 7 days overdue	**12**	**—**	**12**
Between 7 and 30 days overdue	**12**	**—**	**12**
Between 30 and 60 days overdue	**2**	**—**	**2**
More than 60 days overdue	**2**	**9**	**11**
	28	**9**	**37**

September 2013

The following provides an analysis of the amounts that are past the contractual maturity dates:

	Not impaired	Impaired	Total
	US$ million		
Less than 7 days overdue	12	—	12
Between 7 and 30 days overdue	10	—	10
Between 30 and 60 days overdue	4	—	4
More than 60 days overdue	1	7	8
	27	7	34

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis.

Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2013: US$1 million) against trade receivables past contractual repayment terms.

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

17. Trade and other receivables (Continued)

On-balance sheet structure

In the 2013 financial year, the group extended its on-balance sheet securitisation programme with UniCredit Bank AG to August 2016. This programme has a limit of US$419 million (€330 million) and the trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$478 million (2013: US$521 million) have been pledged as collateral for amounts received as funding under the programme of US$374 million (2013: US$405 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of First Rand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but carries 15% of the credit risk (and Rand Merchant Bank Limited 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 securitisation 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% mentioned above. There are a number of events which may trigger termination of the facility, among 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 is entered into.

The total amount of trade receivables sold at the end of September 2014 amounted to US$120 million (2013: US$122 million).

Details of the securitisation programme at the end of the 2014 and 2013 financial years are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2014				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,348 million**	**Unlimited**[(1)]	**Linked to 3-month JIBAR**
2013				
Rand Merchant Bank Limited	ZAR	ZAR1,235 million	Unlimited[(1)]	Linked to 3-month JIBAR

(1) The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain Letters of Credit to the Royal Bank of Scotland (Hong Kong) and Union Bancaire Privee (Switzerland) and similarly, discounts certain trade receivables with Deutsche Bank (Frankfurt), HSBC (Mexico) and Citibank (Sao Paulo) by utilising the customers credit facilities with the discounting bank.

17. Trade and other receivables (Continued)

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (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 recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). 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 recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$21 million (2013: US$31 million) has been disclosed in this respect.

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales during the years ended September 2014 and September 2013.

Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$731 million (2013: US$747 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following trade receivable amounts due from single customers:

	2014			2013		
Threshold	**Number of customers**	**US$ million**	**Percentage**	**Number of customers**	**US$ million**	**Percentage**
Greater than US$10 million	**6**	**119**	**19%**	9	145	23%
Between US$5 million and US$10 million	**13**	**83**	**14%**	11	73	11%
Less than US$5 million	**2,223**	**415**	**67%**	2,015	417	66%
	2,242	**617**	**100%**	2,035	635	100%

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

18. Ordinary share capital and share premium

	2014		2013	
	Number of shares	US$ million	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each[1]	**19,961,476**		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**541,446,223**	**48**	541,446,223	54
Fully paid 'A' ordinary shares of ZAR1 each[1]	**19,961,476**	**2**	19,961,476	2
Treasury shares[2]	**(37,248,091)**	**(3)**	(39,894,124)	(4)
Share premium		**997**		1,096
	524,159,608	**1,044**	521,513,575	1,148
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**1,148**		1,391
Transfers from Sappi Limited Share Incentive Trust		**12**		3
Translation movements		**(116)**		(246)
Closing balance		**1,044**		1,148

(1) The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation details of which are available for inspection at the company's registered offices.

(2) Includes 17,286,615 (2013: 19,932,648) ordinary shares as well as 19,961,476 (2013: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

The movement in the number of treasury shares is set out in the table below:

	Number of shares	
	2014	2013
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**19,932,648**	20,601,761
Treasury shares issued to participants of the Scheme	**(2,646,033)**	(669,113)
—Share options (refer to note 29)	**(1,805,607)**	(54,284)
—Share plan options (refer to note 29)	**(840,426)**	(614,829)
Ordinary treasury shares at end of year	**17,286,615**	19,932,648
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	37,248,091	39,894,124

18. Ordinary share capital and share premium (Continued)

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of The Sappi Limited Share Incentive Trust (the 'Scheme') and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed in note 21 and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- to ensure sufficient resilience against economic turmoil
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints and
- to ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2014 and 2013 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

19. Other comprehensive loss

		Restated	
	2014	**2013**	**2012**
	US$ million		
Item that will not be reclassified subsequently to profit or loss			
Actuarial (losses) gains on post-employment benefit funds	**(152)**	14	45
Gross amount	**(152)**	51	(71)
Tax[1]	**—**	(37)	116
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency	**(71)**	(225)	(60)
Translation of foreign operations	**(67)**	(211)	(24)
Exchange differences arising on non-distributable reserves	**(8)**	(11)	(5)
Exchange differences arising on available-for-sale financial instruments	**—**	(1)	—
Exchange differences arising on hedging reserves	**4**	(2)	—
Reclassification adjustments to profit or loss on disposal of foreign operations	**—**	—	(31)
Tax	**—**	—	—
Fair value adjustment on available-for-sale financial instruments	**(2)**	—	1
Gross amount	**(2)**	—	1
Tax	**—**	—	—
Hedging reserves	**(22)**	1	(44)
Movements during the year	**(26)**	4	(37)
Reclassified to profit or loss	**3**	4	(7)
Reclassified to property, plant and equipment	**—**	(5)	(3)
Tax	**1**	(2)	3
Other comprehensive loss recorded directly in equity	**(247)**	(210)	(58)
Profit (loss) for the year	**135**	(182)	93
Total comprehensive (loss) income for the year	**(112)**	(392)	35

(1) Due to the effect of different effective tax rates being applied in different tax jurisdictions, the net tax effect for the 2014 financial year is nil. The 2012 financial year included the recognition of a US$101 million deferred tax asset that relates to transactions that occurred prior to the 2012 financial year.

20. Non-distributable reserves

	2014	**2013**
	US$ million	
Legal reserves in subsidiaries	**65**	70
Share-based payment reserve	**64**	72
Other	**4**	16
Capital reduction	**1**	1
Capitalisation of distributable reserves	**1**	11
Revaluation of available-for-sale financial assets	**2**	4
	133	158

20. Non-distributable reserves (Continued)

	2014				2013			
	Legal reserves[1]	Share-based payment reserve	Other	Total	Legal reserves[1]	Share-based payment reserve	Other	Total
	US$ million							
Opening balance	**70**	**72**	**16**	**158**	76	78	17	171
Transfer to retained earnings	**—**	**—**	**(15)**	**(15)**	(9)	—	—	(9)
Transfers of vested share options	**—**	**(7)**	**—**	**(7)**	—	(3)	—	(3)
Share-based payment expense	**—**	**7**	**—**	**7**	—	11	—	11
Movement on available-for-sale financial assets	**—**	**—**	**(2)**	**(2)**	—	—	—	—
Translation differences	**(5)**	**(8)**	**5**	**(8)**	3	(14)	(1)	(12)
	65	**64**	**4**	**133**	70	72	16	158

[1] Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.

21. Interest-bearing borrowings

	2014	2013
	US$ million	
Secured borrowings		
—Mortgage and pledge over trade receivables and certain assets (refer to note 25 for details of encumbered assets)	**1,729**	1,779
—Capitalised lease liabilities (refer to note 25 for details of encumbered assets)	**—**	8
Total secured borrowings	**1,729**	1,787
Unsecured borrowings	**745**	811
Total borrowings (refer to note 31)	**2,474**	2,598
Less: Current portion included in current liabilities	**(163)**	(99)
Total non-current interest-bearing borrowings	**2,311**	2,499

The repayment profile of the interest-bearing borrowings is as follows:

	2014	2013
Payable in the year ended September:		
2014		99
2015	**163**	103
2016	**464**	504
2017	**521**	526
2018	**358**	383
2019 (September 2013: Thereafter)	**295**	983
Thereafter	**673**	
	2,474	2,598

21. Interest-bearing borrowings (Continued)

Capitalised lease liabilities

As at financial year-end, the group held no outstanding material capitalised finance lease liabilities.

	2014			2013		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
	US$ million					
Payable in the year ended September:						
2014				4	(1)	3
2015	—	—	—	5	—	5
Total future minimum lease payments	—	—	—	9	(1)	8

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2014:

	Currency	Interest rate(1)	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed(2)	US$400 million	US$394 million(3)(4)(5)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€250 million	€247 million(3)(4)(5)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Fixed(2)	US$300 million	US$295 million(3)(4)(5)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US$	Variable(6)	US$350 million	US$353 million(3)(4)(5)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$217 million(4)(5)(7)	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed(8)	ZAR750 million	ZAR749 million(4)(9)	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed(8)	ZAR255 million	ZAR255 million	Unsecured	April 2016	No financial covenants
Public bond	ZAR	Fixed	ZAR500 million	ZAR499 million(4)	Unsecured	June 2016	No financial covenants
Public bond	ZAR	Fixed(8)	ZAR500 million	ZAR499 million(4)	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million(4)	Unsecured	April 2020	No financial covenants

21. Interest-bearing borrowings (Continued)

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€192 million	€192 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[10]
UniCredit Bank	US$	Variable	US$131 million	US$131 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[10]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€136 million	€135 million[4][11]		June 2017	EBITDA to net interest and net debt to EBITDA[10]
GroCapital Financial Services	ZAR	Fixed[8]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

	Local currency million	US$ million
The analysis of the currency per debt is:	1,390	**1,390**
US Dollar[12]	634	**804**
Euro	3,147	**280**
ZAR		**2,474**

(1) The nature of the rates for the group bonds are explained in note 31 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

(3) Under the relevant indenture, certain limitations exist including, dividend distributions and other payments, indebtedness, asset sales, liens, guarantees, and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

(4) The principal value of the loans/bonds corresponds to the amount of the facility, however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time make an offer to redeem any public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

(6) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.

(7) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions, and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.

(8) ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

(9) Subsequent to financial year-end, ZAR300 million of this bond was redeemed.

(10) Financial covenants relate to the Sappi Limited group.

(11) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

(12) This amount includes debt of US$700 million that is swapped into Euro.

A detailed analysis of total interest-bearing borrowings has been performed in note 31.

21. Interest-bearing borrowings (Continued)

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2014 and 2013 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$419 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2014, a funding reserve, that is reset on a monthly basis, amounted to 21.98% (2013: 22.03%).

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between US$381 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

Unutilised facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash

21. Interest-bearing borrowings (Continued)

balances included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2014	2013
			US$ million	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**533**	572
Various other facilities	ZAR	Variable (JIBAR)	**4**	5
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**45**	42
			582	619
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (JIBAR)	**24**	26
Cash management overdraft facility	EUR	Variable (EURIBOR)	**20**	25
			44	51
Total unutilised facilities (committed and uncommitted) excluding cash			**626**	670

(1) Two syndicated loans with a consortium of banks with revolving facilities available of €350 million (2013: €350 million) and ZAR1,000 million (2013: ZAR1,000 million). The €350 million facility matures in April 2016, is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2017, 2018, 2019 and 2021. The ZAR1,000 million facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of Southern Africa. The group has paid a total combined commitment fee of US$5.6 million (2013: US$5.3 million) in respect of the two facilities.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

22. Other non-current liabilities

	2014	2013
	US$ million	
Defined benefit pension plan liabilities (refer to note 28)	**368**	291
Other defined benefit plan liabilities (refer to note 28)	**113**	140
Long-term employee benefits	**1**	2
Workmen's compensation	**21**	15
Long service awards	**22**	23
Land restoration obligation	**15**	17
Restructuring provisions	**13**	12
Deferred income	**2**	3
Other	**8**	3
	563	506

23. Provisions

	2014	2013
	US$ million	
Restructuring provisions	**45**	89
Long-term (refer to note 22)	**13**	12
Short-term	**32**	77
Other provisions	**—**	—
Balance at September	**45**	89

Details of restructuring provisions are provided below:

	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	Total
		US$ million		
Balance at September 2012	27	—	—	27
Increase in provisions	78	6	17	101
Utilised	(21)	—	(9)	(30)
Released during the year	(4)	—	—	(4)
Other movements	(1)	—	(7)	(8)
Translation effect	2	—	1	3
Balance at September 2013	81	6	2	89
Increase in provisions	34	—	4	38
Utilised	(28)	—	(4)	(32)
Released during the year	(35)	(6)	(3)	(44)
Other movements	(5)	—	2	(3)
Translation effect	(3)	—	—	(3)
Balance at September 2014	44	—	1	45

September 2014 restructuring provisions

Europe

During the financial year, the group put into place a plan to reduce the workforce primarily in its coated mechanical cash-generating unit and to restructure its research and development activities in order to better utilise resources. This resulted in a restructuring provision of US$18 million, which was unutilised at financial year-end, being raised. The provision is expected to be fully utilised by September 2016.

Another restructuring provision was raised during the year to reduce maintenance costs and, to an extent, payroll costs. This resulted in a restructuring provision of US$6 million being raised through other operating expenses in profit or loss. By financial year-end, an amount of US$3 million was utilised and US$1 million was released to profit or loss for the year. An amount of US$1 million remains unutilised at financial year-end which is expected to be fully utilised by September 2015.

North America

In May 2014, Sappi North America announced that it would reduce its central overhead costs resulting in a restructuring provision of US$3 million for severance and retrenchment costs being raised through other operating expenses in profit or loss for the year. At financial year-end, an amount of US$1 million was utilised with the remaining balance of US$2 million expected to be fully utilised by December 2015.

23. Provisions (Continued)

Southern Africa

During September 2014, it was announced that Stanger Mill will close the finishing house and coater machine at the mill. This resulted in severance and retrenchment costs of US$1 million being raised as a restructuring provision through other operating expenses in profit or loss for the year. At financial year-end the provision remains unutilised. This provision is expected to be fully utilised by December 2014.

An amount of US$2 million was raised for mostly severance, retrenchment and environmental costs at Usutu Mill. This provision was fully utilised prior to the sale of the mill during the year. The provision was raised through other operating expenses in profit or loss for the year.

September 2013 restructuring provisions

Due to market decline and consequent overcapacity in our European and Southern African coated paper markets, the group initiated measures to improve efficiencies and contain costs in our coated paper businesses while investing in higher margin businesses which together, resulted in various restructuring provisions being raised during the 2013 financial year.

Europe

The intention to invest in higher margin businesses resulted in paper machine 2 at Alfeld Mill being converted to produce speciality paper, resulting in a restructuring provision of US$9 million being raised primarily for severance and retrenchment costs. During the 2014 financial year, US$6 million of the remaining US$8 million was utilised and at financial year-end, an amount of US$2 million remained unutilised. The provision is expected to be fully utilised by September 2015.

On 28 September 2013, the group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in a restructuring provision of US$43 million being raised at Nijmegen Mill and, due to the relocation of certain products to Lanaken Mill, an additional provision of US$3 million being raised at that mill. During the 2014 financial year, Nijmegen Mill was sold resulting in an additional provision of US$3 million being raised for transitional costs, US$2 million being utilised and US$39 million being released to other operating expenses in profit or loss. At financial year-end, an amount of US$2 million remained unutilised.

To improve the cost effectiveness of Gratkorn Mill, the group is upgrading certain sections of the mill which will result in a workforce reduction. During the 2014 financial year, US$3 million of the provision was utilised and the group had raised an additional US$2 million through other operating expenses in profit or loss for the year. At financial year-end, the remaining provision which is expected to be fully utilised by December 2016, was US$4 million.

In an attempt to tailor the central fixed costs to be in line with declining volumes, a central overhead cost reduction programme was implemented across Europe. A restructuring provision of US$17 million for severance and retrenchment costs was raised. During the 2014 financial year, an amount of US$12 million was utilised and US$2 million released to other operating expenses in profit or loss. At financial year-end an amount of US$2 million remains unutilised. The provision is expected to be fully utilised by the end of September 2015.

Southern Africa

During the 2013 financial year, a review of the activities and costs of Southern Africa's shared services (communications, information technology, human resources, procurement and finance) was undertaken to ensure that resources were utilised more efficiently. This resulted in a restructuring charge of US$3 million being raised. During the 2014 financial year, an amount of US$1 million was utilised and US$2 million was released to other operating expenses in profit or loss resulting in the provision being fully utilised by financial year-end.

24. Notes to the group statement of cash flows

24.1 Cash generated from operations

	2014	Restated 2013	Restated 2012
	US$ million		
Profit (loss) for the year	**135**	(182)	93
Adjustment for:			
—Depreciation	**310**	345	367
—Fellings	**59**	66	73
—Amortisation	**2**	3	2
—Taxation charge	**2**	15	28
—Net finance costs	**177**	186	306
—Impairments of assets and investments	**1**	155	10
—Restructuring provisions and closure costs (reversed) raised	**(6)**	97	(2)
—Fair value adjustment gains and growth on plantations	**(86)**	(166)	(68)
—Post-employment benefits funding	**(70)**	(74)	(62)
—Profit on disposal of investment	**—**	—	(11)
—Loss (profit) on disposal of assets and businesses	**29**	2	(52)
—Other non-cash items	**13**	—	44
	566	447	728

24.2 Decrease (increase) in working capital

(Increase) decrease in inventories	**(9)**	(20)	1
(Increase) decrease in receivables	**(24)**	22	35
Increase (decrease) in payables	**67**	(22)	(138)
	34	(20)	(102)

24.3 Finance costs paid

	2014	Restated 2013	Restated 2012
	US$ million		
Interest and other finance costs on liabilities carried at amortised cost	**(194)**	(195)	(334)
Net foreign exchange gains	**7**	1	5
Net fair value gain on financial instruments	**1**	1	5
Premium and costs on early redemption of redeemable bonds and other loans	**—**	—	46
Non-cash movements included in items above	**16**	22	72
	(170)	(171)	(206)

24.4 Taxation paid

Amounts payable (receivable) at beginning of year	**6**	(19)	(13)
Translation effects	**(1)**	4	2
Taxation (charge) benefit to profit or loss	**(17)**	4	(28)
Amounts payable (receivable) at end of year	**11**	(6)	19
	(1)	(17)	(20)

24. Notes to the group statement of cash flows (Continued)

24.5 Cash outflow on disposal of business

During the year, the group disposed of Nijmegen Mill which, together with inventory of US$14 million, trade and other receivables of US$2 million, other long-term loans of US$1 million and trade and other payables of US$12 million, included cash balances of US$23 million. This cash outflow was offset by the release of a net closure provision, after providing for certain disposal related costs, of US$36 million. This provision would have been mostly settled using cash resources.

24.6 Proceeds on disposal of other non-current assets

Book value of non-current assets disposed of	**11**	14	93
(Loss) profit on disposal	**(5)**	(2)	52
Realisation of foreign currency translation reserves related to assets sold	**—**	—	(32)
Other sundry receivables	**—**	41	(42)
	6	53	71

24.7 Cash and cash equivalents

Cash and deposits on call	**517**	342	593
Money market instruments	**11**	10	11
	528	352	604

25. Encumbered assets

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

	2014	2013
	US$ million	
Land and buildings	**230**	272
Plant and equipment	**1,077**	1,411
Inventory	**203**	214
Trade receivables	**478**	521
	1,988	2,418

Suspensive sale agreements are installment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered land and buildings, plant and equipment and inventory relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 21):
  - US$400 million due in 2017
  - €250 million due in 2018
  - US$300 million due in 2019 and
  - US$350 million due in 2021.

25. Encumbered assets (Continued)

- The committed revolving credit facility of €350 million which was undrawn during the 2014 financial year (refer to note 21).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$419 million (€330 million), of which, US$374 million (€295 million) was utilised at financial year-end (refer to notes 17 and 21).

26. Commitments

	2014	2013
	US$ million	
Capital commitments		
Contracted but not provided	**104**	62
Approved but not contracted	**126**	195
	230	257
Future forecast cash flows of capital commitments at September:		
2014		188
2015	**195**	25
2016	**11**	33
2017 (2013: Thereafter)	**13**	11
Thereafter	**11**	
	230	257

These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

Lease commitments

Future undiscounted minimum operating lease obligations payable in the year ended September:

	2014	2013
2014		25
2015	**24**	16
2016	**14**	9
2017	**10**	6
2018	**5**	4
2019 (2013: Thereafter)	**3**	29
Thereafter	**8**	
	64	89

Further information on capital commitments relating to environmental matters can be found in note 34.

27. Contingent liabilities

	2014	2013
	US$ million	
Guarantees and suretyships	**23**	33
Other contingent liabilities	**26**	11
	49	44

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivable.

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour 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 the 2014 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2014	2013	2014	2013	2014	2013
			US$ million			
Post-employment plan costs (credits) recognised in profit or loss	**34**	34	**8**	37	**10**	(12)
Employer contributions paid during the financial year[(1)]			**59**	62	**45**	9
Amounts presented in the group balance sheet are as follows:						
Net pension/other benefit liabilities (refer to note 22)			**368**	291	**113**	140
Pension liabilities classified as liabilities associated with assets held for sale			**—**	1	**—**	—
Net pension assets (refer to note 15)[(2)]			**(27)**	(29)	**—**	—
Defined benefit obligations included in 'Trade and other payables'			**—**	—	**—**	6
Net balance sheet liabilities			**341**	263	**113**	146
Development in the balance sheet for the pension/ other benefit plans						
Net pension/healthcare subsidy liabilities at beginning of year			**(263)**	(318)	**(146)**	(191)
Net pension/other benefit costs for the year			**(11)**	(42)	**(10)**	(12)
Curtailments, settlement and plan amendment gains for the year[(3)(4)]			**3**	5	**—**	24
Employer contributions			**59**	62	**45**	9
Net actuarial (losses) gains for the year			**(146)**	43	**(6)**	8
Translation differences			**17**	(13)	**4**	16
Net pension/other benefit liabilities at end of year			**(341)**	(263)	**(113)**	(146)

(1) The increase in the employer post-employment healthcare subsidy contribution is due to the purchase of a qualifying plan asset using certain non-current assets previously invested in a cell captive in South Africa.

(2) Defined benefit plans in South Africa.

(3) The current year gain of US$3 million arose from a once-off adjustment of benefits in one plan in Europe. The prior year gain of US$5 million related to a curtailment gain of US$6 million in The Netherlands offset by a settlement loss of US$1 million in South Africa.

(4) A gain of US$24 million resulting from a plan amendment to the post-retirement medical aid scheme in South Africa was recognised in profit or loss for the 2013 financial year.

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often

28. Post-employment benefits (Continued)

as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of US$34 million (2013: US$34 million; 2012: US$35 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions (total cost charged) to be paid in the next financial year is US$30 million.

In addition to company sponsored plans across the group, employees commonly participate in local State plans wherever they exist. State pension plans exist in most regions to provide such benefits as disability and unemployment income protection. Employee eligibility and participation is generally mandatory to local tax payers usually on residence-based criteria in accordance with domestic laws. State benefits vary widely in value and accrual formulae from country to country. Contributions are paid through domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in State plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included with other employee costs elsewhere in the group accounts.

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of associations to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise of management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which, historically, has increased from time to time). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, Netherlands
Frozen benefit	United Kingdom, North America (salaried plan)
Fixed €-value	Germany
Nominal $-value (periodically revalued)	North America (works plans)

Plans remain open to new hires except for plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

28. Post-employment benefits (Continued)

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

The main strategic choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- South Africa: Asset mix based on 65% equity instruments; 35% debt instruments
- Europe incl UK(1): Asset mix based on 30% equity instruments; 70% debt instruments
- North America: Asset mix based on 45% equity instruments; 55% debt instruments

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis, with the exception of one plan in South Africa, where employees contribute a fixed percentage of pensionable salary. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions across group subsidiaries over the next financial year are US$56 million

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

(1) Weighted average of separate plans in this region.

28. Post-employment benefits (Continued)

Expected company contributions to fund these subsidies over the next financial year are US$7 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

	2014	2013
	US$ million	
Jubilee (long service award) in other long-term liabilities	**22**	23
Early retirement (temporary pension) benefit in Belgium	**7**	5
ATZ (early retirement—temporary salary supplement) obligations in Germany and Austria	**11**	8
Workmen's compensation benefit obligations in North America	**21**	19

	Defined benefit pension plans			Post-employment healthcare subsidy		
		(Restated)			(Restated)	
	2014	2013	2012	2014	2013	2012
	US$ million					
Components of defined benefit cost recognised in profit or loss						
Current service cost	**23**	25	23	**3**	3	2
Past service (credit) cost	**(23)**	2	1	**—**	—	—
Interest on net defined benefit	**8**	11	12	**7**	9	11
Fund administration costs	**3**	4	5	**—**	—	—
Non-routine plan amendment, curtailment loss and settlement gain	**(3)**	(5)	—	**—**	(24)	—
Net amount recognised in profit or loss	**8**	37	41	**10**	(12)	13
Components of defined benefit cost recognised in other comprehensive income						
Actuarial gains (losses) arising from membership experience	**3**	3	2	**(1)**	6	5
Actuarial (losses) gains arising from changes in financial assumptions	**(286)**	70	(221)	**(5)**	2	(14)
Return on plan assets (excluding amounts included in interest income)	**137**	(30)	157	**—**	—	—
Net amount recognised in other comprehensive income	**(146)**	43	(62)	**(6)**	8	(9)

28. Post-employment benefits (Continued)

	Defined benefit pension plans		Post-employment healthcare subsidy	
		(Restated)		(Restated)
	2014	2013	2014	2013
	US$ million			
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,823**	2,007	**146**	191
Current service cost	**23**	25	**3**	3
Past service (credit) cost	**(23)**	2	**—**	—
Interest expense	**81**	87	**8**	9
Plan participants' contributions	**3**	3	**—**	—
Remeasurements	**283**	(73)	**6**	(8)
Membership experience changes	**(3)**	(3)	**1**	(6)
Financial assumption changes	**286**	(70)	**5**	(2)
Non-routine plan amendment, curtailment loss and settlement gain	**(4)**	(108)	**—**	(24)
Benefits paid	**(103)**	(107)	**(7)**	(9)
Translation difference	**(78)**	(13)	**(6)**	(16)
Defined benefit obligation at end of year	**2,005**	1,823	**150**	146
—Present value of wholly unfunded obligation	**155**	151	**89**	146
—Present value of wholly or partially funded obligation	**1,850**	1,672	**61**	—
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,560**	1,689	**—**	—
Interest income	**73**	76	**1**	—
Employer contributions[1]	**59**	62	**45**	9
Plan participants' contributions	**3**	3	**—**	—
Remeasurements				
Return on plan assets	**137**	(30)	**—**	—
Non-routine plan amendment, curtailment loss and settlement gain	**(1)**	(103)	**—**	—
Benefits paid	**(103)**	(107)	**(7)**	(9)
Fund administration costs	**(3)**	(4)	**—**	—
Translation difference	**(61)**	(26)	**(2)**	—
Fair value of plan assets at end of year	**1,664**	1,560	**37**	—
Net balance sheet defined benefit liability	**341**	263	**113**	146

(1) The increase in the employer post-employment healthcare subsidy contribution is due to the purchase of a qualifying plan asset using certain non-current assets previously invested in a cell captive in South Africa.

28. Post-employment benefits (Continued)

The major categories of plan assets at fair value are presented as follows:

	Funded pension plans		Funded subsidy plans	
	2014	2013	2014	2013
	US$ million			
Investments quoted in active markets				
—Equity and high yield investments	**643**	539	**—**	—
—Investment grade debt instruments	**686**	665	**6**	—
—Property investment funds	**14**	18	**—**	—
Unquoted investments				
—Equity and high yield investments[1]	**297**	268	**29**	—
Cash	**24**	68	**2**	—
	1,664	1,558	**37**	—

[1] Consist of commingled funds that are not quoted in active markets, but where the underlying securities held by these funds are quoted in active markets or whose prices are determined by other observable market data.

Plan assets include investments in the group's own quoted shares of US$1 million. These are held by an appointed investment manager as part of its routine mandate to invest in domestic equities.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

Assumptions

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

	2014			2013		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
	US$ million					
Discount rate—pension (%)	**4.00**	**2.70**	**8.60**	4.40	3.80	9.45
Discount rate—post-employment medical aid subsidies (%)	**3.70**	**n/a**	**9.00**	4.10	n/a	9.00
Future salary increases (%)	**—**	**1.50**	**7.30**	—	1.75	7.60
Cost of living adjustment for pensions in payment (%)[1]	**—**	**1.90**	**5.00**	—	1.25	5.25
Healthcare cost trend rate (%)[2]	**8.40->5.00**	**n/a**	**8.00**	8.75->5.00	n/a	7.75
Average life expectancy from retirement (years)[3]						
—For current beneficiaries	**23.50**	**24.60**	**19.20**	23.30	24.50	18.60
—For future retiring beneficiaries	**23.50**	**26.60**	**20.10**	23.30	26.30	19.50

[1] For plans that review adjustments by reference to inflation indices.

[2] Initial rate –> long-term rate trend over 8 years (2013: 10 years).

[3] Based on local mortality tables in use (with modifications to reflect expected changes in mortality and other rates).

28. Post-employment benefits (Continued)

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$277 million (increase by US$338 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$51 million (decrease by US$42 million).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$164 million (decrease by US$138 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$68 million (decrease by US$70 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Liability profile

The average duration of the defined benefit plan obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	11 years	9 years
Europe (incl UK)	15 years	—
Southern Africa	21 years	14 years

28. Post-employment benefits (Continued)

Regional split of results

	2014			(Restated) 2013		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
	US$ million					
Defined benefit obligation	**(753)**	**(1,174)**	**(228)**	(720)	(1,017)	(232)
Fair value of plan assets	**633**	**837**	**231**	570	789	201
Net defined benefit liability	**(120)**	**(337)**	**3**	(150)	(228)	(31)
Net defined benefit cost (credit) recognised in profit or loss	**15**	**(5)**	**8**	19	14	(8)
Net amount gain (loss) recognised in other comprehensive income	**21**	**(164)**	**(9)**	76	(51)	26

29. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (Share options) and (b) may be offered the opportunity to acquire ordinary shares (Scheme shares).

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant Share options or Scheme shares, as the case may be.

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

29. Share-based payments (Continued)

The scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, *inter alia,* undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company, may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia,* undertakes:

- a rights offer or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is, to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made to the rights of participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders who exercised their rights, the participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

29. Share-based payments (Continued)

Performance shares and share option activities were as follows during the financial years ended September 2014 and September 2013:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total Shares
Outstanding at September 2012	7,938,200	12,891,815	35.50	**20,830,015**
—Offered	4,000,300	—	—	**4,000,300**
—Paid for/vested	(614,829)	(54,284)	22.90	**(669,113)**
—Returned, lapsed and forfeited	(1,207,471)	(2,578,058)	42.32	**(3,785,529)**
Outstanding at September 2013	10,116,200	10,259,473	33.86	**20,375,673**
—Offered[2]	4,078,350	—	—	**4,078,350**
—Paid for/vested	(840,426)	(1,805,607)	31.58	**(2,646,033)**
—Returned, lapsed and forfeited	(2,221,399)	(186,908)	35.95	**(2,408,307)**
Outstanding at September 2014	11,132,725	8,266,958	34.29	**19,399,683**
Exercisable at September 2012	—	6,326,377	42.06	**6,326,377**
Exercisable at September 2013	—	6,442,799	37.26	**6,442,799**
Exercisable at September 2014	—	5,956,994	37.28	**5,956,994**

(1) Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares are taken up.

(2) An additional 200,000 performance shares were issued to our CEO and one of our prescribed officers, respectively, during the year. The valuation assumptions relating to both issues were largely unchanged from those used in Issue 39. The grant date was 27 June 2014 and 10 February 2014 and the share price at these grant dates were ZAR38.81 and ZAR33.60 respectively.

The following table sets out the number of share options and performance shares outstanding at the end of September, excluding the Scheme shares:

	2014	2013	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
12 December 2007[i]	**819,200**	846,700	Time	[ii]	12 December 2015	52.57
19 March 2008[i]	**458,700**	460,900	Time	[ii]	19 March 2016	55.97
22 December 2008	**1,140,000**	1,559,760	Time	[ii]	22 December 2016	35.50
09 December 2009	**1,557,285**	2,146,040	Time	[ii]	09 December 2017	33.85
03 December 2010	**1,893,550**	2,339,400	Time	[ii]	03 December 2018	35.20
02 December 2011	**2,398,223**	2,906,673	Time	[ii]	02 December 2019	22.90
Performance shares:						
09 December 2009		2,496,300	Performance	09 December 2013	n/a	n/a
03 December 2010	**1,392,818**	1,514,900	Performance	03 December 2014	n/a	n/a
02 December 2011	**1,968,538**	2,145,000	Performance	02 December 2015	n/a	n/a
07 December 2012	**3,779,655**	3,960,000	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,991,714**		Performance	13 December 2017	n/a	n/a
	19,399,683	20,375,673				

(i) During the 2009 financial year, there was a rights issue of six shares for every five shares held at ZAR20.27 per share. In accordance with the rules of the Scheme, additional offers were made to participants in respect of all outstanding offers at the time of the rights offer. Not all the participants took up their rights.

(ii) These vest over four years in four equal portions.

29. Share-based payments (Continued)

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 39	Issue 39
Date of grant	13 December 2013	13 December 2013
Type of award	Performance	Performance
Share price at grant date	ZAR28.16	ZAR28.16
Vesting period	4 years	4 years
Vesting conditions	Market related—relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market related vesting conditions	Yes	No
Percentage expected to vest	41%	100%
Number of shares offered	1,839,175	1,839,175
Volatility	30%	n/a
Risk-free discount rate	1.2% (US yield)	n/a
Expected dividend yield	3.6%	3.6%
Expected percentage of issuance	95%	95%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR16.16	ZAR21.12

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 37 for more information on directors' and prescribed officers' participation in the Sappi Limited share schemes.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

In June 2010, Sappi completed a Black Economic Empowerment (BEE) transaction (the 'BEE transaction') that enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (HDSAs) in the South African economy and, through BEE legislation, formalised the country's approach in this regard. Sappi views BEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BEE transaction (the 'Plantation BEE transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE (Broad-based Black Economic Empowerment) in the forestry industry and includes the BBBEE 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 BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BEE transaction and to implement the BEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

- Sappi's South African Employees (62.5%)
- South African Black Managers (15%)
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note) and
- Communities surrounding the South African mill operations and plantations (10%).

29. Share-based payments (Continued)

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE trusts. The BEE transaction resulted in the BEE trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE transaction are as follows:

Entity	Ordinary share allocation
Strategic Partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	**4,328,353**

The number of 'A' ordinary shares allocated to the BEE trusts are as follows:

Entity	'A' Ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	**19,961,476**

The group incurred a share-based payment expense of US$2 million (2013: US$3 million, 2012: US$3 million) during the 2014 financial year that related to the 'A' ordinary shares that were awarded.

29. Share-based payments (Continued)

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.4%
Management turnover (annual)	4.3%
Model used to value	Black Scholes Model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the MSOP and ESOP is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0–35	—	—
36–48	40	40
49–60	10	50
61–72	10	60
73–84	10	70
85–96	10	80
97–108	10	90
109—termination date	10	100

Refer to note 18 for further details regarding the 'A' ordinary shares.

30. Derivative financial instruments

Hedging instrument	Hedged item	2014	2013
		US$ million	
Non-current assets			
Fair value hedge	Secured notes due April 2021	**9**	15
Interest rate swap	Unsecured ZAR255 million bond due April 2016	**—**	1
Interest rate swap	Unsecured ZAR500 million bond due April 2018	**2**	2
Interest rate swap	Unsecured ZAR400 million loan due May 2020	**2**	2
		13	20
Current assets			
Forward exchange contracts	Various	**—**	1
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	**20**	49
Interest rate currency swap	Secured notes due June 2019	**32**	50
Interest rate swap	Unsecured ZAR750 million bond due April 2015	**—**	—
		52	99
Current liabilities			
Forward exchange contracts	Various	**7**	2

Refer to note 31 for more detail on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

(a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:

- interest rate risk
- currency risk and
- commodity price risk

(b) liquidity risk and

(c) credit risk

Sappi's Group Treasury is comprised of two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, insofar as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

(a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each

31. Financial instruments (Continued)

respective year. Forward-looking average variable effective interest rates for the financial years ended September 2014 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 28 September 2014. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						Total carrying value	2014 fair value	2013 carrying value	2013 fair value
	2015	2016	2017	2018	2019	2020+				
	US$ equivalent in millions									
US Dollar										
Fixed rate debt[(1)]	—	—	394	—	295	217	906	**1,061**	902	1,020
Average interest rate (%)	—	—	7.86	—	8.53	7.64	8.03		8.06	
Variable rate debt[(2)]	—	131	—	—	—	353	484	**533**	501	539
Average interest rate (%)	—	3.62	—	—	—	7.41	6.39		6.93	
Euro										
Fixed rate debt	—	1	1	313	—	1	316	**378**	336	392
Average interest rate (%)	—	2.22	2.10	6.71	—	2.07	6.67		6.68	
Variable rate debt[(3)]	96	266	126	—	—	—	488	**488**	520	520
Average interest rate (%)	1.70	2.19	4.17	—	—	—	2.60		3.71	
Rand										
Fixed rate debt[(4)]	67	67	—	45	—	101	280	**292**	339	354
Average interest rate (%)	7.78	8.65	—	7.46	—	7.99	8.01		8.27	
Total										
Fixed rate debt	67	68	395	358	295	319	1,502	**1,731**	1,577	1,766
Average interest rate (%)	7.78	8.62	7.86	6.80	8.52	7.73	7.74		7.81	
Variable rate debt	96	397	126	—	—	353	972	**1,021**	1,021	1,059
Average interest rate (%)	1.70	2.66	4.17	—	—	7.41	4.49		5.29	
Fixed and variable	**163**	**465**	**521**	**358**	**295**	**672**	**2,474**	**2,752**	**2,598**	**2,825**
Current portion							163	**144**	99	101
Long-term portion							2,311	**2,608**	2,499	2,724
Total interest-bearing borrowings (refer to note 21)							2,474	**2,752**	2,598	2,825

(1) US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(4) ZAR floating rates of ZAR1,905 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.70% and 8.65% (depending on currency). At September

31. Financial instruments (Continued)

2014, after giving effect to interest rate swaps, 60.71% of Sappi's borrowings were at fixed rates of interest and 39.29% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

Sappi uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The valuation of the hedging instruments includes an adjustment for credit risk, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 and to the US$300 million Senior Secured Notes due 2019. The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2014, the above mentioned hedges were effective. The swaps showed a total negative fair value of US$52 million. The negative fair value of the currency leg of the swaps, related to the principal amount, of US$11 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of US$42 million was deferred in OCI. Due to the inclusion of the credit risk, a positive ineffective portion of US$0.5 million was booked to the income statement.

31. Financial instruments (Continued)

Interest rate swaps floating to fixed

In April 2012, Sappi issued a floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. In April and May 2013, Sappi issued additional floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective.

At September 2014, the hedges were highly effective and the swaps had in total a net positive fair value of US$4.3 million which was deferred to equity.

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

Changes in fair value will represent period-to-period changes in ‘clean’ fair value (accruals of interest excluded).

At September 2014, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US$9.3 million which has been offset by the negative fair value adjustment to the bonds of US$10.2 million, resulting in a life-to-date net negative impact on the group income statement of US$0.9 million.

31. Financial instruments (Continued)

Summary of outstanding cash flow and fair value hedges

	Interest rate	Maturity date	Nominal value	Total fair value(1)	Recorded in OCI	Recorded in Profit or loss
		US$ million				
September 2014						
Cash flow hedges						
IRCS	**US Dollar 7.75% into EUR 7.56%**	**July 2017**	**US$400 million**	**(20)**	**(14)**	**(6)**
IRCS	**US Dollar 8.38% into EUR 8.33%**	**June 2019**	**US$300 million**	**(32)**	**(28)**	**(4)**
IRS	**ZAR variable (JIBAR) to ZAR 7.78% fixed**	**April 2015**	**ZAR750 million**	**—**	**—**	**—**
IRS	**ZAR variable (JIBAR) to ZAR 6.74% fixed**	**April 2016**	**ZAR255 million**	**—**	**—**	**—**
IRS	**ZAR variable (JIBAR) to ZAR 7.46% fixed**	**April 2018**	**ZAR500 million**	**2**	**2**	**—**
IRS	**ZAR variable (JIBAR) to ZAR 7.85% fixed**	**May 2018**	**ZAR400 million**	**2**	**2**	**—**
Fair value hedges						
IRS	**US Dollar 6.63% fixed to variable (LIBOR)**	**April 2016**	**US$350 million**	**9**	**—**	**(1)**
				(39)	**(38)**	**(11)**

	Interest rate	Maturity date	Nominal value	Total fair value(1)	Recorded in OCI	Recorded in Profit or loss
		US$ million				
September 2013						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	(49)	(16)	(33)
IRCS	US Dollar 8.38% into EUR 8.33%	June 2019	US$300 million	(50)	(25)	(25)
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	April 2015	ZAR750 million	—	—	—
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	April 2016	ZAR255 million	1	1	—
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	2	2	—
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	2	2	—
Fair value hedges						
IRS	US Dollar 6.63% fixed to variable (LIBOR)	April 2016	US$350 million	15	—	(1)
				(79)	(36)	(59)

(1) This refers to the carrying value.

The total fair values of the IRCSs and IRSs are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately US$27 million.

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of US$1.5 million.

31. Financial instruments (Continued)

IRS converting fixed US Dollar rates into variable rates

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short- and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material. This has been assessed in a sensitivity analysis that tested movements on the US Dollar interest rate curve in the same direction (parallel shift), as well as tested the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

Sensitivity analysis: interest rate risk—in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
	US$ million	
Securitisation—Elektra N°29 Ltd	374	1
Commitment fee on unused revolving credit facility	444	2
Interest on utilised bank syndicated loans	173	1
	991	4
Impact calculated on total portfolio amounts to	0.40%	

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
		US$ million		
Total debt	2,474	1,502	972	5
Ratio fixed/floating to total debt		60.71%	39.29%	

The floating rate debt represents 39.29% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

Currency risk

Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts and

31. Financial instruments (Continued)

- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2014 and 2013 financial years discloses financial instruments as determined by IAS 39 *Financial Instruments*: Recognition and Measurement, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
			US$ million				
September 2014							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**50**	**14**	—	13	—	—	1
Derivative financial instruments	**13**	**13**	9	—	4	—	—
Current assets							
Trade receivables	**617**	**617**	254	286	11	38	28
Prepayments and other receivables	**114**	**35**	3	16	16	—	—
Cash and cash equivalents	**528**	**528**	200	137	182	4	5
		1,207	466	452	213	42	34
Non-current liabilities							
Interest-bearing borrowings	**2,311**	**2,311**	1,389	708	214	—	—
Derivative financial instruments	**52**	**52**	(817)	869	—	—	—
Other non-current liabilities	**563**	**—**	—	—	—	—	—
Current liabilities							
Interest-bearing borrowings	**163**	**163**	—	97	66	—	—
Derivative financial instruments	**7**	**7**	85	—	(79)	1	—
Trade payables	**557**	**557**	163	200	140	8	46
Other payables and accruals	**439**	**235**	64	130	39	—	2
		3,325	884	2,004	380	9	48
Foreign exchange gap		**(2,118)**	(418)	(1,552)	(167)	33	(14)

31. Financial instruments (Continued)

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
			US$ million				
September 2013							
Classes of financial instruments							
Non-current assets							
Other non-current assets	95	55	—	13	40	—	2
Derivative financial instruments	20	20	15	—	5	—	—
Current assets							
Trade receivables	635	635	258	294	11	42	30
Prepayments and other receivables	112	30	2	21	7	—	—
Derivative financial instruments	1	1	1	—	—	—	—
Cash and cash equivalents	352	352	142	161	47	—	2
Assets held for sale	94	1	—	—	1	—	—
		1 094	418	489	111	42	34
Non-current liabilities							
Interest-bearing borrowings	2,499	2,499	1,403	779	317	—	—
Derivative financial instruments	99	99	(915)	1,014	—	—	—
Other non-current liabilities	506	10	1	9	—	—	—
Current liabilities							
Interest-bearing borrowings	99	99	—	77	22	—	—
Overdrafts	1	1	—	—	—	—	1
Derivative financial instruments	2	2	(1)	(14)	17	—	—
Trade payables	542	542	128	259	153	—	2
Other payables and accruals	473	272	52	146	71	—	3
Liabilities associated with assets held for sale	6	2	—	—	2	—	—
		3,526	668	2,270	582	—	6
Foreign exchange gap		(2,432)	(250)	(1,781)	(471)	42	28

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2014		2013	
		Contract amount (notional amount)	Unfavourable fair value	Contract amount (notional amount)	Unfavourable fair value
		US$ million			
Foreign currency					
Bought:	US Dollar	**3**	**—**	2	—
	Euro	**43**	**—**	35	—
	ZAR	**85**	**(3)**	—	—
Sold:	US Dollar	**(101)**	**(4)**	(100)	(1)
	Euro	**(18)**	**—**	(19)	—
	ZAR	**(4)**	**—**	(17)	—
		8	**(7)**	(99)	(1)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2014 financial year.

31. Financial instruments (Continued)

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being May 2015.

As at September 2014, there was an open exposure of US$11 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	Exposure	+10%	−10%
	(US$ million)		
AUD	6.8	0.6	(0.7)
CHF	(1.6)	(0.1)	0.2
EUR	(6.4)	(0.6)	0.7
GBP	2.5	0.2	(0.3)
USD	27.9	2.5	(3.1)
ZAR	(17.3)	(1.6)	1.9
Other currencies	(0.7)	—	—
Total	11.2	1.0	(1.3)

Based on the exposure at the end of September 2014, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a gain of US$1 million or a loss of US$1.3 million respectively.

During 2014, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$246 million which were used as an overlay hedge of export sales from Southern Africa. Since these contracts have all matured before the end of September 2014, these constitute non-representative positions. The total impact on profit or loss amounted to a loss of US$4 million.

Cash flow hedges

Ngodwana Mill expansion—acquisition of property, plant and equipment in foreign currency

Sappi started the conversion of its Ngodwana Mill in the 2011 financial year to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 to which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows relating to the Ngodwana project began in September 2011 and ceased in October 2013.

The hedging instrument was recorded at fair value on the group balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compared the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment was then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship was assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

31. Financial instruments (Continued)

The total foreign currency exchange gains recognised through OCI in the 2014 (until October 2013) financial year amounted to US$0.2 million. As this gain was also realised during the financial year, a basis adjustment was processed transferring the amount from OCI to property, plant and equipment. There were no reclassifications to profit or loss during the year.

Saiccor Mill export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in ZAR, any change in the foreign currency exchange rate between the US Dollar and the ZAR would result in a different ZAR selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi, therefore, enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts which were designated as hedging instruments.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2014 financial year, the hedge was highly effective and a net realised loss of US$4 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of US$3 million was deferred in equity.

Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/ZAR spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of

31. Financial instruments (Continued)

the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2014 financial year, the hedge was 100% effective.

	2014		2013	
	Hedged notional	**Foreign exchange result deferred in other comprehensive income**	**Hedged notional**	**Foreign exchange result deferred in other comprehensive income**
		US$ million		
Bond 2021	**29**	**(1)**	28	(1)
Bond 2032	**217**	**(16)**	217	(1)
	246	**(17)**	245	(2)
Net investment value of North America	**635**		587	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

No pulp swaps have been contracted during the 2014 financial year.

(b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows
- managing its working capital and capital expenditure
- ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements and
- ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

31. Financial instruments (Continued)

Liquidity risk management

The following tables for the 2014 and 2013 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments*: *Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2014								
Non-current assets								
Other non-current assets	**14**	**14**	—	—	8	1	6	15
Derivative financial instruments	**13**	**13**	4	4	7	3	2	20
Current assets								
Trade receivables	**617**	**617**	617	—	—	—	—	617
Prepayments and other receivables	**35**	**35**	26	9	—	—	—	35
Cash and cash equivalents	**528**	**528**	528	—	—	—	—	528
			1,175	13	15	4	8	1,215
Non-current liabilities								
Interest-bearing borrowings	**2,311**	**2,605**	28	71	604	1,496	460	2,659
Derivative financial instruments	**52**	**52**	—	—	1	13	7	21
Current liabilities								
Interest-bearing borrowings	**163**	**165**	98	68	—	—	—	166
Derivative financial instruments	**7**	**7**	7	—	—	—	—	7
Trade payables	**557**	**557**	557	—	—	—	—	557
Other payables and accruals	**235**	**235**	235	—	—	—	—	235
			925	139	605	1,509	467	3,645
Liquidity surplus (gap)			250	(126)	(590)	(1,505)	(459)	(2,430)

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2013								
Non-current assets								
Other non-current assets	**55**	**55**	40	—	6	4	7	57
Derivative financial instruments	**20**	**20**	3	4	7	10	2	26
Current assets								
Trade receivables	**635**	**635**	635	—	—	—	—	635
Prepayments and other receivables	**30**	**30**	29	1	—	—	—	30
Derivative financial instruments	**1**	**1**	1	—	—	—	—	1
Cash and cash equivalents	**352**	**352**	352	—	—	—	—	352
Assets held for sale	**1**	**1**	1	—	—	—	—	1
			1,061	5	13	14	9	1,102
Non-current liabilities								
Interest-bearing borrowings	**2,499**	**2,772**	29	75	253	1,851	674	2,882
Derivative financial instruments	**99**	**99**	3	2	4	45	38	92
Other non-current liabilities	**10**	**10**	—	—	1	8	2	11
Current liabilities								
Interest-bearing borrowings	**99**	**102**	95	7	—	—	—	102
Overdrafts	**1**	**1**	1	—	—	—	—	1
Derivative financial instruments	**2**	**2**	2	—	—	—	—	2
Trade payables	**542**	**542**	542	—	—	—	—	542
Other payables and accruals	**272**	**272**	272	—	—	—	—	272
Liabilities associated with assets held for sale	**2**	**2**	2	—	—	—	—	2
			946	84	258	1,904	714	3,906
Liquidity surplus (gap)			115	(79)	(245)	(1,890)	(705)	(2,804)

31. Financial instruments (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2014 and 2013 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

					Maturity analysis				
					Undiscounted cash flows				
	Total	Fair value hedge	Cash flow hedge	No hedge accounting	0–6 months	6–12 months	1–2 years	2–5 years	> 5 years
	US$ million								
September 2014									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**13**	**9**	**4**	**—**	4	5	6	1	2
receiving leg	**(61)**	**(34)**	**(27)**	**—**	(14)	(13)	(26)	(6)	(5)
paying leg	**74**	**43**	**31**	**—**	18	18	32	7	7
Foreign exchange risk									
IRCS and FX forward contracts	**—**	**—**	**—**	**—**	—	—	—	—	—
receiving leg	**30**	**—**	**—**	**30**	27	(1)	—	—	—
paying leg	**(30)**	**—**	**—**	**(30)**	(27)	1	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**—**	**—**	**—**	**—**	—	—	—	—	—
paying leg	**—**	**—**	**—**	**—**	—	—	—	—	—
receiving leg	**—**	**—**	**—**	**—**	—	—	—	—	—
Foreign exchange risk									
IRCS and FX forward contracts	**59**	**—**	**52**	**7**	7	—	1	1	7
paying leg	**659**	**—**	**869**	**(210)**	(182)	28	57	57	432
receiving leg	**(600)**	**—**	**(817)**	**217**	189	(28)	(56)	(56)	(425)

					Maturity analysis				
					Undiscounted cash flows				
	Total	Fair value hedge	Cash flow hedge	No hedge accounting	0–6 months	6–12 months	1–2 years	2–5 years	> 5 years
	US$ million								
September 2013									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	20	15	5	—	3	4	7	10	—
receiving leg	33	66	(33)	—	7	8	15	2	—
paying leg	(13)	(51)	38	—	(4)	(4)	(8)	8	—
Foreign exchange risk									
IRCS and FX forward contracts	1	—	—	1	1	—	—	—	—
receiving leg	63	—	—	63	63	—	—	—	—
paying leg	(62)	—	—	(62)	(62)	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	—	—	—	—	—	—	—	—	—
paying leg	9	—	9	—	3	3	4	—	—
receiving leg	(9)	—	(9)	—	(3)	(3)	(4)	—	—
Foreign exchange risk									
IRCS and FX forward contracts	101	—	99	2	4	2	4	45	38
paying leg	938	—	1,029	(91)	(46)	30	60	582	494
receiving leg	(837)	—	(930)	93	50	(28)	(56)	(537)	(456)

31. Financial instruments (Continued)

Fair values

All financial instruments are carried at fair value. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate fair value due to their short-term nature.

As a result of the implementation of IFRS 13, the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available for sale financial assets.

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

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

		As determined by IAS 39		Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Fair value
				US$ million				
September 2014								
Classes of financial instruments								
Non-current assets								
Other non-current assets	**50**	36	14	—	4	—	10	14
Derivative financial instruments	**13**	—	13	13	—	—	—	13
	63	36	27	13	4	—	10	27
Current assets								
Trade receivables	**617**	—	617	—	617	—	—	617
Prepayments and other receivables	**114**	79	35	—	35	—	—	35
Cash and cash equivalents	**528**	—	528	—	528	—	—	528
	1,259	79	1,180	—	1,180	—	—	1,180

31. Financial instruments (Continued)

	Total balance	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Other financial liabilities	Fair value
	US$ million					
September 2014						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**2,311**	—	2,311	—	2,311	2,605
Derivative financial instruments	**52**	—	52	52	—	52
Other non-current liabilities	**563**	563	—	—	—	—
	2,926	563	2,363	52	2,311	2,657
Current liabilities						
Interest-bearing borrowings	**163**	—	163	—	163	165
Derivative financial instruments	**7**	—	7	7	—	7
Trade payables	**557**	—	557	—	557	557
Other payables and accruals	**439**	204	235	—	235	235
	1,166	204	962	7	955	964

	Total balance	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Loans and receivables	Categories in accordance with IAS 39: Held to maturity	Categories in accordance with IAS 39: Available-for-sale	Fair value
	US$ million							
September 2013								
Classes of financial instruments								
Non-current assets								
Other non-current assets	95	40	55	—	4	—	51	55
Derivative financial instruments	20	—	20	20	—	—	—	20
	115	40	75	20	4	—	51	75
Current assets								
Trade receivables	635	—	635	—	635	—	—	635
Prepayments and other receivables	112	82	30	—	30	—	—	30
Derivative financial instruments	1	—	1	1	—	—	—	1
Cash and cash equivalents	352	—	352	—	352	—	—	352
	1,100	82	1,018	1	1,017	—	—	1,018
Assets held for sale	94	93	1	—	—	—	1	1
	1,194	175	1,019	1	1,017	—	1	1,019

31. Financial instruments (Continued)

	Total balance	As determined by IAS 39 — Total out of scope	As determined by IAS 39 — Total in scope	Categories in accordance with IAS 39 — Fair value through profit or loss	Categories in accordance with IAS 39 — Other financial liabilities	Fair value
	US$ million					
September 2013						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	2,499	—	2,499	—	2,499	2,772
Derivative financial instruments	99	—	99	99	—	99
Other non-current liabilities	506	496	10	—	10	10
	3,104	496	2,608	99	2,509	2,881
Current liabilities						
Interest-bearing borrowings	99	—	99	—	99	102
Overdrafts	1	—	1	—	1	1
Derivative financial instruments	2	—	2	2	—	2
Trade payables	542	—	542	—	542	542
Other payables and accruals	473	201	272	—	272	272
	1,117	201	916	2	914	919
Liabilities associated with assets held for sale	6	4	2	—	2	2
	1,123	205	918	2	916	921

The fair value hierarchy of assets and liabilities that are measured at fair value are categorised below. There have been no transfers between the categories of the fair value hierarchy.

	2014				2013			
	Total fair value	Fair value hierarchy — Level 1	Level 2	Level 3	Total fair value	Fair value hierarchy — Level 1	Level 2	Level 3
	US$ million							
Non-current assets								
Other non-current assets	**10**	**10**	**—**	**—**	51	11	40	—
Derivative financial instruments	**13**	**—**	**13**	**—**	20	—	20	—
Current assets								
Derivative financial instruments	**—**	**—**	**—**	**—**	1	—	1	—
	23	**10**	**13**	**—**	72	11	61	—
Non-current liabilities								
Derivative financial instruments	**52**	**—**	**52**	**—**	99	—	99	—
Current liabilities								
Derivative financial instruments	**7**	**—**	**7**	**—**	2	—	2	—
	59	**—**	**59**	**—**	101	—	101	—

31. Financial instruments (Continued)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific groupwide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 57% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 17 of the group annual financial statements.

32. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	**2014**	2013
	US$ million									
Joint ventures and associates:										
—Jiangxi Chenming[(1)]	**—**	—	0.4	**—**	—	0.2	**—**	—	**—**	—
—Sapin SA	**0.6**	0.6	0.6	**31.2**	28.1	28.3	**—**	—	**1.7**	0.9
—proNARO GmbH[(2)]	**—**	—	—	**162.7**	96.4	—	**—**	—	**7.1**	4.0
—Umkomaas Lignin Proprietary Limited	**7.2**	7.2	8.2	**—**	0.2	0.3	**1.0**	1.5	**—**	—
—Papierholz Austria GmbH	**—**	—	—	**115.7**	99.3	96.0	**—**	—	**5.1**	7.7
—EBAG[(3)]	**—**	—	—	**—**	—	5.6	**—**	—	**—**	—
	7.8	7.8	9.2	**309.6**	224.0	130.4	**1.0**	1.5	**13.9**	12.6

(1) The group disposed of its 34% shareholding in this entity during the 2012 financial year.

(2) During the prior year, the group entered into a joint venture agreement to hold 50% of the equity interest in this entity.

(3) The group disposed of Sappi Schweiz AG during the 2012 financial year. Sappi Schweiz AG held the 10% shareholding in Energie Biberist AG (EBAG).

Sales of goods and purchases to and from related parties were on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

32. Related party transactions (Continued)

Broad-based Black Economic Empowerment (BEE) transaction

Refer to notes 18 and 29 for details of the BEE transaction.

Key management personnel

Key management personnel includes our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Schemes are disclosed in notes 35 to 37.

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[(1)]	% of shares in issue
1–5,000	4,870	80.9	3,232,216	0.6
5,001–10,000	211	3.5	1,600,651	0.3
10,001–50,000	349	5.8	8,453,665	1.6
50,001–100,000	149	2.5	10,650,801	2.0
100,001–1,000,000	353	5.9	108,136,627	20.7
Over 1,000,000	88	1.4	392,085,648	74.8
	6,020	100.0	524,159,608	100.0

(1) The number of shares excludes 17,286,615 treasury shares held by the group.

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
Associates of group directors	—
Trustees of the company's share and retirement funding schemes	—
Shareowners who, by virtue of any agreement, have the right to nominate board members	—
Shareowners interested in 10% or more of the issued shares	—
Public (the number of public shareholders as at September 2014 was 6,012)	99.8
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to Section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2014, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	75,909,326	14.5

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and

32. Related party transactions (Continued)

that, as of September 2014, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	72,757,711	13.9
Coronation Fund Managers	70,314,713	13.4
Investec Asset Management	70,224,642	13.4
Public Investment Corporation	61,989,863	11.8
Prudential Portfolio Advisors	39,311,636	7.5

33. Events after balance sheet date

In October 2014, the group utilised its existing cash resources to redeem US$27 million (ZAR300 million) of its US$67 million (ZAR750 million) public bonds due April 2015.

34. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and take actions with respect to its operations accordingly.

North America

Sappi North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi North America 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, Sappi North America entered into an agreement with the City of Westbrook, two non-governmental organisations, 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. 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 Sappi North America's 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 Sappi North America's 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 Mill's 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

34. Environmental matters (Continued)

populations in the river, Sappi North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. At the end of December 2012, the USEPA issued the final rules for Boiler MACT. Initial indications are that installation of emissions control equipment will be required at each mill and that overall compliance under the final rules will require capital expenditures of up to US$10 million. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know precisely the effect, if any, of such legislation will have on our financial results and our operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The BAT conclusions for the production of pulp, paper and board were published on 30 September 2014. Within four years, our European mills will need to have considered the new requirements through their permits.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.
- A timber and timber product regulation has been adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place.
- The European Emission Trading System, in which all our European mills participate, is exposed to decisions that further increase the risk of carbon leakage. For 2014 to 2016, the European Commission decided to postpone the auctioning of 900 million allowances until

34. Environmental matters (Continued)

2019 to 2020 (back-loading). The Commission also intends to increase the annual reduction of the allowance caps of our mills from 1.7% annually today to 2.2% annually as of 2021.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

Southern Africa

In South Africa, our operations are regulated by various environmental laws, regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act recognises that water is a scarce resource and ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent, the growing and management of forests are all regulated through a licensing system issued in terms of this Act.
- The National Environmental Management Act establishes the procedures and institutions to facilitate and promote cooperative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm.
- The National Environmental Management: Air Quality Act (promulgated in 2005), which impose more stringent compliance limits on the South African operations in 2015 and then again in 2020. The stricter standards as per the Air Quality Act coming into effect in 2015 will not have a material impact on our mills.
- The National Environmental Management: Waste Act (enacted in July 2009) which regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

As a responsible global citizen with obligations under the United Nations Framework Convention on Climate Change and its Kyoto Protocol, South Africa is committed to contributing its fair share to global GHG mitigation efforts. The South African government acceded to the Kyoto Protocol in July 2002. Accordingly, South Africa has committed itself to an emissions trajectory that peaks at 34% below a 'Business as Usual' trajectory in 2020 and 42% in 2025, remains stable for around a decade, and declines thereafter in absolute terms. The government is currently in the process of setting desired emission reduction outcomes (DERO's) with industry sectors to achieve the committed targets. This requirement was initially referred to in the National Climate Change Response White Paper (NCCRWP), which discusses mitigation plans which will show how companies intend to achieve their DERO's. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2014 until at least 2017.

We expect carbon tax legislation to be introduced in 2016 and its introduction poses a potential risk going forward for Sappi Southern Africa. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa (PAMSA), to motivate the carbon tax design to incorporate rebates for carbon sequestration. Sappi's process starts with the planting of trees and its total supply chain is carbon neutral. In addition PAMSA is driving the development of a local factor to input into the carbon accounting method that applies to the unique circumstances of plantation forestry in South Africa. The initiative is being developed in conjunction with the Department of Environment and local research institutions, and is supported by a portion of the grant allocated to sector research and development, supplied by the Department of Science and Technologies.

35. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the ZAR/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the annual general meeting by the shareholders.

	2014			
	Board fees	Committee fees	Travel allowance	Total
	US$			
D Konar	**31,033**	**58,544**	**6,400**	**95,977**
B Radebe	**31,033**	**10,080**	**3,200**	**44,313**
ANR Rudd	**104,011**	**71,066**	**9,600**	**184,677**
KR Osar	**61,080**	**61,805**	**12,800**	**135,685**
JD McKenzie	**31,033**	**29,447**	**6,400**	**66,880**
DC Cronje	**212,693**	**—**	**3,200**	**215,893**
NP Mageza	**31,033**	**26,191**	**6,400**	**63,624**
R Thummer	**69,692**	**29,437**	**9,600**	**108,729**
MV Moosa	**31,033**	**10,080**	**6,400**	**47,513**
MA Fallon	**69,310**	**64,623**	**9,600**	**143,533**
GPF Beurskens	**69,692**	**71,849**	**9,600**	**151,141**
RJ DeKoch	**61,080**	**22,070**	**12,800**	**95,950**
	802,723	**455,192**	**96,000**	**1,353,915**

35. Directors' and prescribed officers' remuneration (Continued)

	2013			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg[1]	22,478	14,267	3,100	39,845
D Konar	33,183	62,599	6,200	101,982
B Radebe	33,183	10,778	3,100	47,061
ANR Rudd	86,779	61,844	6,200	154,823
KR Osar	59,885	60,600	15,500	135,985
JD McKenzie	33,183	31,487	6,200	70,870
DC Cronje	242,210	—	6,200	248,410
NP Mageza	33,183	28,006	6,200	67,389
R Thummer	63,091	26,653	9,300	99,044
MV Moosa	33,183	10,778	6,200	50,161
MA Fallon	63,091	49,947	9,300	122,338
GPF Beurskens	63,091	65,042	6,200	134,333
RJ DeKoch[2]	34,933	12,623	9,300	56,856
	801,473	434,624	93,000	1,329,097

	2012			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg	87,290	55,410	12,000	154,700
JE Healey[3]	14,535	27,333	6,000	47,868
D Konar	36,066	68,037	6,000	110,103
B Radebe	36,066	11,715	6,000	53,781
ANR Rudd	61,753	52,164	9,000	122,917
KR Osar	58,140	51,470	15,000	124,610
JD McKenzie	36,066	34,223	6,000	76,289
DC Cronje	263,252	—	6,000	269,252
NP Mageza	36,066	30,439	6,000	72,505
R Thummer	61,753	26,082	11,900	99,735
MV Moosa	36,066	7,810	6,000	49,876
MA Fallon	61,753	23,618	9,000	94,371
GPF Beurskens[4]	61,753	47,746	9,000	118,499
	850,559	436,047	107,900	1,394,506

(1) Retired in December 2012.

(2) Appointed in March 2013.

(3) Retired in December 2011.

(4) Appointed in October 2011.

35. Directors' and prescribed officers' remuneration (Continued)

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2014				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger[(1)]	**5,264,892**	**501,857**	**—**	**151,225**	**5,917,974**
SR Binnie[(2)]	**375,121**	**355,990**	**—**	**109,229**	**840,340**
GT Pearce[(3)]	**333,053**	**201,486**	**58,843**	**64,551**	**657,933**
	5,973,066	**1,059,333**	**58,843**	**325,005**	**7,416,247**

	2013				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger	716,034	—	8,339	207,447	931,820
SR Binnie	337,768	—	10,625	102,500	450,893
	1,053,802	—	18,964	309,947	1,382,713

	2012				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger	759,126	483,471	8,162	219,316	1,470,075
SR Binnie[(4)]	83,361	53,282	2,583	25,232	164,458
MR Thompson[(5)]	354,001	228,274	111,106	180,086	873,467
	1,196,488	765,027	121,851	424,634	2,508,000

(1) RJ Boëttger received a 6% increase on the South African portion (70% of total salary), and a 3% increase on the off-shore portion of his salary (30% of total salary). Both percentage increases were below that of the budgeted mandate for general staff in the respective countries. RJ Boëttger retired due to ill health on 30 June 2014 and, in terms of the guidance per the company's permanently disabled policy, received a lump sum payment of US$4,738,717.

(2) SR Binnie received a 7% increase on the South African portion (70% of total salary), and a 2% increase on the off-shore portion of his salary (30% of total salary). The increases to Mr Binnie's 2014 salary included a market adjustment to bring his base salary in line with market rates for his role. SR Binnie was promoted to group chief executive officer on 01 July 2014 resulting in a further adjustment to his salary package as from this date.

(3) GT Pearce was promoted to group chief financial officer on 01 July 2014. Earnings disclosed cover the whole financial year, including the period prior to his promotion. His expense allowance comprise a relocation allowance and a schooling allowance for his children.

(4) Appointed in July 2012 as chief financial officer designate and was appointed as chief financial officer and executive director at the end of August 2012.

(5) Retired in August 2012 after reaching the mandatory retirement age.

35. Directors' and prescribed officers' remuneration (Continued)

Despite the salary increases, the weaker ZAR in the 2014 financial year meant that the executive directors earned lower salaries in US Dollar terms.

Please see the Compensation report in Sappi's Integrated Report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

Prescribed officers(1)

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2014				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	**837,782**	**525,051**	**3,394**	**138,668**	**1,504,895**
Officer 2	**494,541**	**—**	**—**	**49,631**	**544,172**
Officer 3	**333,243**	**281,892**	**—**	**64,124**	**679,259**
Officer 4	**305,845**	**217,871**	**409**	**86,863**	**610,988**
Officer 5	**453,945**	**179,854**	**—**	**46,104**	**679,903**
Officer 6	**163,453**	**118,682**	**—**	**51,638**	**333,773**
Officer 7	**226,368**	**199,020**	**341**	**100,942**	**526,671**
	2,815,177	**1,522,370**	**4,144**	**537,970**	**4,879,661**

	2013				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	791,630	—	3,280	135,019	929,929
Officer 2	480,082	185,918	—	48,844	714,844
Officer 3	354,370	228,726	—	68,546	651,642
Officer 4	301,126	—	11,024	88,996	401,146
Officer 5	248,216	—	7,176	115,629	371,021
Officer 6	160,597	—	4,843	52,865	218,305
	2,336,021	414,644	26,323	509,899	3,286,887

35. Directors' and prescribed officers' remuneration (Continued)

	2012				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	749,633	501,438	3,247	127,926	1,382,244
Officer 2	456,485	—	—	45,384	501,869
Officer 3	372,216	194,848	—	72,518	639,582
Officer 4	306,574	152,320	10,906	110,275	580,075
Officer 5	255,021	123,613	7,108	103,686	489,428
Officer 6	135,184	61,631	3,926	44,790	245,531
Officer 8	213,620	105,428	144,650	109,611	573,309
	2,488,733	1,139,278	169,837	614,190	4,412,038

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi (retired 28 February 2014, but retained on contract until 28 February 2016); L Swartz; M van Hoven; A Thiel, B Wiersum and G Bowels (appointed 01 October 2013). They form the group executive committee together with the executive directors. The salaries of prescribed officers are affected by the translation into US Dollar.

36. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2014			2013		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	**7,542**	**—**	**—**	7,542	—	—
MV Moosa[1]	**—**	**—**	**626,998**	—	—	626,998
MA Fallon	**5,000**	**—**	**—**	5,000	—	—
Executive directors						
RJ Boëttger	**—**	**—**	**—**	204,957	—	—
Prescribed officers						
Officer 1	**80,695**	**—**	**—**	68,695	—	—
Officer 2	**70,964**	**—**	**—**	57,695	—	—
Officer 3	**88,212**	**—**	**—**	45,157	—	—
Officer 4	**42,298**	**—**	**—**	26,423	—	—
Officer 5	**43,545**	**—**	**—**	52,345	—	—
	338,256	**—**	**626,998**	467,814	—	626,998

(1) MV Moosa holds a 31.8% share of Lereko Investment Proprietary Limited which holds a total of 1,971,693 Sappi Limited shares as part of the BEE transaction described in notes 18 and 29. MV Moosa was appointed a director of the company after the conclusion of the BEE transaction.

36. Directors' and prescribed officers' interests (Continued)

There have been no changes in the direct or indirect beneficial interests of the directors and their associates since financial year-end.

Directors' interests in contracts

Other than MV Moosa's interest in the BEE transaction described above and in note 29, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Executive directors

	RJ Boëttger		SR Binnie		GT Pearce		Total 2014	Total 2013
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year								
Number of shares held		790,000		100,000		—	**890,000**	744,000
Performance shares 35		195,000						
Performance shares 36		195,000						
Performance shares 37		200,000						
Performance shares 38		200,000		100,000				
Appointment of executive director during the year								
Number of shares						154,250	**154,250**	—
Offered and accepted during the year								
Performance shares 38								300,000
Performance shares 39		—		310,000		—	**310,000**	
Exercised during the year								
Number of shares		(73,125)		—		—	**(73,125)**	(57,750)
Returned, lapsed and forfeited during the year								
Number of shares[1]		(716,875)		—		—	**(716,875)**	(96,250)
Outstanding at end of year								
Number of shares held		—		410,000		154,250	**564,250**	890,000
Issue 32					ZAR52.57	6,600		
Performance shares 36						24,150		
Performance shares 37						55,500		
Performance shares 38				100,000		35,000		
Performance shares 39				310,000		33,000		

[1] In determining the separation package of RJ Boëttger, he agreed to forfeit all unvested shares, being 595,000 shares, as at 30 June 2014.

Performance shares are issued when all conditions per note 29 are met. The position of participants with regards to the rights offer is also explained in note 29.

Expiry dates

Issue 32	12 December 2015
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Prescribed officers

	Officer 1		Officer 2		Officer 3		Officer 4		Officer 5	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year										
Number of shares held		413,000		427,000		345,000		288,000		308,000
Performance shares 35		120,000		120,000		80,000		65,000		80,000
Performance shares 36		88,000		88,000		65,000		50,000		55,000
Performance shares 37		105,000		105,000		100,000		87,500		87,500
Performance shares 38		100,000		114,000		100,000		85,500		85,500
Appointment of prescribed officers during the year										
Number of shares										
Offered and accepted during the year										
Performance shares 38										
Performance shares 39		110,000		110,000		310,000		90,000		—
Exercised during the year										
Number of shares		(45,000)		(45,000)		(30,000)		(24,375)		(30,000)
Returned, lapsed and forfeited during the year										
Number of shares		(75,000)		(75,000)		(50,000)		(40,625)		(50,000)
Outstanding at end of year										
Number of shares held		403,000		417,000		575,000		313,000		228,000
Issue 32										
Performance shares 36		88,000		88,000		65,000		50,000		55,000
Performance shares 37		105,000		105,000		100,000		87,500		87,500
Performance shares 38		100,000		114,000		100,000		85,500		85,500
Performance shares 39		110,000		110,000		310,000		90,000		—

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Performance shares are issued when all conditions per note 29 are met. The position of participants with regards to the rights offer is also explained in note 29.

Expiry dates

Issue 32	12 December 2015
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017

		Exercised	Number of shares	Allocation price	Market value at date of payment
Executive directors					
September 2014					
RJ Boëttger	Performance Plan 35	10 December 2013	73,125	ZAR0.00	ZAR29.54
September 2013					
RJ Boëttger	Performance Plan 34	22 December 2012	57,750	ZAR0.00	ZAR30.49
Prescribed officers					
September 2014					
Officer 1	Performance Plan 35	10 December 2013	45,000	ZAR0.00	ZAR29.54
Officer 2	Performance Plan 35	10 December 2013	45,000	ZAR0.00	ZAR29.54
Officer 3	Performance Plan 35	10 December 2013	30,000	ZAR0.00	ZAR29.54
Officer 4	Performance Plan 35	10 December 2013	24,375	ZAR0.00	ZAR29.54
Officer 5	Performance Plan 35	10 December 2013	30,000	ZAR0.00	ZAR29.54
Officer 7	Issue 34	27 August 2014	8,250	ZAR35.50	ZAR43.80
	Issue 35	27 August 2014	7,150	ZAR33.85	ZAR43.79
September 2013					
Officer 1	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 2	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 3	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49
Officer 4	Performance Plan 34	22 December 2012	16,500	ZAR0.00	ZAR30.49
Officer 5	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49

38. Investments

Set out below are the more significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2014	2013
Elektra Purchase No. 29 Limited	Ireland	Securitisation of receivables	**—**	—
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper and paper pulp and dissolving wood pulp/paper pulp	**100**	100
Sappi Deutschland GmbH	Germany	Sales	**100**	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Europe SA	Belgium	Sales	**100**	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	**100**	100
Sappi International SA	Belgium	Treasury	**100**	100
Sappi Lanaken NV	Belgium	Manufacture of paper	**100**	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	**100**	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	**100**	100
Sappi Papier Holding GmbH	Austria	Holding company; Sales	**100**	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	**100**	100
Sappi Specval Coatings Proprietary Limited	South Africa	Production of paper	**100**	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
SD Warren Company	United States of America	Manufacture of paper and paper pulp	**100**	100

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sappi Limited

We have audited the accompanying consolidated financial statements of Sappi Limited, which comprise the group balance sheet as at September 2013, and the group income statement, group statement of comprehensive income, group statement of changes in equity and group statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The group's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2013, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended September 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered Auditors

Per RC Campbell
Partner

09 December 2013

Johannesburg, South Africa

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GROUP INCOME STATEMENT

for the year ended September 2013

	note	2013	2012	2011
			US$ million	
Sales		**5,925**	6,347	7,286
Cost of sales	4	**5,274**	5,552	6,454
Gross profit		**651**	795	832
Selling, general and administrative expenses	4	**384**	417	454
Other operating expenses (income)	4.2	**244**	(41)	298
Share of profit from equity investments	14	**(7)**	(2)	(6)
Operating profit	4	**30**	421	86
Net finance costs	5	**166**	283	307
Finance costs		**175**	305	348
Finance revenue		**(7)**	(12)	(12)
Net foreign exchange gains		**(1)**	(5)	(13)
Net fair value gain on financial instruments		**(1)**	(5)	(16)
(Loss) profit before taxation		**(136)**	138	(221)
Taxation charge	6	**25**	34	11
(Loss) profit for the year		**(161)**	104	(232)
Basic (loss) earnings per share (US cents)	7	**(31)**	20	(45)
Weighted average number of ordinary shares in issue (millions)		**521.3**	520.8	519.9
Diluted (loss) earnings per share (US cents)	7	**(31)**	20	(45)
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**521.3**	522.2	519.9

SAPPI

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2013

	note	2013	2012	2011
		US$ million		
(Loss) profit for the year		**(161)**	104	(232)
Other comprehensive loss, net of tax	19	**(231)**	(69)	(205)
Items that will not be reclassified subsequently to profit or loss		**(7)**	34	(60)
Actuarial gains (losses) on post-employment benefit funds		**20**	(88)	(59)
Deferred tax on items that will not be reclassified subsequently to profit or loss		**(27)**	122	(1)
Items that may be reclassified subsequently to profit or loss		**(224)**	(103)	(145)
Exchange differences on translation to presentation currency		**(225)**	(60)	(151)
Movement on available-for-sale financial assets		**—**	1	2
Movement in hedging reserves		**3**	(47)	6
Deferred tax on items that may be reclassified subsequently to profit or loss		**(2)**	3	(2)
Total comprehensive (loss) income for the year		**(392)**	35	(437)

SAPPI
GROUP BALANCE SHEET
at September 2013

	note	2013	2012
		US$ million	
Assets			
Non-current assets		**3,754**	3,990
Property, plant and equipment	10	**3,078**	3,157
Plantations	11	**464**	555
Deferred tax assets	12	**92**	154
Goodwill and intangible assets	13	**20**	22
Equity investments	14	**18**	18
Other non-current assets	15	**62**	62
Derivative financial instruments	30	**20**	22
Current assets		**1,879**	2,178
Inventories	16	**728**	726
Trade and other receivables	17	**747**	800
Derivative financial instruments	30	**1**	—
Taxation receivable		**18**	7
Cash and cash equivalents	24.6	**385**	645
Assets held for sale	9	**94**	—
Total assets		**5,727**	6,168
Equity and liabilities			
Shareholders' equity		**1,144**	1,525
Ordinary share capital and share premium	18	**1,148**	1,391
Non-distributable reserves	20	**158**	171
Foreign currency translation reserve		**(288)**	(323)
Hedging reserves		**(40)**	(39)
Retained earnings		**166**	325
Non-current liabilities		**3,371**	3,328
Interest-bearing borrowings	21	**2,499**	2,358
Deferred tax liabilities	12	**267**	319
Derivative financial instruments	30	**99**	46
Other non-current liabilities	22	**506**	605
Current liabilities		**1,206**	1,315
Interest-bearing borrowings	21	**99**	261
Overdrafts		**1**	5
Derivative financial instruments	30	**2**	1
Trade and other payables		**1,015**	1,005
Taxation payable		**12**	26
Provisions	23	**77**	17
Liabilities associated with assets held for sale	9	**6**	—
Total equity and liabilities		**5,727**	6,168

SAPPI

GROUP STATEMENT OF CASH FLOWS

for the year ended September 2013

	note	2013	2012	2011
			US$ million	
Cash retained from operating activities		**246**	411	406
Cash generated from operations	24.1	**447**	728	798
—Increase in working capital	24.2	**(20)**	(102)	(98)
Cash generated from operating activities		**427**	626	700
—Finance costs paid	24.3	**(171)**	(206)	(266)
—Finance revenue received		**7**	11	10
—Taxation paid	24.4	**(17)**	(20)	(38)
Cash utilised in investing activities		**(493)**	(284)	(243)
Investment to maintain operations		**(116)**	(177)	(213)
Investment to expand operations[(1)]		**(436)**	(181)	(49)
Proceeds on disposal of non-current assets	24.5	**53**	71	6
Decrease in other non-current assets		**6**	3	13
Cash effects of financing activities		**(8)**	(103)	(296)
Proceeds from interest-bearing borrowings		**388**	1,025	1,364
Repayment of interest-bearing borrowings		**(389)**	(1,066)	(1,578)
Cash costs attributable to refinancing transactions		**(3)**	(66)	(78)
Movement in overdrafts		**(4)**	4	(4)
Net movement in cash and cash equivalents		**(255)**	24	(133)
Cash and cash equivalents at beginning of year		**645**	639	792
Translation effects		**(5)**	(18)	(20)
Cash and cash equivalents at end of year	24.6	**385**	645	639

(1) Includes capitalised interest of US$9 million (2012: US$6 million, 2011: Nil).

SAPPI

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2013

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
					US$ million				
Balance—September 2010	519.5	74	1,564	1,638	161	(385)	1	481	**1,896**
Share-based payments	—	—	—	—	20	—	—	—	**20**
Transfers of vested share options	1.0	—	6	6	(7)	—	—	—	**(1)**
Translation of parent company's ordinary share capital and share premium	—	(10)	(209)	(219)	—	219	—	—	**—**
Total comprehensive loss	—	—	—	—	(11)	(138)	4	(292)	**(437)**
Balance—September 2011	520.5	64	1,361	1,425	163	(304)	5	189	**1,478**
Transfer from retained earnings	—	—	—	—	2	—	—	(2)	**—**
Share-based payments	—	—	—	—	12	—	—	—	**12**
Transfers of vested share options	0.3	—	2	2	(2)	—	—	—	**—**
Translation of parent company's ordinary share capital and share premium	—	(1)	(35)	(36)	—	36	—	—	**—**
Total comprehensive income	—	—	—	—	(4)	(55)	(44)	138	**35**
Balance—September 2012	520.8	63	1,328	1,391	171	(323)	(39)	325	**1,525**
Transfer to retained earnings	—	—	—	—	(9)	—	—	9	**—**
Share-based payments	—	—	—	—	11	—	—	—	**11**
Transfers of vested share options	0.7	—	3	3	(3)	—	—	—	**—**
Translation of parent company's ordinary share capital and share premium	—	(11)	(235)	(246)	—	246	—	—	**—**
Total comprehensive loss	—	—	—	—	(12)	(211)	(1)	(168)	**(392)**
Balance—September 2013	521.5	52	1,096	1,148	158	(288)	(40)	166	**1,144**
Note				18	20				

1. Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and
- Listings Requirements of the JSE Limited.

The group annual financial statements are prepared on the historical-cost basis, except as set out in the accounting policies below. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- jointly controlled entities are accounted for using the equity method
- property, plant and equipment is accounted for using the cost model
- actuarial gains or losses on post-employment benefits are recognised in OCI and
- the step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

The group annual financial statements are presented in United States Dollars (US$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million except as otherwise indicated.

The preparation of the group annual financial statements was supervised by the Chief Financial Officer, SR Binnie CA(SA).

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 01 October 2012 to 29 September 2013 (52 weeks)
- 03 October 2011 to 30 September 2012 (52 weeks)
- 27 September 2010 to 02 October 2011 (53 weeks)

2. Accounting policies (Continued)

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group annual financial statements are presented in US Dollars, which is the group's presentation currency.

The functional currency of the parent company is ZAR. The share capital and share premium of the parent company are translated into US Dollars at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the period-end rate and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

2. Accounting policies (Continued)

The group used the following exchange rates for financial reporting purposes:

	Period-end rate		
	2013	**2012**	**2011**
US$1 = ZAR	**10.0930**	8.3096	8.0963
€1 = US$	**1.3522**	1.2859	1.3386

	Annual average rate		
	2013	**2012**	**2011**
US$1 = ZAR	**9.2779**	8.0531	6.9577
€1 = US$	**1.3121**	1.2988	1.3947

2.2.2 Group accounting

(i) Subsidiary undertakings and special-purpose entities

The group annual financial statements include the assets, liabilities and results of the company and subsidiaries (including special-purpose entities) controlled by the group. The results of subsidiaries acquired or disposed of in the year are included in the group income statement from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions, are eliminated in the preparation of the group annual financial statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. Under the equity method, associates' and joint ventures' are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that corresponds to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

2. Accounting policies (Continued)

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability except, for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- **Financial assets and financial liabilities at fair value through profit or loss**

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- **Financial liabilities at amortised cost**

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- **Loans and receivables**

Loans and receivables are carried at amortised cost.

- **Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains or losses reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

- **Loans and receivables**

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

2. Accounting policies (Continued)

- **Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised.

Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives, which is on average ten years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) Licence fees

Licence fees are amortised on a straight-line basis over the useful life of each licence.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

2. Accounting policies (Continued)

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less the necessary costs to make the sale.

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except where the transfer of ownership is uncertain at the end of the lease period, in which case, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

2.2.9 Segment reporting

The group's reportable segments, which are determined based on how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

2. Accounting policies (Continued)

Borrowing costs capitalised are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and, when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or is receivable and is after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

2.2.12 Emission trading

The group recognises grants allocated by governments for emission rights as an intangible asset at cost, with an equal liability at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2. Accounting policies (Continued)

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo Simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-Based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and, the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs to this process include; the volatility of the group's share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2013.

2.3 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 judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

2.3.1 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 recognised impairment.

Intangible assets not yet available for use are tested at least annually for impairment.

2. Accounting policies (Continued)

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 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 recognised in other operating expenses in profit or loss for the period.

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

Refer to note 10 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

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

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.

Management judgement 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 20 years
Vehicles	straight-line	5 to 10 years
Furniture and Equipment	straight-line	3 to 6 years

2.3.3 Taxation

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

2. Accounting policies (Continued)

(i) 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.

(ii) 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 realisation 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 recognised 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 recognising 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 recognised. In recognising 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 movement in unrecognised deferred tax assets.

(iii) 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 recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

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

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of

2. Accounting policies (Continued)

derivatives that are designated as hedging instruments are recognised 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 recognised in the same line of profit or loss as the change in the hedged item.

(ii) 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 recognised asset or liability, a highly probable forecast transaction or, the foreign currency risk in an unrecognised 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 recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised in OCI, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

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

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) 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 when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI 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 recognised immediately in profit or loss.

Refer to notes 30 and 31 to the group annual financial statements 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.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage.

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

- **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

2. Accounting policies (Continued)

date. 12 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 are 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 tonne allocation method multiplied by unadjusted current market prices. Tonnes 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 tendering of trees.

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.6 Pension plans and other post-retirement 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.

2. Accounting policies (Continued)

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

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 recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. 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 recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the vesting period of those benefits.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 28 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

A provision is recognised 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 judgement 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.

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 nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises 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

2. Accounting policies (Continued)

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 a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

Standards, interpretations and amendments to standards

The group adopted the following amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IAS 1 *Presentation of Financial Statements*—Other Comprehensive Income
- IAS 12 *Deferred Tax*—Investment property measured at fair value and
- Circular 2/2013 *Headline Earnings.*

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

Certain new standards and amendments and interpretations to existing standards which have been published but 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:

- IAS 19 (Revised) *Employee Benefits*—requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields—September 2014
- IFRS 13 *Fair Value Measurements*—establishes a single source of guidance for fair value measurements under IFRS—September 2014 and
- IFRS 9 *Financial Instruments*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2016.

The new standards, amendments and revisions and their effective dates mentioned below are not expected to have a material impact on the group's results or financial position:

- IFRS 7 *Financial Instruments: Disclosures*—Offsetting Financial Assets and Financial Liabilities—September 2014
- IFRS 10 *Consolidated Financial Statements*—IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee—September 2014
- IFRS 11 *Joint Arrangements*—classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these—September 2014

2. Accounting policies (Continued)

- IFRS 12 *Disclosure of Interest in Other Entities*—September 2014
- IAS 27 *Separate Financial Statements*—amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements—September 2014
- IAS 28 *Investments in Associates and Joint Ventures*—amendment to conform changes based on the issuance of IFRS 10 and IFRS 11—September 2014
- IAS 32 *Financial Instruments: Presentation*—Offsetting Financial Assets and Financial Liabilities—September 2015
- IAS 36 *Impairment of Assets*—Recoverable Amount Disclosures for Non-Financial Assets—September 2015
- IAS 39 *Financial Instruments: Recognition and Measurement*—Novation of Derivatives and Continuation of Hedge Accounting—September 2015
- IFRIC 21 *Levies*—September 2015 and
- Various improvements to IFRSs.

3. Segment information

Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue is comprised mostly of the sale of dissolving wood pulp and, coated and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp and coated, uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and, of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

3. Segment information (Continued)

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit (loss) excluding special items.

	North America			Europe			Southern Africa			Unallocated and eliminations[3]			Group		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
	US$ million														
Income statement															
External sales[1]	1,377	1,438	1,520	3,155	3,350	3,965	1,393	1,559	1,801	—	—	—	5,925	6,347	7,286
Operating profit (loss) excluding special items	71	94	129	(9)	133	68	123	178	199	6	(2)	8	191	403	404
Special items—(gains) losses[2]	(6)	7	(7)	142	(45)	139	8	25	136	17	(5)	50	161	(18)	318
Segment operating profit (loss)	77	87	136	(151)	178	(71)	115	153	63	(11)	3	(42)	30	421	86
EBITDA excluding special items[2]	149	173	203	182	329	300	202	271	309	6	(1)	9	539	772	821
Share of profit (loss) of equity investments	—	—	—	1	1	—	6	4	2	—	(3)	4	7	2	6
Depreciation and amortisation	78	79	74	191	196	232	79	93	110	—	1	1	348	369	417
(Impairment reversals) impairments of assets and investments	—	—	(3)	63	1	57	92	9	68	—	—	45	155	10	167
Profit on disposal of equity investments	—	—	—	—	—	—	—	—	—	—	11	—	—	11	—
Profit (loss) on disposal of non-current assets	—	—	2	—	51	—	(2)	1	(2)	—	—	1	(2)	52	1
Fellings	—	—	—	—	—	—	66	73	82	—	—	—	66	73	82
Plantation fair value adjustment	—	—	—	—	—	—	(166)	(68)	(65)	—	—	—	(166)	(68)	(65)
Restructuring provisions (released) raised and closure costs	—	—	(2)	79	5	89	17	(7)	44	1	—	4	97	(2)	135
Post-retirement plan amendment	—	—	—	—	—	—	24	—	—	—	—	—	24	—	—
Other non-cash items	1	10	17	7	10	9	(5)	21	22	(12)	5	(2)	(9)	46	46
Balance sheet															
Capital expenditures	168	92	58	129	96	111	278	216	97	—	—	2	575	404	268
Segment assets[2]	1,046	919	908	1,594	1,776	1,889	1,523	1,605	1,574	(25)	20	51	4,138	4,320	4,422
Property, plant and equipment	864	774	762	1,245	1,314	1,484	968	1,067	987	1	2	2	3,078	3,157	3,235

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

	North America			Europe			Southern Africa			Unallocated and eliminations[3]			Group		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
	US$ million														
Operating profit (loss) excluding special items	71	94	129	(9)	133	68	123	178	199	6	(2)	8	191	403	404
Special items—(gains) losses[2]	(6)	7	(7)	142	(45)	139	8	25	136	17	(5)	50	161	(18)	318
Segment operating profit (loss)	77	87	136	(151)	178	(71)	115	153	63	(11)	3	(42)	30	421	86

3. Segment information (Continued)

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

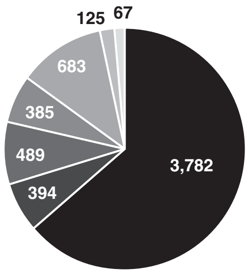
	North America			Europe			Southern Africa			Unallocated and eliminations[3]			Group		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
							US$ million								
EBITDA excluding special items[2]	**149**	173	203	**182**	329	300	**202**	271	309	**6**	(1)	9	**539**	772	821
Depreciation and amortisation	**78**	79	74	**191**	196	232	**79**	93	110	**—**	1	1	**348**	369	417
Operating profit (loss) excluding special items	**71**	94	129	**(9)**	133	68	**123**	178	199	**6**	(2)	8	**191**	403	404
Special items—(gains) losses[2]	**(6)**	7	(7)	**142**	(45)	139	**8**	25	136	**17**	(5)	50	**161**	(18)	318
Segment operating profit (loss)	**77**	87	136	**(151)**	178	(71)	**115**	153	63	**(11)**	3	(42)	**30**	421	86
Net finance costs													**166**	283	307
Profit (loss) before taxation													**(136)**	138	(221)

(1) Sales of products are allocated to where the product is manufactured.

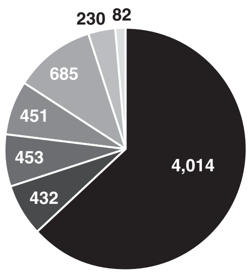
(2) Refer to the glossary on page 97 of the Integrated report for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

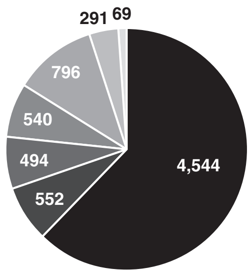
2013: Sales by products (US$ million)



2012: Sales by products (US$ million)



2011: Sales by products (US$ million)



Coated paper · Uncoated paper · Speciality paper · Commodity paper · Dissolving wood pulp · Paper pulp · Other

Reconciliation of segment assets to total assets:

	Group		
	2013	2012	2011
	US$ million		
Segment assets[1]	**4,138**	4,320	4,422
Deferred tax assets	**92**	154	45
Cash and cash equivalents	**385**	645	639
Derivative financial instruments	**2**	1	10
Trade and other payables	**1,015**	1,005	1,065
Provisions	**77**	17	107
Taxation payable	**12**	26	20
Liabilities associated with assets held for sale	**6**	—	—
Total assets	**5,727**	6,168	6,308

(1) Refer to the glossary on page 97 of the Integrated report for the definition of the term.

4. Operating profit

	2013		2012		2011	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
	US$ million					
Operating profit has been arrived at after charging (crediting):						
Raw materials, energy and other direct input costs	**3,258**	**—**	3,393	—	3,962	—
Wood (includes growth and felling adjustments[1])	**641**	**—**	723	—	773	—
Energy	**547**	**—**	565	—	670	—
Chemicals	**946**	**—**	1,028	—	1,117	—
Pulp	**914**	**—**	753	—	987	—
Other variable costs	**210**	**—**	324	—	415	—
Plantation price fair value adjustment	**(87)**	**—**	15	—	16	—
Employment costs	**854**	**191**	898	200	1,027	211
Depreciation	**327**	**18**	345	22	392	22
Delivery charges	**510**	**—**	526	—	597	—
Maintenance	**254**	**—**	253	—	300	—
Other overheads	**158**	**—**	122	—	160	—
Marketing and selling expenses	**—**	**98**	—	102	—	112
Administrative and general expenses	**—**	**77**	—	93	—	109
	5,274	**384**	5,552	417	6,454	454

	2013	2012	2011
	US$ million		
Silviculture costs (included within cost of sales)	**67**	70	79
Leasing charges for premises	**13**	14	14
Leasing charges for plant and equipment	**16**	18	22
Remuneration paid other than to employees of the company in respect of:	**30**	28	35
—technical services	**14**	14	16
—administration services	**16**	14	19
Auditors' remuneration:	**7**	8	8
—audit and related services	**6**	6	6
—tax planning and tax advice	**1**	2	1
—refinancing related services[2]	**—**	—	1
Research and development costs	**23**	24	26
Amortisation	**3**	2	3
Cost on derecognition of loans and receivables[3]	**7**	10	11

(1) Changes in plantation volumes

Fellings	**66**	73	82
Growth	**(79)**	(83)	(81)

(2) These costs have been capitalised.

(3) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

4. Operating profit (Continued)

4.1 Employment costs

	2013	2012	2011
		US$ million	
Wages and salaries	**953**	984	1,112
Defined contribution plan expense (refer to note 28)	**34**	35	46
Defined benefit pension plan expense (refer to note 28)	**6**	24	14
Other defined benefit plan expense (refer to note 28)	**12**	13	14
Share-based payment expense	**8**	9	15
Other	**32**	33	37
	1,045	1,098	1,238

4.2 Other operating expenses (income)

	2013	2012	2011
		US$ million	
Included in other operating expenses (income) are the following:			
Impairments of assets and investments	**155**	10	167
Restructuring provisions and closure costs raised (reversed)	**97**	(2)	135
Profit on disposal of equity investments	**—**	(11)	—
Loss (profit) on disposal of non-current assets	**2**	(52)	(1)
Post-retirement plan amendment (refer to note 28)	**(24)**	—	—
Black Economic Empowerment (BEE) charge	**3**	3	5

5. Net finance costs

	2013	2012	2011
		US$ million	
Interest and other finance costs on liabilities carried at amortised cost	**184**	311	348
—Interest on overdrafts	**3**	1	2
—Interest on redeemable bonds and other loans	**180**	220	282
—Premium and costs on early redemption of redeemable bonds and other loans	**—**	46	43
—Accelerated amortisation on early settlement of redeemable bonds and other loans	**—**	42	17
—Interest cost on finance lease obligations	**1**	2	4
Finance revenue received on assets carried at amortised cost	**(7)**	(12)	(12)
—Interest on bank accounts	**(6)**	(10)	(9)
—Interest revenue on other loans and investments	**(1)**	(2)	(3)
Interest capitalised to property, plant and equipment[1]	**(9)**	(6)	—
Net foreign exchange gains	**(1)**	(5)	(13)
Net fair value gain on financial instruments	**(1)**	(5)	(16)
—Realised gain on termination of swaps	**—**	(2)	(1)
—Gain on amortisation of de-designated hedges	**—**	(3)	(18)
—Hedge ineffectiveness			
—loss (gain) on hedging instrument (derivative)	**8**	(3)	(19)
—(gain) loss on hedged item	**(9)**	3	22
	166	283	307

(1) Borrowing costs incurred on the conversion projects at Ngodwana Mill in Southern Africa and Cloquet Mill in North America have been capitalised at the capitalisation rates of 7.7% (2012: 9.3%; 2011: nil) and 4.1% (2012: 4.1%; 2011: nil) respectively.

6. Taxation charge

	2013	2012	2011
	US$ million		
Current taxation:			
—Current year	**1**	28	10
—Prior year overprovision	**(9)**	(4)	(2)
—Other company taxes	**4**	4	6
Deferred taxation:			
—Current year	**28**	10	—
—Prior year underprovision (overprovision)	**1**	(2)	(3)
—Attributable to tax rate changes	**—**	(2)	—
	25	34	11

Reconciliation of the tax rate

	2013	2012	2011
(Loss) profit before taxation	**(136)**	138	(221)
Profit-making regions	**175**	267	231
Loss-making regions	**(311)**	(129)	(452)
Taxation at the average statutory tax rate	**(32)**	47	(49)
Profit-making regions at 28% (2012: 29%; 2011: 30%)	**49**	78	69
Loss-making regions at 26% (2012: 24%; 2011: 26%)	**(81)**	(31)	(118)
Net exempt income and non-tax deductible expenditure	**(12)**	(41)	(10)
Effect of tax rate changes	**—**	(2)	—
No tax relief on losses	**52**	58	110
No tax charge on profits	**(3)**	(26)	(41)
Derecognition of deferred tax assets	**24**	—	—
Prior year adjustments	**(8)**	(6)	(5)
Other taxes	**4**	4	6
Taxation charge	**25**	34	11
Effective tax rate for the year	**(18)%**	25%	(5)%

In addition to income taxation charges to profit or loss, a deferred taxation charge of US$29 million (2012: US$125 million relief; 2011: US$3 million charge) has been recognised directly in other comprehensive income (refer to note 12).

7. (Loss) earnings per share and headline (loss) earnings per share

Basic (loss) earnings per share (EPS)

EPS is based on the group's (loss) profit for the year divided by the weighted average number of shares in issue during the year under review.

	2013			2012			2011		
	Loss	Shares	Loss per share	Profit	Shares	Earnings per share	Loss	Shares	Loss per share
	US$ million	millions	US cents	US$ million	millions	US cents	US$ million	millions	US cents
Basic EPS calculation	**(161)**	**521.3**	**(31)**	104	520.8	20	(232)	519.9	(45)
Share options and performance shares under Sappi Limited Share Trust	**—**	**—**	**—**	—	1.4	—	—	—	—
Diluted EPS calculation	**(161)**	**521.3**	**(31)**	104	522.2	20	(232)	519.9	(45)

7. (Loss) earnings per share and headline (loss) earnings per share (Continued)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR26.70 (2012: ZAR24.88; 2011: ZAR33.66) and exclude the effect of certain share options granted under The Sappi Share Incentive Scheme as well as share options granted under the BEE transaction as they would be antidilutive. During the 2013 and 2011 financial years, all share options not exercised at year-end are considered to be antidilutive due to the loss per share incurred in those years.

There are 20.4 million (2012: 12.8 million; 2011: 19.3 million) share options on ordinary shares that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are antidilutive. In addition, refer to notes 18 and 29 for a discussion on the 'A' ordinary shares, all of which were antidilutive at the financial year-end.

Headline (loss) earnings per share[(1)]

Headline (loss) earnings per share is based on the group's headline (loss) earnings divided by the weighted average number of shares in issue during the year. This is a JSE Limited Listings required measure.

Reconciliation between attributable (loss) earnings to ordinary shareholders and headline (loss) earnings:

	2013			2012			2011		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
	US$ million								
Attributable (loss) earnings to ordinary shareholders	**(136)**	**25**	**(161)**	138	34	104	(221)	11	(232)
Impairments of assets and investments	**155**	**27**	**128**	10	2	8	167	17	150
Profit on disposal of equity investments	**—**	**—**	**—**	(11)	—	(11)	—	—	—
Loss (profit) on disposal of non-current assets	**2**	**—**	**2**	(52)	—	(52)	(1)	—	(1)
Headline (loss) earnings	**21**	**52**	**(31)**	85	36	49	(55)	28	(83)
Weighted average number of ordinary shares in issue (millions)			**521.3**			520.8			519.9
Headline (loss) earnings per share (US cents)			**(6)**			9			(16)
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**521.3**			522.2			519.9
Diluted headline (loss) earnings per share (US cents)			**(6)**			9			(16)

(1) Headline earnings—as defined in Circular 2/2013 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings.

8. Dividends

No dividends were declared in respect of the current and previous financial years.

9. Assets held for sale

During the year, Southern Africa entered into an agreement with Montigny Investments Limited to sell its shares in Usutu Forest Products Company Limited (Usutu). These shares represent assets comprising mainly plantations as well as the shareholder loan claim against Usutu. The timing of the sale is subject to the fulfilment of certain conditions precedent. No remeasurements were recognised on reclassification of the disposal group as held for sale nor at financial year-end.

9. Assets held for sale (Continued)

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

	2013	2012
	US$ million	
Property, plant and equipment	**6**	—
Plantations	**86**	—
Trade and other receivables	**2**	—
Assets held for sale	**94**	—
Deferred tax liabilities	**1**	—
Other non-current liabilities	**2**	—
Trade and other payables	**3**	—
Liabilities associated with assets held for sale	**6**	—

10. Property, plant and equipment

	2013	2012
	US$ million	
Land and buildings[1]		
At cost	**1,535**	1,494
Accumulated depreciation and impairments	**(883)**	(841)
	652	653
Plant and equipment[2]		
At cost	**7,141**	7,323
Accumulated depreciation and impairments	**(4,721)**	(4,864)
	2,420	2,459
Capitalised leased assets[3]		
At cost	**514**	558
Accumulated depreciation and impairments	**(508)**	(513)
	6	45
Aggregate cost	**9,190**	9,375
Aggregate accumulated depreciation and impairments	**(6,112)**	(6,218)
Aggregate book value[4]	**3,078**	3,157

10. Property, plant and equipment (Continued)

The movement of property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	Total
		US$ million		
Net book value at September 2011	702	2,476	57	**3,235**
Additions	21	376	1	**398**
Finance costs capitalised	—	6	—	**6**
Disposals	(15)	(4)	—	**(19)**
Transfers	1	(1)	—	**—**
Depreciation	(37)	(319)	(11)	**(367)**
Impairments	—	(20)	—	**(20)**
Impairment reversals	—	10	—	**10**
Translation differences	(19)	(65)	(2)	**(86)**
Net book value at September 2012	653	2,459	45	**3,157**
Additions	56	510	—	**566**
Finance costs capitalised	—	9	—	**9**
Disposals	(1)	(13)	—	**(14)**
Transfers	8	53	(61)	**—**
Depreciation	(38)	(329)	22	**(345)**
Impairments	—	(164)	—	**(164)**
Impairment reversals	—	9	—	**9**
Transfers to assets held for sale (refer to note 9)	(4)	(2)	—	**(6)**
Translation differences	(22)	(112)	—	**(134)**
Net book value at September 2013	652	2,420	6	**3,078**

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of buildings.

(4) An amount of US$160 million (2012: US$313 million) relates to assets under construction.

Refer to note 25 for details of encumbrances.

September 2013 material asset impairments and impairment reversals

Europe

As a result of the continued market decline and consequent overcapacity in the European coated paper markets, combined with high raw material costs which were not compensated for by higher selling prices, the group impaired certain assets and undertook certain strategic initiatives during the year resulting in further asset impairments:

Coated mechanical cash generating unit (CGU)

The coated mechanical CGU was valued on a value in use basis using a real pre-tax rate of 8.7%. This resulted in an impairment charge of US$25 million being recorded in other operating expenses in profit or loss for the period.

Nijmegen Mill

In order to reduce costs and improve efficiencies, the group identified the need to concentrate production at fewer sites. On announcement of the group's intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe, the group impaired the mill's plant and equipment and recorded an impairment charge of US$38 million in other operating expenses in profit or loss for

10. Property, plant and equipment (Continued)

the period. An Information and Consultation Advisory board has been formed and has two months from the date of formation to investigate any alternatives available to Nijmegen Mill.

Due to the relocation of production of certain products from Nijmegen Mill, the group incurred an impairment charge of US$2 million as a result of equipment being taken out of production at other Sappi mill sites. This impairment has been recorded in other operating expenses in profit or loss for the period.

Alfeld Mill

The conversion of paper machine 2 at Alfeld Mill to produce speciality paper has resulted in certain of the mill assets becoming redundant. As a result, an impairment charge of US$4 million has been recorded in other operating expenses in profit or loss for the period.

Central service departments

In line with decreasing volumes and to reduce fixed costs, certain central service departments were restructured resulting in certain information technology assets being made redundant. This resulted in an impairment charge of US$3 million in other operating expenses in profit or loss for the period.

Kangas Mill

During the year, the group disposed of the previously impaired paper machine 4 at Kangas Mill. As the proceeds on disposal exceeded the carrying value of the asset, an impairment reversal of US$9 million has been recorded in other operating expenses in profit or loss for the period.

Southern Africa

Enstra Mill

As a result of difficult market conditions and input costs pressure, Enstra Mill was tested for impairment on a value in use basis resulting in an impairment charge of US$32 million in other operating expenses in profit or loss for the period. The recoverable amount was calculated using a real pre-tax discount rate of 9.12%.

Tugela Mill

Due to ongoing losses at Tugela Mill at the end of the second financial quarter, the mill was tested for impairment resulting in an impairment charge of US$47 million being recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

Stanger Mill

As a result of difficult local market conditions as well as input costs pressure on the paper production facility at Stanger Mill, the paper production facility was tested for impairment resulting in an impairment charge of US$12 million being recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

September 2012 material asset impairments and impairment reversals

Southern Africa

Sappi Paper and Paper Packaging operations

Certain fixed assets that were impaired in the 2011 financial year were transferred to other CGUs during the 2012 financial year resulting in an impairment reversal of US$10 million.

10. Property, plant and equipment (Continued)

Ngodwana Mill

Some of the equipment at Ngodwana Mill with a book value of US$8 million was out of production as a result of the conversion project to produce dissolving wood pulp at the mill resulting in an impairment charge of US$8 million being recorded in profit or loss.

Tugela Mill

Difficult market conditions as well as the cost structure of a paper machine (PM4) at the mill did not allow the paper machine to operate profitably. As a result, an impairment charge of US$9 million has been recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 7.77%. On 12 October 2012, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve.

11. Plantations

	2013	2012
	US$ million	
Fair value of plantations at beginning of year	**555**	580
Additions	**4**	—
Gains arising from growth	**79**	83
Fire, flood, storms and related events	**(4)**	(4)
In-field inventory	**1**	—
Gain (loss) arising from fair value price changes	**87**	(15)
Harvesting—agriculture produce (fellings)	**(66)**	(73)
Disposals	**—**	(1)
Transferred to assets held for sale	**(93)**	—
Translation difference	**(99)**	(15)
Fair value of plantations at end of year	**464**	555

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

During the year, as a result of Ngodwana Mill's dissolving wood pulp conversion project and the closure of the Kraft Continuous Digester at Tugela Mill, a decision was taken that a certain portion of Southern Africa's softwood plantations that was previously utilised in paper pulp production will be sold to the local sawlog market. Consequently, Southern Africa's plantations were revalued resulting in a once-off favourable price fair value adjustment of US$93 million (ZAR863 million) which is included in cost of sales.

As the group manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the group's own production or sales.

The group owns plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted and range in duration from one to more than twenty years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provide seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

11. Plantations (Continued)

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSC™ standards.

Changes in estimated prices, the discount rate, costs to sell and, volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value as tabled below:

	2013	2012	2011
	US$ million		
Market price changes			
1% increase in market prices	**2**	4	4
1% decrease in market prices	**(2)**	(4)	(4)
Discount rate (for immature timber)			
1% increase in rate	**(3)**	(4)	(4)
1% decrease in rate	**3**	4	4
Volume assumption			
1% increase in estimate of volume	**5**	5	6
1% decrease in estimate of volume	**(5)**	(5)	(6)
Costs to sell			
1% increase in costs to sell	**(2)**	(3)	(3)
1% decrease in costs to sell	**2**	3	3
Growth assumptions			
1% increase in rate of growth	**2**	2	1
1% decrease in rate of growth	**(2)**	(2)	(1)

12. Deferred tax

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	US$ million			
Other liabilities, accruals and prepayments	**(56)**	**43**	(55)	25
Inventory	**5**	**1**	4	3
United States of America (USA) tax credits carry forward	**55**	**—**	18	—
Tax loss carry forward	**118**	**60**	203	25
Property, plant and equipment	**(53)**	**(257)**	(72)	(262)
Plantations	**(26)**	**(124)**	(28)	(125)
Other non-current assets	**53**	**—**	63	—
Other non-current liabilities	**(4)**	**10**	21	15
	92	**(267)**	154	(319)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the

12. Deferred tax (Continued)

estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

	2013	2012
	US$ million	
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	**5**	—
Tax losses	**756**	645
USA tax credits carry forward[1]	**59**	—
	820	645
Attributable to the following tax jurisdictions:		
Austria	**510**	469
Belgium	**99**	86
Finland	**50**	42
South Africa	**—**	1
Swaziland	**23**	29
The Netherlands	**79**	18
USA	**59**	—
	820	645
Expiry between two and five years	**143**	40
Expiry after five years	**65**	67
Indefinite life	**612**	538
	820	645

The following table shows the movement in the unrecognised deferred tax assets for the year:

	2013	2012
Balance at beginning of year	**645**	675
No tax relief on losses	**63**	—
No tax charge on profits	**(3)**	(57)
Derecognition of deferred tax assets	**24**	—
Prior year adjustments	**62**	53
Rate adjustments	**—**	(5)
Movement in foreign exchange rates	**29**	(21)
Balance at end of year	**820**	645

(1) During the year, our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses must be utilised prior to the utilisation of the CBTC. The CBTC expires during the 2016 financial year.

12. Deferred tax (Continued)

	2013	2012
	US$ million	
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**154**	45
Deferred tax liabilities	**(319)**	(336)
	(165)	(291)
Deferred tax charge for the year	**(29)**	(6)
Other liabilities, accruals and prepayments	**28**	(4)
Inventory	**(1)**	—
USA tax credits	**37**	2
Tax loss carry forward	**(35)**	(61)
Property, plant and equipment	**(4)**	10
Plantations	**(27)**	1
Other non-current assets	**(13)**	54
Other non-current liabilities	**(14)**	(8)
Amounts recorded directly in other comprehensive income	**(29)**	125
Transfer to assets held for sale	**1**	—
Translation differences	**47**	7
Deferred tax balances at end of year	**(175)**	(165)
Deferred tax assets	**92**	154
Deferred tax liabilities	**(267)**	(319)

13. Goodwill and intangible assets

	2013				2012			
	Goodwill	Licence fees	Brands	Total	Goodwill	Licence fees	Brands	Total
	US$ million							
Net carrying amount at beginning of year	**4**	**3**	**15**	**22**	4	3	18	25
Amortisation	**—**	**—**	**(3)**	**(3)**	—	—	(2)	(2)
Translation difference	**—**	**—**	**1**	**1**	—	—	(1)	(1)
Net carrying amount	**4**	**3**	**13**	**20**	4	3	15	22
Cost (gross carrying amount)	**4**	**3**	**25**	**32**	4	3	23	30
Accumulated amortisation and impairments	**—**	**—**	**(12)**	**(12)**	—	—	(8)	(8)
Net carrying amount	**4**	**3**	**13**	**20**	4	3	15	22

14. Equity investments

	2013	2012
	US$ million	
Cost of equity investments	**34**	34
Share of post-acquisition profit, net of distributions received	**(16)**	(19)
Foreign currency translation effect	**—**	3
	18	18
Summarised financial information in respect of equity investments are set out below:		
Total assets	**142**	139
Total liabilities	**100**	97
Net assets	**42**	42
Group's share of net assets after accumulated impairments	**18**	18

	2013	2012	2011
		US$ million	
Sales	**733**	881	942
Profit for the period	**13**	2	17
Group's share of equity investments' profit for the period	**7**	2	6

Umkomaas Lignin (Pty) Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Limited are to 31 December of each year which is the year-end of Borregaard. The most recent audited financials were to 31 December 2012.

Sapin SA

A 50% joint venture located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year-end of Sapin SA. The most recent audited financials were to 31 December 2012.

Papierholz Austria GmbH

A 43% joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year-end of Papierholz Austria GmbH. The most recent audited financials were to 31 December 2012.

proNARO

During the year, an agreement was entered into for a 50% share of a joint venture situated in Germany for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of proNARO are to 31 December of each year which is the year-end of proNARO.

Where the year-ends of equity investments are different to Sappi's, the unaudited management accounts of the equity investments are used for the periods to Sappi's year-end.

15. Other non-current assets

	2013	2012
	US$ million	
Financial assets[1]	**22**	22
Defined benefit pension plan assets (refer to note 28)	**29**	26
Advances to tree growers	**6**	7
Other loans	**5**	7
	62	62

[1] Details of investments are available at the registered offices of the respective companies.

16. Inventories

	2013	2012
	US$ million	
Raw materials	**146**	156
Work in progress	**77**	75
Finished goods	**356**	333
Consumable stores and spares	**149**	162
	728	726

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$11 million (2012: US$9 million; 2011: US$14 million). There were no reversals of any write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$4,849 million (2012: US$5,009 million; 2011: US$5,831 million).

Refer to note 25 for inventory pledged as security.

17. Trade and other receivables

	2013	2012
	US$ million	
Trade accounts receivable, gross	**642**	638
Allowance for credit losses	**(7)**	(10)
Trade accounts receivable, net	**635**	628
Prepayments and other receivables	**112**	172
	747	800

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximates its fair value.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables. The decrease in other sundry receivables from September 2012 to September 2013 is mostly attributable to the receipt of the proceeds from the sale of the group's 34% equity interest in Jiangxi Chenming.

Trade receivables (including securitised trade receivables) represent 12.89% (2012: 12.04%) of turnover.

17. Trade and other receivables (Continued)

17.1 Reconciliation of the allowance for credit losses

	2013	2012
	US$ million	
Balance at beginning of year	**10**	15
Raised during the year	**5**	6
Released during the year	**(7)**	(11)
Utilised during the year	**(1)**	—
Balance at end of year	**7**	10

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2013

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
	US$ million		
Less than 7 days overdue	**12**	**—**	**12**
Between 7 and 30 days overdue	**10**	**—**	**10**
Between 30 and 60 days overdue	**4**	**—**	**4**
More than 60 days overdue	**1**	**7**	**8**
	27	**7**	**34**

September 2012

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
	US$ million		
Less than 7 days overdue	13	—	13
Between 7 and 30 days overdue	14	—	14
Between 30 and 60 days overdue	1	—	1
More than 60 days overdue	—	10	10
	28	10	38

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis.

Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2012: no collateral) against trade receivables past contractual repayment terms.

17. Trade and other receivables (Continued)

The group has granted facilities to customers to buy on credit for the following amounts:

	2013	2012
	US$ million	
Less than US$0.5 million	**301**	289
Less than US$1 million but equal to or greater than US$0.5 million	**248**	258
Less than US$3 million but equal to or greater than US$1 million	**563**	524
Less than US$5 million but equal to or greater than US$3 million	**221**	219
Equal to or greater than US$5 million	**913**	939
	2,246	2,229

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

During the financial year, the group extended its on-balance sheet securitisation programme with UniCredit Bank AG to August 2016. This programme has a limit of US$446 million (€330 million) and the trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$521 million (2012: US$490 million) have been pledged as collateral for amounts received as funding under the programme of US$405 million (2012: US$377 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of First Rand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but carries 15% of the credit risk (and Rand Merchant Bank Limited 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 adjusted 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 securitisation 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% mentioned above. There are a number of events which may trigger termination of the facility, among 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 is entered into.

The total amount of trade receivables sold at the end of September 2013 amounted to US$122 million (2012: US$126 million).

17. Trade and other receivables (Continued)

Details of the securitisation programme at the end of the 2013 and 2012 financial years are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2013				
Rand Merchant Bank Limited .	ZAR	ZAR1,235 million	Unlimited[(1)]	Linked to 3-month JIBAR
2012				
Rand Merchant Bank Limited .	ZAR	ZAR1,044 million	Unlimited[(1)]	Linked to 3-month JIBAR

(1) The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain Letters of Credit to the Royal Bank of Scotland (RBS), Hong Kong and Union Bancaire Privee (UBP), Switzerland and similarly, discounts certain trade receivables with Deutsche Bank, Germany and HSBC, Mexico by utilising the customers credit facilities with the discounting bank.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (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 recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). 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 recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$31 million (2012: US$29 million) has been disclosed in this respect.

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales during the years ended September 2013 and September 2012. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$747 million (2012: US$800 million) represents the group's maximum credit risk exposure from trade and other receivables.

17. Trade and other receivables (Continued)

The group has the following trade receivable amounts due from single customers:

	2013			2012		
Threshold	**Number of customers**	**US$ million**	**Percentage**	**Number of customers**	**US$ million**	**Percentage**
Greater than US$10 million	**9**	**145**	**23%**	8	135	21%
Between US$5 million and US$10 million	**11**	**73**	**11%**	9	61	10%
Less than US$5 million	**2,015**	**417**	**66%**	1,970	432	69%
	2,035	**635**	**100%**	1,987	628	100%

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

18. Ordinary share capital and share premium

	2013		2012	
	Number of shares	**US$ million**	**Number of shares**	**US$ million**
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each[(1)]	**19,961,476**		19,961,476	
Issued share capital:				
Ordinary shares of ZAR1 each	**541,446,223**	**54**	541,446,223	66
'A' ordinary shares of ZAR1 each[(1)]	**19,961,476**	**2**	19,961,476	2
Treasury shares[(2)]	**(39,894,124)**	**(4)**	(40,563,237)	(5)
Share premium		**1,096**		1,328
	521,513,575	**1,148**	520,844,462	1,391

	2013	2012
	US$ million	
The movement in ordinary share capital and share premium is reconciled as follows:		
Opening balance	**1,391**	1,425
Transfers from Sappi Limited Share Incentive Trust	**3**	2
Translation movements	**(246)**	(36)
Closing balance	**1,148**	1,391

(1) The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation details of which are available for inspection at the company's registered offices.

(2) Includes 19,932,648 (2012: 20,601,761) ordinary shares as well as 19,961,476 (2012: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the 'Scheme') and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

18. Ordinary share capital and share premium (Continued)

The movement in the number of treasury shares is set out in the table below:

Number of shares	2013	2012
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**20,601,761**	20,981,431
Treasury shares issued to participants of the Scheme	**(669,113)**	(379,670)
—Share options (refer to note 29)	**(54,284)**	—
—Share plan options (refer to note 29)	**(614,829)**	(415,530)
—Scheme shares forfeited, released and other	**—**	35,860
Ordinary treasury shares at end of year	**19,932,648**	20,601,761
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	39,894,124	40,563,237

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 42,700,870 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed under note 21 and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- to ensure sufficient resilience against economic turmoil
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints and
- to ensure appropriate access to equity and debt.

18. Ordinary share capital and share premium (Continued)

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2012 and 2013 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

19. Other comprehensive (loss) income

	2013	2012	2011
	US$ million		
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses) gains on post-employment benefit funds	**(7)**	34	(60)
Gross amount	**20**	(88)	(59)
Tax[1]	**(27)**	122	(1)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency	**(225)**	(60)	(151)
Translation of foreign operations	**(211)**	(24)	(138)
Exchange differences arising on non-distributable reserves	**(11)**	(5)	(13)
Exchange differences arising on available-for-sale financial instruments	**(1)**	—	—
Exchange differences arising on hedging reserves	**(2)**	—	—
Reclassification adjustments to profit or loss on disposal of foreign operations	**—**	(31)	—
Tax	**—**	—	—
Fair value adjustment on available-for-sale financial instruments	**—**	1	2
Gross amount	**—**	1	2
Tax	**—**	—	—
Hedging reserves	**1**	(44)	4
Movements during the year	**4**	(37)	6
Reclassified to profit or loss	**4**	(7)	—
Reclassified to property, plant and equipment	**(5)**	(3)	—
Tax	**(2)**	3	(2)
Other comprehensive (loss) income recorded directly in equity	**(231)**	(69)	(205)
(Loss) profit for the year	**(161)**	104	(232)
Total comprehensive (loss) income for the year	**(392)**	35	(437)

[1] The 2012 financial year includes the recognition of US$101 million deferred tax asset. The transactions that relate to this deferred tax asset occurred prior to the 2012 financial year.

20. Non-distributable reserves

	2013	2012
	US$ million	
Legal reserves in subsidiaries	**70**	76
Share-based payment reserve	**72**	78
Other	**16**	17
Capital reduction	**1**	1
Capitalisation of distributable reserves[1]	**11**	11
Revaluation of available-for-sale financial assets	**4**	5
	158	171

	2013				2012			
	Legal reserves[1]	Share-based payment reserve	Other	Total	Legal reserves[1]	Share-based payment reserve	Other	Total
	US$ million							
Opening balance	**76**	**78**	**17**	**171**	77	70	16	163
Transfer (to) from retained earnings	**(9)**	**—**	**—**	**(9)**	2	—	—	2
Transfers of vested share options	**—**	**(3)**	**—**	**(3)**	—	(2)	—	(2)
Share-based payment expense	**—**	**11**	**—**	**11**	—	12	—	12
Movement on available-for-sale financial assets	**—**	**—**	**—**	**—**	—	—	1	1
Translation difference	**3**	**(14)**	**(1)**	**(12)**	(3)	(2)	—	(5)
	70	**72**	**16**	**158**	76	78	17	171

(1) Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.

21. Interest-bearing borrowings

	2013	2012
	US$ million	
Secured borrowings		
—Mortgage and pledge over trade receivables and certain assets (refer to note 25 for details of encumbered assets)	**1,779**	1,783
—Capitalised lease liabilities (refer to note 25 for details of encumbered assets)	**8**	21
Total secured borrowings	**1,787**	1,804
Unsecured borrowings	**811**	815
Total borrowings (refer to note 31)	**2,598**	2,619
Less: Current portion included in current liabilities	**(99)**	(261)
Total non-current interest-bearing borrowings	**2,499**	2,358

The repayment profile of the interest-bearing borrowings is as follows:
Payable in the year ended September:

	2013	2012
2013		261
2014	**99**	446
2015	**103**	119
2016	**504**	83
2017	**526**	517
2018 (September 2012: thereafter)	**383**	1,193
Thereafter	**983**	
	2,598	2,619

21. Interest-bearing borrowings (Continued)

Capitalised lease liabilities

Finance leases are primarily for buildings. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. The aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable are as follows:

	2013			2012		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
	US$ million					
Payable in the year ended September:						
2013				13	(2)	11
2014	**4**	**(1)**	**3**	5	(1)	4
2015	**5**	**—**	**5**	6	—	6
Total future minimum lease payments	**9**	**(1)**	**8**	24	(3)	21

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2013:

	Currency	Interest rate(1)	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed(2)	US$400 million	US$392 million(3)(4)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€250 million	€246 million(3)(4)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Fixed(2)	US$300 million	US$293 million(3)(4)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US$	Variable(5)	US$350 million	US$358 million(3)(4)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$216 million(4)(6)(7)	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed(8)	ZAR750 million	ZAR749 million(4)	Unsecured	April 2015	No financial covenants

21. Interest-bearing borrowings (Continued)

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Public bond	ZAR	Fixed[8]	ZAR255 million	ZAR255 million	Unsecured	April 2016	No financial covenants
Public bond	ZAR	Fixed	ZAR500 million	ZAR499 million[4]	Unsecured	June 2016	No financial covenants
Public bond	ZAR	Fixed[8]	ZAR500 million	ZAR499 million[4]	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Private placement bond	ZAR	Fixed	ZAR84 million	ZAR84 million	Unsecured	December 2013	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€193 million	€192 million[4]	Trade receivables	August 2016	EBITDA to net interest and net debt to EBITDA[9]
UniCredit Bank	US$	Variable	US$144 million	US$143 million[4]	Trade receivables	August 2016	EBITDA to net interest and net debt to EBITDA[9]
Capitalised leases							
Rand Merchant Bank	ZAR	Fixed	ZAR83 million	ZAR83 million	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2013	No financial covenants
Nedbank	ZAR	Fixed	ZAR92 million	ZAR92 million		March 2014	Gearing ratio/ interest and dividend cover[10]
Peritum Trading	ZAR	Fixed	ZAR18 million	ZAR18 million		June 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€136 million	€134 million[4]		June 2017	EBITDA to net interest and net debt to EBITDA[9]
GroCapital Financial Services	ZAR	Fixed[8]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

21. Interest-bearing borrowings (Continued)

The analysis of the currency per debt is:	Local currency million	US$ million
US Dollar[11]	1,403	**1,403**
Euro	633	**856**
ZAR	3,423	**339**
		2,598

(1) The nature of the rates for the group bonds is explained in note 31 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

(3) Under the relevant indenture, certain limitations exist including, dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

(4) The principal value of the loans/bonds corresponds to the amount of the facility, however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(5) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.

(6) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.

(7) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the 2032 public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 30 basis points, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

(8) ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

(9) Financial covenants relate to the Sappi Limited group.

(10) The financial covenant relates to the financial position of Sappi Southern Africa Limited, a wholly-owned subsidiary of Sappi Limited.

(11) This amount includes debt of US$700 million that is swapped into Euro.

A detailed analysis of total interest-bearing borrowings has been performed in note 31.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2012 and 2013 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

During the financial year, the group extended its on-balance sheet securitisation programme with UniCredit Bank AG to August 2016. This programme has a limit of US$446 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a

21. Interest-bearing borrowings (Continued)

corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Ltd (Elektra), an Irish bankruptcy remote entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2013, a reserve, that is reset on a monthly basis, amounted to 22.03%.

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between US$406 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

Unutilised facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2013	2012
			US$ million	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[(1)]	EUR/ZAR	Variable (EURIBOR/JIBAR)	**572**	450
Various other facilities	ZAR	Variable (JIBAR)	**5**	61
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**42**	45
			619	556
Unutilised uncommitted facilities				
Cash management overdraft facility/ short-term banking facilities	ZAR	Variable (JIBAR)	**26**	43
Cash management overdraft facility	EUR	Variable (EURIBOR)	**25**	23
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**—**	39
			51	105
Total unutilised facilities (committed and uncommitted) excluding cash			**670**	661

(1) Two (2012: one) syndicated loans with a consortium of banks with revolving facilities available of €350 million (2012: €350 million) and ZAR1,000 million (2012: nil). The €350 million facility matures in April 2016, is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2017, 2018, 2019 and 2021. The ZAR1,000 million facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of Southern Africa. We have paid a total combined commitment fee of US$5.3 million (2012: US$4.0 million) in respect of the two facilities.

21. Interest-bearing borrowings (Continued)

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

22. Other non-current liabilities

	2013	2012
	US$ million	
Defined benefit pension plan liabilities (refer to note 28)	**291**	344
Other defined benefit plan liabilities (refer to note 28)	**140**	185
Long-term employee benefits (refer to note 28)	**2**	3
Workmen's compensation (refer to note 28)	**15**	14
Long service awards	**23**	23
Land restoration provision	**17**	20
Restructuring provisions (refer to note 23)	**12**	10
Deferred income	**3**	3
Other	**3**	3
	506	605

23. Provisions

	2013	2012
	US$ million	
Restructuring provisions	**89**	27
Long-term (refer to note 22)	**12**	10
Short-term	**77**	17
Other provisions	**—**	—
Balance at September	**89**	27

Details of restructuring provisions are provided below:

	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	Total
		US$ million		
Balance at September 2011	63	23	19	**105**
Increase in provisions	17	—	—	**17**
Utilised	(41)	(16)	(12)	**(69)**
Released during the year	(10)	(5)	(6)	**(21)**
Other movements	(2)	(1)	—	**(3)**
Translation effect	—	(1)	(1)	**(2)**
Balance at September 2012	27	—	—	**27**
Increase in provisions	78	6	17	**101**
Utilised	(21)	—	(9)	**(30)**
Released during the year	(4)	—	—	**(4)**
Other movements	(1)	—	(7)	**(8)**
Translation effect	2	—	1	**3**
Balance at September 2013	81	6	2	**89**

23. Provisions (Continued)

September 2013 restructuring provisions

Due to the continued market decline and consequent overcapacity in our European and Southern African coated paper markets, the group continued investing in higher margin businesses while improving efficiencies and containing costs in our coated paper business resulting in various restructuring provisions being raised.

Europe

The intention to invest in higher margin businesses resulted in paper machine 2 at Alfeld Mill being converted to produce speciality paper. The effect of the conversion is that approximately 134 positions will be affected resulting in a restructuring provision of US$9 million being raised. By financial year-end, the remaining US$8 million of the provision, which was expected to be utilised by September 2015, was unutilised.

On 28 September 2013, the group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. While an Information and Consultation Advisory board has been formed to investigate any alternative available to Nijmegen Mill, a restructuring provision of US$43 million was raised. By financial year-end, the remaining US$40 million of this provision, which is expected to be utilised by March 2014, had not been utilised. In addition to the provision at Nijmegen Mill, the relocation of certain products to Lanaken Mill resulted in an additional provision of US$3 million being raised. This unutilised provision at financial year-end is expected to be utilised by June 2014.

To improve the cost effectiveness of Gratkorn Mill, the group intends to upgrade certain sections of the mill resulting in approximately 170 positions being affected. As a result, a restructuring charge of US$5 million was raised and remained unutilised by financial year-end. The provision is expected to be fully utilised by December 2016.

In an attempt to tailor the central fixed cost in line with declining volumes, a central overhead cost reduction programme was implemented during the year that will affect approximately 71 positions across Europe. A restructuring provision of US$17 million, which remained unutilised at financial year-end, was raised during the year. The provision is expected to be utilised by the end of September 2014.

Southern Africa

The mothballing of paper machine 4 at Tugela Mill resulted in a restructuring provision of US$4 million being raised. The provision was fully utilised by financial year-end.

A review of the activities and costs of Southern Africa's shared services (communications, information technology, human resources, procurement and finance) was undertaken during the financial year to ensure that resources were utilised more efficiently resulting in a restructuring charge of US$3 million being raised. The provision, which was unutilised at financial year-end, is expected to be fully utilised by December 2013.

During the year, a provision was raised for the write-off of various stores items of US$8 million at our Enstra, Stanger and Tugela mills. The provision was fully utilised at financial year-end.

September 2012 restructuring provisions

Europe

In June 2012, Sappi announced that, as a potential measure to further reduce fixed costs, it envisaged the transfer and outsourcing of certain central functions from various European locations to Kracow, Poland resulting in a restructuring charge of US$6 million being raised during the year. By September 2013, 50 employees had been affected and the provision was largely utilised.

24. Notes to the group statement of cash flows

24.1 Cash generated from operations

	2013	2012	2011
	US$ million		
(Loss) profit for the year	**(161)**	104	(232)
Adjustment for:			
—Depreciation	**345**	367	414
—Fellings	**66**	73	82
—Amortisation	**3**	2	3
—Taxation charge	**25**	34	11
—Net finance costs	**166**	283	307
—Impairments of assets and investments	**155**	10	167
—Restructuring provisions and closure costs raised (reversed)	**97**	(2)	135
—Fair value adjustment gains and growth on plantations	**(166)**	(68)	(65)
—Post-employment benefits funding	**(74)**	(62)	(70)
—Profit on disposal of investment	**—**	(11)	—
—Loss (profit) on disposal of non-current assets	**2**	(52)	(1)
—Other non-cash items	**(11)**	50	47
	447	728	798

24.2 Increase in working capital

(Increase) decrease in inventories	**(20)**	1	62
Decrease in receivables	**22**	35	66
Decrease in payables	**(22)**	(138)	(226)
	(20)	(102)	(98)

24.3 Finance costs paid

Interest and other finance costs on liabilities carried at amortised cost	**(175)**	(311)	(348)
Net foreign exchange gains	**1**	5	13
Net fair value gain on financial instruments	**1**	5	16
Premium and costs on early redemption of redeemable bonds and other loans	**—**	46	43
Non-cash movements included in items above	**2**	49	10
	(171)	(206)	(266)

24.4 Taxation paid

Amounts payable at beginning of year	**(20)**	(13)	(35)
Translation effects	**5**	2	(2)
Taxation benefit (charge) to profit or loss	**4**	(28)	(14)
Amounts (receivable) payable at end of year	**(6)**	19	13
Cash amounts paid	**(17)**	(20)	(38)

24. Notes to the group statement of cash flows (Continued)

24.5 Proceeds on disposal of non-current assets

Book value of non-current assets disposed of	**14**	93	5
(Loss) profit on disposal	**(2)**	52	1
Realisation of foreign currency translation reserves related to assets sold	**—**	(32)	—
Other sundry receivables	**41**	(42)	—
	53	71	6

24.6 Cash and cash equivalents

Cash and deposits on call	**342**	593	595
Money market instruments	**43**	52	44
	385	645	639

25. Encumbered assets

	2013	2012
	US$ million	
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Land and buildings	**272**	261
Plant and equipment	**1,411**	1,327
Inventory	**214**	174
Trade receivables	**521**	490
	2,418	2,252

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered land and buildings, plant and equipment and inventory relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 21):
  - US$400 million due in 2017
  - €250 million due in 2018
  - US$300 million due in 2019 and
  - US$350 million due in 2021.
- The committed revolving credit facility of €350 million which was undrawn during the 2013 financial year (refer to note 21).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht and Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

25. Encumbered assets (Continued)

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$446 million (€330 million), of which, US$405 million (€299 million) was utilised at financial year-end (refer to notes 17 and 21).

26. Commitments

	2013	2012
	US$ million	
Capital commitments		
Contracted but not provided	**62**	267
Approved but not contracted	**195**	244
	257	511
Future forecasted cash flows of capital commitments at September:		
2013		458
2014	**188**	40
2015	**25**	2
2016 (2012: thereafter)	**33**	11
Thereafter	**11**	
	257	511

These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

The decrease in capital commitments from 2012 is primarily due to the commissioning of the dissolving wood pulp conversion projects in Southern Africa and North America as well as the conversion project to increase the production of speciality paper in Europe.

In addition to the above capital commitments, subsequent to financial year-end, the group announced a further US$67 million relating to capital expenditure over a three-year period at Kirkniemi Mill.

	2013	2012
	US$ million	
Lease commitments		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2013		27
2014	**25**	17
2015	**16**	12
2016	**9**	7
2017	**6**	5
2018 (2012: thereafter)	**4**	36
Thereafter	**29**	
	89	104

Further information on capital commitments relating to environmental matters can be found in note 34.

27. Contingent liabilities

	2013	2012
	US$ million	
Guarantees and suretyships	**33**	31
Other contingent liabilities	**11**	10
	44	41

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivable.

Other contingent liabilities mainly relate to taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour 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 the 2013 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits—pensions and other benefits

Summary of results

	All plans	Defined contribution plans		Defined benefit pension plans		Other defined benefit plans	
	2014	2013	2012	2013	2012	2013	2012
	US$ million						
Post-retirement plan costs (credits) recognised in profit or loss		**34**	35	**6**	24	**(12)**	13
Employer contributions paid during the financial year		**34**	36	**62**	48	**9**	10
Expected employer contributions to be paid over the next financial year							
—Defined contribution plans	**33**						
—Defined benefit pension plans	**64**						
—Other defined benefit plans	**10**						
Pension/other benefit plan liabilities are presented on the balance sheet as follows:							
Net pension/other benefit liabilities (refer to note 22)				**291**	344	**140**	185
Pension liabilities classified as liabilities associated with assets held for sale				**1**	—	**—**	—
Net pension assets (refer to note 15)[1]				**(29)**	(26)	**—**	—
Accrued contributions/obligations (included in 'Trade and other payables')		**2**	2	**—**	—	**7**	7
Net balance sheet liabilities		**2**	2	**263**	318	**147**	192

28. Post-employment benefits—pensions and other benefits (Continued)

	Defined benefit pension plans		Other defined benefit plans	
	2013	2012	2013	2012
	US$ million			
Development in the balance sheet for the pension/other benefit plans				
Net pension/other benefit liabilities at beginning of year	**(318)**	(268)	**(192)**	(182)
Net pension/other benefit costs for the year	**(11)**	(24)	**(12)**	(13)
Curtailments, settlements and plan amendment gains for the year(2)(3)	**5**	—	**24**	—
Employer contributions	**62**	48	**9**	10
Net actuarial gains (losses) for the year	**12**	(79)	**8**	(9)
Translation differences	**(13)**	5	**16**	2
Net pension/other benefit liabilities at end of year	**(263)**	(318)	**(147)**	(192)

(1) Defined benefit plans in South Africa.

(2) During the year, the following transactions of US$5 million were recognised in profit or loss for the period:

- A curtailment gain of US$6 million arising from the group's recently announced strategic initiatives in The Netherlands and the resultant provision for the reduction of active members of the pension fund together with a reduction in projected benefits.
- A settlement loss of US$1 million arising from a buyout transaction of a staff pension fund with a local insurance company in South Africa. As part of the transaction, plan assets to the value of US$103 million were used to settle US$102 million of plan liabilities.

(3) A gain of US$24 million as a result of a plan amendment to the post-retirement medical aid scheme in South Africa was recognised in profit or loss for the period.

The following pages set out the results as disclosed on page 43 in more detail.

Detailed results

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US$34 million (2012: US$35 million; 2011: US$46 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. As at financial year-end, US$2 million (2012: US$2 million; 2011: US$3 million) was due in respect of the current reporting period that had not yet been paid over to the plans.

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new hires except for plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

28. Post-employment benefits—pensions and other benefits (Continued)

Benefits are formula-driven, based on varying definitions of compensation (such as average salary near retirement or career average revalued earnings) and years of service. Exceptions to these, are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which, historically, has increased from time to time).

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations are performed by independent actuaries.

As at September 2013, the total number of active members (ie accruing benefits) in our defined benefit pension plans was approximately 5,800.

Post-employment benefits other than pensions ('other defined benefit' plans)

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

- Jubilee (long service award plans per note 22) in continental Europe of US$23 million and an early retirement benefit plan in Belgium of US$5 million (of which US$2 million is long-term per note 22)
- ATZ (early retirement) benefit obligations in Germany and Austria totalling US$8 million (within 'Trade and other payables') and
- Workmen's compensation benefit obligations in North America totalling US$19 million (of which US$15 million is long-term per note 22).

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where an actuarial review is performed annually with an actuarial valuation being performed on a tri-annual basis.

28. Post-employment benefits—pensions and other benefits (Continued)

All post-employment obligations were measured at the end of the financial year.

	2013		2012	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	US$ million			
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of year	**2,007**	**191**	1,827	180
Current service costs	**25**	**3**	23	3
Past service costs	**2**	**—**	1	—
Interest costs	**87**	**9**	100	11
Plan participants' contributions	**3**	**—**	3	—
Actuarial gains experience	**(3)**	**(6)**	(2)	(5)
Actuarial (gains) losses assumptions	**(70)**	**(2)**	221	14
Curtailment, settlement and plan amendment gains	**(108)**	**(24)**	—	—
Benefits paid	**(107)**	**(9)**	(137)	(10)
Translation differences	**(13)**	**(16)**	(29)	(2)
Defined benefit obligations at end of year	**1,823**	**146**	2,007	191
can be determined as follows:				
—Present value of wholly unfunded obligations	**151**	**146**	145	191
—Present value of wholly and partly funded obligations	**1,672**	**—**	1,862	—
	1,823	**146**	2,007	191
and comprise the following regions:				
—North America	**633**	**87**	699	94
—Europe (incl UK)	**1,017**	**—**	955	—
—Southern Africa	**173**	**59**	353	97
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**1,689**	**—**	1,559	—
Expected return on plan assets[(1)]	**103**	**—**	100	—
Actuarial (losses) gains on plan assets	**(61)**	**—**	140	—
Employer contributions	**62**	**9**	48	10
Plan participants' contributions	**3**	**—**	3	—
Benefits paid	**(107)**	**(9)**	(137)	(10)
Curtailment, settlement and plan amendment losses	**(103)**	**—**	—	—
Translation differences	**(26)**	**—**	(24)	—
Fair value of plan assets at end of year	**1,560**	**—**	1,689	—
comprise the following regions:				
—North America	**570**	**—**	561	—
—Europe (incl UK)	**789**	**—**	770	—
—Southern Africa	**201**	**—**	358	—
Deficits	**(263)**	**(146)**	(318)	(191)
Unrecognised past service credits	**—**	**(1)**	—	(1)
Recognised pension/other benefit plan liabilities	**(263)**	**(147)**	(318)	(192)
comprise the following regions:				
—North America	**(63)**	**(88)**	(138)	(95)
—Europe (incl UK)	**(228)**	**—**	(185)	—
—Southern Africa	**28**	**(59)**	5	(97)

(1) Net of administration costs.

28. Post-employment benefits—pensions and other benefits (Continued)

	2013		2012		2011	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	US$ million					
Periodic costs recognised in income statement						
Current service costs	**25**	**3**	23	3	29	4
Past service costs (credits)	**2**	**—**	1	—	(4)	—
Interest costs	**87**	**9**	100	11	105	11
Expected returns on plan assets[1]	**(103)**	**—**	(100)	—	(111)	—
Amortisation of past service credits	**—**	**—**	—	(1)	—	(1)
Curtailment, settlement and plan amendment gains	**(5)**	**(24)**	—	—	(5)	—
Charge to cost of sales and selling, general and administrative expenses	**6**	**(12)**	24	13	14	14
comprise the following regions:						
—North America	**(8)**	**5**	(2)	4	—	5
—Europe (incl UK)	**9**	**—**	20	—	11	—
—Southern Africa	**5**	**(17)**	6	9	3	9
Actual return on plan assets	**42**	**—**	240	—		
Actual return on plan assets (%)	**2.50**	**—**	15.40	—		
comprise the following regions:						
—North America	**2.30**		18.90			
—Europe (incl UK)	**0.40**		13.10			
—Southern Africa	**7.30**		15.20			
Amounts recognised in other comprehensive income (OCI)						
Net actuarial gains (losses) for the period	**12**	**8**	(79)	(9)	(50)	(9)
comprise the following regions:						
—North America	**47**	**7**	(23)	(3)	(46)	(1)
—Europe (incl UK)	**(56)**	**—**	(53)	—	29	—
—Southern Africa	**21**	**1**	(3)	(6)	(33)	(8)
Cumulative actuarial losses recognised in OCI						
Net actuarial losses	**(524)**	**(62)**	(536)	(70)	(457)	(61)

(1) Net of administration costs.

Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries.

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Peer data and historical returns are reviewed for reasonableness and appropriateness. In addition, Sappi

28. Post-employment benefits—pensions and other benefits (Continued)

may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

	2013			2012		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Weighted average actuarial assumptions at balance sheet date						
Discount rates (pensions) (%)	**4.40**	**3.80**	**9.45**	3.60	3.90	8.27
Salary increase rates (%)(1)	**—**	**1.75**	**7.60**	—	1.73	6.69
Expected long-term returns on assets (%)	**n/a**	**n/a**	**n/a**	7.25	4.40	9.36
Discount rates (other benefits) (%)	**4.10**	**—**	**9.00**	3.30	—	8.00
Initial healthcare costs trend rates (%)	**8.75**	**—**	**7.75**	7.00	—	6.75
...which gradually reduce to an ultimate rate of (%)	**5.00**	**—**	**7.75**	5.00	—	6.75
...over a period of (years)	**10**	**—**	**—**	9	—	—
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	**3.60**	**3.90**	**8.27**	4.50	5.02	8.75
Salary increase rates (%)(1)	**—**	**1.73**	**6.69**	3.50	2.00	6.75
Expected long-term return on assets (%)	**7.25**	**4.40**	**9.36**	7.25	4.43	9.65
Discount rates (other benefits) (%)	**3.30**	**—**	**8.00**	4.10	—	9.00
Initial healthcare costs trend rates (%)	**7.00**	**—**	**6.75**	7.00	—	7.25
...which gradually reduce to an ultimate rate of (%)	**5.00**	**—**	**6.75**	5.00	—	7.25
...over a period of (years)	**9**	**—**	**—**	6	—	—

(1) Weighted average compensation increases of plans that use a salary increase rate. No future accruing benefits in North America are linked to salary.

Demographic assumptions (the expected change in membership) are derived using established models recommended by actuaries, by reference to historic and probable future changes in membership and life expectancy in retirement.

Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy by future retirees. The table below shows sample life expectancy for a male aged 60 at financial year-end, and life expectancy for a male aged 60 in 20 years time, taken from mortality tables used in determining regional plan obligations.

	2013			2012		
	North America	Europe (incl UK)(1)	Southern Africa	North America	Europe (incl UK)(1)	Southern Africa
Life expectancy of male aged 60 as at financial year-end	**23.3**	**24.5**	**18.6**	23.3	24.2	18.6
Life expectancy of male aged 60 projected in 20 years time	**23.3**	**26.3**	**19.5**	23.3	25.9	19.5

(1) Weighted by defined benefit obligations of individual plans.

28. Post-employment benefits—pensions and other benefits (Continued)

Discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates sensitivity to the defined benefit obligations at financial year-end and pension costs from changes in key assumptions:

	Change in discount rate		Change in salary increase rate		Change in healthcare cost trend rate	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
	US$ million					
Defined benefit pension plans						
(Decrease) increase in obligation	**(227)**	**277**	**27**	**(23)**		
Increase in aggregate of current service and interest costs	**—**	**8**				
Other defined benefit plans						
(Decrease) increase in obligations	**(14)**	**16**			**11**	**(9)**
Increase (decrease) in aggregate of current service and interest costs					**1**	**(1)**

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which include selecting investment managers, setting long-term strategic targets and rebalancing assets periodically.

Target versus actual weighted average allocations by region are shown below:

	2013			2012		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
	%					
Weighted average target asset allocation by region						
Equity securities and multi/tactical asset mandates[1]	**56**	**30**	**51**	56	37	40
Debt securities	**44**	**63**	**29**	44	55	46
Real estate	**—**	**2**	**12**	—	2	5
Cash/liquid assets	**—**	**5**	**8**	—	6	9
Weighted average actual asset allocation by region						
Equity securities and multi/tactical asset mandates[1]	**56**	**28**	**55**	55	37	37
Government debt securities	**7**	**52**	**8**	7	43	24
Debt securities	**35**	**17**	**17**	37	14	20
Real estate	**—**	**—**	**9**	—	2	7
Cash/liquid assets	**2**	**3**	**11**	1	4	12

(1) Includes investments that involve equity overlay on bond strategies and funds heavily influenced by currency.

Expected benefit payments from pension and other benefit plans are as follows:

	Defined benefit pension plans	Other defined benefit plans
	US$ million	
Payable in the year ending September:		
2014	78	10
2015	79	10
2016	84	11
2017	87	11
2018	92	11
Years 2019 - 2023	513	66

28. Post-employment benefits—pensions and other benefits (Continued)

Summary data for current and previous four annual periods:

	2013	2012	2011	2010	2009
			US$ million		
Defined benefit pension plans					
Defined benefit obligations	**1,823**	2,007	1,827	2,069	1,945
Fair value of assets	**1,560**	1,689	1,559	1,808	1,695
Deficit	**(263)**	(318)	(268)	(261)	(250)
Unrecognised past service credit	**—**	—	—	—	(6)
Net balance sheet liability	**(263)**	(318)	(268)	(261)	(256)
Other defined benefit plans					
Defined benefit obligations	**(146)**	(191)	(180)	(182)	(175)
Unrecognised past service credit	**(1)**	(1)	(2)	(3)	(4)
Net balance sheet liability	**(147)**	(192)	(182)	(185)	(179)
Amounts recognised in OCI					
Defined benefit pension plans					
Plan liabilities gains (losses)	**73**	(219)	(19)	(143)	(254)
Plan assets (losses) gains	**(61)**	140	(31)	70	47
Other defined benefit plans					
Plan liabilities gains (losses)	**8**	(9)	(9)	2	(22)
Actuarial gains (losses) recognised in OCI	**20**	(88)	(59)	(71)	(229)

29. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (Share options) and (b) may be offered the opportunity to acquire ordinary shares (Scheme shares).

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant Share options or Scheme shares, as the case may be.

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme shares vested

29. Share-based payments (Continued)

in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, *inter alia,* undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company, may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia,* undertakes:

- a rights offer or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is, to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action.

Then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made to the rights of participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

29. Share-based payments (Continued)

Scheme shares, Share options, Performance shares and Allocation shares activities were as follows during the financial years ended September 2013 and 2012:

	Scheme shares[1]	Performance shares[2][3]	Share options[4]	Weighted average exercise price (ZAR)[5]	Allocation shares[2]	Weighted average exercise price (ZAR)[5]	Total Shares
Outstanding at September 2011	2,005,181	7,380,900	11,523,040	27.28	432,500	47.34	**21,341,621**
—Offered	—	2,145,000	3,326,815	13.80	—	—	**5,471,815**
—Declined	—	—	(74,300)	13.80	—	—	**(74,300)**
—Paid for/vested	(415,530)	(740,357)	—	23.19	—	—	**(1,155,887)**
—Returned, lapsed and forfeited	—	(847,343)	(1,883,740)	32.65	(432,500)	47.34	**(3,163,583)**
Outstanding at September 2012	1,589,651	7,938,200	12,891,815	23.59	—	—	**22,419,666**
—Offered	—	4,000,300	—	—	—	—	**4,000,300**
—Paid for/vested	(669,113)	(614,829)	(54,284)	23.43	—	—	**(1,338,226)**
—Returned, lapsed and forfeited	—	(1,207,471)	(2,578,058)	28.82	—	—	**(3,785,529)**
Outstanding at September 2013	**920,538**	**10,116,200**	**10,259,473**	**18.24**	**—**	**—**	**21,296,211**
Exercisable at September 2011	35,860	—	5,565,298	44.70	432,500	47.34	**6,033,658**
Exercisable at September 2012	—	—	6,326,377	42.06	—	—	**6,326,377**
Exercisable at September 2013	—	—	6,442,799	37.26	—	—	**6,442,799**

(1) The number of Scheme shares, which are not subject to credit sales amounts to 920,538 (2012: 1,589,651).

(2) Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(3) Issued in terms of the Plan.

(4) Issued in terms of the Scheme.

(5) The share options and allocation shares have a ZAR exercise price.

The fair value of Scheme shares held at September 2013 was US$2.4 million (2012: US$4.5 million).

29. Share-based payments (Continued)

The following table sets out the number of share options and performance shares outstanding at the end of September, excluding the Scheme shares:

	2013	2012	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
13 December 2004[i]		1,609,120	Time	(ii)	13 December 2012	46.51
12 December 2007[i]	**846,700**	952,300	Time	(ii)	12 December 2015	52.57
19 March 2008[i]	**460,900**	495,660	Time	(ii)	19 March 2016	55.97
22 December 2008	**1,559,760**	1,711,450	Time	(ii)	22 December 2016	35.50
09 December 2009	**2,146,040**	2,397,570	Time	(ii)	09 December 2017	33.85
03 December 2010	**2,339,400**	2,589,600	Time	(ii)	03 December 2018	35.20
02 December 2011	**2,906,673**	3,136,115	Time	(ii)	02 December 2019	22.90
Performance shares:						
22 December 2008		1,782,000	Performance	22 December 2012	n/a	n/a
09 December 2009	**2,496,300**	2,496,300	Performance	09 December 2013	n/a	n/a
03 December 2010	**1,514,900**	1,514,900	Performance	03 December 2014	n/a	n/a
02 December 2011	**2,145,000**	2,145,000	Performance	02 December 2015	n/a	n/a
07 December 2012	**3,960,000**	—	Performance	07 December 2016	n/a	n/a
	20,375,673	20,830,015				

(i) During the 2009 financial year, there was a rights issue of six shares for every five shares held at ZAR20.27 per share. In accordance with the rules of the Scheme, additional offers were made to participants in respect of all outstanding offers at the time of the rights offer. Not all the participants took up their rights.

(ii) These vest over four years in four equal portions.

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 38	Issue 38
Date of grant	07 December 2012	07 December 2012
Type of award	Performance	Performance
Share price at grant date	ZAR30.50	ZAR30.50
Vesting period	4 years	4 years
Vesting conditions	Market related—relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market related vesting conditions	Yes	No
Percentage expected to vest	42%	100%
Number of shares offered	2,000,150	2,000,150
Volatility	55%	n/a
Risk free discount rate	0.6% (US yield)	n/a
Expected dividend yield	1.7%	1.7%
Expected percentage of issuance	95%	95%
Model used to value	Monte-carlo	Market price
Fair value of option	ZAR20.95	ZAR22.63

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 37 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

In June 2010, Sappi completed a Black Economic Empowerment (BEE) transaction (the 'BEE transaction') that enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The South African government has through the years promulgated various pieces of legislation to

29. Share-based payments (Continued)

increase the participation of Historically Disadvantaged South Africans (HDSAs) in the South African economy and, through BEE legislation, formalised the country's approach in this regard. Sappi views BEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BEE transaction (the 'Plantation BEE transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE (Broad-based Black Economic Empowerment) in the forestry industry and includes the BBBEE 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 BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BEE transaction and to implement the BEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

- Sappi's South African Employees (62.5%)
- South African Black Managers (15%)
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note) and
- Communities surrounding the South African mill operations and plantations (10%).

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE trusts. The BEE transaction resulted in the BEE trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

29. Share-based payments (Continued)

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE transaction are as follows:

Entity	Ordinary share allocation
Strategic Partners	
Lereko Investments (Pty) Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	**4,328,353**

The number of 'A' ordinary shares allocated to the BEE trusts are as follows:

Entity	'A' Ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	**19,961,476**

The group incurred a share-based payment expense of US$3 million (2012: US$3 million; 2011: US$5 million) during the 2013 financial year that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	8.0%
Management turnover (annual)	5.2%
Model used to value	Black Scholes Model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

29. Share-based payments (Continued)

The vesting schedule for the MSOP and ESOP is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0–35	—	—
36–48	40	40
49–60	10	50
61–72	10	60
73–84	10	70
85–96	10	80
97–108	10	90
109–Termination Date	10	100

Refer to note 18 for further details regarding the 'A' ordinary shares.

30. Derivative financial instruments

Hedging instrument	Hedged item	2013	2012
		US$ million	
Non-current assets			
Fair value hedge	Secured notes due April 2021	**15**	22
Interest rate swap	Unsecured ZAR255 million bond due April 2016	**1**	—
Interest rate swap	Unsecured ZAR500 million bond due April 2018	**2**	—
Interest rate swap	Unsecured ZAR400 million loan due May 2020	**2**	—
		20	22
Current assets			
Forward exchange contracts	Various	**1**	—
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	**49**	21
Interest rate currency swap	Secured notes due June 2019	**50**	22
Interest rate swap	Unsecured ZAR750 million bond due April 2015	**—**	3
		99	46
Current liabilities			
Forward exchange contracts	Various	**2**	1

Refer to note 31 for more detail on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
   - interest rate risk
   - currency risk and
   - commodity price risk
b) liquidity risk and
c) credit risk

31. Financial instruments (Continued)

Sappi's Group Treasury is comprised of two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed regionally but is co-ordinated on a group basis, whilst commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2013 and thereafter are based on the yield curves for each respective currency

31. Financial instruments (Continued)

as published by Bloomberg on 29 September 2013. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						Total carrying value	2013 fair value	2012 carrying value	2012 fair value
	2014	2015	2016	2017	2018	2019+				
	US$ equivalent in millions									
US Dollar										
Fixed rate debt[1]	—	—	—	392	—	510	902	**1,020**	900	1,057
Average interest rate (%)	—	—	—	7.91	—	8.18	8.06		8.08	
Variable rate debt[2]	—	—	143	—	—	358	501	**539**	504	554
Average interest rate (%)	—	—	3.68	—	—	8.22	6.93		5.65	
Euro										
Fixed rate debt	—	—	—	—	334	2	336	**392**	363	417
Average interest rate (%)	—	—	—	—	6.73	2.04	6.68		7.20	
Variable rate debt[3]	77	24	285	134	—	—	520	**520**	493	493
Average interest rate (%)	1.02	5.48	3.42	5.58	—	—	3.71		3.55	
Rand										
Fixed rate debt[4]	22	79	75	—	50	113	339	**354**	359	381
Average interest rate (%)	11.09	8.02	8.65	—	7.46	7.99	8.27		9.39	
Total										
Fixed rate debt	22	79	75	392	384	625	1,577	**1,766**	1,622	1,855
Average interest rate (%)	10.94	7.99	8.62	7.90	6.82	8.13	7.81		8.17	
Variable rate debt	77	24	428	134	—	358	1,021	**1,059**	997	1,047
Average interest rate (%)	1.02	5.48	3.51	5.58	—	8.22	5.29		4.61	
Fixed and variable	**99**	**103**	**503**	**526**	**384**	**983**	**2,598**	**2,825**	**2,619**	**2,902**
Current portion							99	**101**	261	275
Long-term portion							2,499	**2,724**	2,358	2,627
Total interest-bearing borrowings (refer to note 21)							2,598	**2,825**	2,619	2,902

(1) US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(4) ZAR floating rates of ZAR1,950 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 1.02% and 11.09% (depending on currency). At September 2013, after giving effect to interest rate swaps, 60.70% of Sappi's borrowings were at fixed rates of interest, and 39.30% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

31. Financial instruments (Continued)

Hedging of interest rate risk

Sappi uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The counterparties of the hedging instruments are tested for creditworthiness on a quarterly basis. If the credit risk of a given counterparty would fall under the minimum required rating, any positive fair value of the hedging instrument would be adjusted to cater for the additional credit risk. This would not affect the hypothetical derivative.

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 and to the US$300 million Senior Secured Notes due 2019. The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2013, the effectiveness tests for the abovementioned hedges showed a 100% hedge effectiveness. The swaps showed a total negative fair value of US$99 million. The negative fair value of the currency leg of the swaps, related to the principal amount, of US$58 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of US$41 million was deferred in OCI.

Interest rate swaps floating to fixed

In April 2012, Sappi issued a floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. In April and May 2013, Sappi issued additional floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. All abovementioned debt and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing

31. Financial instruments (Continued)

all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective.

At September 2013, the hedges were highly effective and the swaps had in total a net positive fair value of US$5 million which was deferred to equity.

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (ie actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

At September 2013, the abovementioned fair value hedge was highly effective and the swaps had a positive fair value of US$15 million which has been offset by the negative fair value adjustment to the bonds of US$16 million, resulting in a life-to-date net negative impact on the group income statement of US$1 million.

31. Financial instruments (Continued)

Summary of outstanding hedges

	Interest rate	Maturity date	Nominal value	Total fair value[(1)]	Net impact OCI	Net impact Profit or loss
			US$ million			
September 2013						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	**July 2017**	**US$400 million**	**(49)**	**(16)**	**(33)**
IRCS	US Dollar 8.375% into EUR 8.33%	**June 2019**	**US$300 million**	**(50)**	**(25)**	**(25)**
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	**April 2015**	**ZAR750 million**	**—**	**—**	**—**
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	**April 2016**	**ZAR255 million**	**1**	**1**	**—**
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	**April 2018**	**ZAR500 million**	**2**	**2**	**—**
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	**May 2018**	**ZAR400 million**	**2**	**2**	**—**
Fair value hedges						
IRS	US Dollar 6.625% fixed to variable (LIBOR)	**April 2016**	**US$350 million**	**15**	**—**	**(1)**
				(79)	**(36)**	**(59)**

	Interest rate	Maturity date	Nominal value	Total fair value[(1)]	Net impact OCI	Net impact Profit or loss
			US$ million			
September 2012						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	(21)	(9)	(12)
IRCS	US Dollar 8.375% into EUR 8.33%	June 2019	US$300 million	(22)	(13)	(9)
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	April 2015	ZAR750 million	(3)	(3)	—
Fair value hedges						
IRS	US Dollar 6.625% fixed to variable (LIBOR)	April 2016	US$350 million	22	—	3
				(24)	(25)	(18)

(1) This refers to the carrying value.

The total fair values of the IRCSs and IRSs are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately US$39 million.

31. Financial instruments (Continued)

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of US$2.5 million.

IRS converting fixed US Dollar rates into variable rates

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material. This has been assessed in a sensitivity analysis that tested movements on the US Dollar interest rate curve in the same direction (parallel shift), as well as tested the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

Sensitivity analysis: interest rate risk—in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
	US$ million	
Securitisation—Elektra N°29 Ltd	405	1
Commitment fee on unused revolving credit facility	473	2
Interest on utilised bank syndicated loans	184	1
	1,062	4
Impact calculated on total portfolio amounts to	0.38%	

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
			US$ million	
Total debt	2,598	1,577	1,021	5
Ratio fixed/floating to total debt		60.70%	39.30%	

The floating rate debt represents 39.30% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

Currency risk

Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders.

31. Financial instruments (Continued)

- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts and
- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

31. Financial instruments (Continued)

The following tables for the 2013 and 2012 financial years discloses financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement,* classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
			US$ million				
September 2013							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**62**	**22**	—	13	7	—	2
Derivative financial instruments	**20**	**20**	15	—	5	—	—
Current assets							
Trade receivables	**635**	**635**	258	294	11	42	30
Prepayments and other receivables	**112**	**30**	2	21	7	—	—
Derivative financial instruments	**1**	**1**	1	—	—	—	—
Cash and cash equivalents	**385**	**385**	142	161	80	—	2
Assets held for sale	**94**	**1**	—	—	1	—	—
		1,094	418	489	111	42	34
Non-current liabilities							
Interest-bearing borrowings	**2,499**	**2,499**	1,403	779	317	—	—
Derivative financial instruments	**99**	**99**	(915)	1,014	—	—	—
Other non-current liabilities	**506**	**10**	1	9	—	—	—
Current liabilities							
Interest-bearing borrowings	**99**	**99**	—	77	22	—	—
Overdrafts	**1**	**1**	—	—	—	—	1
Derivative financial instruments	**2**	**2**	(1)	(14)	17	—	—
Trade payables	**542**	**542**	128	259	153	—	2
Other payables and accruals	**473**	**272**	52	146	71	—	3
Liabilities associated with assets held for sale	**6**	**2**	—	—	2	—	—
		3,526	668	2,270	582	—	6
Foreign exchange gap		**(2,432)**	(250)	(1,781)	(471)	42	28
September 2012							
Classes of financial instruments							
Non-current assets							
Other non-current assets	62	22	—	10	9	—	3
Derivative financial instruments	22	22	22	—	—	—	—
Current assets							
Trade receivables	628	628	267	278	9	41	33
Prepayments and other receivables	179	95	44	23	27	—	1
Derivative financial instruments	—	—	—	—	—	—	—
Cash and cash equivalents	645	645	194	300	143	—	8
		1,412	527	611	188	41	45
Non-current liabilities							
Interest-bearing borrowings	2,358	2,358	1,403	772	183	—	—
Derivative financial instruments	46	46	(981)	1,024	3	—	—
Other non-current liabilities	605	1	1	—	—	—	—
Current liabilities							
Interest-bearing borrowings	261	261	—	83	178	—	—
Overdrafts	5	5	5	—	—	—	—
Derivative financial instruments	1	1	—	(42)	64	1	(22)
Trade payables	555	555	122	239	188	—	6
Other payables and accruals	450	229	45	125	52	—	7
		3,456	595	2,201	668	1	(9)
Foreign exchange gap		(2,044)	(68)	(1,590)	(480)	40	54

31. Financial instruments (Continued)

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2013		2012	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value favourable (unfavourable)
		US$ million			
Foreign currency					
Bought:	US Dollar	**2**	**—**	6	—
	Euro	**35**	**—**	44	—
Sold:	US Dollar	**(100)**	**(1)**	(99)	—
	Euro	**(19)**	**—**	(27)	—
	ZAR	**(17)**	**—**	(64)	—
		(99)	**(1)**	(140)	—

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2013 financial year. All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year. The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2013. As at September 2013, there was an open exposure of US$23 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	Exposure	+10%	−10%
	(US$ million)		
AUD	5.1	0.5	(0.6)
CAD	(7.1)	(0.6)	0.8
EUR	8.4	0.8	(0.9)
GBP	2.8	0.2	(0.3)
PLN	(1.0)	(0.1)	0.1
ZAR	(28.1)	(2.6)	3.1
Other currencies	(2.8)	(0.3)	0.3
Total	(22.7)	(2.1)	2.5

Based on the exposure at the end of September 2013, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$2.1 million or a gain of US$2.5 million respectively.

During 2013, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$184 million which were used as an overlay hedge of export sales from Southern Africa. Since these contracts have all matured before the end of September 2013, these constitute non-representative positions. The total impact on profit or loss amounted to a loss of US$4 million.

31. Financial instruments (Continued)

Cash flow hedges

Ngodwana Mill expansion—acquisition of property, plant and equipment in foreign currency

Sappi started the conversion of its Ngodwana Mill in the 2011 financial year to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 to which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows relating to the Ngodwana project began in September 2011 and ceased in October 2013.

The hedging instrument is recorded at fair value on the group balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

The total foreign currency exchange gains recognised through OCI in the 2013 financial year amounted to US$5 million. As this gain was also realised during the financial year, a basis adjustment was processed transferring the amount from OCI to property, plant and equipment. There were no reclassifications to profit or loss during the year.

Saiccor Mill export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in ZAR, any change in the foreign currency exchange rate between the US Dollar and the ZAR would result in a different ZAR selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi, therefore, enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts which were designated as hedging instruments.

The hedging instrument is recorded at fair value on the group balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2013 financial year, the hedge was highly effective and a net realised loss of US$4 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, there were no amounts deferred in equity.

Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated

31. Financial instruments (Continued)

with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar-Euro spot exchange rate risk and Sappi Limited for US Dollar-ZAR spot exchange rate risk. The hedging instrument is non-derivative foreign currency external debt. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2013 financial year, the hedge was 100% effective.

	2013		2012	
	Hedged notional	**Foreign exchange result deferred in other comprehensive income**	**Hedged notional**	**Foreign exchange result deferred in other comprehensive income**
	US$ million			
Bond 2021	**28**	**(1)**	28	(3)
Bond 2032	**217**	**(1)**	216	(11)
	245	**(2)**	244	(14)
Net investment value of North America	**587**		510	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

No pulp swaps have been contracted during the 2013 financial year.

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows
- managing its working capital and capital expenditure
- ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements and
- ensuring appropriate long-term funding is in place to support the group's long-term strategy.

31. Financial instruments (Continued)

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

Liquidity risk management

The following tables for the 2013 and 2012 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement,* classified by liquidity, and does not necessarily indicate the group's actual cash flows.

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2013								
Non-current assets								
Other non-current assets	**22**	**22**	7	—	6	4	7	24
Derivative financial instruments	**20**	**20**	3	4	7	10	2	26
Current assets								
Trade receivables	**635**	**635**	635	—	—	—	—	635
Prepayments and other receivables	**30**	**30**	29	1	—	—	—	30
Derivative financial instruments	**1**	**1**	1	—	—	—	—	1
Cash and cash equivalents	**385**	**385**	385	—	—	—	—	385
Assets held for sale	**1**	**1**	1	—	—	—	—	1
			1,061	5	13	14	9	1,102
Non-current liabilities								
Interest-bearing borrowings	**2,499**	**2,772**	29	75	253	1,851	674	2,882
Derivative financial instruments	**99**	**99**	3	2	4	45	38	92
Other non-current liabilities	**10**	**10**	—	—	1	8	2	11
Current liabilities								
Interest-bearing borrowings	**99**	**102**	95	7	—	—	—	102
Overdrafts	**1**	**1**	1	—	—	—	—	1
Derivative financial instruments	**2**	**2**	2	—	—	—	—	2
Trade payables	**542**	**542**	542	—	—	—	—	542
Other payables and accruals	**272**	**272**	272	—	—	—	—	272
Liabilities associated with assets held for sale	**2**	**2**	2	—	—	—	—	2
			946	84	258	1,904	714	3,906
Liquidity surplus (gap)			115	(79)	(245)	(1,890)	(705)	(2,804)

31. Financial instruments (Continued)

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2012								
Non-current assets								
Other non-current assets	22	22	12	—	—	4	7	23
Derivative financial instruments	22	22	3	3	7	12	—	25
Current assets								
Trade receivables	628	628	628	—	—	—	—	628
Prepayments and other receivables	95	95	94	1	—	—	—	95
Cash and cash equivalents	645	645	645	—	—	—	—	645
			1,382	4	7	16	7	1,416
Non-current liabilities								
Interest-bearing borrowings	2,358	2,282	69	69	588	1,118	1,607	3,451
Derivative financial instruments	46	46	2	1	2	18	11	34
Other non-current liabilities	1	1	—	—	1	1	—	2
Current liabilities								
Interest-bearing borrowings	261	270	140	137	—	—	—	277
Overdrafts	5	5	5	—	—	—	—	5
Derivative financial instruments	1	1	—	—	—	—	—	—
Trade payables	555	555	555	—	—	—	—	555
Other payables and accruals	229	229	191	—	—	—	—	191
			962	207	591	1,137	1,618	4,515
Liquidity surplus (gap)			420	(203)	(584)	(1,121)	(1,611)	(3,099)

31. Financial instruments (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2013 and 2012 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

					Maturity analysis				
					Undiscounted cash flows				
	Total	Fair Value hedge	Cash flow hedge	No hedge accounting	0–6 months	6–12 months	1–2 years	2–5 years	> 5 years
				US$ million					
September 2013									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**20**	**15**	**5**	**—**	3	4	7	10	—
—receiving leg	**33**	**66**	**(33)**	**—**	7	8	15	2	—
—paying leg	**(13)**	**(51)**	**38**	**—**	(4)	(4)	(8)	8	—
Foreign exchange risk									
IRCS and FX forward contracts	**1**	**—**	**—**	**1**	1	—	—	—	—
—receiving leg	**63**	**—**	**—**	**63**	63	—	—	—	—
—paying leg	**(62)**	**—**	**—**	**(62)**	(62)	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**—**	**—**	**—**	**—**	—	—	—	—	—
—paying leg	**9**	**—**	**9**	**—**	3	3	4	—	—
—receiving leg	**(9)**	**—**	**(9)**	**—**	(3)	(3)	(4)	—	—
Foreign exchange risk									
IRCS and FX forward contracts	**101**	**—**	**99**	**2**	4	2	4	45	38
—paying leg	**938**	**—**	**1,029**	**(91)**	(46)	30	60	582	494
—receiving leg	**(837)**	**—**	**(930)**	**93**	50	(28)	(56)	(537)	(456)
September 2012									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	22	22	—	—	3	3	7	12	—
—receiving leg	89	89	—	—	12	11	23	47	—
—paying leg	(67)	(67)	—	—	(9)	(8)	(16)	(35)	—
Foreign exchange risk									
IRCS and FX forward contracts	—	—	—	—	—	—	—	—	—
—receiving leg	60	—	—	60	60	—	—	—	—
—paying leg	(60)	—	—	(60)	(60)	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	3	—	3	—	1	—	1	1	—
—paying leg	19	—	19	—	4	3	4	9	—
—receiving leg	(16)	—	(16)	—	(3)	(3)	(3)	(8)	—
Foreign exchange risk									
IRCS and FX forward contracts	44	—	43	1	1	1	1	17	11
—paying leg	1,203	—	1,087	116	186	51	58	586	361
—receiving leg	(1,159)	—	(1,044)	(115)	(185)	(50)	(57)	(569)	(350)

31. Financial instruments (Continued)

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash and cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, the non-current interest-bearing borrowings are carried at fair value, which is calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate on balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair value of loan commitments are based on commitment fees that are, in effect, paid.

		As determined by IAS 39		Categories in accordance with IAS 39				
	Total 2013	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Fair value
				US$ million				
September 2013								
Non-current assets								
Other non-current assets	**62**	40	22	—	4	—	18	22
Derivative financial instruments	**20**	—	20	20	—	—	—	20
	82	40	42	20	4	—	18	42
Current assets								
Trade receivables	**635**	—	635	—	635	—	—	635
Prepayments and other receivables	**112**	82	30	—	30	—	—	30
Derivative financial instruments	**1**	—	1	1	—	—	—	1
Cash and cash equivalents	**385**	—	385	—	385	—	—	385
Assets held for sale	**94**	93	1	—	—	—	1	1
	1,227	175	1,052	1	1,050	0	1	1,052

31. Financial instruments (Continued)

	Total 2013	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance With IAS 39: Fair value through profit or loss	Categories in accordance With IAS 39: Other financial liabilities	Fair value
	US$ million					
Non-current liabilities						
Interest-bearing borrowings	**2,499**	—	2,499	—	2,499	2,772
Derivative financial instruments	**99**	—	99	99	—	99
Other non-current liabilities	**506**	496	10	—	10	10
	3,104	496	2,608	99	2,509	2,881
Current liabilities						
Interest-bearing borrowings	**99**	—	99	—	99	102
Overdrafts	**1**	—	1	—	1	1
Derivative financial instruments	**2**	—	2	2	—	2
Trade payables	**542**	—	542	—	542	542
Other payables and accruals	**473**	201	272	—	272	272
Liabilities associated with assets held for sale	**6**	4	2	—	2	2
	1,123	205	918	2	916	921

	Total 2012	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Loans and receivables	Categories in accordance with IAS 39: Held to maturity	Categories in accordance with IAS 39: Available-for-sale	Fair value
	US$ million							
September 2012								
Non-current assets								
Other non-current assets	62	40	22	—	2	—	20	22
Derivative financial instruments	22	—	22	22	—	—	—	22
	84	40	44	22	2	—	20	44
Current assets								
Trade receivables	628	—	628	—	628	—	—	628
Prepayments and other receivables	173	78	95	—	95	—	—	95
Cash and cash equivalents	645	—	645	—	645	—	—	645
	1,446	78	1,368	—	1,368	—	—	1,368

31. Financial instruments (Continued)

	Total 2012	As determined by IAS 39: Total out of scope	Total in scope	Categories in accordance With IAS 39: Fair value through profit or loss	Other financial liabilities	Fair value
	US$ million					
Non-current liabilities						
Interest-bearing borrowings	2,358	—	2,358	—	2,358	2,282
Derivative financial instruments	46	—	46	46	—	46
Other non-current liabilities	605	604	1	—	1	1
	3,009	604	2,405	46	2,359	2,329
Current liabilities						
Interest-bearing borrowings	261	—	261	—	261	270
Overdrafts	5	—	5	—	5	5
Derivative financial instruments	1	—	1	1	—	1
Trade payables	555	—	555	—	555	555
Other payables and accruals	450	221	229	—	229	229
	1,272	221	1,051	1	1,050	1,060

The level in the fair value hierarchy into which financial instruments, that are measured at fair value on balance sheet, are categorised:

	2013				2012			
	Total fair value	Fair value hierarchy: Level 1	Level 2	Level 3	Total fair value	Fair value hierarchy: Level 1	Level 2	Level 3
	US$ million							
Non-current assets								
Other non-current assets	**18**	**18**	**—**	**—**	20	20	—	—
Derivative financial instruments	**20**	**—**	**20**	**—**	22	—	22	—
Current assets								
Derivative financial instruments	**1**	**—**	**1**	**—**	—	—	—	—
	39	**18**	**21**	**—**	42	20	22	—
Non-current liabilities								
Derivative financial instruments	**99**	**—**	**99**	**—**	46	—	46	—
Current liabilities								
Derivative financial instruments	**2**	**—**	**2**	**—**	1	—	1	—
	101	**—**	**101**	**—**	47	—	47	—

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

31. Financial instruments (Continued)

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 57% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 17 of the group annual financial statements.

32. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	**2013**	2012
					US$ million					
Joint ventures and associates:										
—Jiangxi Chenming[1]	**—**	0.4	1.1	**—**	0.2	0.7	**—**	—	**—**	—
—Sapin SA	**0.6**	0.6	0.8	**28.1**	28.3	35.1	**—**	—	**0.9**	1.6
—proNARO GmbH[2]	**—**	—	—	**96.4**	—	—	**—**	—	**4.0**	—
—Umkomaas Lignin (Pty) Limited	**7.2**	8.2	6.5	**0.2**	0.3	0.4	**1.5**	1.0	**—**	—
—Papierholz Austria GmbH	**—**	—	—	**99.3**	96.0	105.1	**—**	—	**7.7**	5.3
—EBAG[3]	**—**	—	—	**—**	5.6	31.1	**—**	—	**—**	—
	7.8	9.2	8.4	**224.0**	130.4	172.4	**1.5**	1.0	**12.6**	6.9

(1) The group disposed of its 34% shareholding in this entity during the 2012 financial year.

(2) During the year, the group entered into a joint venture agreement to hold 50% of the equity interest in this entity.

(3) The group disposed of Sappi Schweiz AG during the 2012 financial year. Sappi Schweiz AG held the 10% shareholding in Energie Biberist AG (EBAG).

Sales of goods and purchases to and from related parties were on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

32. Related party transactions (Continued)

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[1]	% of shares in issue
1–5,000	4,660	81.1	2,912,137	0.6
5,001–10,000	172	3.0	1,329,187	0.3
10,001–50,000	313	5.4	7,546,013	1.4
50,001–100,000	138	2.4	10,593,431	2.0
100,001–1,000,000	364	6.3	112,692,647	21.6
Over 1,000,000	101	1.8	386,440,160	74.1
	5,748	100.0	521,513,575	100.0

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.21
Group directors	0.21
Associates of group directors	—
Trustees of the company's share and retirement funding schemes	—
Shareowners who, by virtue of any agreement, have the right to nominate board members	—
Shareowners interested in 10% or more of the issued shares	—
Public (the number of public shareholders as at September 2013 was 5,748)	99.79
	100.00

(1) The number of shares excludes 19,932,648 treasury shares held by the group.

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter (OTC) market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to Section 56(7) of the Companies Act 71 of 2008 (as amended) of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2013, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Corporation	55,712,225	10.7

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2013, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	101,390,421	19.4
Investec Asset Management	71,932,651	13.8
Coronation Fund Managers	53,580,693	10.3
Public Investment Corporation	44,086,532	8.5
Dimensional Fund Advisors	28,257,131	5.4

32. Related party transactions (Continued)

Broad-based Black Economic Empowerment (BEE) transaction

Refer to notes 18 and 29 for details of the BEE transaction.

Key management personnel

Key management personnel includes our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) are disclosed in notes 35 to 37.

33. Events after balance sheet date

There have been no reportable changes that occurred subsequent to our financial year-end other than that described in note 26.

34. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and takes action with respect to its operations accordingly.

North America

Sappi North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi North America 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 prior to 01 May 2013. Costs associated with construction and related engineering of this fish passage to date is US$4 million and is not expected to exceed US$5 million on completion in the 2014 financial year. The fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed (expected during the third quarter of 2015). 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 Sappi North America's 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 Sappi North America's 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 expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as 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, Sappi North America does

34. Environmental matters (Continued)

not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. At the end of December 2012, the USEPA issued the final rules for Boiler MACT. Initial indications are that installation of emissions control equipment will be required at each mill and that overall compliance under the final rules will require capital expenditures in the range of US$10 million to US$15 million. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know what precise effect, if any, such legislation will have on our financial results and our operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The final draft is available. The European Commission plans to agree on the document in December 2013 or January 2014.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.
- A timber and timber product regulation adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place which allows the group to trace wood and timber material back to its source.
- The European Commission announced that it will cut free allocation of emission credits to industries with an additional 6% in 2013. Confederation of European Paper Industries has strongly opposed this decision as this increases the risk of carbon leakage.

34. Environmental matters (Continued)

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

Southern Africa

In Southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. The group works with government authorities in striving to find a balance between economic development and social and environmental considerations.

The primary South African environmental laws affecting the group's operations are:

- The National Water Act that addresses the water shortages in South Africa and relates to the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a licensing system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.
- The National Environmental Management Act that provides for the integration of environmental considerations into all stages of any development process, and in particular, provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm. The Act includes a number of significant principles, such as prosecution of companies in the interest of the protection of the environment.
- The National Environmental Management: Air Quality Act was promulgated at the beginning of 2005. This Act imposes more stringent compliance standards on the group's operations in 2015 and then again in 2020.
- The National Environmental Management: Waste Act was enacted on 01 July 2009. This Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol: As a responsible global citizen with moral as well as legal obligations under United Nations Framework Convention on Climate Change and its Kyoto Protocol, South Africa is committed to contributing its fair share to global GHG mitigation efforts. Accordingly, South Africa has committed itself to an emissions trajectory that peaks at 34% below a 'Business as Usual' trajectory in 2020 and 40% in 2025, remains stable for around a decade, and declines thereafter in absolute terms. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact on our mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over several years.

Carbon tax is a potential risk going forward for Sappi Southern Africa and we expect legislation to be introduced early next year (implementation date early 2015). We have engaged the Department of Trade and Industry via our industry representative, Paper Manufacturers Association of South Africa, in an attempt to get Sappi exempted from paying tax on the understanding that our process starts from planting of trees and that our total supply chain is actually carbon neutral.

35. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the ZAR/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the annual general meeting by the shareholders.

	2013			
	Board fees	Committee fees	Travel allowance	Total
		US$		
M Feldberg[(1)]	22,478	14,267	3,100	39,845
D Konar	33,183	62,599	6,200	101,982
B Radebe	33,183	10,778	3,100	47,061
ANR Rudd	86,779	61,844	6,200	154,823
KR Osar	59,885	60,600	15,500	135,985
JD McKenzie	33,183	31,487	6,200	70,870
DC Cronje	242,210	—	6,200	248,410
NP Mageza	33,183	28,006	6,200	67,389
R Thummer	63,091	26,653	9,300	99,044
MV Moosa	33,183	10,778	6,200	50,161
MA Fallon	63,091	49,947	9,300	122,338
GPF Beurskens	63,091	65,042	6,200	134,333
RJ DeKoch[(2)]	34,933	12,623	9,300	56,856
	801,473	434,624	93,000	1,329,097

35. Directors' and prescribed officers' remuneration (Continued)

	2012			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg	87,290	55,410	12,000	154,700
JE Healey[3]	14,535	27,333	6,000	47,868
D Konar	36,066	68,037	6,000	110,103
B Radebe	36,066	11,715	6,000	53,781
ANR Rudd	61,753	52,164	9,000	122,917
KR Osar	58,140	51,470	15,000	124,610
JD McKenzie	36,066	34,223	6,000	76,289
DC Cronje	263,252	—	6,000	269,252
NP Mageza	36,066	30,439	6,000	72,505
R Thummer	61,753	26,082	11,900	99,735
MV Moosa	36,066	7,810	6,000	49,876
MA Fallon	61,753	23,618	9,000	94,371
GPF Beurskens[4]	61,753	47,746	9,000	118,499
	850,559	436,047	107,900	1,394,506

	2011			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg	84,750	53,800	11,600	150,150
JE Healey	56,450	99,020	11,600	167,070
D Konar	39,438	74,320	5,800	119,558
HC Mamsch[5]	14,692	13,697	—	28,389
B Radebe	39,438	12,791	5,800	58,029
ANR Rudd	58,769	49,638	11,600	120,007
KR Osar	56,450	28,500	11,600	96,550
JD McKenzie	39,438	37,368	5,800	82,606
DC Cronje	287,449	—	5,800	293,249
NP Mageza	39,438	33,236	5,800	78,474
R Thummer	58,769	24,819	11,600	95,188
MV Moosa	39,438	—	5,800	45,238
MA Fallon[6]	4,897	—	2,900	7,797
	819,416	427,189	95,700	1,342,305

(1) Retired in December 2012.

(2) Appointed in March 2013.

(3) Retired in December 2011.

(4) Appointed in October 2011.

(5) Retired in December 2010.

(6) Appointed in September 2011.

35. Directors' and prescribed officers' remuneration (Continued)

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2013				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger[(1)]	**716,034**	**—**	**8,339**	**207,447**	**931,820**
SR Binnie[(2)]	**337,768**	**—**	**10,625**	**102,500**	**450,893**
	1,053,802	**—**	**18,964**	**309,947**	**1,382,713**

	2012				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger	759,126	483,471	8,162	219,316	1,470,075
SR Binnie[(3)]	83,361	53,282	2,583	25,232	164,458
MR Thompson[(4)]	354,001	228,274	111,106	180,086	873,467
	1,196,488	765,027	121,851	424,634	2,508,000

	2011				
	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
RJ Boëttger	806,887	669,438	8,011	234,772	1,719,108
MR Thompson	401,038	288,872	11,794	211,616	913,320
	1,207,925	958,310	19,805	446,388	2,632,428

(1) RJ Boëttger received a 6% increase on the South African portion (70% of total salary), and a 3% increase on the off-shore portion of his salary (30% of total salary). Both percentage increases were below that of the budgeted mandate for general staff in the respective countries.

(2) SR Binnie received a 9.5% increase on the South African portion (70% of total salary), and a 4% increase on the off-shore portion of his salary (30% of total salary). The increase to Mr Binnie's 2013 salary included a market adjustment to bring his base salary in line with market rates for his role.

(3) Appointed in July 2012 as chief financial officer designate and was appointed as chief financial officer and executive director at the end of August 2012.

(4) Retired in August 2012 after reaching the mandatory retirement age.

Despite the salary increases, the weaker ZAR in the 2013 financial year meant that RJ Boëttger and SR Binnie earned lower salaries in US Dollar terms.

Please see Compensation report in Sappi's Integrated report for further information.

35. Directors' and prescribed officers' remuneration (Continued)

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

Prescribed officers(1)

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2013				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	**791,630**	**—**	**3,280**	**135,019**	**929,929**
Officer 2	**480,082**	**185,918**	**—**	**48,844**	**714,844**
Officer 3	**354,370**	**228,726**	**—**	**68,546**	**651,642**
Officer 4	**301,126**	**—**	**11,024**	**88,996**	**401,146**
Officer 5	**248,216**	**—**	**7,176**	**115,629**	**371,021**
Officer 6	**160,597**	**—**	**4,843**	**52,865**	**218,305**
	2,336,021	**414,644**	**26,323**	**509,899**	**3,286,887**

	2012				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	749,633	501,438	3,247	127,926	1,382,244
Officer 2	456,485	—	—	45,384	501,869
Officer 3	372,216	194,848	—	72,518	639,582
Officer 4	306,574	152,320	10,906	110,275	580,075
Officer 5	255,021	123,613	7,108	103,686	489,428
Officer 6	135,184	61,631	3,926	44,790	245,531
Officer 7	213,620	105,428	144,650	109,611	573,309
	2,488,733	1,139,278	169,837	614,190	4,412,038

35. Directors' and prescribed officers' remuneration (Continued)

	2011				
	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	772,280	—	3,487	131,898	907,665
Officer 2	423,659	964,674	—	39,145	1,427,478
Officer 3	368,734	262,560	6,417	68,789	706,500
Officer 4	335,280	196,394	10,940	125,399	668,013
Officer 5	264,440	166,502	9,045	94,342	534,329
Officer 6	304,108	164,569	10,792	150,704	630,173
Officer 7	658,738	—	595	70,030	729,363
	3,127,239	1,754,699	41,276	680,307	5,603,521

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi; L Swartz; J Labuschagne (resigned 30 November 2011); M van Hoven; A Thiel and B Wiersum. They form the group executive committee together with the executive directors. Due to the weaker ZAR in the 2013 financial year, the prescribed officers earned lower salaries in US Dollar terms.

36. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares

36. Directors' and prescribed officers' interests (Continued)

in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2013			2012		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	**7,542**	**—**	**—**	7,542	—	—
MV Moosa[1]	**—**	**—**	**626,998**	—	—	626,998
MA Fallon	**5,000**	**—**	**—**	—	—	—
Executive directors						
RJ Boëttger	**204,957**	**—**	**—**	140,307	—	—
MR Thompson	**—**	**—**	**—**	34,612	—	—
Prescribed officers						
Officer 1	**68,695**	**—**	**—**	35,695	—	—
Officer 2	**57,695**	**—**	**—**	24,695	—	—
Officer 3	**45,157**	**—**	**—**	24,532	—	—
Officer 4	**26,423**	**—**	**—**	18,173	—	—
Officer 5	**52,345**	**—**	**—**	52,345	—	—
Officer 6	**—**	**—**	**—**	—	—	—
Officer 7	**—**	**—**	**—**	122,645	—	—
	467,814	**—**	**626,998**	460,546	—	626,998

(1) MV Moosa holds a 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE transaction described in notes 18 and 29. MV Moosa was appointed a director of the company after the conclusion of the BEE transaction.

There have been no changes in the direct or indirect beneficial interests of the directors and their associates since financial year-end.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company until he retired in December 2012, disclosed his role as senior advisor of Morgan Stanley & Co Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co Limited, MV Moosa's interest in the BEE transaction described above and in note 29, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Executive directors

Director		Vested	Number of shares paid for	Allocation price	Market value at date of payment
September 2013					
RJ Boëttger	Performance Plan 34	22 December 2012	57,750	ZAR0.00	ZAR30.49
September 2012					
RJ Boëttger	Performance Plan 32	12 December 2011	25,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	30,000	ZAR20.27	ZAR25.20
MR Thompson	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20

Prescribed officers

Prescribed officers		Vested	Number of shares paid for	Allocation price	Market value at date of payment
September 2013					
Officer 1	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 2	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 3	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49
Officer 4	Performance Plan 34	22 December 2012	16,500	ZAR0.00	ZAR30.49
Officer 5	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49
September 2012					
Officer 1	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
Officer 2	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
Officer 3	Performance Plan 32	12 December 2011	9,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	10,800	ZAR20.27	ZAR25.20
Officer 4	Performance Plan 32	12 December 2011	9,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	11,400	ZAR20.27	ZAR25.20
Officer 5	Performance Plan 32	12 December 2011	7,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	9,000	ZAR20.27	ZAR25.20
Officer 6	None				
Officer 7	Performance Plan 32	12 December 2011	17,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	21,000	ZAR20.27	ZAR25.20

Changes in executive directors' and prescribed officers' share options, allocation shares and performance shares before financial year-end

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Executive directors

	RJ Boëttger		SR Binnie		Total 2013	Total 2012
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year						
Number of shares held		744,000		—	**744,000**	1,117,200
Performance shares 34		154,000				
Performance shares 35		195,000				
Performance shares 36		195,000				
Performance shares 37		200,000				
Offered and accepted during the year						
Performance shares 37						270,000
Performance shares 38		200,000		100,000	**300,000**	
Vested during the year						
Number of shares		(57,750)			**(57,750)**	(99,000)
Returned, lapsed and forfeited during the year						
Number of shares		(96,250)			**(96,250)**	(138,600)
Retirement of executive director during the year						
Number of shares					**—**	(405,600)
Outstanding at end of year						
Number of shares held		790,000		100,000	**890,000**	744,000
Performance shares 35		195,000				
Performance shares 36		195,000				
Performance shares 37		200,000				
Performance shares 38		200,000		100,000		

Performance shares are issued when all conditions per note 29 are met. The position of participants with regards to the rights offer is also explained in note 29.

Expiry dates

Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Prescribed officers

	Officer 1		Officer 2		Officer 3		Officer 4		Offic
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price
Outstanding at beginning of year									
Number of shares held		401,000		418,600		304,620		279,500	
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620	ZAR46.51	33,000	ZAR46.51
Performance shares 34		88,000		88,000		55,000		44,000	
Performance shares 35		120,000		120,000		80,000		65,000	
Performance shares 36		88,000		88,000		65,000		50,000	
Performance shares 37		105,000		105,000		100,000		87,500	
Offered and accepted during the year									
Performance shares 37									
Performance shares 38		100,000		114,000		100,000		85,500	
Vested during the year									
Number of shares		(33,000)		(33,000)		(20,625)		(16,500)	
Returned, lapsed and forfeited during the year									
Number of shares		(55,000)		(72,600)		(38,995)		(60,500)	
Retirements and resignations of prescribed officers during the year									
Number of shares									
Outstanding at end of year									
Number of shares held		413,000		427,000		345,000		288,000	
Performance shares 35		120,000		120,000		80,000		65,000	
Performance shares 36		88,000		88,000		65,000		50,000	
Performance shares 37		105,000		105,000		100,000		87,500	
Performance shares 38		100,000		114,000		100,000		85,500	

Performance shares are issued when all conditions per note 29 are met. The position of participants with re
note 29.

Expiry dates

Performance shares 35 . . . .
Performance shares 36 . . . .
Performance shares 37 . . . .
Performance shares 38 . . . .

AUDITOR'S REPORT

Independent auditor's report

To the shareholders of Sappi Limited

We have audited the accompanying group annual financial statements of Sappi Limited, which comprise the group balance sheet as at September 2012, and the group income statement, group statement of comprehensive income, group statement of changes in equity and group statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the group annual financial statements

The group's directors are responsible for the preparation and fair presentation of these group annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the group annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these group annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the group annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the group annual financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2012, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the group annual financial statements for the year ended September 2012, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited group annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited group annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Per R C Campbell
Partner

Registered auditor

10 December 2012

Johannesburg, South Africa

SAPPI

GROUP INCOME STATEMENTS

for the year ended September 2012

	note	2012	2011	2010
			US$ million	
Sales		**6,347**	7,286	6,572
Cost of sales	4	**5,552**	6,454	5,786
Gross profit		**795**	832	786
Selling, general and administrative expenses	4	**417**	454	448
Other operating (income) expenses	4.2	**(41)**	298	10
Share of profit from associates and joint ventures	13	**(2)**	(6)	(13)
Operating profit	4	**421**	86	341
Net finance costs	5	**283**	307	255
Finance costs		**311**	348	309
Finance revenue		**(12)**	(12)	(16)
Finance cost capitalised		**(6)**	—	—
Net foreign exchange gains		**(5)**	(13)	(17)
Net fair value gain on financial instruments		**(5)**	(16)	(21)
Profit (loss) before taxation		**138**	(221)	86
Taxation charge	6	**34**	11	20
Profit (loss) for the year		**104**	(232)	66
Basic earnings (loss) per share (US cents)	7	**20**	(45)	13
Weighted average number of ordinary shares in issue (millions)		**520.8**	519.9	516.7
Diluted earnings (loss) per share (US cents)	7	**20**	(45)	13
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**522.2**	519.9	520.8

SAPPI

GROUP STATEMENTS OF COMPREHENSIVE INCOME

for the year ended September 2012

	note	2012	2011	2010
			US$ million	
Profit (loss) for the year		**104**	(232)	66
Other comprehensive (loss) income, net of tax	18	**(69)**	(205)	8
Exchange differences on translation to presentation currency		**(60)**	(151)	52
Actuarial losses on post-employment benefit funds		**(88)**	(59)	(71)
Movement on available-for-sale financial assets		**1**	2	2
Movement in hedging reserves		**(47)**	6	14
Deferred tax on other comprehensive income (loss)		**24**	(3)	11
Recognition of previously unrecognised deferred tax asset[1]		**101**	—	—
Total comprehensive income (loss) for the year		**35**	(437)	74

[1] Relates to temporary differences recognised within other comprehensive income in previous fiscal years.

SAPPI
GROUP BALANCE SHEETS
at September 2012

	note	2012	2011
		US$ million	
Assets			
Non-current assets		**3,990**	4,085
Property, plant and equipment	9	**3,157**	3,235
Plantations	10	**555**	580
Deferred tax assets	11	**154**	45
Goodwill and intangible assets	12	**22**	25
Joint ventures and associates	13	**18**	76
Other non-current assets	14	**62**	83
Derivative financial instruments	29.1	**22**	41
Current assets		**2,178**	2,223
Inventories	15	**726**	750
Trade and other receivables	16	**807**	831
Derivative financial instruments	29.1	**—**	3
Cash and cash equivalents	23.7	**645**	639
Total assets		**6,168**	6,308
Equity and liabilities			
Shareholders' equity		**1,525**	1,478
Ordinary share capital and share premium	17	**1,391**	1,425
Non-distributable reserves	19	**171**	163
Foreign currency translation reserve		**(323)**	(304)
Hedging reserves		**(39)**	5
Retained earnings		**325**	189
Non-current liabilities		**3,328**	3,178
Interest-bearing borrowings	20	**2,358**	2,289
Deferred tax liabilities	11	**319**	336
Derivative financial instruments	29.1	**46**	—
Other non-current liabilities	21	**605**	553
Current liabilities		**1,315**	1,652
Interest-bearing borrowings	20	**261**	449
Overdraft		**5**	1
Derivative financial instruments	29.1	**1**	10
Trade and other payables		**1,005**	1,065
Taxation payable		**26**	20
Provisions	22	**17**	107
Total equity and liabilities		**6,168**	6,308

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GROUP STATEMENTS OF CASH FLOWS

for the year ended September 2012

	note	2012	2011	2010
		US$ million		
Cash retained from operating activities		**411**	406	529
Cash generated from operations	23.1	**728**	798	737
—Increase in working capital	23.2	**(102)**	(98)	(5)
Cash generated from operating activities		**626**	700	732
—Finance costs paid	23.3	**(206)**	(266)	(206)
—Finance revenue received		**11**	10	12
—Taxation paid	23.4	**(20)**	(38)	(9)
Cash utilised in investing activities		**(284)**	(243)	(188)
Investment to maintain operations	23.5	**(177)**	(213)	(173)
Investment to expand operations		**(181)**	(49)	(38)
Proceeds on disposal of non-current assets	23.6	**71**	6	21
Decrease in other non-current assets		**3**	13	2
Cash effects of financing activities		**(103)**	(296)	(256)
Proceeds from interest-bearing borrowings		**1,025**	1,364	204
Repayment of interest-bearing borrowings		**(1,066)**	(1,578)	(444)
Share issue costs		**—**	—	(3)
Cash costs attributable to refinancing transactions		**(66)**	(78)	—
Movement in bank overdrafts		**4**	(4)	(13)
Net movement in cash and cash equivalents		**24**	(133)	85
Cash and cash equivalents at beginning of year		**639**	792	770
Translation effects		**(18)**	(20)	(63)
Cash and cash equivalents at end of year	23.7	**645**	639	792

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GROUP STATEMENTS OF CHANGES IN EQUITY

for the year ended September 2012

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
					US$ million				
Balance—September 2009	515.7	70	1,471	1,541	143	(354)	(14)	478	**1,794**
Transfer from retained earnings	—	—	—	—	2	—	—	(2)	**—**
Share-based payments	—	—	—	—	17	—	—	—	**17**
Transfers to Sappi Limited Share Incentive Trust	(0.5)	—	(6)	(6)	—	—	—	—	**(6)**
Black Economic Empowerment (BEE) transaction	4.3	1	19	20	—	—	—	—	**20**
Costs directly attributable to the BEE transaction	—	—	(3)	(3)	—	—	—	—	**(3)**
Total comprehensive income	—	3	83	86	(1)	(31)	15	5	**74**
Balance—September 2010	519.5	74	1,564	1,638	161	(385)	1	481	**1,896**
Share-based payments	—	—	—	—	20	—	—	—	**20**
Transfers from Sappi Limited Share Incentive Trust	1.0	—	6	6	—	—	—	—	**6**
Transfers of vested share options	—	—	—	—	(7)	—	—	—	**(7)**
Total comprehensive loss	—	(10)	(209)	(219)	(11)	81	4	(292)	**(437)**
Balance—September 2011	520.5	64	1,361	1,425	163	(304)	5	189	**1,478**
Transfer from retained earnings	—	—	—	—	2	—	—	(2)	**—**
Share-based payments	—	—	—	—	12	—	—	—	**12**
Transfers from Sappi Limited Share Incentive Trust	0.3	—	2	2	—	—	—	—	**2**
Transfers of vested share options	—	—	—	—	(2)	—	—	—	**(2)**
Total comprehensive income	—	(1)	(35)	(36)	(4)	(19)	(44)	138	**35**
Balance—September 2012	520.8	63	1,328	1,391	171	(323)	(39)	325[1]	**1,525**
Note reference:				17	19				

[1] Includes accumulated actuarial losses on post-employment benefits of US$423 million.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended September 2012

1. Business

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the 'company' and, together with its consolidated subsidiaries, 'Sappi' or the 'group'), was formed in 1936 and is a global company focused on providing dissolving wood pulp, paper-pulp and paper-based solutions to its direct and indirect customer base across more than 100 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa reportable segments. Sappi Fine Paper, which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe and Asia and produces mainly high quality branded coated fine paper. The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to the group's reportable segments.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements.

2.1 Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB');
- Interpretations issued by the IFRS Interpretations Committee of the IASB;
- the AC 500 Standards issued by the Accounting Practices Board in South Africa; and
- the requirements of the Companies Act of South Africa.

The group annual financial statements are presented in United States Dollars (US$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million except as otherwise indicated.

The group annual financial statements are prepared on the historical-cost basis, except as set out in the accounting policies below. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

The preparation of the group annual financial statements was supervised by the chief financial officer, S R Binnie CA(SA).

The group has made the following significant accounting policy elections in terms of IFRS:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;

2. Accounting policies (Continued)

- cumulative gains and losses recognised in other comprehensive income ('OCI') for cash flow hedge relationships are transferred from equity included in the initial measurement of the non-financial asset or liability when the hedged item is recognised;
- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model;
- actuarial gains or losses on post-employment benefits are recognised in OCI; and
- step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

(i) Fiscal year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 03 October 2011 to 30 September 2012 (52 weeks)
- 27 September 2010 to 02 October 2011 (53 weeks)
- 28 September 2009 to 26 September 2010 (52 weeks)

The group has disclosed two years' comparative information for the income statement, statement of comprehensive income and the statement of cash flows to be consistent with its disclosure in the annual report prepared on Form 20-F that is filed with the United States Securities Exchange Commission.

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group's individual operations at the rate of exchange ruling at the date of such transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The functional currency of the parent company is Rand. The share capital and share premium of the parent company are translated into US Dollars at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve, but cannot be recycled through profit or loss.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date.

2. Accounting policies (Continued)

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in profit or loss in the period in which they arise.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-Dollar functional currencies, are translated at the period-end rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in other comprehensive income and are only reclassified to profit or loss on disposal of the foreign operation, using the step-by-step consolidation method in terms of IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.

The group used the following exchange rates for financial reporting purposes:

	Period-end rate		
	Sept 12	**Sept 11**	**Sept 10**
US$1 = ZAR	**8.3096**	8.0963	7.0190
€1 = US$	**1.2859**	1.3386	1.3491

	Annual average rate		
	Sept 12	**Sept 11**	**Sept 10**
US$1 = ZAR	**8.0531**	6.9577	7.4917
€1 = US$	**1.2988**	1.3947	1.3658

2.2.2 Group accounting

(i) Subsidiary undertakings and special-purpose entities

The group annual financial statements include the assets, liabilities and results of the company and subsidiaries (including special-purpose entities) controlled by the group. The results of subsidiaries acquired or disposed of in the year are included in the group income statements from the date of acquisition or up to the date of disposal or cessation of control.

Inter-group balances and transactions, and profits and losses arising from inter-group transactions, are eliminated in the preparation of the group annual financial statements. Inter-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. The share of the associate's or joint venture's profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that corresponds to the group's financial year-end.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which is recorded in other operating expenses, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying value of the investment to the extent recoverable, but not higher than the historical amount.

2. Accounting policies (Continued)

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability except, for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- **Financial assets and financial liabilities at fair value through profit or loss**

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss.

- **Financial liabilities at amortised cost**

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- **Loans and receivables**

Loans and receivables are carried at amortised cost, with interest revenue recognised in profit or loss for the period using the effective interest rate method.

- **Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts, are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired.

2. Accounting policies (Continued)

(vi) Impairment of financial assets

- **Loans and receivables**

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

- **Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses recognised in equity are reclassified to profit or loss even though the financial asset has not been derecognised.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised.

Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses.

Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives, which is on average ten years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) Licence fees

Licence fees are amortised on a straight-line basis over the useful life of each licence.

2. Accounting policies (Continued)

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out ('FIFO')
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a consistent basis as those with owned assets except where the transfer of ownership is uncertain at the end of the lease period in which case they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

2.2.9 Segment reporting

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's operating segments. The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2. Accounting policies (Continued)

2.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.11 Revenue

Revenue, arising from the sale of goods, is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable which is arrived at after deducting trade and settlement discounts, rebates, and customer returns.

Shipping and handling costs, such as freight to the group's customers' destination are included in cost of sales. These costs, when included in the sales price charged for the group's products are recognised in sales.

2.2.12 Emission trading

The group recognises grants, when allocated by governments for emission rights, as an intangible asset at cost with an equal liability at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying value, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 Alternative fuel mixture credits

Up until 31 December 2009, the U.S. Internal Revenue Code allowed an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer's trade or business.

The group qualified for the alternative fuel mixtures tax credit through its North American operations because it used a bio-fuel known as black liquor, which is a by-product of its wood pulping process, to power its mills.

The group recognises income for the alternative fuel mixture credits when its right to receive the credit is established. This occurs when the group has complied with the requirements of the Internal Revenue Code and has submitted a claim for the credits due. This is recorded in profit or loss under other operating income. The group considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and have treated them as such in the calculation of its tax provision in the group annual financial statements.

2. Accounting policies (Continued)

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash generating units ('CGUs') to which goodwill has been allocated and from which the synergies from the business combinations are expected.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using modified binomial option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and AC 503 and, the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine shares-based payment expenses.

Key inputs to this process include; the volatility of the group's share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 28 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2012.

2. Accounting policies (Continued)

2.3 Critical accounting policies and estimates

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 judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

2.3.1 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 recognised 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 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 recognised in other operating expenses in profit or loss for the period.

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

Refer to note 9 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

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

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.

Management judgement 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

2. Accounting policies (Continued)

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 20 years
Vehicles	straight-line	5 to 10 years
Furniture and equipment	straight-line	3 to 6 years

2.3.3 Taxation

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

(i) 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.

Secondary Tax on Companies ('STC') is a South African income tax that arises from the distribution of dividends and is recognised in the current tax charge of the income statement at the time the dividend is declared. STC was replaced with dividend withholding tax in South Africa for dividends declared after 01 April 2012.

(ii) 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 realisation 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 recognised 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 recognising 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 recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

2. Accounting policies (Continued)

(iii) 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 recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised 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 recognised in the same line of profit or loss as the change in the hedged item.

(ii) Cash flow hedges

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 recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised 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 forecasted 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.

(iii) Hedge of a net investment in a foreign operation

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

(iv) 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 when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted 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 recognised immediately in profit or loss.

Refer to note 29.2 to the group annual financial statements 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.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage.

2. Accounting policies (Continued)

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 recognised in the period in which they arise.

The impact of changes in estimate 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 10.

- **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. 12 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 are 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 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 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

2. Accounting policies (Continued)

tendering of trees. The associated costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.6 Pension plans and other post-retirement 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. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

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 recognise actuarial gains and 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 recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the vesting period of those benefits.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 27 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2012.

2.3.7 Provisions

Provisions are recognised when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. 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 judgement 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.

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.

2. Accounting policies (Continued)

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.

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises 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.

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

Standards, interpretations and amendments to standards

The group adopted the following standards, interpretations and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IAS 24 *Related Party Disclosures*—Revised definition of related parties;
- IFRS 7 *Financial Instruments: Disclosures*—Transfers of financial assets;
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;* and
- Various improvements to IFRSs.

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

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for the group's accounting periods beginning on or after October 2012 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

- IAS 19 (Revised) *Employee Benefits*—IAS 19 (Revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields—September 2014;
- IFRS 13 *Fair Value Measurements*—establishes a single source of guidance for fair value measurements under IFRS—September 2014;
- IAS 28 *Investments in Associates and Joint Ventures*—amendment to conform changes based on the issuance of IFRS 10 and IFRS 11—September 2014; and

2. Accounting policies (Continued)

- IFRS 9 *Financial Instruments*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2016.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

- IAS 1 *Presentation of Financial Statements*—Other Comprehensive Income—September 2013;
- IAS 12 *Deferred Tax*—Investment property measured at fair value—September 2013;
- IFRS 7 *Financial Instruments: Disclosures*—Offsetting Financial Assets and Financial Liabilities—September 2014;
- IFRS 10 *Consolidated Financial Statements*—IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee—September 2014;
- IFRS 11 *Joint Arrangements*—classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these—September 2014
- IFRS 12 *Disclosure of Interest in Other Entities*—September 2014;
- IAS 32 *Financial Instruments: Presentation*—Offsetting Financial Assets and Financial Liabilities—September 2015;
- IAS 27 *Separate Financial Statements*—amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements—September 2014; and
- Various improvements to IFRSs.

3. Segment information

The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The group regards its primary measure of segment performance as operating profit (loss) excluding special items.

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's reportable segments.

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on geographical regions. The group accounts for inter-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and, of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

3. Segment information (Continued)

	Sappi Fine Paper						Sappi Southern Africa			Unallocated and eliminations[3]			Group		
	North America			Europe											
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
	US$ million														
Income statement															
External sales[1]	**1,438**	1,520	1,373	**3,350**	3,965	3,638	**1,559**	1,801	1,561	**—**	—	—	**6,347**	7,286	6,572
Operating profit (loss) excluding special items	**94**	129	124	**133**	68	76	**178**	199	134	**(2)**	8	5	**403**	404	339
Special items—losses (gains)[2]	**7**	(7)	(56)	**(45)**	139	4	**25**	136	22	**(5)**	50	28	**(18)**	318	(2)
Segment operating profit (loss)	**87**	136	180	**178**	(71)	72	**153**	63	112	**3**	(42)	(23)	**421**	86	341
EBITDA excluding special items[2]	**173**	203	201	**329**	300	310	**271**	309	236	**(1)**	9	5	**772**	821	752
Share of profit (loss) of associates and joint ventures	**—**	—	—	**1**	—	1	**4**	2	4	**(3)**	4	8	**2**	6	13
Depreciation and amortisation	**79**	74	77	**196**	232	234	**93**	110	102	**1**	1	—	**369**	417	413
(Impairment reversals) impairments of assets and investments	**—**	(3)	(2)	**1**	57	(10)	**9**	68	2	**—**	45	—	**10**	167	(10)
Profit on disposal of associates and joint ventures	**—**	—	—	**—**	—	—	**—**	—	—	**11**	—	—	**11**	—	—
Profit (loss) on disposal of non-current assets	**—**	2	3	**51**	—	2	**1**	(2)	—	**—**	1	—	**52**	1	5
Fellings	**—**	—	—	**—**	—	—	**73**	82	71	**—**	—	—	**73**	82	71
Plantation fair value adjustment	**—**	—	—	**—**	—	—	**(68)**	(65)	(98)	**—**	—	—	**(68)**	(65)	(98)
Restructuring provisions (released) raised and closure costs	**—**	(2)	—	**5**	89	17	**(7)**	44	23	**—**	4	6	**(2)**	135	46
Other non-cash items	**10**	17	10	**10**	9	1	**21**	22	(37)	**5**	(2)	2	**46**	46	(24)
Balance sheet															
Capital expenditures	**92**	58	42	**96**	111	100	**216**	97	64	**—**	2	—	**404**	268	206
Segment assets[2]	**919**	908	935	**1,776**	1,889	2,109	**1,605**	1,574	1,887	**20**	51	65	**4,320**	4,422	4,996
Property, plant and equipment	**774**	762	777	**1,314**	1,484	1,663	**1,067**	987	1,220	**2**	2	—	**3,157**	3,235	3,660

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

	Sappi Fine Paper						Sappi Southern Africa			Unallocated and eliminations[3]			Group		
	North America			Europe											
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
	US$ million														
Operating profit (loss) excluding special items	**94**	129	124	**133**	68	76	**178**	199	134	**(2)**	8	5	**403**	404	339
Special items—losses (gains)[2]	**7**	(7)	(56)	**(45)**	139	4	**25**	136	22	**(5)**	50	28	**(18)**	318	(2)
Segment operating profit (loss)	**87**	136	180	**178**	(71)	72	**153**	63	112	**3**	(42)	(23)	**421**	86	341

3. Segment information (Continued)

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

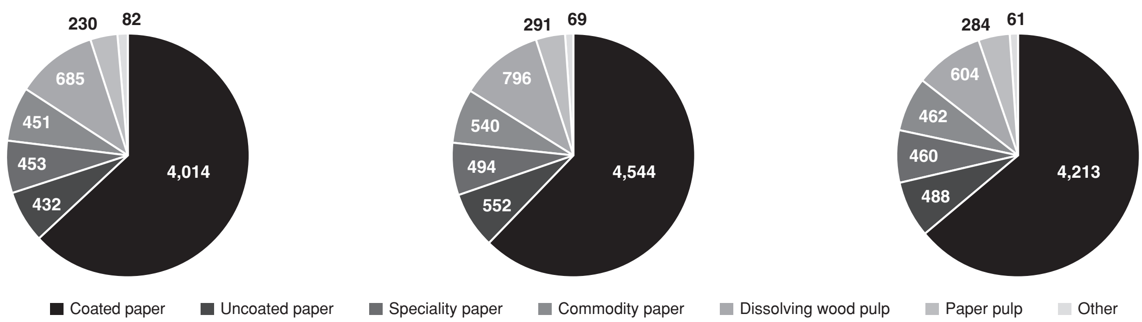
	Sappi Fine Paper						Sappi Southern Africa			Unallocated and eliminations(3)			Group		
	North America			Europe											
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
	US$ million														
EBITDA excluding special items(2)	**173**	203	201	**329**	300	310	**271**	309	236	**(1)**	9	5	**772**	821	752
Depreciation and amortisation	**79**	74	77	**196**	232	234	**93**	110	102	**1**	1	—	**369**	417	413
Operating profit (loss) excluding special items	**94**	129	124	**133**	68	76	**178**	199	134	**(2)**	8	5	**403**	404	339
Special items—losses (gains)(2)	**7**	(7)	(56)	**(45)**	139	4	**25**	136	22	**(5)**	50	28	**(18)**	318	(2)
Segment operating profit (loss)	**87**	136	180	**178**	(71)	72	**153**	63	112	**3**	(42)	(23)	**421**	86	341
Net finance costs													**283**	307	255
Profit (loss) before taxation													**138**	(221)	86

(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to the glossary on page 183 for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

2012: Sales by products (US$ million) **2011: Sales by products** (US$ million) **2010: Sales by products** (US$ million)



Reconciliation of segment assets to total assets:

	Group		
	2012	2011	2010
	US$ million		
Segment assets(1)	**4,320**	4,422	4,996
Deferred tax assets	**154**	45	53
Cash and cash equivalents	**645**	639	792
Derivative financial instruments	**1**	10	3
Trade and other payables	**1,005**	1,065	1,271
Provisions	**17**	107	33
Taxation payable	**26**	20	36
Total assets	**6,168**	6,308	7,184

(1) Refer to the glossary on page 183 for the definition of the term.

4. Operating profit

	2012		2011		2010	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
	US$ million					
Operating profit has been arrived at after charging (crediting):						
Raw materials, energy and other direct input costs	**3,393**	**—**	3,962	—	3,461	—
Wood (includes growth and felling adjustments[(1)])	**723**	**—**	773	—	624	—
Energy	**565**	**—**	670	—	611	—
Chemicals	**1,028**	**—**	1,117	—	1,025	—
Pulp	**753**	**—**	987	—	907	—
Other variable costs	**324**	**—**	415	—	294	—
Plantation price fair value adjustment	**15**	**—**	16	—	(31)	—
Employment costs	**898**	**200**	1,027	211	968	208
Depreciation	**345**	**22**	392	22	388	23
Delivery charges	**526**	**—**	597	—	547	—
Maintenance	**253**	**—**	300	—	275	—
Other overheads	**122**	**—**	160	—	178	—
Marketing and selling expenses	**—**	**102**	—	112	—	112
Administrative and general expenses	**—**	**93**	—	109	—	105
	5,552	**417**	6,454	454	5,786	448

	2012	2011	2010
	US$ million		
(1) Changes in plantation volumes			
Fellings	**73**	82	71
Growth	**(83)**	(81)	(67)

	2012	2011	2010
	US$ million		
Silviculture costs (included within cost of sales)	**70**	79	67
Leasing charges for premises	**14**	14	14
Leasing charges for plant and equipment	**18**	22	48
Remuneration paid other than to employees of the company in respect of:	**28**	35	31
—technical services	**14**	16	12
—administration services	**14**	19	19
Auditors' remuneration:	**8**	8	8
—audit and related services	**6**	6	7
—tax planning and tax advice	**2**	1	1
—refinancing related services[(1)]	**—**	1	—
Research and development costs	**24**	26	25
Amortisation	**2**	3	3
Cost on derecognition of loans and receivables[(2)]	**10**	11	14

(1) These costs have been capitalised.

(2) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

4. Operating profit (Continued)

4.1 Employment costs

	2012	2011	2010
		US$ million	
Wages and salaries	**984**	1,112	1,054
Defined contribution plan expense (refer to note 27)	**35**	46	42
Defined benefit pension plan expense (refer to note 27)	**24**	14	15
Other defined benefit plan expense (refer to note 27)	**13**	14	14
Share-based payment expense	**9**	15	13
Other	**33**	37	38
	1,098	1,238	1,176

4.2 Other operating (income) expenses

	2012	2011	2010
Included in other operating (income) expenses are the following:			
Impairments (reversals) of assets and investments	**10**	167	(10)
Restructuring provisions and closure costs (reversed) raised	**(2)**	135	46
Profit on disposal of associates and joint ventures	**(11)**	—	—
Profit on disposal of non-current assets	**(52)**	(1)	(5)
Alternative fuel mixture credits	**—**	—	(51)
Black Economic Empowerment (BEE) charge:	**3**	5	23
—unwinding of the 2006 Black Economic Empowerment transaction	**—**	—	19
—IFRS 2 costs on management and employee share option plans	**3**	5	4

5. Net finance costs

	2012	2011	2010
	US$ million		
Interest and other finance costs on liabilities carried at amortised cost	**311**	348	309
—Interest on bank overdrafts	**1**	2	1
—Interest on redeemable bonds and other loans	**220**	282	303
—Premium and costs on early redemption of redeemable bonds and other loans	**46**	43	—
—Accelerated amortisation on early settlement of redeemable bonds and other loans	**42**	17	—
—Interest cost on finance lease obligations	**2**	4	5
Finance revenue received on assets carried at amortised cost	**(12)**	(12)	(16)
—Interest on bank accounts	**(10)**	(9)	(6)
—Discount on early redemption of redeemable bonds and other loans	**—**	—	(5)
—Interest revenue on other loans and investments	**(2)**	(3)	(5)
Interest capitalised to property, plant and equipment[(1)]	**(6)**	—	—
Net foreign exchange gains	**(5)**	(13)	(17)
Net fair value gain on financial instruments	**(5)**	(16)	(21)
—Realised gain on termination of swaps	**(2)**	(1)	—
—Gain on amortisation of de-designated hedges	**(3)**	(18)	(21)
—Hedge ineffectiveness			
—gain on hedging instrument (derivative)	**(3)**	(19)	—
—loss on hedged item	**3**	22	—
	283	307	255

(1) Borrowing costs incurred on the conversion projects at Ngodwana Mill in Sappi Southern Africa and Cloquet Mill in Sappi Fine Paper North America have been capitalised at the weighted average capitalisation rate of 9.3%.

6. Taxation charge

	2012	2011	2010
	US$ million		
Current taxation:			
—Current year	**28**	10	10
—Prior year overprovision	**(4)**	(2)	(20)
—Other company taxes	**4**	6	4
Deferred taxation:			
—Current year	**10**	—	26
—Prior year overprovision	**(2)**	(3)	—
—Attributable to tax rate changes	**(2)**	—	—
	34	11	20

In addition to income taxation charges to profit or loss, deferred taxation relief of US$125 million (2011: US$3 million charge; 2010: US$11 million relief) has been recognised directly in other comprehensive income (refer to note 11).

Reconciliation of the tax rate

	2012	2011	2010
Profit (loss) before taxation	**138**	(221)	86
Profit-making regions	**267**	231	307
Loss-making regions	**(129)**	(452)	(221)
Taxation at the average statutory tax rate	**47**	(49)	35
Profit-making regions at 29% (2011: 30%; 2010: 30%)	**78**	69	92
Loss-making regions at 24% (2011: 26%; 2010: 26%)	**(31)**	(118)	(57)
Net exempt income and non-tax deductible expenditure	**(41)**	(10)	(10)
Effect of tax rate changes	**(2)**	—	—
Unrecognised deferred tax assets raised	**58**	110	65
Unrecognised deferred tax assets utilised	**(26)**	(41)	(54)
Prior year adjustments	**(6)**	(5)	(20)
Other taxes	**4**	6	4
Taxation charge	**34**	11	20
Effective tax rate for the year	**25%**	(5)%	23%

7. Earnings (loss) per share and headline earnings (loss) per share

Basic earnings (loss) per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

	2012			2011			2010		
	Profit	Shares	Earnings per share	Loss	Shares	Loss per share	Profit	Shares	Earnings per share
	US$ million	millions	US cents	US$ million	millions	US cents	US$ million	millions	US cents
Basic EPS calculation	**104**	**520.8**	**20**	(232)	519.9	(45)	66	516.7	13
Share options and performance shares under Sappi Limited Share Trust	**—**	**1.4**	**—**	—	—	—	—	3.9	—
Share options granted under the Broad-based Black Economic Empowerment transaction	**—**	**—**	**—**	—	—	—	—	0.2	—
Diluted EPS calculation	**104**	**522.2**	**20**	(232)	519.9	(45)	66	520.8	13

7. Earnings (loss) per share and headline earnings (loss) per share (Continued)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR24.88 (2011: ZAR33.66; 2010: ZAR31.86) and exclude the effect of certain share options granted under the Sappi Share Incentive Scheme as well as share options granted under the Broad-based Black Economic Empowerment transaction as they would be anti-dilutive.

There are 12.8 million (2011: 12.0 million; 2010: 10.6 million) share options that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are anti-dilutive.

Headline earnings (loss) per share[1]

Headline earnings (loss) per share is based on the group's headline earnings (loss) divided by the weighted average number of shares in issue during the year. This is a JSE Limited Listings required measure.

Reconciliation between attributable earnings (loss) to ordinary shareholders and headline earnings (loss):

	2012			2011			2010		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
	US$ million								
Attributable earnings (loss) to ordinary shareholders	**138**	**34**	**104**	(221)	11	(232)	86	20	66
Impairments (reversals) of assets and investments	**10**	**2**	**8**	167	17	150	(10)	—	(10)
Profit on disposal of associates and joint ventures	**(11)**	**—**	**(11)**	—	—	—	—	—	—
Profit on diposal of non-current assets	**(52)**	**—**	**(52)**	(1)	—	(1)	(5)	—	(5)
Headline earnings (loss)	**85**	**36**	**49**	(55)	28	(83)	71	20	51
Weighted average number of ordinary shares in issue (millions)			**520.8**			519.9			516.7
Headline earnings (loss) per share (US cents)			**9**			(16)			10
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**522.2**			519.9			520.8
Diluted headline earnings (loss) per share (US cents)			**9**			(16)			10

(1) Headline earnings—as defined in circular 3/2012 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings.

8. Dividends

No dividends were declared in respect of the current and previous financial years.

9. Property, plant and equipment

	2012	2011
	US$ million	
Land and buildings[1]		
At cost	**1,494**	1,542
Accumulated depreciation and impairments	**(841)**	(840)
	653	702
Plant and equipment[2]		
At cost	**7,323**	7,408
Accumulated depreciation and impairments	**(4,864)**	(4,932)
	2,459	2,476
Capitalised leased assets[3]		
At cost	**558**	581
Accumulated depreciation and impairments	**(513)**	(524)
	45	57
Aggregate cost	**9,375**	9,531
Aggregate accumulated depreciation and impairments	**(6,218)**	(6,296)
Aggregate book value	**3,157**	3,235

The movement of property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	Total
	US$ million			
Net book value at September 2010	753	2,750	157	**3,660**
Additions	26	241	1	**268**
Disposals	—	(5)	—	**(5)**
Transfers	—	88	(88)	**—**
Depreciation	(46)	(356)	(12)	**(414)**
Impairments[4]	—	(122)	—	**(122)**
Translation differences	(31)	(120)	(1)	**(152)**
Net book value at September 2011	702	2,476	57	**3,235**
Additions	21	376	1	**398**
Finance costs capitalised	—	6	—	**6**
Disposals	(15)	(4)	—	**(19)**
Transfers	1	(1)	—	**—**
Depreciation	(37)	(319)	(11)	**(367)**
Impairments	—	(20)	—	**(20)**
Reversal of impairments	—	10	—	**10**
Translation differences	(19)	(65)	(2)	**(86)**
Net book value at September 2012	653	2,459	45	**3,157**

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of plant and equipment.

(4) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in asset impairment charges being recorded during fiscal 2011.

Refer to note 24 for details of encumbrances.

9. Property, plant and equipment (Continued)

Asset impairments and impairment reversals

September 2012

Sappi Southern Africa

Sappi Paper and Paper Packaging operations. Certain fixed assets that were impaired in fiscal 2011 were transferred to other cash generating units during the year resulting in an impairment reversal of US$10 million.

Ngodwana Mill. Some of the equipment at Ngodwana Mill with a book value of US$8 million will be taken out of production as part of the conversion project to produce dissolving wood pulp resulting in an impairment charge of US$8 million to profit or loss.

Tugela Mill. At the end of fiscal 2012, there were indicators of impairment at Tugela Mill in Sappi Southern Africa. Difficult market conditions as well as the cost structure of a paper machine ('PM4') at the mill did not allow the paper machine to operate profitably. As a result, PM4 (a sackkraft and containerboard machine) was tested for impairment in accordance with IAS 36 by comparing the recoverable amount with the carrying amount.

As a result, an impairment charge of US$9 million has been recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 7.77%. On 12 October 2012, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve.

September 2011

Sappi Fine Paper Europe

Biberist Mill. In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. The mill ceased production during August 2011. The mill's order book was transferred to the other Sappi European mills. An impairment charge of US$57 million was recorded against plant and equipment for that year. The remaining fixed assets, comprising land and buildings, were sold for US$56 million in fiscal 2012.

Sappi Southern Africa

Usutu Mill. Usutu Mill ceased operations at the end of January 2010, and the pulp mill was permanently closed. The mill's remaining property, plant and equipment which had already been substantially impaired in previous years, was fully impaired in fiscal 2011 resulting in a charge of US$9 million being recorded in that fiscal year. Sappi continues its forestry operations in Swaziland.

Adamas Mill. In May 2011, we announced the potential closure of Adamas Mill. The mill was closed in August 2011 and the more profitable grades were transferred to Enstra Mill and Stanger Mill. The plant and equipment other than land and buildings was impaired by US$10 million. The land and buildings were sold for US$5 million in fiscal 2012.

Sappi Paper and Paper Packaging Operations. A review of the paper and paper packaging operations completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would have to be curtailed. The curtailment of the production of these products resulted in an impairment charge of US$49 million being recorded in that year.

10. Plantations

	2012	2011
	US$ million	
Fair value of plantations at beginning of year	**580**	687
Gains arising from growth	**83**	81
Fire, hazardous weather and other damages	**(4)**	—
Loss arising from fair value price changes	**(15)**	(16)
Harvesting—agriculture produce (fellings)	**(73)**	(82)
Disposals	**(1)**	—
Translation difference	**(15)**	(90)
Fair value of plantations at end of year	**555**	580

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

As the group manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the group's own production or sales.

The group owns plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted and range in duration from one to more than 20 years. In certain circumstances, the group provides loans to farmers that are disclosed as accounts receivable on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSC standards.

10. Plantations (Continued)

Changes in estimated prices, the discount rate, costs to sell and, volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value as tabled below:

	2012	2011	2010
	US$ million		
Market price changes			
1% increase in market prices	**4**	4	2
1% decrease in market prices	**(4)**	(4)	(2)
Discount rate (for immature timber)			
1% increase in rate	**(4)**	(4)	(5)
1% decrease in rate	**4**	4	5
Volume assumption			
1% increase in estimate of volume	**5**	6	9
1% decrease in estimate of volume	**(5)**	(6)	(9)
Costs to sell			
1% increase in costs to sell	**(3)**	(3)	(1)
1% decrease in costs to sell	**3**	3	1
Growth assumptions			
1% increase in rate of growth	**2**	1	2
1% decrease in rate of growth	**(2)**	(1)	(2)

11. Deferred tax

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	US$ million			
Other liabilities, accruals and prepayments	**(55)**	**25**	(62)	24
Inventory	**4**	**3**	3	3
USA alternative minimum tax credit carry forward	**18**	**—**	16	—
Tax loss carry forward	**203**	**25**	279	38
Property, plant and equipment	**(72)**	**(262)**	(98)	(276)
Plantations	**(28)**	**(125)**	(22)	(136)
Other non-current assets	**63**	**—**	10	—
Other non-current liabilities	**21**	**15**	(81)	11
	154	**(319)**	45	(336)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

11. Deferred tax (Continued)

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

	2012	2011
	US$ million	
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	**—**	91
Tax losses	**645**	562
Property, plant and equipment	**—**	22
	645	675
Attributable to the following tax jurisdictions:		
Belgium	**86**	86
The Netherlands	**18**	17
Finland	**42**	50
Switzerland	**—**	30
United States of America	**—**	158
Swaziland	**29**	34
South Africa	**1**	1
Austria	**469**	299
	645	675
Expiry between two and five years	**40**	29
Expiry after five years	**67**	174
Indefinite life	**538**	472
	645	675

11. Deferred tax (Continued)

	2012	2011
	US$ million	
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**675**	704
Unrecognised deferred tax assets raised	**—**	54
Unrecognised deferred tax assets utilised	**(57)**	(41)
Prior year adjustments	**53**	(24)
Rate adjustments	**(5)**	(7)
Movement in foreign exchange rates	**(21)**	(11)
Balance at end of year	**645**	675
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**45**	53
Deferred tax liabilities	**(336)**	(386)
	(291)	(333)
Deferred tax (charge) benefit for the year	**(6)**	3
Other liabilities, accruals and prepayments	**(4)**	61
Inventory	**—**	5
USA alternative minimum tax credit	**2**	2
Tax loss carry forward	**(61)**	(57)
Property, plant and equipment	**10**	14
Plantations	**1**	3
Other non-current assets	**54**	(15)
Other non-current liabilities	**(8)**	(10)
Amounts recorded directly in other comprehensive income	**125**	(3)
Translation differences	**7**	42
Deferred tax balances at end of year	**(165)**	(291)
Deferred tax assets	**154**	45
Deferred tax liabilities	**(319)**	(336)

12. Goodwill and intangible assets

	2012					2011				
	Goodwill	Licence fees	Patents	Brands	Total	Goodwill	Licence fees	Patents	Brands	Total
	US$ million									
Net carrying amount at beginning of year	**4**	**3**	**—**	**18**	**25**	4	3	—	20	27
Amortisation	**—**	**—**	**—**	**(2)**	**(2)**	—	—	—	(3)	(3)
Translation difference	**—**	**—**	**—**	**(1)**	**(1)**	—	—	—	1	1
Net carrying amount	**4**	**3**	**—**	**15**	**22**	4	3	—	18	25
Cost (gross carrying amount)	**4**	**3**	**—**	**23**	**30**	4	3	20	24	51
Accumulated amortisation and impairments	**—**	**—**	**—**	**(8)**	**(8)**	—	—	(20)	(6)	(26)
Net carrying amount	**4**	**3**	**—**	**15**	**22**	4	3	—	18	25

13. Joint ventures and associates

	2012	2011
	US$ million	
Cost of joint ventures and associates[(1)]	**34**	96
Share of post-acquisition (loss) profit, net of distributions received	**(19)**	1
Accumulated impairments	**—**	(45)
Foreign currency translation effect	**3**	24
	18	76
Summarised financial information in respect of the group's joint ventures and associates is set out below:		
Total assets	**139**	679
Total liabilities	**97**	327
Net assets	**42**	352
Group's share of joint ventures and associates net assets after accumulated impairments[(1)]	**18**	76

	2012	2011	2010
		US$ million	
Sales	**881**	942	691
Profit for the period	**2**	17	35
Group's share of joint ventures and associates profit for the period[(1)]	**2**	6	13

(1) **Jiangxi Chenming**

In August 2012, the group entered into a sale agreement for its equity accounted 34% shareholding in Jiangxi Chenming Paper Company Limited ('Jiangxi Chenming') with the majority shareholder and co-founding joint venture partner for US$42 million resulting in a profit of US$11 million which includes the realisation of a foreign currency translation reserve of US$26 million that was previously accounted for in other comprehensive income and which has been realised using the step-by-step consolidation method. The proceeds were received on 06 November 2012. The income statement information includes the results for Jiangxi Chenming up to August 2012.

Umkomaas Lignin (Pty) Limited

A 50% joint venture agreement with Borregaard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Limited are to 31 December of each year which is the year-end of Borregaard. The most recent audited financials were to 31 December 2011.

Sapin SA

A 50% joint venture with Sapin SA located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year-end of Sapin SA. The most recent audited financials were to 31 December 2011.

Papierholz Austria GmbH

A 43% joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year-end of Papierholz Austria GmbH. The most recent audited financials were to 31 December 2011.

Timber IV

A special-purpose entity ('SPE') into which Sappi contributed promissory notes (relating to certain Timberlands, equipment and machinery sold by Sappi to a third party timber company) which were pledged as collateral for the SPE to issue bonds. The SPE is not consolidated because the group has taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. The group's investment in the SPE was nil as at the end of fiscal 2012 and 2011 as the underlying promissory notes and bonds have been repaid. The financial statements of Timber IV are to 30 September of each year. The results are unaudited.

13. Joint ventures and associates (Continued)

Energie Biberist AG

In July 2012, Sappi disposed of Sappi Schweiz AG together with its 10% investment in Energie Biberist AG ('EBAG'). Sappi exercised significant influence by virtue of the fact that Sappi had the power to appoint one of the five directors. EBAG is an energy company that supplied Biberist Mill with steam and 100% of its electricity requirements. On the cessation of production at Biberist Mill in August 2011, the investment in the associate was impaired by the group resulting in a charge to other operating expenses in profit or loss for the period. The financial statements of EBAG are to 31 December each year which is the year-end of EBAG. The most recent audited financials of EBAG were to 31 December 2011.

Where the year-ends of joint ventures and associates are different to Sappi's, the unaudited management accounts of the joint ventures and associates are used for the periods to Sappi's year-end.

14. Other non-current assets

	2012	2011
	US$ million	
Financial assets[1]	**22**	22
Defined benefit pension plan assets (refer to note 27)	**26**	43
Advances to tree growers	**7**	7
Other loans	**7**	11
	62	83

[1] Details of investments are available at the registered offices of the respective companies.

15. Inventories

	2012	2011
	US$ million	
Raw materials	**156**	160
Work in progress	**75**	79
Finished goods	**333**	345
Consumable stores and spares	**162**	166
	726	750

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$9 million (2011: US$14 million and 2010: US$17 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to US$5,009 million (2011: US$5,831 million and 2010: US$5,197 million).

Refer to note 24 for inventory pledged as security.

16. Trade and other receivables

	2012	2011
	US$ million	
Trade accounts receivable, gross	**638**	715
Allowance for credit losses	**(10)**	(15)
Trade accounts receivable, net	**628**	700
Prepayments and other receivables	**179**	131
	807	831

16. Trade and other receivables (Continued)

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturity of trade and other receivables, the directors consider that the carrying amount of these trade and other receivables approximates its fair value.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables. Included in other sundry receivables, is the vendor receivable of US$42 million from the sale of the group's 34% shareholding in Jiangxi Chenming.

Trade receivables (including securitised trade receivables) represent 12% (2011: 11%) of turnover.

16.1 Reconciliation of the allowance for credit losses

	2012	2011
	US$ million	
Balance at beginning of year	**15**	14
Raised during the year	**6**	10
Released during the year	**(11)**	(9)
Balance at end of year	**10**	15

The allowance for credit losses has been determined by reference to specific customer delinquencies.

16.2 Analysis of amounts past due

September 2012

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not impaired	Impaired	Total
Less than 7 days overdue	**13**	**—**	**13**
Between 7 and 30 days overdue	**14**	**—**	**14**
Between 30 and 60 days overdue	**1**	**—**	**1**
More than 60 days overdue	**—**	**10**	**10**
	28	**10**	**38**

September 2011

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not impaired	Impaired	Total
Less than 7 days overdue	30	—	30
Between 7 and 30 days overdue	12	—	12
Between 30 and 60 days overdue	4	—	4
More than 60 days overdue	2	15	17
	48	15	63

16. Trade and other receivables (Continued)

All amounts due which are beyond their contractual repayment terms are reported to divisional management on a regular basis. Any provision for impairment is required to be approved in line with the group limits of authority framework.

The group holds no collateral (2011: no collateral) against overdue trade receivables.

The group has granted facilities to customers to buy on credit for the following amounts:

	2012	2011
Less than US$0.5 million	**289**	299
Less than US$1 million but equal to or greater than US$0.5 million	**258**	277
Less than US$3 million but equal to or greater than US$1 million	**524**	597
Less than US$5 million but equal to or greater than US$3 million	**219**	213
Equal to or greater than US$5 million	**939**	1,031
	2,229	2,417

16.3 Trade receivables securitisation

The group operates two trade receivables securitisation programmes due to the cost effectiveness of such structures.

The Sappi Southern African securitisation programme is off-balance sheet and is described in detail in note 16.4.

In fiscal 2011, the group replaced its existing on-balance sheet securitisation programmes with a single three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. Trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At fiscal year-end, trade receivables with a value of US$490 million (2011: US$491 million) have been pledged as collateral for amounts received as funding under the programme of US$377 million (2011: US$368 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 20.

16.4 Off-balance sheet structures

Letters of credit discounting

To improve the group's working capital, the group sells certain Letters of Credit to Royal Bank of Scotland ('RBS'), Hong Kong and Union Bancaire Privee ('UBP'), Switzerland at each fiscal month-end on a non-recourse basis.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (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 recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the

16. Trade and other receivables (Continued)

Scheckwechsel is a short-term instrument (maximum 90 days). 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 recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$29 million (2011: US$32 million) has been disclosed in this respect.

Sappi Southern Africa securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). 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 adjusted 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 securitisation 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% mentioned above. There are a number of events which may trigger termination of the facility, among 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 is entered into.

The total amount of trade receivables sold at the end of September 2012 amounted to US$126 million (2011: US$121 million).

Details of the securitisation programme at the end of fiscal 2012 and 2011 are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2012				
Rand Merchant Bank Limited	ZAR	ZAR1,044 million	Unlimited[1]	Linked to 3-month JIBAR
2011				
Rand Merchant Bank Limited	ZAR	ZAR979 million	Unlimited[1]	Linked to 3-month JIBAR

(1) The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on-balance sheet securitisation facilities are described in note 20.

16.5 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales during the years ended September 2012 and September 2011. Where appropriate, credit insurance has been taken out over the group's trade receivables.

16. Trade and other receivables (Continued)

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$807 million (2011: US$831 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following amounts due from single customers:

	2012			2011		
	Number of customers	US$ million	Percentage	Number of customers	US$ million	Percentage
Greater than US$10 million	**8**	**135**	**21%**	9	170	24%
Between US$5 million and US$10 million	**9**	**61**	**10%**	8	51	7%
Less than US$5 million	**1,970**	**432**	**69%**	2,423	479	69%
	1,987	**628**	**100%**	2,440	700	100%

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer to note 29.2 for further details on credit risk.

17. Ordinary share capital and share premium

	2012		2011	
	Number of shares	US$ million	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each(1)	**19,961,476**		19,961,476	
Issued share capital:				
Ordinary shares of ZAR1 each	**541,446,223**	**66**	541,446,223	67
'A' ordinary shares of ZAR1 each(1)	**19,961,476**	**2**	19,961,476	2
Treasury shares(2)	**(40,563,237)**	**(5)**	(40,942,907)	(5)
Share premium		**1,328**		1,361
	520,844,462	**1,391**	520,464,792	1,425

(1) The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

(2) Includes 20,601,761 (2011: 20,981,431) ordinary shares as well as 19,961,476 (2011: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the Scheme) and the trusts set up to

17. Ordinary share capital and share premium (Continued)

house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

	2012	2011
	US$ million	
The movement in ordinary share capital and share premium is reconciled as follows:		
Opening balance	**1,425**	1,638
Transfers from Sappi Limited Share Incentive Trust	**2**	6
Translation movements	**(36)**	(219)
Closing balance	**1,391**	1,425

	Number of shares	
	2012	2011
The movement in the number of treasury shares is set out in the table below:		
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**20,981,431**	21,935,119
Treasury shares issued to participants of the Scheme	**(379,670)**	(953,688)
—Share options (per note 28)	**—**	(32,312)
—Share plan options (per note 28)	**(415,530)**	(1,087,556)
—Scheme shares forfeited, released and other	**35,860**	166,180
Ordinary treasury shares at end of year	**20,601,761**	20,981,431
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	40,563,237	40,942,907

Included in the issued and unissued share capital of 725,000,000, is a total of 42,700,870 shares which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 42,700,870 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 07 March 2005.

Since March 1994, 3,002,894 (2011: 3,002,894) shares have been allocated to the Scheme participants and paid for, and 14,570,507 (2011: 13,617,202 shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 7,938,200 (2011: 7,380,900) shares have been allocated and remain unpaid for, and 2,483,034 (2011: 1,742,677) shares have been allocated and paid for by the Plan participants.

17. Ordinary share capital and share premium (Continued)

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed under note 20; and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders;
- to ensure sufficient resilience against economic turmoil;
- to optimise the weighted average cost of capital, given inherent constraints; and
- to ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdraft less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During fiscal 2012 and 2011, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

18. Other comprehensive income (loss)[1]

	2012	2011	2010
	US$ million		
Exchange differences on translation to presentation currency	**(60)**	(151)	52
Exchange differences on translation of share capital and share premium	**(36)**	(219)	86
Translation of foreign operations	**12**	81	(31)
Exchange differences arising on non-distributable reserves	**(5)**	(13)	(3)
Reclassification adjustments to profit or loss on disposal of foreign operations	**(31)**	—	—
Tax	**—**	—	—
Actuarial gains (losses) on post-employment benefit funds	**34**	(60)	(60)
Gross amount	**(88)**	(59)	(71)
Tax[2]	**122**	(1)	11
Fair value adjustment on available-for-sale financial instruments	**1**	2	2
Gross amount	**1**	2	2
Tax	**—**	—	—
Hedging reserves	**(44)**	4	14
Movements during the year	**(37)**	6	14
Reclassified to profit or loss	**(7)**	—	—
Reclassified to property, plant and equipment	**(3)**	—	—
Tax	**3**	(2)	—
Other comprehensive (loss) income recorded directly in equity	**(69)**	(205)	8
Profit (loss) for the year	**104**	(232)	66
Total comprehensive income (loss) for the year	**35**	(437)	74

(1) The tax effect has been allocated to each individual category.

(2) The 2012 financial year includes US$101 million that relates to temporary differences recognised within other comprehensive income in previous financial years.

19. Non-distributable reserves

	2012	2011
	US$ million	
Legal reserves in subsidiaries	**76**	77
Share-based payment reserve	**78**	70
Other	**17**	16
Capital reduction	**1**	1
Capitalisation of distributable reserves[1]	**11**	11
Revaluation of available-for-sale financial assets	**5**	4
	171	163

19. Non-distributable reserves (Continued)

	2012				2011			
	Legal reserves[(1)]	Share-based payment reserve	Other	Total	Legal reserves[(1)]	Share-based payment reserve	Other	Total
Opening balance	**77**	**70**	**16**	**163**	78	69	14	161
Transfer from retained earnings	**2**	**—**	**—**	**2**	—	—	—	—
Transfers of vested share options	**—**	**(2)**	**—**	**(2)**	—	(7)	—	(7)
Share-based payment expense	**—**	**12**	**—**	**12**	—	20	—	20
Movement on available-for-sale financial assets	**—**	**—**	**1**	**1**	—	—	2	2
Translation difference	**(3)**	**(2)**	**—**	**(5)**	(1)	(12)	—	(13)
	76	**78**	**17**	**171**	77	70	16	163

(1) Represents equity of the company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

20. Interest-bearing borrowings

	2012	2011
	US$ million	
Secured borrowings		
—Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	**1,783**	1,929
—Capitalised lease liabilities (refer to note 24 for details of encumbered assets)	**21**	37
Total secured borrowings	**1,804**	1,966
Unsecured borrowings	**815**	772
Total borrowings (refer to note 29.2)	**2,619**	2,738
Less: Current portion included in current liabilities	**(261)**	(449)
Total non-current interest-bearing borrowings	**2,358**	2,289
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2012		449
2013	**261**	201
2014	**446**	1,111
2015	**119**	6
2016	**83**	62
2017 (September 2011: thereafter)	**517**	909
Thereafter	**1,193**	
	2,619	2,738

20. Interest-bearing borrowings (Continued)

Capitalised lease liabilities

Finance leases are primarily for buildings and, plant and equipment. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. The aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	2012			2011		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Payable in the year ended September:						
2012				19	(4)	15
2013	**13**	**(2)**	**11**	14	(2)	12
2014	**5**	**(1)**	**4**	5	(1)	4
2015	**6**	**—**	**6**	7	(1)	6
Total future minimum lease payments	**24**	**(3)**	**21**	45	(8)	37

20. Interest-bearing borrowings (Continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2012:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€ 31 million[2]	€ 33 million[3][4]	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US$	Fixed[5]	US$400 million	US$390 million[3][4]	Property, plant and equipment, inter-company receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€ 250 million	€ 245 million[3][4]	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Fixed[5]	US$300 million	US$293 million[3][4]	Property, plant and equipment, inter-company receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US$	Variable[6]	US$350 million	US$365 million[3][4]	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$216 million[4][7][8]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed[9]	ZAR750 million	ZAR748 million	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed	ZAR500 million	ZAR499 million[4]	Unsecured	June 2016	No financial covenants
Private placement bond	ZAR	Fixed	ZAR166 million	ZAR166 million	Unsecured	November 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR164 million	ZAR164 million	Unsecured	January 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR41 million	ZAR41 million	Unsecured	March 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR75 million	ZAR75 million	Unsecured	December 2013	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€ 187 million	€ 185 million[4]	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation[10]
UniCredit Bank	US$	Variable	US$139 million	US$138 million[4]	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation[10]
Capitalised leases							
Fortum	EUR	Variable	€ 6 million	€ 6 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR110 million	ZAR110 million	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€ 58 million	€ 58 million		December 2012	No financial covenants
Nedbank	ZAR	Fixed	ZAR177 million	ZAR177 million		March 2014	Gearing ratio/ interest and dividend cover[11]
Peritum Trading	ZAR	Fixed	ZAR16 million	ZAR16 million		June 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€ 136 million	€ 134 million[4]		June 2017	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation[10]

20. Interest-bearing borrowings (Continued)

The analysis of the currency per debt is:	Local currency million	US$ million
US Dollar[12]	1,404	**1,404**
Euro	665	**856**
ZAR	2,998	**359**
		2,619

(1) The nature of the rates for the group bonds is explained in note 29.2 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) An amount of €319 million was early redeemed in 2012.

(3) Under the relevant indenture, certain limitations exist including, on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

(4) The principal value of the loans/bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(5) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

(6) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.

(7) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.

(8) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the 2032 public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 30 basis points, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

(9) ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

(10) Financial covenants relate to the Sappi Limited Group.

(11) The financial covenant relates to the financial position of Sappi Southern Africa (Pty) Limited, a wholly-owned subsidiary of Sappi Limited.

(12) This amount includes debt of US$700 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.2.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During fiscal 2012 and 2011, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

20. Interest-bearing borrowings (Continued)

Borrowing facilities secured by trade receivables

On 25 August 2011, Sappi entered into a three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million.

The proceeds from the programme were used to refinance the group's short-term securitisation programme with Galleon Capital LLC that was due to mature in December 2011.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Sappi Fine Paper Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi Fine Paper North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Ltd (Elektra), an Irish bankruptcy remote entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2012, a reserve, that is reset on a monthly basis, amounting to 22.3% as well as a letter of credit covering the credit risk up to the maximum facility was required.

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin of 1.75% in addition to a commitment fee of 0.90% computed on the difference between €330 million and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for de-recognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a result, the trade receivables sold under the programme are accounted for as on-balance sheet with a corresponding liability (external loan) being recognised. The corresponding interest is recorded within finance costs.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 16 and 24.

Unutilised facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash

20. Interest-bearing borrowings (Continued)

balances included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2012	2011
		US$ million		
Unutilised committed facilities				
Syndicated loan/revolving credit facility[(1)]	EUR	Variable (EURIBOR)	**450**	335
Various Southern African facilities	ZAR	Variable (JIBAR)	**61**	62
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**45**	74
			556	471
Unutilised uncommitted facilities				
Southern Africa	ZAR	Variable (JIBAR)	**43**	43
Cash management overdraft facility	EUR	Variable (EURIBOR)	**23**	24
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**39**	40
			105	107
Total unutilised facilities (committed and uncommitted) excluding cash			**661**	578

(1) Syndicated loan with a consortium of banks with J.P. Morgan Europe Limited as facility agent with a revolving facility available of €350 million (2011: €250 million), which is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2014, 2017, 2018, 2019 and 2021. The facility matures in April 2016. The group has paid a total commitment fee of US$4 million (2011: US$7 million) in respect of the syndicated loan facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 29.

21. Other non-current liabilities

	2012	2011
	US$ million	
Defined benefit pension plan liabilities (refer to note 27)	**344**	311
Other defined benefit plan liabilities (refer to note 27)	**185**	175
Long-term employee benefits (refer to note 27)	**3**	4
Workmen's compensation (refer to note 27)	**14**	11
Long service awards	**23**	22
Land restoration provision	**20**	21
Restructuring provisions (refer to note 22)	**10**	—
Deferred income	**3**	3
Other	**3**	6
	605	553

22. Provisions

	2012	2011
	US$ million	
Restructuring provisions	**27**	105
Long-term	**10**	—
Short-term	**17**	105
Other provisions	**—**	2
Balance at September	**27**	107

Details of restructuring provisions are provided below:

Restructuring provisions	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	Total
Balance at September 2010	9	2	18	**29**
Increase in provisions[1]	76	22	40	**138**
Utilised	(17)	—	(37)	**(54)**
Released during the year	—	—	(1)	**(1)**
Translation effect	(5)	(1)	(1)	**(7)**
Balance at September 2011	63	23	19	**105**
Increase in provisions	17	—	—	**17**
Utilised	(41)	(16)	(12)	**(69)**
Released during the year	(10)	(5)	(6)	**(21)**
Other movements	(2)	(1)	—	**(3)**
Translation effect	—	(1)	(1)	**(2)**
Balance at September 2012	27	—	—	**27**

[1] Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant restructuring charges being recorded in fiscal 2011.

September 2012 restructuring provisions

Sappi Fine Paper Europe

In June 2012, Sappi announced that, as a potential measure to further reduce fixed costs, it envisaged the transfer and outsourcing of certain central functions from various European locations to Cracow, Poland. It was expected that approximately 60 positions would be affected by March 2013 resulting in a restructuring charge of US$6 million being raised during the year. By year-end, five employees had already been affected and the provision largely unutilised.

September 2011 restructuring provisions

Sappi Fine Paper Europe

Biberist Mill. In August 2011, Sappi ceased operations at Biberist Mill in Switzerland. A total of 550 employee positions were affected by the closure and a restructuring charge related to severance, retrenchment and other related closure costs of US$70 million was raised during the year. The legal entity, Sappi Schweiz AG, together with its associated assets and liabilities was sold during fiscal 2012. A restructuring charge of US$7 million remained unutilised at the end of fiscal 2012 and is only expected to be utilised from fiscal 2014.

Sappi Fine Paper Europe: Central Services. As a result of the Biberist Mill closure, approximately 100 employees were expected to be made redundant across Europe. By the end of

22. Provisions (Continued)

fiscal 2012, 95 employees were made redundant and the restructuring charge of US$6 million that was raised in the last quarter of fiscal 2011 had been utilised.

A fixed cost optimisation programme commenced in the last fiscal quarter of 2011 affecting approximately 330 positions across Europe. Of this, 205 employees were affected by the end of fiscal 2012 with approximately 75 employees still expected to be affected. Of the restructuring charge of US$14 million that was raised in fiscal 2011, approximately US$10 million was unutilised at the end of fiscal 2012 and is expected to be utilised by fiscal 2021. As a result, US$3 million has been reclassified as long-term.

Sappi Southern Africa

Adamas Mill. During the fiscal year ended September 2011, Sappi Southern Africa announced the decision to permanently close the Adamas Mill and integrate the mill's products into the production lines at Stanger Mill and Enstra Mill. A total of 215 employees were affected by the closure of Adamas Mill. The mill was a producer of uncoated woodfree specialities paper. A provision of approximately US$7 million relating to restructuring charges and scrapping of spares was raised and utilised during that year.

Sappi Paper and Paper Packaging Operations. Our review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. As a result of the curtailment, a restructuring charge of US$29 million was raised and approximately 560 employees were expected to be affected. By the end of fiscal 2012, 325 employees had been impacted and the remaining provision of US$6 million was released to profit or loss.

Usutu Mill. At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. In fiscal 2011, an additional restructuring charge of US$3 million was incurred against the spares related to the mill.

Sappi Southern Africa: Central Services. During the fiscal year ended September 2011, Sappi announced the decision to restructure the support function which included Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees were expected to be affected by this restructure and a restructuring provision of US$5 million was raised. By the end of fiscal 2012, 91 employees were affected and the remaining provision of US$2 million was released to profit or loss.

23. Notes to the group statements of cash flows

23.1 Cash generated from operations

	2012	2011	2010
	US$ million		
Profit (loss) for the year	**104**	(232)	66
Adjustment for:			
—Depreciation	**367**	414	411
—Fellings	**73**	82	71
—Amortisation	**2**	3	2
—Taxation charge	**34**	11	20
—Net finance costs	**283**	307	255
—Impairments (reversals) of assets and investments	**10**	167	(20)
—Restructuring provisions and closure costs (reversed) raised	**(2)**	135	46
—Fair value adjustment gains and growth on plantations	**(68)**	(65)	(98)
—Post-employment benefits funding	**(62)**	(70)	(73)
—Profit on disposal of investment	**(11)**	—	—
—Profit on disposal of non-current assets	**(52)**	(1)	(5)
—Broad-based Black Economic Empowerment transaction charge	**3**	5	23
—Other non-cash items	**47**	42	39
	728	798	737

23.2 Increase in working capital

	2012	2011	2010
	US$ million		
Decrease (increase) in inventories	**1**	62	(72)
Decrease (increase) in receivables	**35**	66	(74)
(Decrease) increase in payables	**(138)**	(226)	141
	(102)	(98)	(5)

23.3 Finance costs paid

	2012	2011	2010
	US$ million		
Interest and other finance costs on liabilities carried at amortised cost	**(311)**	(348)	(309)
Net foreign exchange gains	**5**	13	17
Net fair value gains on financial instruments	**5**	16	21
Premium and costs on early redemption of redeemable bonds and other loans	**46**	43	—
Non-cash movements included in items above	**49**	10	65
	(206)	(266)	(206)

23. Notes to the group statements of cash flows (Continued)

23.4 Taxation paid

	2012	2011	2010
	US$ million		
Amounts unpaid at beginning of year	**(13)**	(35)	(54)
Translation effects	**1**	(2)	4
Taxation (charge) benefit to profit or loss	**(28)**	(14)	6
Net amounts unpaid at end of year	**20**	13	35
Cash amounts paid	**(20)**	(38)	(9)

23.5 Investments to maintain operations

	2012	2011	2010
	US$ million		
Property, plant and equipment	**(177)**	(213)	(173)

23.6 Proceeds on disposal of non-current assets

	2012	2011	2010
	US$ million		
Book value of non-current assets disposed of	**93**	5	16
Profit on disposal	**52**	1	5
Realisation of foreign currency translation reserves related to assets sold	**(32)**	—	—
Other sundry receivables	**(42)**	—	—
	71	6	21

23.7 Cash and cash equivalents

	2012	2011	2010
	US$ million		
Cash and deposits on call	**593**	595	791
Money market instruments	**52**	44	1
	645	639	792

24. Encumbered assets

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

	2012	2011
	US$ million	
Land and buildings	**261**	278
Plant and equipment	**1,327**	1,164
Inventory	**174**	178
Trade receivables	**490**	491
	2,252	2,111

24. Encumbered assets (Continued)

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered assets relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 20):
  - €31 million due in 2014;
  - US$400 million due in 2017;
  - €250 million due in 2018;
  - US$300 million due in 2019; and
  - US$350 million due in 2021.
- The committed revolving credit facility of €350 million that was undrawn at year-end (refer to note 20).
- The securitisation facility with UniCredit Bank of €360 million with a current balance of €293 million (refer to notes 16 and 20).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

25. Commitments

	2012	2011
	US$ million	
Capital commitments		
Contracted but not provided	**267**	61
Approved but not contracted	**244**	416
	511	477
Future forecasted cash flows of capital commitments at September:		
2011		
2012		365
2013	**458**	75
2014 (2011: thereafter)	**40**	37
Thereafter	**13**	
	511	477

Capital commitments largely relate to the dissolving wood pulp conversion projects in Sappi Southern Africa and Sappi Fine Paper North America as well as a conversion project to increase the production of speciality paper in Sappi Fine Paper Europe. These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

25. Commitments (Continued)

Lease commitments

	2012	2011
	US$ million	
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2012		29
2013	**27**	17
2014	**17**	12
2015	**12**	8
2016	**7**	3
2017 (2011: thereafter)	**5**	36
Thereafter	**36**	
	104	105

Further information on capital commitments relating to environmental matters can be found in note 32.

26. Contingent liabilities

	2012	2011
	US$ million	
Guarantees and suretyships	**31**	33
Other contingent liabilities	**10**	15

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivables.

Other contingent liabilities mainly relate to taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. We understand that the investigation is at an early stage.

27. Post-employment benefits—pensions and other benefits

Summary of results

	All plans 2013	Defined contribution plans 2012	Defined contribution plans 2011	Defined benefit pension plans 2012	Defined benefit pension plans 2011	Other defined benefit plans 2012	Other defined benefit plans 2011
		US$ million					
Post-retirement plan costs recognised in income statements		**35**	46	**24**	14	**13**	14
Employer contributions paid over the fiscal year		**36**	47	**48**	58	**10**	11
Expected employer contributions to be paid over next fiscal year							
—Defined contribution plans	**34**						
—Defined benefit pension plans	**63**						
—Other defined benefit plans	**12**						
Pension/other benefit plan liabilities are presented on the balance sheets as follows:							
Net pension/other benefit liabilities (refer to note 21)				**344**	311	**185**	175
Net pension assets[1] (refer to note 14)				**(26)**	(43)	**—**	—
Accrued contributions/obligations (included in other payables)		**2**	3	**—**	—	**7**	7
Net balance sheet liabilities		**2**	3	**318**	268	**192**	182

[1] Consists of two defined benefit plans in Southern Africa and one in Europe where the assets exceed accumulated liabilities.

	Defined benefit pension plans 2012	Defined benefit pension plans 2011	Other defined benefit plans 2012	Other defined benefit plans 2011
Development in the balance sheets for the pension/other benefit plans				
Net pension/other benefit liabilities at beginning of year	**(268)**	(261)	**(182)**	(185)
Net pension/other benefit costs for the year	**(24)**	(14)	**(13)**	(14)
Employer contributions	**48**	58	**10**	11
Net actuarial losses for the year to other comprehensive income (OCI)	**(79)**	(50)	**(9)**	(9)
Translation differences	**5**	(1)	**2**	15
Net pension/other benefit liabilities at end of year	**(318)**	(268)	**(192)**	(182)

The rest of this note sets out the summary of results above in more detail.

Detailed results

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US$35 million (2011: US$46 million, 2010: US$42 million) represents contributions payable to these plans by the group based on rates

27. Post-employment benefits—pensions and other benefits (Continued)

specified in the rules of these plans. As at September 2012, US$2 million (2011: US$3 million, 2010: US$4 million) was due in respect of the current reporting period that had not yet been paid over to the plans.

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new hires except for the following: plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Benefits are formula-driven, based upon varying definitions of compensation (such as average salary near retirement or career average revalued earnings) and years of service. Exceptions to these are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '$ multiplier'. The $ multiplier is a formula that is based on a nominal US Dollar value which historically, has increased from time to time.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries.

As of September 2012, the total number of active members in our defined benefit pension plans is approximately 6,100.

Post-employment benefits other than pensions ('other defined benefit' plans)

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Other employee benefits

Group companies have no other significant post-employment defined benefit obligations except for the following:

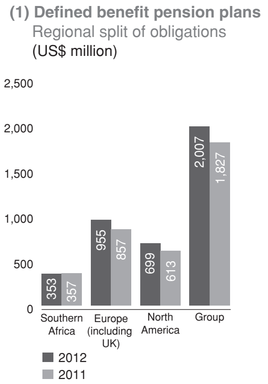
- Jubilee (long service award plans per note 21) in continental Europe of US$23 million and an early retirement benefit plan in Belgium of US$6 million (of which US$3 million is long-term per note 21).
- 'ATZ' (early retirement) benefit obligations in Germany and Austria totalling US$9 million (within 'other payables').
- Workmen's compensation benefit obligations in North America totalling US$18 million (of which US$14 million is long-term per note 21).

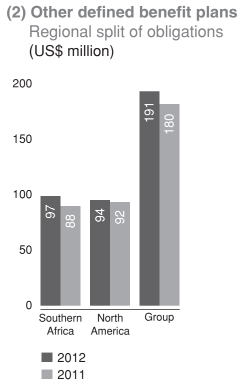
Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where an actuarial review is performed annually with an actuarial valuation being performed on a tri-annual basis.

27. Post-employment benefits—pensions and other benefits (Continued)

All post-employment obligations were measured at the end of the financial year.

	2012		2011	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	US$ million			
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of years	**1,827**	**180**	2,069	182
Current service costs	**23**	**3**	29	4
Past service costs (credits)	**1**	**—**	(4)	—
Interest costs	**100**	**11**	105	11
Plan participants' contributions	**3**	**—**	7	—
Actuarial (gains) losses experience	**(2)**	**(5)**	(4)	5
Actuarial losses assumptions	**221**	**14**	23	4
Curtailments and settlements	**—**	**—**	(233)	—
Benefits paid	**(137)**	**(10)**	(123)	(11)
Translation differences	**(29)**	**(2)**	(42)	(15)
Defined benefit obligations at end of years	**2,007**(1)	**191**(2)	1,827(1)	180(2)
Present value of wholly unfunded obligations	**145**	**191**	134	180
Present value of wholly and partly funded obligations	**1,862**	**—**	1,693	—



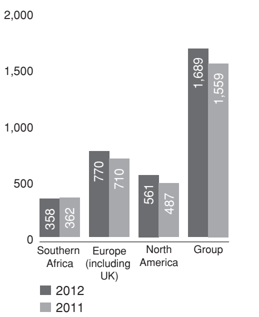


27. Post-employment benefits—pensions and other benefits (Continued)

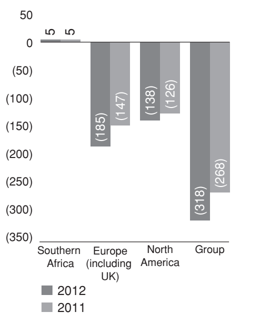
	2012		2011	
	Defined benefit pension plans	**Other defined benefit plans**	**Defined benefit pension plans**	**Other defined benefit plans**
	US$ million			
Change in fair value of plan assets				
Fair value of plan assets at beginning of years	**1,559**	**—**	1,808	—
Expected returns on plan assets*	**100**	**—**	111	—
Actuarial gains (losses) on plan assets	**140**	**—**	(31)	—
Employer contributions	**48**	**10**	58	11
Plan participants' contributions	**3**	**—**	7	—
Benefits paid	**(137)**	**(10)**	(123)	(11)
Curtailments and settlements	**—**	**—**	(228)	—
Translation differences	**(24)**	**—**	(43)	—
Fair value of plan assets at end of years	**1,689(1)**	**—**	1,559(1)	—
Deficits	**(318)**	**(191)**	(268)	(180)
Unrecognised past service credits	**—**	**(1)**	—	(2)
Recognised pension/other benefit plan liabilities	**(318)(2)**	**(192)(3)**	(268)(2)	(182)(3)

* Net of administration costs.

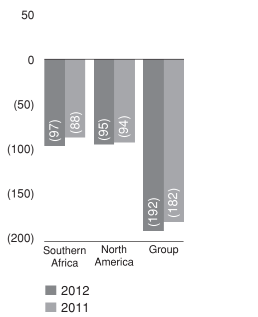
(1) Defined benefit pension plans
Regional split of assets
(US$ million)



(2) Defined benefit pension plans
Regional split of recognised liabilities
(US$ million)



(3) Other defined benefit plans
Regional split of recognised liabilities
(US$ million)

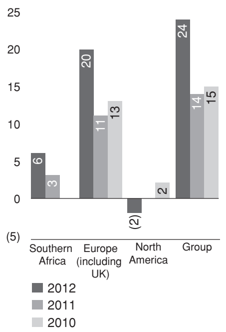


27. Post-employment benefits—pensions and other benefits (Continued)

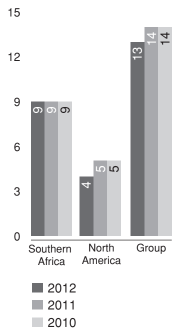
	2012		2011		2010	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	US$ million					
Pension/other benefit costs recognised in income statements						
Current service costs	**23**	**3**	29	4	27	4
Past service costs (credits)	**1**	**—**	(4)	—	1	—
Interest costs	**100**	**11**	105	11	107	11
Expected returns on plan assets*	**(100)**	**—**	(111)	—	(114)	—
Amortisation of past service credits	**—**	**(1)**	—	(1)	(6)	(1)
Gains on curtailments and settlements	**—**	**—**	(5)	—	—	—
Net periodic pension/other benefit costs charged to cost of sales and selling, general and administrative expenses	**24(1)**	**13(2)**	14(1)	14(2)	15(1)	14(2)
Actual returns on plan assets	**240**	**—**	80	—		
Actual returns on plan assets (%)	**15.4%(3)**	**—**	4.4%(3)	—		
Amounts recognised in the statements of other comprehensive income						
Net actuarial losses for the period	**(79)(4)**	**(9)(4)**	(50)(4)	(9)(4)		
Cumulative actuarial losses recognised in the statements of other comprehensive income						
Net actuarial losses	**(536)**	**(70)**	(457)	(61)		

* Net of administration costs

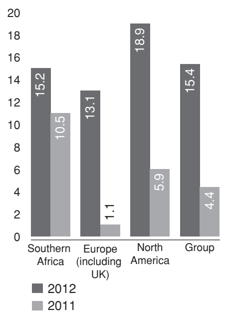
(1) Defined benefit pension plans
Regional split of pension costs
(US$ million)



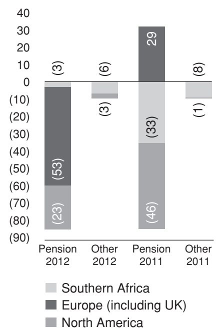
(2) Other defined benefit plans
Regional split of benefit costs
(US$ million)



(3) Defined benefit pension plans
Regional average asset investment returns
(%)



(4) Regional gains (losses) to other comprehensive income
(US$ million)



Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries.

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Peer data and historical returns are reviewed for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

27. Post-employment benefits—pensions and other benefits (Continued)

	2012			2011		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet dates						
Discount rates (pensions) (%)	**8.27**	**3.90**	**3.60**	8.75	5.02	4.50
Compensation increases (%)*	**6.69**	**1.73**	**—**	6.75	2.00	3.50
Expected long-term returns on assets (%)	**9.36**	**4.40**	**7.25**	9.65	4.43	7.25
Discount rates (other benefits) (%)	**8.00**	**—**	**3.30**	9.00	—	4.10
Initial healthcare costs trend rates (%)	**6.75**	**—**	**7.00**	7.25	—	7.00
...which gradually reduce to an ultimate rate of (%)	**6.75**	**—**	**5.00**	7.25	—	5.00
...over a period of (years)	**—**	**—**	**9**	—	—	6

	2012			2011		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	**8.75**	**5.02**	**4.50**	8.25	4.05	4.90
Compensation increases (%)*	**6.75**	**2.00**	**3.50**	6.20	2.40	3.50
Expected long-term return on assets (%)	**9.65**	**4.43**	**7.25**	9.15	4.20	8.00
Discount rates (other benefits) (%)	**9.00**	**—**	**4.10**	8.25	—	4.40
Initial healthcare costs trend rates (%)	**7.25**	**—**	**7.00**	6.50	—	7.00
...which gradually reduce to an ultimate rate of (%)	**7.25**	**—**	**5.00**	6.50	—	5.00
...over a period of (years)	**—**	**—**	**6**	—	—	7

* Weighted average compensation increases of plans that use a compensation assumption. The North American salaried plan is closed to future accrual.

Demographic assumptions (the expected change in membership) are derived by using established methods recommended by actuaries and make reference to historic and probable future changes in membership. Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy by future retirees.

Illustrating life expectancy

The table below shows sample life expectancy for a male aged 60 at fiscal year-end, and life expectancy for a male aged 60 in 20 years' time, taken from mortality tables used in determining regional plan obligations.

	2012		
	Southern Africa	Europe (incl UK)**	North America
Life expectancy of male aged 60 at fiscal 2012	**18.6**	**24.2**	**23.3**
Life expectancy of male aged 60 at fiscal 2031	**19.5**	**25.9**	**23.3**

** Weighted by defined benefit obligations of individual plans.

27. Post-employment benefits—pensions and other benefits (Continued)

Illustrating sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

	2012					
	Change in discount rate		Change in salary increase rate		Change in healthcare cost trend rate	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
	US$ million					
Defined benefit pension plans						
(Decrease) increase in obligations	**(251)**	**305**	**38**	**(33)**		
(Decrease) increase in aggregate of current service and interest costs	**(2)**	**1**				
Other defined benefit plans						
(Decrease) increase in obligations	**(20)**	**23**			**17**	**(14)**
Increase (decrease) in aggregate of current service and interest costs					**1**	**(1)**

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which include selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

	2012			2011		
	Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
	%					
Weighted average target asset allocation by region						
Equity securities and multi-asset mandates*	**40**	**37**	**56**	37	36	56
Debt securities	**46**	**55**	**44**	44	60	44
Real estate	**5**	**2**	**—**	5	2	—
Cash/liquid assets	**9**	**6**	**—**	14	2	—
Weighted average actual asset allocation by region						
Equity securities and multi-asset mandates*	**37**	**37**	**55**	34	37	51
Government debt securities	**24**	**43**	**7**	29	37	6
Debt securities	**20**	**14**	**37**	18	22	42
Real estate	**7**	**2**	**—**	5	2	—
Cash/liquid assets	**12**	**4**	**1**	14	2	1

* Includes investments that can transcend several asset classes such as equity overlays on bond strategies and funds heavily influenced by currency.

27. Post-employment benefits—pensions and other benefits (Continued)

Expected benefit payments from pension and other benefit plans are as follows:

	Defined benefit pension plans	Other defined benefit plans
	US$ million	
Payable in the year ending September:		
2013	90	12
2014	86	12
2015	88	12
2016	92	12
2017	96	13
Years 2018–2022	550	76

Summary data for current and previous four annual periods:

	2012	2011	2010	2009	2008
			US$ million		
Aggregate defined benefit obligations, fair value of assets and balance sheet liabilities					
Defined benefit pension plans					
Defined benefit obligations	**2,007**	1,827	2,069	1,945	1,414
Fair value of assets	**1,689**	1,559	1,808	1,695	1,387
Deficit	**(318)**	(268)	(261)	(250)	(27)
Unrecognised past service credit	**—**	—	—	(6)	—
Net balance sheet liability	**(318)**	(268)	(261)	(256)	(27)
Other defined benefit plans					
Defined benefit obligations	**(191)**	(180)	(182)	(175)	(143)
Unrecognised past service credit	**(1)**	(2)	(3)	(4)	(5)
Net balance sheet liability	**(192)**	(182)	(185)	(179)	(148)
Reconciliation of (losses) gains recognised in other comprehensive income					
Defined benefit pension plans					
Plan liabilities (losses) gains	**(219)**	(19)	(143)	(254)	173
Plan assets gains (losses)	**140**	(31)	70	47	(189)
Net actuarial losses	**(79)**	(50)	(73)	(207)	(16)
Other defined benefit plans					
Plan liabilities (losses) gains	**(9)**	(9)	2	(22)	23
Actuarial (losses) gains recognised in other comprehensive income	**(88)**	(59)	(71)	(229)	7

28. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under the Sappi Limited Share Incentive Trust ('Scheme') and The Sappi Limited Performance Share Incentive Trust ('Plan') at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust ('Scheme')

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares ('Share options') and (b) may be offered the opportunity to acquire ordinary shares ('Scheme shares').

28. Share-based payments (Continued)

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option.
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price. The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant Share options or Scheme shares, as the case may be.

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, *inter alia,* undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust ('Plan')

Under the rules of the Plan, participants who are officers and other employees of the company, may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date, for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, then the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date, for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia,* undertakes:

- a rights offer; or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

(a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or

(b) the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obligated to notify every participant thereof on the basis that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

28. Share-based payments (Continued)

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

Number of shares	2012 Total	2011 Total
Allocations		
During the year, the following offers were made to employees:		
Share options	**3,326,815**	2,818,000
Performance shares	**2,145,000**	1,567,400
Share options and conditional share awards declined	**(74,300)**	(41,900)
	5,397,515	4,343,500

Scheme shares, Share options, Performance shares and Allocation shares activities were as follows during the financial years ended September 2012 and 2011:

	Scheme shares[1]	Share options[2]	Performance shares[3][4]	Weighted average exercise price (ZAR)[5]	Allocation shares[2]	Weighted average exercise price (ZAR)[5]	Total shares
Outstanding at September 2010	2,860,372	10,158,760	9,312,840	27.91	1,039,150	56.15	**23,371,122**
—Offered and accepted	—	2,776,100	1,567,400	22.50	—	—	**4,343,500**
—Paid for/released	(855,191)	(32,312)	(1,566,186)	22.17	—	—	**(2,453,689)**
—Returned, lapsed and forfeited	—	(1,379,508)	(1,933,154)	28.36	(606,650)	62.43	**(3,919,312)**
Outstanding at September 2011	2,005,181	11,523,040	7,380,900	27.28	432,500	47.34	**21,341,621**
—Offered and accepted	—	3,252,515	2,145,000	13.80	—	—	**5,397,515**
—Paid for/released	(415,530)	—	(740,357)	23.19	—	—	**(1,155,887)**
—Returned, lapsed and forfeited	—	(1,883,740)	(847,343)	32.65	(432,500)	47.34	**(3,163,583)**
Outstanding at September 2012	**1,589,651**	**12,891,815**	**7,938,200**	**23.59**	**—**	**—**	**22,419,666**
Exercisable at September 2010	202,040	5,184,568	—	49.33	1,039,150	56.15	**6,425,758**
Exercisable at September 2011	35,860	5,565,298	—	44.70	432,500	47.34	**6,033,658**
Exercisable at September 2012	—	6,326,377	—	42.06	—	—	**6,326,377**

(1) The number of Scheme shares, which are not subject to credit sales amounts to 1,589,651 (2011: 1,969,321), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(2) Issued in terms of the Scheme.

(3) Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(4) Issued in terms of the Plan.

(5) The share options are issued in South African Rands.

28. Share-based payments (Continued)

The fair value of Scheme shares held at September 2012 was US$4.5 million (2011: US$5.9 million).

The following table sets out the number of share options and performance shares outstanding at the end of September, excluding the Scheme shares:

	2012	2011	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
30 December 2003[(i)]		238,150	Time	[(ii)]	30 December 2011	47.08
14 January 2004[(i)]		1,106,640	Time	[(ii)]	14 January 2012	47.08
25 March 2004[(i)]		2,200	Time	[(ii)]	25 March 2012	50.42
13 December 2004[(i)]	**1,609,120**	1,800,080	Time	[(ii)]	13 December 2012	46.51
12 December 2007[(i)]	**952,300**	1,055,260	Time	[(ii)]	12 December 2015	52.57
19 March 2008[(i)]	**495,660**	518,760	Time	[(ii)]	19 March 2016	55.97
22 December 2008	**1,711,450**	1,846,640	Time	[(ii)]	22 December 2016	35.50
09 December 2009	**2,397,570**	2,631,810	Time	[(ii)]	09 December 2017	33.85
03 December 2010	**2,589,600**	2,756,000	Time	[(ii)]	03 December 2018	35.20
02 December 2011	**3,136,115**		Time	[(ii)]	02 December 2019	22.90
Performance shares:						
12 December 2007[(i)]		1,124,200	Performance	12 December 2011	N/A	N/A
19 March 2008[(i)]		451,000	Performance	19 March 2012	N/A	N/A
22 December 2008	**1,782,000**	1,782,000	Performance	22 December 2012	N/A	N/A
09 December 2009	**2,496,300**	2,496,300	Performance	09 December 2013	N/A	N/A
03 December 2010	**1,514,900**	1,527,400	Performance	03 December 2014	N/A	N/A
02 December 2011	**2,145,000**		Performance	02 December 2015	N/A	N/A
	20,830,015	19,336,440				

(i) During the 2009 year, there was a rights issue of 6 shares for every 5 shares held at ZAR20.27 per share. According to the rules of the Scheme, this was also offered to participants. Not all the participants took up their rights.

(ii) These vest over four or five years depending on the date of allocation.

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 37	Issue 37	Issue 37
Date of grant	02 December 2011	02 December 2011	02 December 2011
Type of award	Normal option	Performance	Performance
Share price at grant date	ZAR23.09	ZAR23.09	ZAR23.09
Strike price of share	ZAR22.90	—	—
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related—relative to peers	Cash flow return on net assets relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	32.0%	100%
Number of shares offered	3,326,815	1,072,500	1,072,500
Volatility	41.6%	55.0%	N/A
Risk free discount rate	5.6%	0.9% (US yield)	N/A
Expected dividend yield	2.7%	2.1%	2.1%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR8.75	ZAR13.29	ZAR17.32

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

28. Share-based payments (Continued)

Share options and Performance shares to executive directors that are included in the above figures, are as follows:

	2012 Number of options/ shares	2011 Number of options/ shares
At beginning of year	**1,117,200**	1,087,200
Granted during the year	**270,000**	283,000
Exercised or declined during the year	**(99,000)**	(110,000)
Forfeited upon resignation or retirement	**(138,600)**	(143,000)
At end of year	**1,149,600**	1,117,200

The following table sets forth certain information with respect to the 1,149,600 Share options and Performance shares granted by Sappi to executive directors:

Issue date	Number of options/shares(1)	Expiry date	Exercise price (ZAR)(1)
13 December 2004	39,600	13 December 2012	46.51
22 December 2008(2)	242,000	22 December 2012	—
09 December 2009(2)	315,000	09 December 2013	—
03 December 2010(2)	283,000	03 December 2014	—
02 December 2011(2)	270,000	02 December 2015	—
	1,149,600		

(1) Adjusted for the Share options and Performance shares granted as a result of the rights issue.

(2) Performance shares.

Refer to note 35 for more information on directors' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

In June 2010, Sappi completed a Black Economic Empowerment ('BEE') transaction (the 'BEE transaction') that enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans ('HDSAs') in the South African economy and, through BEE legislation, formalised the country's approach in this regard. Sappi views BEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BEE transaction (the 'Plantation BEE Transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BEE Transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE ('Broad-based Black Economic Empowerment') in the forestry industry and includes the BBBEE 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 BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BEE Transaction and to implement the BEE transaction, a new sustainable transaction of equivalent value using its listed securities.

28. Share-based payments (Continued)

The BEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

- Sappi's South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note); and
- Communities surrounding the South African mill operations and plantations (10%).

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE Transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price ('VWAP') of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE Trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE Trusts. The BEE transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE Transaction are as follows:

Entity	Ordinary share allocation
Strategic Partners:	
Lereko Investments (Pty) Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	**4,328,353**

The number of 'A' ordinary shares allocated to the BEE Trusts are as follows:

Entity	'A' Ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	**19,961,476**

28. Share-based payments (Continued)

The group recognised a share-based payment expense of US$3 million (2011: US$5 million) in fiscal 2012 that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:	
Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.8%
Management turnover (annual)	6.5%
Model used to value	Black Scholes Model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the MSOP and ESOP is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0–35	—	—
36–48	40	40
49–60	10	50
61–72	10	60
73–84	10	70
85–96	10	80
97–108	10	90
109–Termination date	10	100

Refer to note 17 for further details regarding the 'A' ordinary shares.

29. Financial instruments

29.1 Derivative financial instruments

Hedging instrument	Hedged item	2012	2011
		US$ million	
Non-current assets			
Interest rate currency swap	Secured notes due August 2014 (repaid 2012)	**—**	21
Fair value hedge	Secured notes due April 2021	**22**	19
Forward exchange contracts	Property, plant and equipment	**—**	1
		22	41
Current assets			
Forward exchange contracts	Property, plant and equipment	**—**	3
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	**21**	—
Interest rate currency swap	Secured notes due June 2019	**22**	—
Interest rate swap	Unsecured ZAR750 million bond due April 2015	**3**	—
		46	—
Current liabilities			
Forward exchange contracts	Various	**1**	10

29. Financial instruments (Continued)

Refer below for a more detailed description of our financial instruments.

29.2 Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The principal risks to which Sappi is exposed through financial instruments are:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
   - interest rate risk
   - currency risk
   - commodity price risk

b) liquidity risk

c) credit risk

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

Sappi's Group Treasury is comprised of two components: Sappi International, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk (in so far as it relates to trade receivables) is primarily managed regionally but is co-ordinated on a group basis, whilst commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

29. Financial instruments (Continued)

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2012 and thereafter are based on the yield curves for each respective currency as published by Bloomberg (effective 30 September 2012). The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
	2013	2014	2015	2016	2017	2018+	Total carrying value	2012 fair value	2011 carrying value	2011 fair value
	US$ equivalent in millions									
US Dollar										
Fixed rate debt[1]	—	—	—	—	391	509	900	**1,057**	503	541
Average interest rate (%)	—	—	—	—	7.94	8.19	8.08		10.45	
Variable rate debt[2]	—	138	—	—	—	366	504	**554**	472	476
Average interest rate (%)	—	2.24	—	—	—	6.93	5.65		6.71	
Euro										
Fixed rate debt	1	44	—	—	—	318	363	**417**	779	888
Average interest rate (%)	3.97	11.02	2.17	1.93	1.76	6.72	7.20		10.03	
Variable rate debt[3]	83	238	23	23	126	—	493	**493**	511	511
Average interest rate (%)	2.35	2.49	5.50	5.50	5.63	—	3.55		3.24	
Rand										
Fixed rate debt[4]	177	26	96	60	—	—	359	**381**	473	507
Average interest rate (%)	9.79	11.02	8.04	9.63	—	—	9.39		10.41	
Total										
Fixed rate debt	178	70	96	60	391	827	1,622	**1,855**	1,755	1,936
Average interest rate (%)	9.73	11.02	8.02	9.59	7.93	7.63	8.17		10.25	
Variable rate debt	83	376	23	23	126	366	997	**1,047**	983	987
Average interest rate (%)	2.35	2.40	5.50	5.50	5.63	6.93	4.61		4.90	
Fixed and variable	**261**	**446**	**119**	**83**	**517**	**1,193**	**2,619**	**2,902**	**2,738**	**2,923**
Current portion							261	**275**	449	463
Long-term portion							2,358	**2,627**	2,289	2,460
Total interest-bearing borrowings (refer to note 20)							2,619	**2,902**	2,738	2,923

(1) US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(4) ZAR floating rates of ZAR750 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

The fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

29. Financial instruments (Continued)

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 2.24% and 11.02% (depending on currency).

At September 2012 after giving effect to interest rate swaps, 62% of Sappi's borrowings were at fixed rates of interest, and 38% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 20.

Interest rate derivatives

		2012			2011	
	Interest rate	Maturity date	Nominal value	Fair value[(1)]	Nominal value	Fair value[(1)]
				US$ million		
IRCS . . .	US Dollar 7.75% into EUR 7.56%	**July 2017**	**400**	**(21)**	—	—
IRCS . . .	US Dollar 8.375% into EUR 8.33%	**June 2019**	**300**	**(22)**	—	—
IRCS . . .	US Dollar 12.00% into EUR 12.19%	**Terminated**	**—**	**—**	300	21
IRS	US Dollar 6.625% fixed to variable (LIBOR)	**April 2016**	**350**	**22**	350	19
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	**April 2015**	**90**	**(3)**	—	—
				(24)		40

(1) This refers to the carrying value.

Sappi uses interest rate swaps ('IRS') and interest rate and currency swaps ('IRCS') as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income, depending on the hedge designation as described in a documented hedging strategy.

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US$300 million senior secured notes due 2014 was sold during 2012 resulting in a realised gain of US$2 million in the income statement and a cash inflow of US$43 million. The termination of the swap was the result of the early redemption of the underlying bond.

In July 2012, Sappi entered into new fixed for fixed IRCSs, which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million senior secured notes due 2017 and to the US$300 million senior secured notes due 2019. The swaps convert all future US$ cash flows to EUR.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects the income statement (interest expense and foreign currency revaluation).

In order to measure hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item, has been built as a perfect hedge. The changes in fair value of the actual derivatives are compared with the changes in fair value of the hypothetical derivative.

As at September 2012, the effectiveness tests for the above mentioned hedges showed a 100% hedge effectiveness. The swaps showed a total negative fair value of US$43 million. The negative

29. Financial instruments (Continued)

fair value of the currency leg of the swaps of US$21 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item. The remaining negative fair value of the interest leg of the swaps of US$22 million has been deferred in equity.

In April 2011, Sappi entered into an IRS converting the fixed rate of 6.625% on the underlying US$350 million senior secured notes due 2021 into variable rates. This hedge has been designated as a fair value hedge whereby changes in the fair value of the fixed rate debt including the principal par value as well as the first ten coupon payments (October 2011 until April 2016) resulting from fluctuations in the US LIBOR swap curve, are offset against the changes in the fair value of the hedging instrument. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

At September 2012, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US$21.9 million which has been offset by the negative fair value adjustment to the bonds of US$24.4 million, resulting in a net negative impact on the income statement of US$2.5 million.

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective.

At September 2012, the hedge was highly effective and the swap had a negative fair value of US$2.8 million which has been deferred to equity.

The fair values of the IRCS and IRS are the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the Sappi group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Please refer to the ‘Hedge accounting’ section in this note for further information.

Summary sensitivity analyses: external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US Dollar of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points (‘bps’). The sensitivity analysis of floating rate debt, is carried out separately (see below).

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million:

Scenario name	Base value	Scenario value	Change	% Change
−50 bps EURIBOR: 6-month	(1,031.8)	(1,056.8)	(25.0)	2.42
+50 bps EURIBOR: 6-month	(1,031.8)	(1,007.7)	24.1	(2.34)

Scenario name	Base value	Scenario value	Change	% Change
−50 bps USD-LIBOR: 3-month	988.3	1,012.1	23.8	2.41
+50 bps USD-LIBOR: 3-month	988.3	965.2	(23.1)	(2.34)

29. Financial instruments (Continued)

The derivatives convert fixed US Dollar interest payments of 7.75% and 8.375% into fixed Euro interest coupons as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on fair value. A decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 bps would result in an impact of approximately US$48 million.

The largest shift experienced over the last 12-month period was a negative net movement of 1.33%, due to an increase in US Dollar rates of 0.18% and a decrease in the Euro rates of 1.15%. Applied to the fair value as at the end of fiscal 2012, this would have resulted in a negative change in fair value of US$67 million.

Scenario name	Base value	Scenario value	Change	% Change
−115 bps EURIBOR: 6-month	(1,031.8)	(1,090.1)	(58.3)	5.70
+18 bps USD-LIBOR: 3-month	988.3	979.9	(8.4)	(0.85)
Total			**(66.7)**	

The above analysis measures the impact on profit or loss that a change in fair value of the interest rate derivatives would have if the specified scenarios were to occur.

IRS converting fixed US Dollar rates into variable rates:

Scenario name	Base value	Scenario value	Change	% Change
−50 bps USD-LIBOR: 3-month	(353.8)	(353.9)	(0.1)	0.03
+50 bps USD-LIBOR: 3-month	(353.8)	(353.7)	0.1	(0.03)

Scenario name	Base value	Scenario value	Change	% Change
−50 bps ST−/LT+ USD-LIBOR: 3-month	(353.8)	(353.9)	(0.1)	0.03
+50 bps ST+/LT− USD-LIBOR: 3-month	(353.8)	(353.7)	0.1	(0.03)

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material.

The above sensitivity analysis demonstrates this effect. The first scenario tests movements on the US Dollar interest rate curve in the same direction (parallel shift), whereas the second scenario tests the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

IRS converting floating ZAR rates into fixed rates:

Scenario name	Base value	Scenario value	Change	% Change
−50 bps USD-LIBOR: 3-month	(2.8)	(3.9)	(1.1)	39.29
+50 bps USD-LIBOR: 3-month	(2.8)	(1.7)	1.1	(39.29)

29. Financial instruments (Continued)

The derivative converts floating ZAR interest payments into fixed ZAR interest coupons of 7.78%. The fair value of the instrument is subject to changes in ZAR interest rates.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the JIBAR curve would have on the fair value of the instrument.

Sensitivity analysis: interest rate risk—in case of a credit rating downgrade of Sappi

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The on-balance sheet securitisation agreement (refer to note 20) stipulates that upon a downgrade of the corporate family rating of Sappi Limited below BB− by Standard & Poor's or a downgrade of the long-term issuer credit rating of Sappi Limited below Ba3 by Moody's, the transaction margin would increase by 25 basis points.

Please note that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitisation programme covering Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading

	Notional	Impact on income statement of a one notch downgrade below current credit rating
	US$ million	
Elektra Purchase N° 29 Ltd.	380	1
Impact calculated on total portfolio amounts to	0.30%	

The table below shows the sensitivity of certain fixed rate debt to changes in the group's own credit rating. The agreements of these specific external loans stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

External loan agreements sensitive to the group's own credit rating

	Notional	Impact on income statement of downgrade below BB 'secured' credit rating
	US$ million	
Commitment fee on unused revolving credit facility	450	2
Interest on utilised bank syndicated loan	175	1
Sub-total	625	3
Impact calculated on total portfolio amounts to	0.39%	

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
		US$ million		
Total debt	2,619	1,622	997	5
Ratio fixed/floating to total debt		62%	38%	

The floating rate debt represents 38% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

29. Financial instruments (Continued)

Currency risk

Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered in currencies that are readily convertible by means of formal external forward exchange contracts; and
- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

29. Financial instruments (Continued)

Currency risk analysis

In the preparation of the currency risk analysis, the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

	Total	Total in scope[1]	USD	EUR	ZAR	GBP	Other
			US$ million				
September 2012							
Financial assets							
Other non-current assets	**80**	**22**	—	10	9	—	3
Non-current derivative financial assets[2]	**22**	**22**	22	—	—	—	—
Trade and other receivables	**807**	**723**	311	301	36	41	34
Current derivative financial assets[2]	**—**	**—**	—	—	—	—	—
Cash and cash equivalents	**645**	**645**	194	300	143	—	8
		1,412	527	611	188	41	45
Financial liabilities							
Non-current interest-bearing borrowings	**2,358**	**2,358**	1,403	772	183	—	—
Non-current financial liabilities	**46**	**46**	(981)	1,024	3	—	—
Other non-current liabilities	**605**	**1**	1	—	—	—	—
Current interest-bearing borrowings	**261**	**261**	—	83	178	—	—
Overdraft	**5**	**5**	5	—	—	—	—
Current derivative financial liabilities[2]	**1**	**1**	—	(42)	64	1	(22)
Trade and other payables	**1,005**	**784**	167	364	240	—	13
		3,456	595	2,201	668	1	(9)
Foreign exchange gap		**(2,044)**	(68)	1,590	(480)	40	54
September 2011							
Financial assets							
Other non-current assets	104	25	—	12	9	—	4
Non-current derivative financial assets[2]	41	41	414	(411)	38	—	—
Trade and other receivables	831	735	284	351	21	39	40
Current derivative financial assets[2]	3	3	(2)	(52)	68	—	(11)
Cash and cash equivalents	639	639	130	225	278	1	5
		1,443	826	125	414	40	38
Financial liabilities							
Non-current interest-bearing borrowings	2,289	2,289	975	1,042	272	—	—
Other non-current liabilities	553	2	2	—	—	—	—
Current interest-bearing borrowings	449	449	—	249	200	—	—
Overdraft	1	1	—	—	—	—	1
Current derivative financial liabilities[2]	10	10	9	—	—	1	—
Trade and other payables	1,065	840	145	475	208	—	12
		3,591	1,131	1,766	680	1	13
Foreign exchange gap		(2,148)	(305)	(1,641)	(266)	39	25

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

29. Financial instruments (Continued)

The above table does not indicate the group's foreign exchange exposure, it only shows the financial instruments assets and liabilities classified per underlying currency.

The group's foreign currency forward exchange contracts at September 2012 are detailed below:

		2012		2011	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
		US$ million			
Foreign currency					
Bought:	US Dollar	**6**	**—**	4	—
	Euro	**44**	**—**	117	—
Sold:	US Dollar	**(99)**	**—**	(109)	(8)
	Euro	**(27)**	**—**	(21)	(1)
	ZAR	**(64)**	**—**	(100)	4
		(140)	**—**	(109)	(5)

The fair value of foreign currency contracts was US$Nil at the end of the 2012 financial year. This amount was computed by the group using market data on that date.

All forward currency exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the period.

Forward exchange contracts are used to hedge the group against potential unfavourable exchange rate movements that may occur on recognised financial assets and liabilities or planned future commitments.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2013.

As at the year-end, there was an open exposure of US$43 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	Exposure	+10%	−10%
	(US$ million)		
EUR	(15.3)	(1.4)	1.7
GBP	(4.5)	(0.4)	0.5
CHF	0.4	—	—
SEK	0.2	—	—
JPY	1.8	0.2	(0.2)
ZAR	(15.2)	(1.4)	1.7
Other currencies	(10.3)	(0.9)	1.1
Total	(42.9)	(3.9)	4.8

Based on the exposure as at the end of fiscal 2012, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$3.9 million or a gain of US$4.8 million respectively.

During 2012, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$215 million which were used as an overlay hedge of export sales from South Africa. Since these contracts have all matured before the end of fiscal 2012, these constitute non-representative positions. The total impact on profit or loss was a gain of US$6.2 million.

29. Financial instruments (Continued)

Hedge accounting

1. Fair value hedges

In June 2009, a partial-term fair value hedging instrument that hedged the unsecured notes due 2012 and unsecured notes due 2032 was sold. The gain on the hedging instrument was capitalised to the bonds and, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement,* was amortised over the shorter of the expected life of the bonds or the hedging instrument. The unsecured notes due 2012 were redeemed in fiscal 2011 which resulted in the related unamortised gain related to those notes being released to profit or loss. In fiscal 2012, the remaining unamortised gain of US$3 million was released to profit or loss as the original term of the hedging instrument had expired.

In April 2011, Sappi Papier Holding issued US$350 million senior secured notes due 2021. The fixed rates of the bonds were swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will at maturity revert to the nominal amount of the bonds. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2.1 million reflects the pricing of the swap and the difference between the mid-market curve that was used to mark-to-market, and the effective market curve at which the swaps were contracted.

Sappi uses the REVALHedgeRx module ('REVAL'), a web-based application that provides treasury and risk management solutions. The application is supplied by Reval.Com, Inc., a financial technology company based in New York and is used to assess both the prospective and the retrospective effectiveness of a fair value hedge relationship.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

The number of data points used to measure the effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, REVAL will update the regression by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (ie actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

The above swap was highly effective in a retrospective hedge effectiveness test.

29. Financial instruments (Continued)

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

The following is an analysis of the impact on pre-tax profit or loss for the period based on the consolidated accounts translated at average rates:

	2012	2011
	At average rate favourable (unfavourable)	At average rate favourable (unfavourable)
	US$ million	
Fair value hedges		
Realised result on termination of interest rate swaps	—	1
Amortisation of de-designated hedges	3	18
Residual ineffectiveness	—	(3)
—gain on hedging instruments	3	19
—loss on hedged item	(3)	(22)
Total	3	16

2. Cash flow hedges

Interest and currency swaps

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US$300 million senior secured notes due 2014 was sold during 2012 resulting in a realised gain of US$2 million in the income statement and a cash inflow of US$43 million. The termination of the swap was the result of the early redemption of the underlying 2014 bond.

In July 2012, Sappi entered into new fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency.

The swaps correspond to the underlying US$400 million senior secured notes due 2017 and to the US$300 million senior secured notes due 2019. The swaps convert all future US Dollar cash flows to Euro.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense and foreign currency revaluation).

Sappi uses REVAL to assess the fair value of the IRCS and to measure the effectiveness of the cash flow hedge relationship.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the

29. Financial instruments (Continued)

notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The counterparties of the hedging instruments are tested for creditworthiness on a quarterly basis. If the credit risk of a given counterparty would fall under the minimum required rating, any positive fair value of the hedging instrument would be adjusted to cater for the additional credit risk. This would not affect the hypothetical derivative.

	2012			2011	
	Hedged notional	Interest result deferred in other comprehensive income	Interest result reclassified to profit or loss	Hedged notional	Interest result deferred in other comprehensive income
			US$ million		
Senior secured notes 2014 (terminated)	**300**	**—**	**2**	300	3
Senior secured notes 2017–2019	**700**	**(22)**	**—**	—	—

Interest rate swaps floating to fixed

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap.

The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective. The accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense).

Sappi uses REVAL to assess the fair value of the IRS and to measure the effectiveness of the cash flow hedge relationship.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%.

At September 2012, the hedge was highly effective and the swap had a negative fair value of US$2.5 million which was deferred to equity.

Ngodwana Mill expansion—acquisition of property, plant and equipment in foreign currency

Sappi started the expansion of its Ngodwana Mill in fiscal 2011 to increase its capacity to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

29. Financial instruments (Continued)

The cash flows related to the expansion of Ngodwana began in September 2011 and are estimated to keep occurring until September 2013.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through other comprehensive income. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

The total net gain recognised in equity through other comprehensive income as per fiscal 2012 amounts to US$0.5 million. This is only made up of an unrealised gain resulting from forward exchange contracts yet to mature. During fiscal 2012, a realised gain of US$2.8 million relating to matured forward exchange contracts was transferred from equity to fixed assets.

Saiccor Mill export sales

Sappi is exposed to the economic USD foreign exchange risk related to export sales, primarily at its Saiccor Mill. Although the invoices are denominated in ZAR, the ZAR value is linked to the USD rate at the moment the sales are invoiced to the customer by Sappi Trading.

In April 2012, Sappi entered into a cash flow hedge with the objective to eliminate the economic foreign exchange exposure linked to a portion of South African export sales from the order date until the invoicing date by hedging this foreign exchange exposure by non-deliverable forward exchange contracts which were designated as hedging instruments.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through other comprehensive income. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During fiscal 2012, the hedge has been fully effective. A realised gain of US$5 million relating to matured non-deliverable forward exchange contracts was transferred from deferred equity to the operating result. There is no remaining unrealised mark-to-market result to equity as at September 2012.

3. Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding ('SPH') in SD Warren Holdings Corporation ('SFPNA') including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar-Euro spot exchange risk and Sappi Limited for US Dollar-ZAR spot exchange risk. The hedging instrument is non-derivative foreign currency external debt. At inception of the hedge, both the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) have been recorded at the spot rate in effect on the hedge designation date.

Exchange differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in other comprehensive income to the extent effective until the foreign operation is disposed of or liquidated. These exchange differences are

29. Financial instruments (Continued)

recognised in the income statement on disposal or liquidation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2012, the hedge was 100% effective.

	2012		2011	
	Hedged notional	Foreign exchange result deferred in other comprehensive income	Hedged notional	Foreign exchange result deferred in other comprehensive income
	US$ million			
Bond 2021	**28**	**—**	28	—
Bond 2032	**216**	**—**	219	(3)
	244	**—**	247	(3)
Net investment value of Sappi Fine Paper North America	**510**		372	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to security of raw material supply and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

The pulp swaps contracted in 2010 matured in January 2011 and no other pulp swaps have been contracted during fiscal 2012.

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows;
- managing its working capital and capital expenditure;
- ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements; and
- ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 20.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

29. Financial instruments (Continued)

Liquidity risk management

	Total financial assets and liabilities[1]	Fair value of financial instruments	Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2012								
Financial assets								
Other non-current assets	**22**	**22**	12	—	—	4	7	23
Non-current derivative financial assets	**22**	**22**	3	3	7	12	—	25
Receive leg			12	11	23	47	—	93
Pay leg			(9)	(8)	(16)	(35)	—	(68)
Trade and other receivables	**723**	**723**	722	1	—	—	—	723
Current derivative financial assets	**—**	**—**	—	—	—	—	—	—
Receive leg			60	—	—	—	—	60
Pay leg			(60)	—	—	—	—	(60)
Cash and cash equivalents	**645**	**645**	645	—	—	—	—	645
			1,382	4	7	16	7	1,416
Financial liabilities								
Interest-bearing borrowings	**2,358**	**2,282**	69	69	588	1,118	1,607	3,451
Non-current derivative financial liabilities	**46**	**46**	2	1	2	18	11	34
Pay leg			33	32	62	595	361	1,083
Receive leg			(31)	(31)	(60)	(577)	(350)	(1,049)
Other non-current liabilities	**1**	**1**	—	—	1	1	—	2
Interest-bearing borrowings	**261**	**270**	140	137	—	—	—	277
Overdraft	**5**	**5**	5	—	—	—	—	5
Current derivative financial liabilities	**1**	**1**	—	—	—	—	—	—
Pay leg			157	22	—	—	—	179
Receive leg			(157)	(22)	—	—	—	(179)
Trade and other payables	**784**	**784**	746	—	—	—	—	746
			962	207	591	1,137	1,618	4,515
Liquidity surplus (gap)			420	(203)	(584)	(1,121)	(1,611)	(3,099)

[1] Refers to items that are in scope in terms of IAS 39 Financial Instruments: Recognition and Measurement.

29. Financial instruments (Continued)

Liquidity risk management

	Total financial assets and liabilities[1]	Fair value of financial instruments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			US$ million					
September 2011								
Financial assets								
Other non-current assets	25	25	12	1	—	4	8	25
Non-current derivative financial assets	41	41	4	4	8	28	—	44
Receive leg			30	30	95	405	—	560
Pay leg			(26)	(26)	(87)	(377)	—	(516)
Trade and other receivables	735	735	735	—	—	—	—	735
Current derivative financial assets	3	3	2	1	—	—	—	3
Receive leg			72	24	—	—	—	96
Pay leg			(70)	(23)	—	—	—	(93)
Cash and cash equivalents	639	639	639	—	—	—	—	639
			1,392	6	8	32	8	1,446
Financial liabilities								
Interest-bearing borrowings	2,289	2,460	85	85	380	1,511	1,333	3,394
Other non-current liabilities	2	2	—	—	1	1	—	2
Interest-bearing borrowings	449	463	372	99	—	—	—	471
Overdraft	1	1	1	—	—	—	—	1
Current derivative financial liabilities	10	10	10	—	—	—	—	10
Pay leg			222	—	—	—	—	222
Receive leg			(212)	—	—	—	—	(212)
Trade and other payables	840	840	791	9	—	—	—	800
			1,259	193	381	1,512	1,333	4,678
Liquidity surplus (gap)			133	(187)	(373)	(1,480)	(1,325)	(3,232)

[1] Refers to items that are inscope in terms of IAS 39 Financial Instruments: Recognition and Measurement.

29. Financial instruments (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2012 and 2011, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated on an undiscounted basis.

					Maturity analysis[1] Undiscounted cash flows				
	Total	Fair value hedge	Cash flow hedge	No hedge accounting	0–6 months	6–12 months	1–2 years	2–5 years	> 5 years
					US$ million				
September 2012									
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**22**	**22**	**—**	**—**	3	3	7	12	—
—receiving leg	**89**	**89**	**—**	**—**	12	11	23	47	—
—paying leg	**(67)**	**(67)**	**—**	**—**	(9)	(8)	(16)	(35)	—
Foreign exchange risk									
FX forward contracts	**—**	**—**	**—**	**—**	—	—	—	—	—
—receiving leg	**60**	**—**	**—**	**60**	60	—	—	—	—
—paying leg	**(60)**	**—**	**—**	**(60)**	(60)	—	—	—	—
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**3**	**—**	**3**	**—**	1	—	1	1	—
—paying leg	**19**	**—**	**19**	**—**	4	3	4	9	—
—receiving leg	**(16)**	**—**	**(16)**	**—**	(3)	(3)	(3)	(8)	—
Foreign exchange risk									
FX forward contracts	**44**	**—**	**43**	**1**	1	1	1	17	11
—paying leg	**1,203**	**—**	**1,087**	**116**	186	51	58	586	361
—receiving leg	**(1,159)**	**—**	**(1,044)**	**(115)**	(185)	(50)	(57)	(569)	(350)
September 2011									
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	40	19	21	—	4	4	7	28	—
—receiving leg	506	111	395	—	30	30	59	405	—
—paying leg	(466)	(92)	(374)	—	(26)	(26)	(52)	(377)	—
Foreign exchange risk									
FX forward contracts	4	—	4	—	2	2	1	—	—
—receiving leg	132	—	100	32	72	24	36	—	—
—paying leg	(128)	—	(96)	(32)	(70)	(22)	(35)	—	—
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	—	—	—	—	—	—	—	—	—
—paying leg	—	—	—	—	—	—	—	—	—
—receiving leg	—	—	—	—	—	—	—	—	—
Foreign exchange risk									
FX forward contracts	10	—	—	10	10	—	—	—	—
—paying leg	222	—	—	222	222	—	—	—	—
—receiving leg	(212)	—	—	(212)	(212)	—	—	—	—

(1) The reported maturity analysis is calculated on an undiscounted basis.

29. Financial instruments (Continued)

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair values of loan commitments are based on the commitment fees effectively paid.

29. Financial instruments (Continued)

	Total balance	Out of scope IAS 39[(1)]	Categories according to IAS 39: Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	Fair value
			US$ million					
September 2012								
Classes of financial instruments								
NON-CURRENT ASSETS								
Other non-current assets[(2)]	**80**	58	—	2	—	20	22	22
Loans to associates (minority interests)		—	—	2	—	—	2	2
Club debentures		—	—	—	—	3	3	3
Investment funds		—	—	—	—	17	17	17
Other assets		58	—	—	—	—	—	—
Non-current derivative financial assets	**22**	—	22	—	—	—	22	22
CURRENT ASSETS								
Trade and other receivables	**807**	84	—	723	—	—	723	723
Trade receivables		—	—	628	—	—	628	628
Other accounts receivable—current		84	—	95	—	—	95	95
Current derivative financial assets		—	—	—	—	—	—	—
Cash and cash equivalents	**645**	—	—	645	—	—	645	645
Overnight deposits and current accounts (including petty cash)		—	—	149	—	—	149	149
Time deposits (< 3 months)		—	—	444	—	—	444	444
Money market funds		—	—	52	—	—	52	52

	Total balance	Out of scope IAS 39[(1)]	Categories according to IAS 39: Held for trading	Other financial liabilities	Total in scope	Fair value
			US$ million			
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	**2,358**	—	—	2,358	2,358	2,282
Bank loans payable (> 1 year)—including syndicated loans		—	—	26	26	26
Bonds		—	—	1,945	1,945	1,869
Financial leasing liabilities		—	—	10	10	10
Securitisation debt		—	—	377	377	377
Secured loans		—	—	—	—	—
Other non-current liabilities	**605**	604	—	1	1	1
Non-current derivative financial liabilities	**46**	—	46	—	46	46
CURRENT LIABILITIES						
Interest-bearing borrowings	**261**	—	—	261	261	270
Bank loans payable (< 1 year)—including syndicated loans		—	—	130	130	132
Current portion of other non-current loans payable		—	—	120	120	126
Financial leasing liabilities		—	—	11	11	12
Overdraft						
Bank overdrafts (< 3 months)	**5**	—	—	5	5	5
Current derivative financial liabilities	**1**	—	1	—	1	1
Trade and other payables	**1,005**	221	—	784	784	784
Accruals		221	—	229	229	229
Accounts payable to associates		—	—	—	—	—
Other accounts payable—current		—	—	555	555	555

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes licence fees and brands (refer to note 12).

29. Financial instruments (Continued)

	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39: Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	Fair value
	US$ million							
September 2011								
Classes of financial instruments								
NON-CURRENT ASSETS								
Other non-current assets(2)	104	79	—	5	—	20	25	25
Loans to associates (minority interests)		—	—	3	—	—	3	3
Club debentures		—	—	—	—	3	3	3
Investment funds		—	—	2	—	17	19	19
Other assets		79	—	—	—	—	—	—
Non-current derivative financial assets	41	—	41	—	—	—	41	41
CURRENT ASSETS								
Trade and other receivables	831	96	—	735	—	—	735	735
Trade receivables		—	—	700	—	—	700	700
Other accounts receivable —current		96	—	35	—	—	35	35
Current derivative financial assets	3	—	3	—	—	—	3	3
Cash and cash equivalents	639	—	—	639	—	—	639	639
Overnight deposits and current accounts (including petty cash)		—	—	271	—	—	271	271
Time deposits (< 3 months)		—	—	324	—	—	324	324
Money market funds		—	—	44	—	—	44	44

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes licence fees and brands (refer to note 12).

29. Financial instruments (Continued)

	Total balance	Out of scope IAS 39[1]	Categories according to IAS 39: Held for trading	Categories according to IAS 39: Other financial liabilities	Total in scope	Fair value
			US$ million			
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,289	—	—	2,289	2,289	2,460
Bank loans payable (> 1 year)—including syndicated loans		—	—	78	78	80
Bonds		—	—	1,809	1,809	1,975
Financial leasing liabilities		—	—	22	22	25
Securitisation debt		—	—	368	368	368
Secured loans		—	—	12	12	12
Other non-current liabilities	553	551	—	2	2	2
Non-current derivative financial liabilities	—	—	—	—	—	—
CURRENT LIABILITIES						
Interest-bearing borrowings	449	—	—	449	449	463
Bank loans payable (< 1 year)—including syndicated loans		—	—	93	93	93
Current portion of other non-current loans payable		—	—	197	197	211
Financial leasing liabilities		—	—	14	14	14
Secured loans (< 1 year)		—	—	145	145	145
Overdraft						
Bank overdrafts (< 3 months)	1	—	—	1	1	1
Current derivative financial liabilities	10	—	10	—	10	10
Trade and other payables	1,065	225	—	840	840	840
Accruals		225	—	243	243	243
Accounts payable to associates		—	—	4	4	4
Other accounts payable—current		—	—	593	593	593

(1) This refers to items that are outside the scope of IAS 39.

Hierarchy of fair value measurements for financial instruments measured at fair value on the balance sheet:

	2012				2011			
	Total fair value	Fair value hierarchy (in accordance with IFRS 7)			Total fair value	Fair value hierarchy (in accordance with IFRS 7)		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	US$ million							
NON-CURRENT ASSETS								
Other non-current assets								
Club debentures	**3**	**3**	**—**	**—**	3	3	—	—
Investment funds	**17**	**17**	**—**	**—**	17	17	—	—
Non-current derivative financial assets	**22**	**—**	**22**	**—**	41	—	41	—
CURRENT ASSETS								
Current derivative financial assets	**—**	**—**	**—**	**—**	3	—	3	—
	42	**20**	**22**	**—**	64	20	44	—
NON-CURRENT LIABILITIES								
Non-current derivative financial liabilities	**46**	**—**	**46**	**—**	—	—	—	—
CURRENT LIABILITIES								
Current derivative financial liabilities	**1**	**—**	**1**	**—**	10	—	10	—
	47	**—**	**47**	**—**	10	—	10	—

29. Financial instruments (Continued)

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade debtor management is the responsibility of regional management and is co-ordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with the credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an on-going basis utilising various reporting tools which highlight potential risks.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 53% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 16 of the group annual financial statements.

30. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	**2012**	2011
	US$ million									
Joint ventures and associates:										
—Jiangxi Chenming[1]	**0.4**	1.1	1.1	**0.2**	0.7	0.6	**—**	—	**—**	1.8
—Sapin S.A.	**0.6**	0.8	0.5	**28.3**	35.1	22.1	**—**	0.1	**1.6**	3.9
—VOF Warmtekracht[2]	**—**	—	10.8	**—**	—	7.1	**—**	—	**—**	—
—Umkomaas Lignin (Pty) Limited	**8.2**	6.5	5.6	**0.3**	0.4	0.3	**1.0**	0.8	**—**	—
—Papierholz Austria GmbH	**—**	—	—	**96.0**	105.1	90.5	**—**	—	**5.3**	0.2
—Energie Biberist AG ('EBAG')[3]	**—**	—	—	**5.6**	31.1	38.6	**—**	—	**—**	1.1
	9.2	8.4	18.0	**130.4**	172.4	159.2	**1.0**	0.9	**6.9**	7.0

(1) The group disposed of its 34% shareholding in this entity during fiscal 2012.

(2) The entity was acquired by Sappi in fiscal 2010 and is fully consolidated into the group accounts.

(3) The group disposed of Sappi Schweiz AG during fiscal 2012. Sappi Schweiz AG held the 10% shareholding in EBAG.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

30. Related party transactions (Continued)

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company are disclosed in this integrated report on page 46.

Broad-based Black Economic Empowerment ('BEE') transaction

Refer to notes 17 and 28 for details of the BEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust ('Scheme') and The Sappi Limited Performance Share Incentive Trust ('Plan') are disclosed in notes 33 to 35.

31. Events after balance sheet date

On 09 November 2012, Sappi announced the commencement of an offer to repurchase the remaining €31 million of its senior secured notes due 2014. The offer has been accepted by 76% of the bond investors and the remaining amount has been called for repayment in December 2012.

32. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide ('CO_2') and other greenhouse gases ('GHG'), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and take actions with respect to its operations accordingly.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi Fine Paper North America 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 must be completed by 01 May 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US$4 million to US$5 million. The fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed during the spring of 2015. 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 Sappi Fine Paper North America's 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 Sappi Fine Paper North America's dams along the Presumpscot

32. Environmental matters (Continued)

River is estimated to be in the range of approximately US$18 million to US$28 million. This estimate includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as 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, Sappi Fine Paper North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency ('USEPA') has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. While a recent court decision has vacated the USEPA's stay of the rules, the USEPA has since issued a no action letter, indicating that it will not enforce technical violations of the Boiler MACT rule deadlines, at least until the earlier of 31 December 2012 or the effective date of the final reconsidered rules. It is not clear what the timing will be for completion or implementation of a revised rule. Capital expenditures, currently estimated to range between US$10 million and US$15 million, could be required for emissions control equipment at Sappi Fine Paper North America's mills in order to comply with the rules as proposed in March 2011 although the anticipated impact of the rules and the related costs may be subject to revision in the future, particularly in light of the on-going reconsideration process and litigation. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, the group does not know what precise effect, if any, such legislation will have on its financial condition and operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques ('BAT'). These are defined in the BAT reference documents ('BREFs') of the Integrated Pollution Prevention and Control directive ('IPPC'). These documents are currently being revised but this exercise is taking longer than initially expected. The revised documents are expected to be adopted in early 2013.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the

32. Environmental matters (Continued)

environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.

- A timber and timber product regulation adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The requirements apply as from 03 March 2013. The group believes that it is well prepared for these new requirements as it has an effective certification and risk assessment system in place which allows the group to trace wood and timber material back to its source.
- An agreement with the national government in The Netherlands that we, together with other paper manufacturers, have signed to improve environmental management and further limit emissions.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Fine Paper Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

South Africa

In Southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. The group works with government authorities in striving to find a balance between economic development and social and environmental considerations.

The primary South African environmental laws affecting the group operations are:

- The National Water Act that addresses the water shortages in South Africa and relates to the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a licensing system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.
- The National Environmental Management Act that provides for the integration of environmental considerations into all stages of any development process, and in particular, provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm. The Act includes a number of significant principles, such as prosecution of companies in the interest of the protection of the environment.
- The National Environmental Management: Air Quality Act was promulgated at the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on the group's operations in 2015 and then again in 2020.
- The National Environmental Management: Waste Act was enacted on 01 July 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol: South Africa has ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period. South Africa as a developing country does not presently have targets and timetable commitments. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period

32. Environmental matters (Continued)

for new standards. As a result, the impact on the group's mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over the next three to eight years. The group is in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

Environmental liability assessments were performed on a number of Sappi Southern African mills. It was concluded that there was no material environmental liability exposure for Sappi Southern Africa with regard to present operations. The landfill sites at the Enstra and Tugela mills could incur rehabilitation and remediation costs should Sappi Southern Africa decide to close these sites. The group believes that these sites will continue to operate into the foreseeable future. Landfill sites in South Africa are regarded as assets for continued operations and for commercial on-sale due to the scarcity of available air space as the government is reluctant to approve the development of new landfill sites. The group's Enstra Mill is located in a contaminant catchment area that is currently being investigated by the relevant authorities to possibly allocate responsibilities to different industries in respect of contributing to the remediation of this specific catchment. This is not expected to materialise within the next five years.

33. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the reporting year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

33. Directors' and prescribed officers' remuneration (Continued)

Non-executive directors' fees are proposed by the executive committee, agreed by the compensation committee, recommended by the board and approved at the annual general meeting by the shareholders.

	2012			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg[1]	**87,290**	**55,410**	**12,000**	**154,700**
J E Healey[2]	**14,535**	**27,333**	**6,000**	**47,868**
D Konar	**36,066**	**68,037**	**6,000**	**110,103**
B Radebe	**36,066**	**11,715**	**6,000**	**53,781**
A N R Rudd	**61,753**	**52,164**	**9,000**	**122,917**
K Osar	**58,140**	**51,470**	**15,000**	**124,610**
J McKenzie	**36,066**	**34,223**	**6,000**	**76,289**
D C Cronje	**263,252**	**—**	**6,000**	**269,252**
N P Mageza	**36,066**	**30,439**	**6,000**	**72,505**
R Thummer	**61,753**	**26,082**	**11,900**	**99,735**
M V Moosa	**36,066**	**7,810**	**6,000**	**49,876**
M A Fallon	**61,753**	**23,618**	**9,000**	**94,371**
G P F Beurskens	**61,753**	**47,746**	**9,000**	**118,499**
	850,559	**436,047**	**107,900**	**1,394,506**

	2011			
	Board fees	Committee fees	Travel allowance	Total
	US$			
M Feldberg	84,750	53,800	11,600	150,150
J E Healey	56,450	99,020	11,600	167,070
D Konar	39,438	74,320	5,800	119,558
H C Mamsch[3]	14,692	13,697	—	28,389
B Radebe	39,438	12,791	5,800	58,029
A N R Rudd	58,769	49,638	11,600	120,007
K Osar	56,450	28,500	11,600	96,550
J McKenzie	39,438	37,368	5,800	82,606
D C Cronje	287,449	—	5,800	293,249
N P Mageza	39,438	33,236	5,800	78,474
R Thummer	58,769	24,819	11,600	95,188
M V Moosa	39,438	—	5,800	45,238
M A Fallon[4]	4,897	—	2,900	7,797
G P F Beurskens[5]	—	—	—	—
	819,416	427,189	95,700	1,342,305

33. Directors' and prescribed officers' remuneration (Continued)

	2010			
	Board fees	Committee fees	Travel allowance	Total
	US$			
D C Brink[6]	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn[6]	8,479	2,750	2,800	14,029
K Osar	55,100	27,500	11,200	93,800
J McKenzie	33,918	27,860	5,600	67,378
D C Cronje	235,662	—	2,800	238,462
N P Mageza[7]	25,438	18,572	2,800	46,810
R Thummer[8]	37,879	11,206	2,800	51,885
M V Moosa[9]	5,653	—	—	5,653
	718,012	427,402	78,400	1,223,814

(1) Retires at the end of December 2012.

(2) Retired in December 2011.

(3) Retired in December 2010.

(4) Appointed in September 2011.

(5) Appointed in October 2011.

(6) Retired in December 2009.

(7) Appointed in January 2010.

(8) Appointed in February 2010.

(9) Appointed in August 2010.

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2012				
	Salary	Performance related remuneration[1]	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
	US$				
R J Boëttger[2]	**759,126**	**483,471**	**8,162**	**219,316**	**1,470,075**
M R Thompson[3]	**354,001**	**228,274**	**111,106**	**180,086**	**873,467**
S R Binnie[4]	**83,361**	**53,282**	**2,583**	**25,232**	**164,458**
	1,196,488	**765,027**	**121,851**	**424,634**	**2,508,000**

33. Directors' and prescribed officers' remuneration (Continued)

	2011				
	Salary	Performance related remuneration(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
R J Boëttger	806,887	669,438	8,011	234,772	1,719,108
M R Thompson	401,038	288,872	11,794	211,616	913,320
	1,207,925	958,310	19,805	446,388	2,632,428

	2010				
	Salary	Performance related remuneration(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
R J Boëttger	710,148	908,619	7,605	206,244	1,832,616
M R Thompson	339,708	378,188	9,280	117,927	845,103
	1,049,856	1,286,807	16,885	324,171	2,677,719

(1) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

(2) R J Boëttger received a 6% increase on the South African portion, and a 4% increase on the off-shore portion of his salary.

(3) M R Thompson received a 10% salary increase on the South African portion, and 4% increase on the off-shore portion of his salary. M R Thompson retired in August 2012 after reaching the mandatory retirement age.

(4) S R Binnie was appointed in July 2012 as chief financial officer designate, and was appointed as chief financial officer and executive director at the end of August 2012.

Despite the salary increases, the weaker ZAR in the 2012 financial year meant that R J Boëttger and M R Thompson earned lower salaries in US Dollar terms.

Please see compensation report elsewhere in this report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

33. Directors' and prescribed officers' remuneration (Continued)

Prescribed officers[1]

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2012				
	Salary	Bonuses and performance related payments[2]	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	**749,633**	**501,438**	**3,247**	**127,926**	**1,382,244**
Officer 2	**456,485**	**—**	**—**	**45,384**	**501,869**
Officer 3	**372,216**	**194,848**	**—**	**72,518**	**639,582**
Officer 4	**306,574**	**152,320**	**10,906**	**110,275**	**580,075**
Officer 5	**213,620**	**105,428**	**144,650**	**109,611**	**573,309**
Officer 6	**255,021**	**123,613**	**7,108**	**103,686**	**489,428**
Officer 7	**—**	**—**	**—**	**—**	**—**
Officer 8	**135,184**	**61,631**	**3,926**	**44,790**	**245,531**
	2,488,733	**1,139,278**	**169,837**	**614,190**	**4,412,038**

	2011				
	Salary	Bonuses and performance related payments[2]	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	772,280	—	3,487	131,898	907,665
Officer 2	423,659	964,674	—	39,145	1,427,478
Officer 3	368,734	262,560	6,417	68,789	706,500
Officer 4	335,280	196,394	10,940	125,399	668,013
Officer 5	304,108	164,569	10,792	150,704	630,173
Officer 6	264,440	166,502	9,045	94,342	534,329
Officer 7	658,738	—	595	70,030	729,363
	3,127,239	1,754,699	41,276	680,307	5,603,521

33. Directors' and prescribed officers' remuneration (Continued)

	2010				
	Salary	Bonuses and performance related payments[(2)]	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			US$		
Officer 1	728,937	364,740	3,415	100,418	1,197,510
Officer 2	411,320	391,576	—	22,482	825,378
Officer 3	266,197	317,555	3,746	27,123	614,621
Officer 4	287,719	267,110	8,812	85,824	649,465
Officer 5	260,322	222,697	9,263	92,340	584,622
Officer 6	231,353	225,295	2,246	80,261	539,155
Officer 7	360,735	359,782	2,835	88,832	812,184
	2,546,583	2,148,755	30,317	497,280	5,222,935

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi; L Swartz; J Labuschagne (terminated 30 November 2011); M van Hoven; A Thiel and B Wiersum. They form the group executive committee together with the executive directors.

(2) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

Due to the weaker ZAR in the 2012 financial year, the prescribed officers earned lower salaries in US Dollar terms.

34. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares

34. Directors' and prescribed officers' interests (Continued)

in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2012			2011		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	**7,542**	**—**	**—**	7,542	—	—
M V Moosa[(1)]	**—**	**—**	**626,998**	—	—	626,998
Executive directors						
M R Thompson[(2)]	**34,612**	**—**	**—**	20,517	39,600	—
R J Boëttger	**140,307**	**—**	**—**	122,038	—	—
Prescribed officers						
Officer 1	**35,695**	**—**	**—**	11,000	—	—
Officer 2	**24,695**	**—**	**—**	—	—	—
Officer 3	**24,532**	**—**	**—**	13,419	—	—
Officer 4	**18,173**	**—**	**—**	12,243	—	—
Officer 5	**122,645**	**—**	**—**	109,737	39,600	—
Officer 6	**52,345**	**—**	**—**	47,184	2,200	—
Officer 7	**—**	**—**	**—**	24,105	22,000	—
Officer 8	**—**	**—**	**—**	—	—	—
Total	**460,546**	**—**	**626,998**	367,785	103,400	626,998

(1) M V Moosa holds a 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE transaction described in notes 17 and 28. M V Moosa was appointed a director of the company after the conclusion of the BEE transaction.

(2) In fiscal 2011, M R Thompson purchased 142,000 of the Sappi senior secured notes due 2014 at a total cost of €144,837.16. In August 2012, these notes were redeemed in terms of a compulsory redemption and termination of outstanding 2014 notes as part of the 2012 refinancing.

On 28 November 2012, M A Fallon purchased 5,000 Sappi shares at ZAR28.00 per share. Other than the aforementioned purchase of shares by M A Fallon, there has not been any changes in the direct or indirect beneficial interests of the directors and their associates between financial year-end and the date of this report.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co. Limited, M V Moosa's interest in the BEE transaction described above and in note 28, and M R Thompson's interest in the Senior Secured Notes due 2014, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

35. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options, allocation shares and performance shares before fiscal year-end

Executive directors

	R J Boëttger		M R Thompson		Total 2012	Total 2011
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year						
Number of shares held		654,000		463,200	**1,117,200**	1,087,200
Issue 28a			ZAR47.08	39,600		
Issue 29			ZAR46.51	39,600		
Performance shares 32	ZAR11.06	110,000	ZAR11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		
Offered and accepted during the year						
Performance shares 36						283,000
Performance shares 37		200,000		70,000	**270,000**	
Paid for during the year						
Number of shares		(55,000)		(44,000)	**(99,000)**	(110,000)
Returned, lapsed and forfeited during the year						
Number of shares		(55,000)		(83,600)	**(138,600)**	(143,000)
Outstanding at end of year						
Number of shares held		744,000		405,600	**1,149,600**	1,117,200
Issue 29			ZAR46.51	39,600		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		
Performance shares 37		200,000		70,000		

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 29	13 December 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

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35. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Prescribed officers

	Officer 1		Officer 2		Officer 3		Officer 4		Officer 5		Officer 6		
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Al
Outstanding at beginning of year													
Number of shares held		384,000		412,600		246,200		266,800		393,200		271,400	
Issue 28			ZAR47.08	11,000	ZAR47.08	1,980	ZAR47.08	33,000					
Issue 28a									ZAR47.08	39,600	ZAR47.08	17,600	ZA
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620	ZAR46.51	33,000	ZAR46.51	39,600	ZAR46.51	30,800	ZA
Performance shares 32	ZAR11.06	88,000			ZAR11.06	39,600	ZAR11.06	41,800	ZAR11.06	77,000	ZAR11.06	33,000	ZA
Performance shares 33			ZAR11.06	88,000									
Performance shares 34		88,000		88,000		55,000		44,000		77,000		55,000	
Performance shares 35		120,000		120,000		80,000		65,000		105,000		80,000	
Performance shares 36		88,000		88,000		65,000		50,000		55,000		55,000	
Offered and accepted during the year													
Performance shares 36													
Performance shares 37		105,000		105,000		100,000		87,500		60,000		87,500	
Paid for during the year													
Number of shares		(44,000)		(44,000)		(19,800)		(20,900)		(38,500)		(16,500)	
Returned, lapsed and forfeited during the year													
Number of shares		(44,000)		(55,000)		(21,780)		(53,900)		(78,100)		(34,100)	
Outstanding at end of year													
Number of shares held		401,000		418,600		304,620		279,500		336,600		308,300	
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620	ZAR46.51	33,000	ZAR46.51	39,600	ZAR46.51	30,800	ZA
Performance shares 34		88,000		88,000		55,000		44,000		77,000		55,000	
Performance shares 35		120,000		120,000		80,000		65,000		105,000		80,000	
Performance shares 36		88,000		88,000		65,000		50,000		55,000		55,000	
Performance shares 37		105,000		105,000		100,000		87,500		60,000		87,500	

35. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 29	13 December 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

Executive directors

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
R J Boëttger	Performance Plan 32	12 December 2011	25,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	30,000	ZAR20.27	ZAR25.20
			55,000		
M R Thompson	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
September 2011					
R J Boëttger	Performance Plan 31a	10 August 2011	50,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 31a	10 August 2011	60,000	ZAR20.27	ZAR25.20
			110,000		

Prescribed officers

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
Officer 1	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
Officer 2	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
Officer 3	Performance Plan 32	12 December 2011	9,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	10,800	ZAR20.27	ZAR25.20
			19,800		
Officer 4	Performance Plan 32	12 December 2011	9,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	11,400	ZAR20.27	ZAR25.20
			20,900		
Officer 5	Performance Plan 32	12 December 2011	17,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	21,000	ZAR20.27	ZAR25.20
			38,500		

35. Directors' and prescribed officers' participation in the Sappi Limited share schemes (Continued)

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Officer 6	Performance Plan 32	12 December 2011	7,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	9,000	ZAR20.27	ZAR25.20
			16,500		
Officer 7	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
September 2011					
Officer 1	Performance Plan	29 January 2011	25,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	29 January 2011	30,000	ZAR20.27	ZAR36.43
			55,000		
Officer 2	Performance Plan	20 December 2010	19,000	ZAR0.00	ZAR33.80
	Performance Plan Rights	20 December 2010	22,800	ZAR20.27	ZAR33.80
			41,800		
Officer 3	Performance Plan	31 May 2011	6,500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,800	ZAR20.27	ZAR36.43
			14,300		
Officer 4	Performance Plan	31 May 2011	7,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	8,400	ZAR20.27	ZAR36.43
			15,400		
Officer 5	Performance Plan	31 May 2011	15,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	18,000	ZAR20.27	ZAR36.43
			33,000		
Officer 6	Performance Plan	31 May 2011	6,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,200	ZAR20.27	ZAR36.43
			13,200		
Officer 7	Performance Plan	31 May 2011	20,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	24,000	ZAR20.27	ZAR36.43
			44,000		

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of Sappi Limited

We have reviewed the condensed consolidated financial statements of Sappi Limited (the ''Group''), contained in the accompanying interim report, which comprise the condensed consolidated balance sheet as at 28 December 2014 and as at 29 December 2013 and the condensed consolidated income statement and condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three months then ended, and selected explanatory notes.

Directors' Responsibility for the Condensed Consolidated Interim Financial Statements

The directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of condensed consolidated interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Sappi Limited and its subsidiaries for the three months ended 28 December 2014 and 29 December 2013 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Deloitte & Touche
Registered Auditors

Per RC Campbell
Partner

11 February 2015

Johannesburg, South Africa

SAPPI LIMITED

CONDENSED GROUP INCOME STATEMENT

	Note	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
		US$ million	US$ million
Sales		**1,377**	1,499
Cost of sales		**1,224**	1,339
Gross profit		**153**	160
Selling, general and administrative expenses		**84**	94
Other operating expenses (income)		**2**	(2)
Share of profit from equity investments		**(2)**	(2)
Operating profit	**3**	**69**	70
Net finance costs		**37**	48
Net interest expense		**40**	48
Net foreign exchange gain		**(2)**	(1)
Net fair value (gain) loss on financial instruments		**(1)**	1
Profit before taxation		**32**	22
Taxation		**8**	4
Profit for the period		**24**	18
Basic earnings per share (US cents)		**5**	3
Weighted average number of shares in issue (millions)		**524.5**	521.7
Diluted earnings per share (US cents)		**5**	3
Weighted average number of shares on fully diluted basis (millions)		**529.1**	523.4

SAPPI LIMITED

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
Profit for the period	**24**	18
Other comprehensive loss, net of tax		
Items that must be reclassified subsequently to profit or loss	**(12)**	(42)
Exchange differences on translation of foreign operations	**(8)**	(54)
Movements in hedging reserves	**(4)**	13
Movement on available for sale financial assets	**—**	(1)
Total comprehensive income (loss) for the period	**12**	(24)

SAPPI LIMITED

CONDENSED GROUP BALANCE SHEET

	Reviewed Dec 2014 US$ million	Reviewed Sept 2014 US$ million	Reviewed Restated Dec 2013 US$ million
ASSETS			
Non-current assets	**3,410**	3,505	3,707
Property, plant and equipment	**2,758**	2,841	3,012
Plantations	**419**	430	451
Deferred tax assets	**141**	138	96
Other non-current assets	**92**	96	148
Current assets	**1,735**	1,960	1,835
Inventories	**708**	687	771
Trade and other receivables	**688**	731	776
Taxation receivable	**10**	14	17
Cash and cash equivalents	**329**	528	178
Assets held for sale	**—**	—	93
Total assets	**5,145**	5,465	5,542
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest	**1,059**	1,044	1,122
Non-current liabilities	**3,069**	3,198	3,322
Interest-bearing borrowings	**2,238**	2,311	2,444
Deferred tax liabilities	**270**	272	267
Other non-current liabilities	**561**	615	611
Current liabilities	**1,017**	1,223	1,098
Interest-bearing borrowings	**131**	163	114
Other current liabilities	**865**	1,035	971
Taxation payable	**21**	25	8
Liabilities associated with assets held for sale	**—**	—	5
Total equity and liabilities	**5,145**	5,465	5,542
Number of shares in issue at balance sheet date (millions)	**525.3**	524.2	522.5

SAPPI LIMITED

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Reviewed Quarter ended Dec 2014 US$ million	Reviewed Restated Quarter ended Dec 2013 US$ million
Profit for the period	**24**	18
Adjustment for:		
Depreciation, fellings and amortisation	**85**	102
Taxation	**8**	4
Net finance costs	**37**	48
Defined post-employment benefits paid	**(14)**	(17)
Plantation fair value adjustments	**(18)**	(26)
Net restructuring provisions	**1**	1
Other non-cash items	**14**	6
Cash generated from operations	**137**	136
Movement in working capital	**(136)**	(149)
Net finance costs paid	**(52)**	(56)
Taxation paid	**(3)**	(1)
Cash utilised in operating activities	**(54)**	(70)
Cash utilised in investing activities	**(67)**	(63)
Capital expenditure	**(68)**	(71)
Net proceeds on disposal of assets and businesses	**—**	6
Other movements	**1**	2
Net cash utilised	**(121)**	(133)
Cash effects of financing activities	**(61)**	(43)
Net movement in cash and cash equivalents	**(182)**	(176)
Cash and cash equivalents at beginning of period	**528**	352
Translation effects	**(17)**	2
Cash and cash equivalents at end of period	**329**	178

SAPPI LIMITED

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
Balance—beginning of period	**1,044**	1,144
Total comprehensive income (loss) for the period	**12**	(24)
Transfers from the share purchase trust	**5**	4
Transfers of vested share options	**(4)**	(4)
Share-based payment reserve	**2**	2
Balance—end of period	**1,059**	1,122

NOTES TO THE CONDENSED GROUP RESULTS

1. Basis of preparation

The condensed consolidated interim financial statements for the three months ended December 2014 have been prepared in accordance with the Listings Requirements of the JSE Limited, International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

The preparation of this condensed consolidated interim financial information was supervised by the Chief Financial Officer, G T Pearce CA(SA).

The accompanying interim results for the three months ended December 2014 and December 2013 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group's auditors, Deloitte & Touche.

Their unmodified review report is available for inspection at the company's registered office. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

2. Restatement

Change in accounting arising after the adoption of IFRS 10 *Consolidated Financial Statements*

The group adopted IFRS 10 in the 2014 financial year. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. In addition, specified assets or a portion of an investee is considered to be a deemed separate entity and should be consolidated provided that those assets are, in substance, ring-fenced from other creditors.

Subsequent to the release of the December 2013 results, an interpretation of a discussion paper issued by the Financial Services Board in South Africa (which stated that, although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation) was released. Following the interpretation, the group consequently deconsolidated its assets with its South African insurer.

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

	As previously reported	Adjustment	Restated
	US$ million	US$ million	US$ million
Condensed group balance sheet			
Other non-current assets	116	32	148
Cash and cash equivalents	210	(32)	178
Condensed group statement of cash flows			
Cash and cash equivalents at beginning of period	385	(33)	352
Translation effects	1	1	2
Cash and cash equivalents at end of period	210	(32)	178
Net debt	2,348	32	2,380

There is no impact on profit or loss or equity for the period.

3. Operating profit

Included in operating profit are the following items:

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
Depreciation and amortisation	**71**	87
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**14**	15
Growth	**(17)**	(18)
	(3)	(3)
Plantation price fair value adjustment	**(1)**	(8)
	(4)	(11)
Net restructuring provisions	**1**	1
Profit on disposal of property, plant and equipment	**—**	(1)
Asset impairment reversals	**—**	(2)

4. Headline earnings per share

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
Headline earnings per share (US cents)	**5**	3
Weighted average number of shares in issue (millions)	**524.5**	521.7
Diluted headline earnings per share (US cents)	**5**	3
Weighted average number of shares on fully diluted basis (millions)	**529.1**	523.4
Calculation of headline earnings		
Profit for the period	**24**	18
Asset impairment reversals	**—**	(2)
Profit on disposal of property, plant and equipment	**—**	(1)
Tax effect of above items	**—**	—
Headline earnings	**24**	15

5. Capital commitments

	Reviewed Dec 2014	Reviewed Sept 2014	Reviewed Dec 2013
	US$ million	US$ million	US$ million
Contracted	**105**	104	99
Approved but not contracted	**127**	126	250
	232	230	349

6. Contingent liabilities

	Reviewed Dec 2014	Reviewed Sept 2014	Reviewed Dec 2013
	US$ million	US$ million	US$ million
Guarantees and suretyships	**20**	23	34
Other contingent liabilities	**16**	26	11
	36	49	45

7. Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates (pre-tax weighted average cost of capital), and volume and growth estimations.

Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value. Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Immature timber and mature timber that is to be felled in more than 12 months from the reporting date are valued using a 12 quarter rolling historical average price which, taking the length of the growth cycle of a plantation into account, is considered reasonable.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*

	Reviewed Dec 2014	Reviewed Sept 2014	Reviewed Dec 2013
	US$ million	US$ million	US$ million
Fair value of plantations at beginning of year	**430**	464	464
Gains arising from growth	**17**	65	17
In-field inventory	**(1)**	(1)	(1)
Gain arising from fair value price changes	**1**	7	4
Harvesting—agriculture produce (fellings)	**(14)**	(57)	(14)
Translation difference	**(14)**	(48)	(19)
Fair value of plantations at end of year	**419**	430	451

At September 2013, plantations amounting to US$86 million were disclosed as assets held for sale. In accordance with IAS 41 *Agriculture,* these plantations were carried at fair value. At December 2013, gains arising from growth amounted to US$1 million, the price fair value adjustment amounted to US$4 million and timber worth US$1 million was felled in these plantations.

8. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of cash and cash equivalents, derivative financial instuments and available for sale financial assets.

8. Financial instruments (Continued)

These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

	Fair value hierachy	Reviewed Dec 2014	Fair value(1) Reviewed Sept 2014	Reviewed Dec 2013
		US$ million	US$ million	US$ million
Available for sale assets	Level 1	**9**	10	10
Available for sale assets	Level 2	**—**	—	39
Derivative financial assets	Level 2	**11**	13	19
Derivative financial liabilities	Level 2	**20**	59	108

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

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

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

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

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

9. Material balance sheet movements

Cash and cash equivalents and other current liabilities

The decrease in cash and cash equivalents and other current liabilities is largely due to seasonal working capital movements.

Interest-bearing borrowings and other non-current liabilities

Interest-bearing borrowings and other non-current liabilities decreased largely due to the weakening of the Euro against the US Dollar, the repayment of the amount due under the OekB term loan and a lower utilisation of our on-balance sheet securitisation facility due to lower trade receivables.

10. Post balance sheet event

The group has entered into an agreement to transfer one of its European defined benefit pension schemes to an industry-wide pension fund. The transfer is currently subject to regulatory audit and is expected to be recorded in the quarter ending March 2015.

11. Segment information

	Quarter ended Dec 2014 Metric tons (000's)	Quarter ended Dec 2013 Metric tons (000's)
Sales volume		
North America	**333**	348
Europe	**775**	836
Southern Africa—Pulp and paper	**426**	403
Forestry	**228**	257
Total	**1,762**	1,844
Which consists of:		
Specialised cellulose	**300**	286
Paper	**1,234**	1,301
Forestry	**228**	257

11. Segment information (Continued)

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
Sales		
North America	**353**	365
Europe	**684**	790
Southern Africa—Pulp and paper	**325**	327
Forestry	**15**	17
Total	**1,377**	1,499
Which consists of:		
Specialised cellulose	**243**	247
Paper	**1,119**	1,235
Forestry	**15**	17
Operating profit (loss) excluding special items		
North America	**(4)**	(3)
Europe	**15**	4
Southern Africa	**63**	56
Unallocated and eliminations[1]	**—**	3
Total	**74**	60
Which consists of:		
Specialised cellulose	**56**	55
Paper	**18**	2
Unallocated and eliminations[1]	**—**	3
Special items—loss (gain)		
North America	**—**	(1)
Europe	**1**	—
Southern Africa	**4**	(10)
Unallocated and eliminations[1]	**—**	1
Total	**5**	(10)
Segment operating profit (loss)		
North America	**(4)**	(2)
Europe	**14**	4
Southern Africa	**59**	66
Unallocated and eliminations[1]	**—**	2
Total	**69**	70

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

11. Segment information (Continued)

	Reviewed Quarter ended Dec 2014	Reviewed Quarter ended Dec 2013
	US$ million	US$ million
EBITDA excluding special items		
North America	**15**	17
Europe	**53**	52
Southern Africa	**77**	75
Unallocated and eliminations(1)	**—**	3
Total	**145**	147
Which consists of:		
Specialised cellulose	**70**	74
Paper	**75**	70
Unallocated and eliminations(1)	**—**	3

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.

EBITDA excluding special items	**145**	147
Depreciation and amortisation	**(71)**	(87)
Operating profit excluding special items	**74**	60
Special items—(loss) gain	**(5)**	10
Plantation price fair value adjustment	**1**	8
Net restructuring provisions	**(1)**	(1)
Profit on disposal of property, plant and equipment	**—**	1
Asset impairment reversals	**—**	2
Fire, flood, storm and other events	**(5)**	—
Segment operating profit	**69**	70
Net finance costs	**(37)**	(48)
Profit before taxation	**32**	22
Taxation	**(8)**	(4)
Profit for the period	**24**	18

11. Segment information (Continued)

	Reviewed Dec 2014 US$ million	Reviewed Restated Dec 2013 US$ million
Segment assets		
North America	**1,004**	1,030
Europe	**1,495**	1,698
Southern Africa	**1,305**	1,566
Unallocated and eliminations[1]	**(15)**	(10)
Total	**3,789**	4,284
Reconciliation of segment assets to total assets		
Segment assets	**3,789**	4,284
Deferred taxation	**141**	96
Cash and cash equivalents[2]	**329**	178
Other current liabilities	**865**	971
Taxation payable	**21**	8
Liabilities associated with assets held for sale	**—**	5
Total assets	**5,145**	5,542

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

(2) The comparative period has been restated for change in accounting arising after the adoption of IFRS 10 Consolidated Financial Statements by an amount of US$32 million. Refer to note 2 for more detail.

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP FINANCIAL INFORMATION FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES

The notes were issued by Sappi Papier Holding GmbH, an Austrian limited liability company. The obligations under the Notes are guaranteed by Sappi Limited (the ''Parent Guarantor''), Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International S.A., SDW Holdings Corporation, Sappi Cloquet LLC, S.D. Warren Company, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Netherlands BV, Sappi Lanaken Press Paper NV, Sappi Pulp Asia Limited, Sappi Alfeld GmbH, Sappi Maastricht BV, Sappi Ehingen GmbH, Sappi Europe SA, Sappi Stockstadt GmbH and Sappi Finland I Oy (the ''Subsidiary Guarantors'' and, together with the Parent Guarantor, the ''Guarantors'') on a full and unconditional basis, subject to any limitations required by applicable law.

For the benefit of investors in the Notes, condensed consolidating financial information for the Issuer, the Parent Guarantor, the Subsidiary Guarantors, and all other non-guarantor subsidiaries with eliminations is presented below. All financial information has been prepared under the historical cost convention, and complies in all material respects with International Financial Reporting Standards. Financial information for the Parent Guarantor and the Issuer is presented on a standalone basis adjusted for impairment consolidation entries, while financial information for the Subsidiary Guarantors and the non-guarantor subsidiaries, is presented on a combined basis.

This condensed consolidating financial information should be read in conjunction with the interim financial statements as of and for the three months ended December 2014 and the consolidated financial statements as of and for the fiscal years ended September 2014 and September 2013 of the Sappi Group. The September 2013 consolidated financial statements has been restated for the adoption of new and revised accounting standards in fiscal 2014 and the comparable information is disclosed as the comparative information in the consolidated financial statements as of and for the fiscal year ended September 2014. This condensed consolidating financial information has not been audited, and has not been prepared in accordance with Rule 3-10 of Regulation S-X of the United States Securities and Exchange Commission promulgated under the U.S. Securities Act of 1933, as amended.

UNAUDITED CONDENSED CONSOLIDATING GROUP INCOME STATEMENT FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE QUARTER ENDED DECEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding Issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
			US$ million			
Sales	—	365	1,057	356	(401)	1,377
Cost of sales	—	(353)	(1,001)	(273)	403	(1,224)
Gross profit	—	12	56	83	2	153
Selling, general and administration expenses	—	—	(56)	(23)	(5)	(84)
Share of profit from joint ventures	—	—	—	2	—	2
Other operating (expenses) income	—	(3)	2	(4)	3	(2)
Operating profit	—	9	2	58	—	69
Net finance (costs) income	—	(23)	(8)	1	(7)	(37)
(Loss) profit before taxation	—	(14)	(6)	59	(7)	32
Taxation benefit (charge)	—	—	4	(11)	(1)	(8)
(Loss) profit for the period	—	(14)	(2)	48	(8)	24

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP BALANCE SHEET FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AS AT DECEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding Issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
			US$ million			
ASSETS						
Non-current assets	2,753	3,562	3,644	1,740	(8,289)	3,410
Property, plant and equipment	—	2	1,943	816	(3)	2,758
Plantations	—	—	—	419	—	419
Deferred tax assets	—	—	141	—	—	141
Goodwill and intangible assets	—	57	6	6	(50)	19
Joint ventures	—	—	24	14	(23)	15
Other non-current assets	—	9	4	98	(64)	47
Derivative financial instruments	—	8	—	3	—	11
Amounts due from group companies	175	455	420	175	(1,225)	—
Investments in subsidiaries	2,578	3,031	1,106	209	(6,924)	—
Current assets	7	760	4,081	(306)	(2,807)	1,735
Inventories	—	—	540	168	—	708
Amounts due from (to) group companies	7	582	2,892	(674)	(2,807)	—
Trade and other receivables	—	170	480	38	—	688
Taxation receivable	—	8	2	—	—	10
Cash and cash equivalents	—	—	167	162	—	329
Total assets	2,760	4,322	7,725	1,434	(11,096)	5,145
EQUITY AND LIABILITIES						
Shareholders' equity	2,745	561	3,665	1,151	(7,063)	1,059
Non-current liabilities	11	1,958	1,459	864	(1,223)	3,069
Interest-bearing borrowings	—	1,680	1	557	—	2,238
Amounts due to (from) group companies	11	231	1,001	(17)	(1,226)	—
Deferred tax liabilities	—	—	—	272	(2)	270
Derivative financial instruments	—	15	—	(10)	10	15
Other non-current liabilities	—	32	457	62	(5)	546
Current liabilities	4	1,803	2,601	(581)	(2,810)	1,017
Interest-bearing borrowings	—	92	—	39	—	131
Amounts due to (from) group companies	—	1,645	2,033	(871)	(2,807)	—
Derivative financial instruments	—	—	2	2	—	4
Trade and other payables	4	66	539	226	(3)	832
Taxation payable	—	—	1	20	—	21
Provisions	—	—	26	3	—	29
Total equity and liabilities	2,760	4,322	7,725	1,434	(11,096)	5,145

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP STATEMENT OF CASH FLOWS FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE QUARTER ENDED DECEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding issuer)	Non -guarantor Subsidiaries	Eliminations	Consolidated totals
			US$ million			
(Loss) profit for the period	—	(14)	(2)	48	(8)	24
Adjustments for:						
Depreciation, fellings and amortisation	—	—	55	30	—	85
Taxation	—	—	(4)	11	1	8
Net finance costs (income)	—	23	8	(1)	7	37
Defined post-employment benefits paid	—	—	(10)	(4)	—	(14)
Plantation fair value adjustments	—	—	—	(18)	—	(18)
Other non-cash items	—	3	12	(4)	4	15
Cash generated from operations	—	12	59	62	4	137
Movement in working capital	—	(37)	(58)	(45)	4	(136)
Net finance costs paid	—	(38)	(1)	(5)	(8)	(52)
Taxation (paid) received	(1)	—	5	(7)	—	(3)
Cash (utilised in) generated from operating activities	(1)	(63)	5	5	—	(54)
Capital expenditure	—	—	(55)	(13)	—	(68)
Other movements	—	—	(2)	3	—	1
Cash utilised in investing activities	—	—	(57)	(10)	—	(67)
Repayment of interest-bearing borrowings	—	(22)	—	(39)	—	(61)
(Decrease) increase in other non-current liabilities	—	—	(1)	1	—	—
Movement in long-term inter-company loans	1	84	(97)	12	—	—
Share plan charges	(2)	—	—	—	2	—
Cash effect of financing activities	(1)	62	(98)	(26)	2	(61)
Net movement in cash and cash equivalents	(2)	(1)	(150)	(31)	2	(182)
Cash and cash equivalents at beginning of year	2	1	328	197	—	528
Translation effects	—	—	(11)	(4)	(2)	(17)
Cash and cash equivalents at end of year	—	—	167	162	—	329

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UNAUDITED CONDENSED CONSOLIDATING GROUP FINANCIAL INFORMATION FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES

The notes were issued by Sappi Papier Holding GmbH, an Austrian limited liability company. The obligations under the Notes are guaranteed by Sappi Limited (the ''Parent Guarantor''), Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International S.A., SDW Holdings Corporation, Sappi Cloquet LLC, S.D. Warren Company, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Netherlands BV, Sappi Lanaken Press Paper NV, Sappi Pulp Asia Limited, Sappi Alfeld GmbH, Sappi Maastricht BV, Sappi Ehingen GmbH, Sappi Europe SA, Sappi Stockstadt GmbH and Sappi Finland I Oy (the ''Subsidiary Guarantors'' and, together with the Parent Guarantor, the ''Guarantors'') on a full and unconditional basis, subject to any limitations required by applicable law.

Condensed consolidating financial information for the Issuer, the Parent Guarantor, the Subsidiary Guarantors, and all other non-guarantor subsidiaries with eliminations is presented below. The results and cash flows for the year include all operations until the date of disposal. All financial information has been prepared under the historical cost convention, and complies in all material respects with International Financial Reporting Standards. Financial information for the Parent Guarantor and the Issuer is presented on a standalone basis adjusted for impairment consolidation entries, while financial information for the Subsidiary Guarantors and the non-guarantor subsidiaries, is presented on a combined basis.

This condensed consolidating financial information should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended September 2014 of the Sappi Group. This condensed consolidating financial information has not been audited, and has not been prepared in accordance with Rule 3-10 of Regulation S-X of the United States Securities and Exchange Commission promulgated under the U.S. Securities Act of 1933, as amended.

UNAUDITED CONDENSED CONSOLIDATING GROUP INCOME STATEMENT FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE YEAR ENDED SEPTEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding Issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
			US$ million			
Sales	—	1,608	4,705	1,487	(1,739)	6,061
Cost of sales	—	(1,556)	(4,386)	(1,155)	1,727	(5,370)
Gross profit	—	52	319	332	(12)	691
Selling, general and administration expenses	(1)	(3)	(254)	(76)	(18)	(352)
Share of profit from joint ventures	—	—	—	8	—	8
Other operating (expenses) income	—	(12)	(109)	80	8	(33)
Operating (loss) profit	(1)	37	(44)	344	(22)	314
Income from subsidiaries	2	41	71	17	(131)	—
Net finance costs	—	(121)	(31)	(38)	13	(177)
Profit (loss) before taxation	1	(43)	(4)	323	(140)	137
Taxation benefit (charge)	—	3	52	(57)	—	(2)
Profit (loss) for the period	1	(40)	48	266	(140)	135

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP BALANCE SHEET FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AS AT SEPTEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding Issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
	US$ million					
ASSETS						
Non-current assets	2,763	3,576	3,710	1,724	(8,268)	3,505
Property, plant and equipment	—	2	1,996	845	(2)	2,841
Plantations	—	—	—	430	—	430
Deferred tax assets	—	—	138	—	—	138
Goodwill and intangible assets	—	60	3	7	(53)	17
Joint ventures	—	—	24	14	(22)	16
Other non-current assets	—	10	5	107	(72)	50
Derivative financial instruments	—	9	—	4	—	13
Amounts due from group companies	185	484	438	172	(1,279)	—
Investments in subsidiaries	2,578	3,011	1,106	145	(6,840)	—
Current assets	10	875	4,605	(405)	(3,125)	1,960
Inventories	—	—	530	157	—	687
Amounts due from (to) group companies	8	689	3,225	(803)	(3,119)	—
Trade and other receivables	—	178	515	44	(6)	731
Derivative financial instruments	—	—	—	—	—	—
Taxation receivable	—	7	7	—	—	14
Cash and cash equivalents	2	1	328	197	—	528
Total assets	2,773	4,451	8,315	1,319	(11,393)	5,465
EQUITY AND LIABILITIES						
Shareholders' equity	2,749	454	3,737	1,087	(6,983)	1,044
Non-current liabilities	17	2,053	1,527	882	(1,281)	3,198
Interest-bearing borrowings	(1)	1,720	—	592	—	2,311
Amounts due to (from) group companies	18	249	1,057	(44)	(1,280)	—
Deferred tax liabilities	—	—	—	273	(1)	272
Derivative financial instruments	—	52	—	(3)	3	52
Other non-current liabilities	—	32	470	64	(3)	563
Current liabilities	7	1,944	3,051	(650)	(3,129)	1,223
Interest-bearing borrowings	—	96	—	67	—	163
Amounts due to (from) group companies	—	1,760	2,389	(1,030)	(3,119)	—
Derivative financial instruments	—	—	4	3	—	7
Trade and other payables	6	88	629	283	(10)	996
Taxation payable	1	—	1	23	—	25
Provisions	—	—	28	4	—	32
Total equity and liabilities	2,773	4,451	8,315	1,319	(11,393)	5,465

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP STATEMENT OF CASH FLOWS FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE YEAR ENDED SEPTEMBER 2014

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
	US$ million					
Profit (loss) for the period	1	(40)	48	266	(140)	135
Adjustments for:						
Depreciation, fellings and amortisation	—	1	247	123	—	371
Taxation	—	(3)	(52)	57	—	2
Net finance costs	—	121	31	38	(13)	177
Defined post-employment benefits paid	—	(3)	(53)	(14)	—	(70)
Plantation fair value adjustments	—	—	—	(86)	—	(86)
Other non-cash items	(1)	(27)	29	(110)	146	37
Cash generated from operations	—	49	250	274	(7)	566
Movement in working capital	(4)	11	(12)	10	29	34
Net finance income received (costs paid)	1	(111)	(11)	(12)	(29)	(162)
Taxation received (paid)	—	3	—	(4)	—	(1)
Intercompany dividends received (paid)	2	41	(52)	(5)	14	—
Cash (utilised in) generated from operating activities	(1)	(7)	175	263	7	437
Capital expenditure	—	(1)	(218)	(76)	—	(295)
(Cash outflows) proceeds on disposal of non-current assets	—	—	(20)	107	—	87
Other movements	—	—	—	14	—	14
(Investment in) divestment from subsidiaries	(86)	(2)	49	(48)	87	—
Cash utilised in investing activities	(86)	(3)	(189)	(3)	87	(194)
Repayment of interest-bearing borrowings	—	—	—	(35)	—	(35)
(Decrease) increase in other non-current liabilities	—	—	(1)	1	—	—
Equity and capital contributions received	—	87	—	—	(87)	—
Movement in long-term inter-company loans	89	(76)	82	(88)	(7)	—
Share plan charges	—	—	(3)	5	(2)	—
Movement in overdrafts	—	—	(1)	—	—	(1)
Cash effect of financing activities	89	11	77	(117)	(96)	(36)
Net movement in cash and cash equivalents	2	1	63	143	(2)	207
Cash and cash equivalents at beginning of year	—	—	285	67	—	352
Translation effects	—	—	(20)	(13)	2	(31)
Cash and cash equivalents at end of year	2	1	328	197	—	528

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP FINANCIAL INFORMATION FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES

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Condensed consolidating financial information for the Issuer, the Parent Guarantor, the Subsidiary Guarantors, and all other non-guarantor subsidiaries with eliminations is presented below. All financial information has been prepared under the historical cost convention, and complies in all material respects with International Financial Reporting Standards. Financial information for the Parent Guarantor and the Issuer is presented on a standalone basis adjusted for impairment consolidation entries, while financial information for the Subsidiary Guarantors and the non-guarantor subsidiaries, is presented on a combined basis.

This condensed consolidating financial information should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended September 2013 and, where restated for the adoption of the new accounting standards applicable from the 2014 fiscal year, the comparable information included in the consolidated financial statements as of and for the fiscal year ended September 2014 of the Sappi Group. This condensed consolidating financial information has not been audited, and has not been prepared in accordance with Rule 3-10 of Regulation S-X of the United States Securities and Exchange Commission promulgated under the U.S. Securities Act of 1933, as amended.

UNAUDITED CONDENSED CONSOLIDATING GROUP INCOME STATEMENT FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE YEAR ENDED SEPTEMBER 2013

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Restated Subsidiary Guarantors (Excluding Issuer)	Restated Non-guarantor Subsidiaries	Eliminations	Restated Consolidated totals
			US$ million			
Sales	—	1,067	4,816	1,483	(1,441)	5,925
Cost of sales	—	(1,032)	(4,495)	(1,173)	1,415	(5,285)
Gross profit	—	35	321	310	(26)	640
Selling, general and administration expenses	(2)	(1)	(282)	(124)	25	(384)
Share of profit from joint ventures	—	—	1	5	1	7
Other operating expenses	(263)	(279)	(132)	(100)	530	(244)
Operating (loss) profit	(265)	(245)	(92)	91	530	19
Income from subsidiaries	101	304	145	106	(656)	—
Net finance costs	—	(119)	(35)	(32)	—	(186)
(Loss) profit before taxation	(164)	(60)	18	165	(126)	(167)
Taxation benefit (charge)	—	21	(44)	7	1	(15)
(Loss) profit for the period	(164)	(39)	(26)	172	(125)	(182)

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP BALANCE SHEET FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AS AT SEPTEMBER 2013

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Subsidiary Guarantors (Excluding Issuer)	Non-guarantor Subsidiaries	Eliminations	Consolidated totals
			US$ million			
ASSETS						
Non-current assets	2,753	4,930	3,506	2,448	(9,850)	3,787
Property, plant and equipment	—	3	2,155	923	(3)	3,078
Plantations	—	—	—	464	—	464
Deferred tax assets	—	—	63	29	—	92
Goodwill and intangible assets	—	72	3	12	(67)	20
Joint ventures	—	—	24	17	(23)	18
Other non-current assets	—	9	5	139	(58)	95
Derivative financial instruments	—	15	—	5	—	20
Amounts due from group companies	349	855	6	313	(1,523)	—
Investments in subsidiaries	2,404	3,976	1,250	546	(8,176)	—
Current assets	4	1,008	5,411	(1,293)	(3,284)	1,846
Inventories	—	—	578	150	—	728
Amounts due from (to) group companies	4	826	4,001	(1,552)	(3,279)	—
Trade and other receivables	—	174	536	42	(5)	747
Derivative financial instruments	—	—	1	—	—	1
Taxation receivable	—	8	10	—	—	18
Cash and cash equivalents	—	—	285	67	—	352
Assets held for sale	—	—	—	94	—	94
Total assets	2,757	5,938	8,917	1,249	(13,134)	5,727
EQUITY AND LIABILITIES						
Shareholders' equity	2,741	1,237	4,144	1,332	(8,310)	1,144
Non-current liabilities	9	2,261	1,281	1,352	(1,532)	3,371
Interest-bearing borrowings	—	1,773	—	725	1	2,499
Amounts due to group companies	9	357	919	256	(1,541)	—
Deferred tax liabilities	—	—	(28)	297	(2)	267
Derivative financial instruments	—	99	—	(15)	15	99
Other non-current liabilities	—	32	390	89	(5)	506
Current liabilities	7	2,440	3,492	(1,441)	(3,292)	1,206
Interest-bearing borrowings	—	78	(1)	23	(1)	99
Amounts due to (from) group companies	2	2,286	2,836	(1,846)	(3,278)	—
Overdrafts	—	—	1	—	—	1
Derivative financial instruments	—	—	2	—	—	2
Trade and other payables	4	74	628	322	(13)	1,015
Taxation payable	—	—	1	11	—	12
Provisions	1	2	25	49	—	77
Liabilities associated with assets held for sale	—	—	—	6	—	6
Total equity and liabilities	2,757	5,938	8,917	1,249	(13,134)	5,727

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP STATEMENT OF CASH FLOWS FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES FOR THE YEAR ENDED SEPTEMBER 2013

	Parent Guarantor Sappi Limited	Subsidiary Issuer Sappi Papier Holding GmbH	Restated Subsidiary Guarantors (Excluding issuer)	Restated Non-guarantor Subsidiaries	Eliminations	Restated Consolidated totals
			US$ million			
(Loss) profit for the period	(164)	(39)	(26)	172	(125)	(182)
Adjustments for:						
Depreciation, fellings and amortisation	—	4	259	150	1	414
Taxation	—	(21)	44	(7)	(1)	15
Net finance (income) costs	(1)	119	35	33	—	186
Defined post-employment benefits paid	—	(2)	(56)	(16)	—	(74)
Plantation fair value adjustments	—	—	—	(166)	—	(166)
Other non-cash items	163	(20)	19	(17)	109	254
Cash (utilised in) generated from operations	(2)	41	275	149	(16)	447
Movement in working capital	2	7	38	(90)	23	(20)
Net finance income received (costs paid)	1	(107)	(23)	(11)	(24)	(164)
Taxation received (paid)	—	20	(36)	(2)	1	(17)
Intercompany dividends received (paid)	97	205	(271)	(34)	3	—
Cash generated from (utilised in) operating activities	98	166	(17)	12	(13)	246
Capital expenditure	—	(1)	(277)	(274)	—	(552)
Proceeds on disposal of non-current assets	—	—	8	46	(1)	53
Other movements	—	(32)	3	35	—	6
Investment in (divestment from) subsidiaries	—	283	721	(21)	(983)	—
Cash generated from (utilised in) investing activities	—	250	455	(214)	(984)	(493)
Proceeds from interest-bearing borrowings	—	—	—	388	—	388
Repayment of interest-bearing borrowings	—	(43)	(8)	(340)	(1)	(392)
(Decrease) increase in other non-current liabilities	—	(1)	(2)	3	—	—
Equity and capital contributions (reductions)	—	—	(984)	—	984	—
Movement in long-term inter-company loans	(96)	(371)	365	87	15	—
Share plan charges	(2)	—	(4)	7	(1)	—
Movement in overdrafts	—	—	(4)	—	—	(4)
Cash effect of financing activities	(98)	(415)	(637)	145	997	(8)
Net movement in cash and cash equivalents	—	1	(199)	(57)	—	(255)
Cash and cash equivalents at beginning of year	—	—	468	136	—	604
Translation effects	—	(1)	16	(12)	—	3
Cash and cash equivalents at end of year	—	—	285	67	—	352

AUDIT REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sappi Papier Holding GmbH for the fiscal year from 30 September 2013 to 28 September 2014. These consolidated financial statements comprise the consolidated balance sheet as of 28 September 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 28 September 2014, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

The execution of this engagement and our responsibility, also in relation to third parties, shall be governed, as agreed by signing the engagement letter, by the general conditions of contract for the public accounting professions as issued by the Austrian Chamber of Public Accountants and Tax Advisors dated 08 March 2000 and 21 February 2011 respectively.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 28 September 2014, and of its financial performance and its cash flows for the fiscal year from 30 September 2013 to 28 September 2014 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements.

In our opinion, the management report for the group is consistent with the consolidated financial statements.

Vienna, 09 February 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer Certified Public Accountant	Mag. Gabriele Römer Certified Public Accountant

SAPPI PAPIER HOLDING GROUP

GROUP INCOME STATEMENT

for the year ended 28 September 2014

	Note	2014	Restated 2013
		€ million	
Sales		**4,011**	3,997
Cost of sales	3	**3,701**	3,685
Gross profit		**310**	312
Selling, general and administrative expenses	4	**214**	238
Share of profit from joint ventures	12	**—**	(1)
Other operating expenses	5	**49**	402
Operating profit (loss)	6	**47**	(327)
Net finance costs		**115**	123
Finance costs		**122**	123
Finance revenue		**(1)**	(1)
Net foreign exchange (gains) losses		**(5)**	2
Net fair value gains on financial instruments		**(1)**	(1)
Loss before tax		**(68)**	(450)
Tax (benefit) charge	8	**(37)**	16
Loss for the year		**(31)**	(466)

SAPPI PAPIER HOLDING GROUP

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 September 2014

	Note	2014	Restated 2013
		€ million	
Loss for the year		**(31)**	(466)
Other comprehensive loss, net of tax	18	**(89)**	(33)
Items that will not be reclassified subsequently to profit or loss		**(108)**	(4)
Actuarial (losses) gains on post-employment benefit funds (note 27)		**(106)**	19
Deferred tax on above item		**(2)**	(23)
Items that may be reclassified subsequently to profit or loss		**19**	(29)
Exchange differences on translation to presentation currency		**34**	(25)
Movement in hedging reserves		**(15)**	(4)
Deferred tax on above items		**—**	—
Total comprehensive loss for the year		**(120)**	(499)

SAPPI PAPIER HOLDING GROUP
GROUP BALANCE SHEET
at 28 September 2014

	Note	2014	2013
		€ million	
ASSETS			
Non-current assets		**1,870**	1,846
Property, plant and equipment	9	**1,566**	1,557
Deferred tax assets	10	**109**	67
Goodwill and intangible assets	11	**175**	197
Joint ventures	12	**1**	1
Other non-current assets	13	**12**	13
Derivative financial instruments	29	**7**	11
Current assets		**1,265**	1,209
Inventories	15	**429**	431
Trade and other receivables	14	**555**	538
Tax receivable		**11**	13
Derivative financial instruments	29	**—**	1
Cash and cash equivalents		**270**	226
Total assets		**3,135**	3,055
EQUITY AND LIABILITIES			
Shareholders' equity		**177**	234
Ordinary share capital and share premium	16	**1,197**	1,197
Non-distributable reserves	17	**577**	514
Foreign currency translation reserve		**(209)**	(243)
Hedging reserves		**(47)**	(32)
Accumulated losses		**(1,341)**	(1,202)
Non-current liabilities		**2,140**	2,047
Interest-bearing borrowings	19	**1,653**	1,613
Deferred tax liabilities	10	**21**	30
Derivative financial instruments	29	**41**	73
Other non-current liabilities	20	**425**	331
Current liabilities		**818**	774
Interest-bearing borrowings	19	**80**	61
Overdrafts		**—**	1
Derivative financial instruments	29	**3**	1
Trade and other payables	21	**699**	655
Tax payable		**11**	2
Provisions	22	**25**	54
Total equity and liabilities		**3,135**	3,055

SAPPI PAPIER HOLDING GROUP
GROUP STATEMENT OF CASH FLOWS
for the year ended 28 September 2014

	Note	2014	2013
		€ million	
Cash retained from operating activities		**162**	50
Cash generated from operations	23.1	**237**	253
—Decrease (increase) in working capital	23.2	**29**	(3)
Cash generated from operating activities		**266**	250
—Finance costs paid	23.3	**(106)**	(113)
—Finance revenue received		**—**	1
—Tax refunded (paid)	23.4	**2**	(13)
Cash available from operating activities		**162**	125
—Dividends paid		**—**	(75)
Cash utilised in investing activities		**(177)**	(172)
Investment to maintain operations		**(80)**	(52)
Investment to expand operations		**(83)**	(161)
Cash outflows on disposal of business	23.5	**(17)**	—
Proceeds on disposal of non-current assets	23.6	**3**	39
Other decrease in non-current assets		**—**	2
Cash effects of financing activities		**58**	(40)
Proceeds from interest-bearing borrowings		**—**	5
Repayment of interest-bearing borrowings		**(5)**	(40)
Cash costs attributable to refinancing transactions		**—**	(2)
Capital contribution received		**64**	—
Movement in bank overdrafts		**(1)**	(3)
Net movement in cash and cash equivalents		**43**	(162)
Cash and cash equivalents at beginning of year		**226**	389
Translation effects		**1**	(1)
Cash and cash equivalents at end of year		**270**	226

SAPPI PAPIER HOLDING GROUP

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 28 September 2014

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Accumulated losses	Total Equity
					€ million				
Balance— September 2012	1	1,197	—	1,197	521	(218)	(28)	(664)	808
Transfer from retained earnings	—	—	—	—	(7)	—	—	7	—
Total comprehensive loss	—	—	—	—	—	(25)	(4)	(470)	(499)
Dividends declared	—	—	—	—	—	—	—	(75)	(75)
Balance— September 2013	1	1,197	—	1,197	514	(243)	(32)	(1,202)	234
Share-based payments	—	—	—	—	(1)	—	—	—	(1)
Capital contribution received	—	—	—	—	64	—	—	—	64
Total comprehensive loss	—	—	—	—	—	34	(15)	(139)	(120)
Balance— September 2014	1	1,197	—	1,197	577	(209)	(47)	(1,341)	177
Note reference				*16*	*17*				

1. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements.

1.1 Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union;
- Interpretations issued by the IFRS Interpretations Committee of the IASB; and
- The requirements of the Austrian Company Code.

The group annual financial statements are prepared on the historical-cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

The group has made the following significant accounting policy elections in terms of IFRS:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised;
- the net interest on post-employment benefits is included in finance costs;
- jointly controlled entities that are joint ventures are accounted for using the equity method;
- property, plant and equipment is accounted for using the cost model;
- actuarial gains or losses on post-employment benefits are recognised in OCI; and
- the step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 1.2 and 1.3.

The group annual financial statements are presented in Euro (€), as the holding company is domiciled in Austria and are rounded to the nearest million except as otherwise indicated.

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:

- 30 September 2013 to 28 September 2014 (52 weeks)
- 01 October 2012 to 29 September 2013 (52 weeks)

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and, income and expenses are not offset in the balance sheet or income statement unless specifically permitted by IFRS.

1. Accounting policies (Continued)

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

1.2 Summary of accounting policies

1.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group annual financial statements are presented in Euro, which is the group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate; and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

The group used the following €:US$ exchange rates for financial reporting purposes:

	2014	2013
Period-end rate	1.2685	1.3522
Annual average rate	1.3577	1.3121

1.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The assets, liabilities and results of these entities are included in these group annual

1. Accounting policies (Continued)

financial statements. The results of subsidiaries acquired or disposed of in the year are included in the group annual income statement from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the group annual financial statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, and assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

1.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability except, for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- **Financial assets and financial liabilities at fair value through profit or loss**

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- **Financial liabilities at amortised cost**

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

1. Accounting policies (Continued)

- **Loans and receivables**

Loans and receivables are carried at amortised cost.

- **Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred tax. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

- **Loans and receivables**

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- **Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

1.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

1. Accounting policies (Continued)

1.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is ten years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) Licence fees

Licence fees are amortised on a straight-line basis over the useful life of each licence.

1.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

1.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except where the transfer of ownership is uncertain at the end of the lease period, in which case, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

1. Accounting policies (Continued)

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

1.2.8 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying values will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

1.2.9 Segment reporting

The group's reportable segments, which are determined based on how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America and Europe.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

1.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost, other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

1.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

1. Accounting policies (Continued)

1.2.12 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

1.2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

1.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

1.3 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 judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

1.3.1 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 recognised 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

1. Accounting policies (Continued)

other assets, the recoverable amount is determined for the 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 recognised in other operating expenses in profit or loss for the period.

A previously recognised 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 amortisation, had no impairment loss been recognised in prior periods.

Refer to note 9 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

1.3.2 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 capitalised 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 capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

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 judgement 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 the year, 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.

1. Accounting policies (Continued)

1.3.3 Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI, in which case, it is also recognised in OCI.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, based on temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised 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 tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

Before recognising 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 recognised. In recognising 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 10 to the group annual financial statements for the movement in unrecognised deferred tax assets.

(iii) 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 recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

1. Accounting policies (Continued)

1.3.4 Derivatives and hedge accounting

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

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised 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 recognised in the same line of profit or loss as the change in the hedged item.

(ii) 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 recognised asset or liability, a highly probable forecast transaction or, the foreign currency risk in an unrecognised 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 recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI 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 OCI to the underlying asset or liability on the transaction date.

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) 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 OCI 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 recognised immediately in profit or loss.

Refer to notes 29 and 30 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.

1.3.5 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.

1. Accounting policies (Continued)

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 recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. 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 recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised 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 recognised 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 recognised 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 27 for the key estimates, assumptions and other information on post-employment benefits.

1.3.6 Provisions

A provision is recognised 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 judgement 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 1.3.7).

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 22 to the group annual financial statements for the nature of provisions recorded.

1.3.7 Environmental restoration and decommissioning obligations

The group initially recognises 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

1. Accounting policies (Continued)

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 33 to the group annual financial statements for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

1.3.8 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo Simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

1.4 Adoption of accounting standards in the current year

Standards, interpretations and amendments to standards

The below mentioned standards, which have a material impact on the group annual financial statements, were adopted by the group for the year ended September 2014. These standards are required to be applied retrospectively.

- IAS 19 (Revised) *Employee Benefits*—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 accelerates the recognition of past service costs. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount

1. Accounting policies (Continued)

rate to the net defined benefit liability or asset. In addition, there are certain changes to the presentation of defined benefit cost including more extensive disclosures.

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

Additionally, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors.

The group also adopted the following standards and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IFRS 7 *Financial Instruments: Disclosures*—Offsetting Financial Assets and Financial Liabilities;
- IFRS 11 *Joint Arrangements*—classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these;
- IFRS 12 *Disclosure of Interest in Other Entities;*
- IFRS 13 *Fair Value Measurements*—establishes a single source of guidance for fair value measurements under IFRS;
- IAS 27 *Separate Financial Statements*—amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28 *Investments in Associates and Joint Ventures*—amendment to conform changes based on the issuance of IFRS 10 and IFRS 11.

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*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2019.

The new standards, amendments and revisions and their effective dates mentioned below are not expected to have a material impact on the group's results or financial position:

- IFRS 11 *Joint Arrangements*—Accounting for Acquisitions of Interests in Joint Operations—September 2017;
- IFRS 14 *Regulatory Deferral Accounts*—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 2018;
- IAS 19 *Defined Benefit Plans*—Employee Contributions—September 2015;

1. Accounting policies (Continued)

- IAS 27 *Separate Financial Statements*—Equity Method in Separate Financial Statements—September 2017;
- IAS 32 *Financial Instruments: Presentation*—Offsetting Financial Assets and Financial Liabilities—September 2015;
- IAS 36 *Impairment of Assets*—Recoverable Amount Disclosures for Non-Financial Assets—September 2015;
- IAS 39 *Financial Instruments: Recognition and Measurement*—Novation of Derivatives and Continuation of Hedge Accounting—September 2015;
- IAS 41 *Agriculture*—Bearer Plants—September 2017;
- IFRIC 21 *Levies*—September 2015; and
- Various improvements to IFRS.

1.6 Impact of new and revised accounting standards

Adoption of IAS 19 (Revised) *Employee Benefits*

This standard, which is required to be applied retrospectively, was adopted by the group for the year ended September 2014. As a result of the change, the group now determines the net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability (asset). Previously, the group determined interest income on plan assets based on the assets' long-term rate of expected return. The group also reclassified the net interest expense (income) from operating profit (loss) to finance costs as an accounting policy choice.

The effect of the adoption of this standard was an adjustment to the group's income statement and an equal and corresponding adjustment to other comprehensive income. As a result there was no impact on the group's total comprehensive loss and balance sheet for the prior comparative fiscal years of 2013 and 2012 respectively.

The impact on profit or loss and other comprehensive loss is as follows:

	2013		
	As previously reported	Adjustment	Restated
		€ million	
Group income statement			
Cost of sales	3,675	10	3,685
Net finance costs	112	11	123
Tax	23	(7)	16
Loss for the year	(452)	(14)	(466)
Group statement of comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Actuarial (losses) gains on post-employment benefit funds	(2)	21	19
Tax effect of above item	(16)	(7)	(23)
Total comprehensive loss for the period	(499)	—	(499)

2. Segment information

Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance. The group's reportable segments comprise the geographic regions of North America and Europe as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue comprises mostly the sale of dissolving wood pulp and, coated and speciality paper in North America and coated, uncoated and speciality paper in Europe.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and, of the group's other products in areas outside its core operating regions of North America and Europe.

The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit (loss) excluding special items.

	North America		Europe		Unallocated and eliminations[3]		Group	
	2014	Restated 2013	2014	Restated 2013	2014	2013	2014	Restated 2013
	€ million							
Income Statement								
External sales[1]	**1,117**	1,049	**2,288**	2,405	**606**	543	**4,011**	3,997
Operating profit (loss) excluding special items	**13**	43	**55**	(6)	**35**	41	**103**	78
Special items—losses[2]	**(15)**	(271)	**(24)**	(108)	**(17)**	(26)	**(56)**	(405)
Segment operating (loss) profit	**(2)**	(228)	**31**	(114)	**18**	15	**47**	(327)
EBITDA excluding special items[2]	**68**	102	**183**	140	**35**	42	**286**	284
Share of profit from joint ventures	**—**	—	**—**	1	**—**	—	**—**	1
Depreciation and amortisation	**(55)**	(59)	**(128)**	(146)	**—**	(1)	**(183)**	(206)
Impairment reversals (impairments) of assets and investments	**—**	—	**1**	(48)	**—**	—	**1**	(48)
Impairment of goodwill	**(13)**	(277)	**—**	—	**(10)**	(11)	**(23)**	(288)
Loss on disposal of assets and businesses	**—**	—	**(23)**	—	**—**	—	**(23)**	—
Restructuring provisions (raised) released and closure costs	**(3)**	—	**8**	(60)	**—**	—	**5**	(60)
Post-retirement plan amendment	**—**	—	**16**	—	**—**	—	**16**	—
Other non-cash items	**(12)**	12	**1**	4	**22**	8	**11**	24
Balance Sheet								
Capital expenditures	**39**	128	**113**	98	**1**	1	**153**	227
Segment assets[4]	**887**	873	**1,173**	1,190	**(42)**	(13)	**2,018**	2,050
Property, plant and equipment	**665**	639	**900**	918	**1**	—	**1,566**	1,557

Reconciliation of operating profit (loss) excluding special items to segment operating (loss) profit:

	North America		Europe		Unallocated and eliminations[3]		Group	
	2014	Restated 2013	2014	Restated 2013	2014	2013	2014	Restated 2013
	€ million							
Operating profit (loss) excluding special items	**13**	43	**55**	(6)	**35**	41	**103**	78
Special items—losses[2]	**(15)**	(271)	**(24)**	(108)	**(17)**	(26)	**(56)**	(405)
Segment operating (loss) profit	**(2)**	(228)	**31**	(114)	**18**	15	**47**	(327)

2. Segment information (Continued)

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to loss before tax:

	North America		Europe		Unallocated and eliminations[3]		Group	
	2014	Restated 2013	2014	Restated 2013	2014	2013	2014	Restated 2013
	€ million							
EBITDA excluding special items[2]	**68**	102	**183**	140	**35**	42	**286**	284
Depreciation and amortisation	**(55)**	(59)	**(128)**	(146)	**—**	(1)	**(183)**	(206)
Operating profit (loss) excluding special items	**13**	43	**55**	(6)	**35**	41	**103**	78
Special items—losses[2]	**(15)**	(271)	**(24)**	(108)	**(17)**	(26)	**(56)**	(405)
Segment operating (loss) profit	**(2)**	(228)	**31**	(114)	**18**	15	**47**	(327)
Net finance costs							**(115)**	(123)
Loss before tax							**(68)**	(450)

Reconciliation of segment assets to total assets:

	Group 2014	Group 2013
	€ million	
Segment assets[4]	**2,018**	2,050
Deferred tax assets	**109**	67
Cash and cash equivalents	**270**	226
Derivative financial instruments (included in current liabilities)	**3**	1
Trade and other payables	**699**	655
Provisions	**25**	54
Tax payable	**11**	2
Total assets	**3,135**	3,055
Sales by products		
Coated paper	**2,669**	2,853
Uncoated paper	**163**	168
Speciality paper	**369**	342
Commodity paper	**31**	36
Dissolving wood pulp	**747**	521
Paper Pulp	**27**	77
Other	**5**	—
External sales	**4,011**	3,997

(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to the directors' report for a definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

(4) Segment assets consist of total assets (excluding deferred tax and cash) less current liabilities (excluding interest-bearing borrowings and overdrafts).

3. Cost of sales

	2014	Restated 2013
	€ million	
Included in cost of sales are the following items:		
Raw materials, energy and other direct input costs	**2,514**	2,449
Employee costs (refer to note 7)	**615**	626
Depreciation	**174**	195
Delivery charges	**318**	306
Other overheads	**80**	109
	3,701	3,685

4. Selling, general and administrative expenses

	2014	Restated 2013
	€ million	
Selling expenses	**106**	105
Administrative expenses	**111**	117
Depreciation	**7**	9
General (income) expenses	**(10)**	7
	214	238

5. Other operating expenses

	2014	Restated 2013
	€ million	
Included in other operating expenses are the following:		
Restructuring provisions and closure costs (reversed) raised	**(5)**	60
(Impairment reversals) impairments of assets and investments	**(1)**	48
Goodwill impairments	**23**	288
Fire, flood, storm and related events	**9**	6
Loss on disposal of assets and businesses	**23**	—
	49	402

6. Operating profit (loss)

Operating profit (loss) is arrived at after taking into account the items detailed below:

	2014	Restated 2013
	€ million	
Leasing charges for premises	**8**	8
Leasing charges for plant and equipment	**7**	7
Remuneration paid other than to employees of the group in respect of:	**18**	21
—technical services	**6**	9
—administration services	**12**	12
Auditors' remuneration:	**4**	4
—audit and related services	**3**	3
—tax services	**1**	1
Research and development costs	**15**	16
Amortisation	**2**	2
Post-retirement plan amendment	**(16)**	—

7. Employee costs

	2014	Restated 2013
	€ million	
Wages and salaries	**584**	578
Defined contribution plan expense	**17**	16
Defined benefit pension plan (credit) expense	**(4)**	13
Other defined benefit pension plan expense	**1**	1
Share-based payment expense	**2**	3
Other	**15**	15
	615	626
The average number of persons employed:		
—Blue-collar workers	**4,499**	4,612
—White-collar workers	**2,935**	3,284
	7,434	7,896

8. Tax (benefit) charge

	2014	Restated 2013
	€ million	
Current tax:		
—Current year	**9**	1
—Prior year overprovision	**—**	(4)
—Other company taxes	**—**	2
Deferred tax:		
—Current year	**(7)**	23
—Recognition of deferred tax asset[(1)]	**(39)**	(6)
	(37)	16

8. Tax (benefit) charge (Continued)

In addition to the tax (benefit) charge to profit or loss, a deferred tax benefit of €2 million (2013: €23 million benefit) has been recognised directly in other comprehensive income (refer note 10).

Reconciliation of the tax rate

	2014	Restated 2013
	€ million	
Loss before tax	**(68)**	(450)
Tax at the average statutory tax rate	**(22)**	(154)
Net exempt income and non-tax deductible expenditure	**(30)**	114
No tax relief on losses	**54**	41
No tax charge on profits	**—**	(1)
Derecognition of deferred tax assets	**—**	24
Recognition of deferred tax assets	**(39)**	(6)
Prior year adjustments	**—**	(4)
Other taxes	**—**	2
Tax charge	**(37)**	16
Effective tax rate for the year	**54%**	(4%)

(1) The group received a final examination report from the US Internal Revenue Service relating to the tax audit of Sappi North America. The report confirmed that the Alternative Fuel Mixture Credit received in prior years, which was previously treated as taxable by the group, was non-taxable and resulted in an additional deferred tax asset of US$53 million being raised by the group.

9. Property, plant and equipment

	2014	2013
	€ million	
Land and buildings[1]		
At cost	**926**	934
Accumulated depreciation and impairments	**(594)**	(594)
	332	340
Plant and equipment[2]		
At cost	**4,510**	4,242
Accumulated depreciation and impairments	**(3,278)**	(3,027)
	1,232	1,215
Capitalised leased assets[3]		
At cost	**367**	367
Accumulated depreciation and impairments	**(365)**	(365)
	2	2
Aggregate cost	**5,803**	5,543
Aggregate accumulated depreciation and impairments	**(4,237)**	(3,986)
Aggregate book value[4]	**1,566**	1,557

9. Property, plant and equipment (Continued)

The movement on property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	Total
		€ million		
Net book value at September 2012	356	1,235	31	**1,622**
Additions	6	220	—	**226**
Interest capitalised	—	1	—	**1**
Disposals	—	(8)	—	**(8)**
Depreciation	(23)	(199)	18	**(204)**
Transfers	6	41	(47)	**—**
Impairments	—	(55)	—	**(55)**
Impairment reversals	—	7	—	**7**
Translation differences	(5)	(27)	—	**(32)**
Net book value at September 2013	340	1,215	2	**1,557**
Additions	6	146	1	**153**
Disposals	(2)	(4)	—	**(6)**
Depreciation	(19)	(161)	(1)	**(181)**
Impairment reversal	—	1	—	**1**
Translation difference	7	35	—	**42**
Net book value at September 2014	**332**	**1,232**	**2**	**1,566**

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of plant and equipment.

(4) An amount of €134 million (2013: €92 million) relates to assets under construction.

Refer note 24 for details of encumbrances.

September 2014 material asset impairment reversal

Europe

Sappi Lanaken

On the disposal of Nijmegen Mill, products previously produced by the mill have been relocated to other Sappi Europe mills. As a result, certain equipment at Lananken Mill that was previously not required have been brought back into use resulting in an impairment reversal of €1 million being recognised in other operating expenses in profit or loss.

September 2013 material asset impairments and impairment reversals

Europe

As a result of the market decline and consequent overcapacity in the European coated paper markets, combined with high raw material costs which were not compensated for by higher selling

9. Property, plant and equipment (Continued)

prices, the group impaired certain assets and undertook certain strategic initiatives which resulted in asset impairments:

Coated mechanical cash generating unit (CGU)

The coated mechanical CGU was valued on a value in use basis using a real pre-tax rate of 8.7%. This resulted in an impairment charge of €19 million being recorded in other operating expenses in profit or loss.

Nijmegen Mill

In order to reduce costs and improve efficiencies, the group identified the need to concentrate production at fewer sites. The group announced it's intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in the mill's plant and equipment being impaired and an impairment charge of €29 million being recorded in other operating expenses in profit or loss.

Due to the relocation of production of certain products from Nijmegen Mill, the group incurred an impairment charge of €2 million as a result of equipment being taken out of production at other Sappi mill sites. This impairment was recorded in other operating expenses in profit or loss.

Nijmegen Mill was sold during the 2014 financial year.

Alfeld Mill

The conversion of paper machine 2 at Alfeld Mill to produce speciality paper resulted in certain of the mill assets becoming redundant. As a result, an impairment charge of €3 million was recorded in other operating expenses in profit or loss.

Central service departments

In line with decreasing volumes and to reduce fixed costs, certain central service departments were restructured resulting in certain information technology assets being made redundant. This resulted in an impairment charge of €2 million in other operating expenses in profit or loss.

Kangas Mill

The group disposed of the previously impaired paper machine 4 at Kangas Mill. As the proceeds on disposal exceeded the carrying value of the asset, an impairment reversal of €7 million was recorded in other operating expenses in profit or loss.

10. Deferred tax

	2014		Restated 2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€ million			
Other liabilities, accruals and prepayments	**(38)**	**—**	(41)	—
Inventory	**5**	**2**	3	1
United States of America (USA) tax credits carry forward	**44**	**—**	41	—
Tax loss carry forward	**92**	**33**	67	27
Property, plant and equipment	**(23)**	**(64)**	(42)	(63)
Other non-current assets	**10**	**—**	39	—
Other non-current liabilities	**19**	**8**	—	5
	109	**(21)**	67	(30)

10. Deferred tax (Continued)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

10. Deferred tax (Continued)

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

	2014	Restated 2013
	€ million	
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**110**	4
Tax losses	**583**	541
USA tax credits carry forward[1]	**46**	43
	739	588
Attributable to the following tax jurisdictions:		
Austria	**498**	377
Belgium	**106**	73
Finland	**35**	37
The Netherlands	**54**	58
USA	**46**	43
	739	588
Expiry between two and five years	**122**	105
Expiry after five years	**26**	48
Indefinite life	**591**	435
	739	588
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**588**	478
No tax relief on losses	**155**	48
No tax charge on profits	**(1)**	(1)
Derecognition of deferred tax assets	**—**	18
Prior year adjustments	**—**	47
Rate adjustments	**(6)**	—
Movement in foreign exchange rates	**3**	(2)
Balance at end of year	**739**	588

(1) Our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses must be utilised prior to the utilisation of the CBTC. The CBTC expires during the 2016 financial year.

10. Deferred tax (Continued)

	2014	Restated 2013
	€ million	
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**67**	120
Deferred tax liabilities	**(30)**	(39)
	37	81
Deferred tax benefit (charge) for the year	**46**	(17)
Other liabilities, accruals and prepayments	**—**	2
Inventory	**1**	—
USA tax credits	**—**	(41)
Tax loss carry forward	**61**	(53)
Property, plant and equipment	**22**	19
Other non-current assets	**(31)**	(10)
Other non-current liabilities	**(7)**	66
Amounts recorded directly in other comprehensive income	**(2)**	(23)
Translation differences	**7**	(4)
Deferred tax balances at end of year	**88**	37
Deferred tax assets[2]	**109**	67
Deferred tax liabilities	**(21)**	(30)

(2) The group raised an additional deferred tax asset of €39 million in North America. To the extent future taxable profits arising from the reversal of existing taxable temporary differences will be available, assets have been set up in Belgium and North America. Profit forecasts, based on external sources and management judgement, provide sufficient evidence for the recognition of these assets.

11. Goodwill and intangible assets

	2014				2013			
	Goodwill	Licence fees	Brands	Total	Goodwill	Licence fees	Brands	Total
	€ million							
Cost (gross carrying amount)	**898**	**2**	**18**	**918**	898	2	18	918
Accumulated amortisation and impairments	**(733)**	**—**	**(10)**	**(743)**	(713)	—	(8)	(721)
Net carrying amount	**165**	**2**	**8**	**175**	185	2	10	197
Net carrying amount at beginning of year	**185**	**2**	**10**	**197**	476	2	11	489
Amortisation	**—**	**—**	**(2)**	**(2)**	—	—	(2)	(2)
Impairment[1]	**(23)**	**—**	**—**	**(23)**	(288)	—	—	(288)
Other movements	**—**	**—**	**—**	**—**	—	—	—	—
Translation difference	**3**	**—**	**—**	**3**	(3)	—	1	(2)
Net carrying amount	**165**	**2**	**8**	**175**	185	2	10	197

(1) The carrying amount of goodwill was tested for impairment in accordance with IAS 36 by comparing the recoverable amount with the carrying amount. This resulted in an impairment charge of €23 million (2013: €288 million), of which €13 million (2013: €277 million) related to North America and €10 million (2013: €11 million) related to Sappi Trading. The recoverable amounts were calculated on a value in use basis. Sappi Trading used a real pre-tax discount rate of 13.0% (2013: 10.8%) and North America used a nominal pre-tax discount rate of 10.6%. In the prior year, the valuation of North America was performed by an independent third party using a cost of equity discount rate range of 7.9% to 9.0% over five years. The impairment charges are recorded in other operating expenses in profit or loss for the year.

12. Joint ventures

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December which is a common date for entities operating in the joint ventures countries of incorporation and which is also the year-end of the other venturers.

There are no material joint ventures in the group.

Dividends received from joint ventures in the prior year was €1 million. No dividends were received in the current year.

	2014	2013
	€ million	
Aggregate financial information for joint ventures:		
Profit from continuing operations	**—**	2
Other comprehensive income (loss)	**1**	(2)
Total comprehensive income	**1**	—
Carrying amount of the group's interest in these joint ventures	**1**	1

13. Other non-current assets

	2014	2013
	€ million	
Investment funds	**7**	6
Other financial assets	**3**	2
Other loans	**2**	5
	12	13

14. Trade and other receivables[1]

	2014	2013
	€ million	
Trade accounts receivable, gross	**488**	466
Allowance for credit lossses	**(7)**	(5)
Trade accounts receivable, net	**481**	461
Prepayments and other receivables	**74**	77
	555	538

(1) Includes related parties receivables of €3 million (2013: €2 million).

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximates its fair value.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.1% (2013:11.7%) of turnover.

14. Trade and other receivables[1] (Continued)

14.1 Reconciliation of the allowance for credit losses

	2014	2013
	€ million	
Balance at beginning of year	**5**	8
Raised during the year	**4**	4
Released during the year	**(2)**	(6)
Utilised during the year	**—**	(1)
Balance at end of year	**7**	5

The allowance for credit losses has been determined by reference to specific customer delinquencies.

14.2 Analysis of amounts past due

September 2014

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
		€ million	
Less than 7 days overdue	**9**	**—**	**9**
Between 7 and 30 days overdue	**10**	**—**	**10**
Between 30 and 60 days overdue	**2**	**—**	**2**
More than 60 days overdue	**1**	**7**	**8**
	22	**7**	**29**

September 2013

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
		€ million	
Less than 7 days overdue	9	—	9
Between 7 and 30 days overdue	8	—	8
Between 30 and 60 days overdue	3	—	3
More than 60 days overdue	—	5	5
	20	5	25

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis.

Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of €1 million (2013: €1 million) against trade receivables past contractual repayment terms.

14. Trade and other receivables[1] (Continued)

14.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

In the 2013 financial year, the group extended its on-balance sheet securitisation programme with UniCredit Bank AG to August 2016. This programme has a limit of €330 million and the trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of €377 million (2013: €385 million) have been pledged as collateral for amounts received as funding under the programme of €295 million (2013: €299 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 19.

Off-balance sheet structures

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain Letters of Credit to the Royal Bank of Scotland (Hong Kong) and Union Bancaire Privee (Switzerland) and similarly, discounts certain trade receivables with Deutsche Bank (Frankfurt), HSBC (Mexico) and Citibank (Sao Paulo) by utilising the customers credit facilities with the discounting bank.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (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 recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). 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 recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of €16 million (2013: €23 million) has been disclosed in this respect.

14.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of sales during the financial years ended September 2014 and September 2013.

Where appropriate, credit insurance has been taken out over the group's trade receivables.

14. Trade and other receivables[1] (Continued)

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of €555 million (2013: €538 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following trade receivable amounts (excluding related party receivables) due from single customers:

	2014			2013		
Threshold	No of customers	€ million	Percentage	No of customers	€ million	Percentage
Greater than €7 million	**6**	**94**	**20**	9	107	23
Between €4 million and €7 million	**13**	**65**	**13**	11	54	12
Less than €4 million	**2,128**	**319**	**67**	1,934	300	65
	2,147	**478**	**100**	1,954	461	100

At balance sheet date, none of the group's customers with balances equal to or greater than €4 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer note 30 for further details on credit risk.

15. Inventories

	2014	2013
	€ million	
Raw materials	**78**	75
Work in progress	**45**	52
Finished goods	**218**	218
Consumable stores and spares	**88**	86
	429	431

The amount recognised in profit or loss for the period relating to the write-down of inventories to net realisable value was to €2 million (2013: €4 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to €3,343 million (2013: €3,333 million).

Refer to note 24 for inventory pledged as security.

16. Ordinary share capital and share premium

	2014	2013
	€ million	
Sappi Papier Holding GmbH		
Authorised share capital:		
1 no par value share	**—**	—
Issued share capital:		
1 no par value share	**1,197**	1,197

16. Ordinary share capital and share premium (Continued)

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated losses disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest-bearing borrowings and obligations due under finance leases; and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders;
- to ensure sufficient resilience against economic turmoil;
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints; and
- to ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2014 and 2013 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

17. Non-distributable reserves

	2014	2013
	€ million	
Legal reserves in subsidiaries	**32**	32
Capitalisation reserve	**546**	482
Share-based payment reserve	**(2)**	(1)
Revaluation of available-for-sale financial assets	**1**	1
	577	514

17. Non-distributable reserves (Continued)

	2014					2013				
	Legal reserves[1]	Capitalisation reserve[2]	Share-based payment reserve	Available-for-sale financial assets	Total	Legal reserves[1]	Capitalisation reserve[2]	Share-based payment reserve	Available-for-sale financial assets	Total
	€ million									
Opening balance	**32**	**482**	**(1)**	**1**	**514**	39	482	(1)	1	521
Transfer to retained income	**—**	**—**	**—**	**—**	**—**	(7)	—	—	—	(7)
Share-based payment expense	**—**	**—**	**2**	**—**	**2**	—	—	3	—	3
Other movements	**—**	**64**	**(3)**	**—**	**61**	—	—	(3)	—	(3)
	32	**546**	**(2)**	**1**	**577**	32	482	(1)	1	514

(1) Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.

(2) Consists of capital contributions by Sappi Limited, the holding company, into the SPH group via Sappi Holding, the direct holding company of the SPH group.

18. Other comprehensive loss

	2014	Restated 2013
	€ million	
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains on post-employment benefit funds	**(108)**	(4)
Gross amount	**(106)**	19
Tax[1]	**(2)**	(23)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation to presentation currency	**34**	(25)
Translation of foreign operations	**34**	(25)
Tax	**—**	—
Hedging reserves	**(15)**	(4)
Movements during the year	**(15)**	(4)
Tax	**—**	—
Other comprehensive loss recorded directly in equity	**(89)**	(33)
Loss for the year	**(31)**	(466)
Total comprehensive loss for the year	**(120)**	(499)

(1) The 2013 financial year includes a tax charge arising on the actuarial gain in North America. No tax was recognised on the actuarial losses arising in Europe.

19. Interest-bearing borrowings

	2014	2013
	€ million	
Secured borrowings		
—Mortgage and pledge over trade receivables and certain assets (refer to note 24 for details of encumbered assets)	**1,363**	1,316
Unsecured borrowings(1)	**370**	358
Total borrowings	**1,733**	1,674
Less: Current portion included in current liabilities(1)	**(80)**	(61)
Total non-current interest-bearing borrowings	**1,653**	1,613
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2014		61
2015	**80**	18
2016	**313**	317
2017	**410**	389
2018	**247**	246
2019 (September 2013: Thereafter)	**233**	643
Thereafter	**450**	
	1,733	1,674

(1) Includes related party financing of €4 million (2013: €4 million) with entities that are consolidated into the Sappi Limited group but not consolidated into the SPH group.

Capitalised lease liabilities

As at financial year-end, the group held no outstanding material capitalised finance lease liabilities.

19. Interest-bearing borrowings (Continued)

Set out below are details of the more significant interest-bearing borrowings in the group at September 2014:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security / cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed[2]	US$400 million	US$394 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€250 million	€247 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Fixed[2]	US$300 million	US$295 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US$	Variable[6]	US$350 million	US$353 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$217 million[4][5][7]	Unsecured	June 2032	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€192 million	€192 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[8]
UniCredit Bank	US$	Variable	US$131 million	US$131 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[8]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€136 million	€135 million[4][9]		June 2017	EBITDA to net interest and net debt to EBITDA[8]

19. Interest-bearing borrowings (Continued)

	Local currency million	€ million
The analysis of the currency per debt (excluding debt attributable to related parties) is:		
US Dollar[10]	1,391	1,097
Euro	632	632
		1,729

(1) The nature of the rates for the group bonds are explained in note 30 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

(3) Under the relevant indenture, certain limitations exist including, dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

(4) The principal value of the loans/bonds corresponds to the amount of the facility, however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time make an offer to redeem any public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

(6) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.

(7) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.

(8) Financial covenants relate to the Sappi Limited group.

(9) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

(10) This amount includes debt of US$700 million that is swapped into Euro.

A detailed analysis of total interest-bearing borrowings has been performed in note 30.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2014 and 2013 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of €330 million and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

19. Interest-bearing borrowings (Continued)

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2014, a funding reserve, that is reset on a monthly basis, amounted to 21.98% (2013: 22.03%).

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between €300 million and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 14 and 24.

Unutilised facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2014	2013
			€ million	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR	Variable (EURIBOR)	**350**	350
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**35**	31
			385	381
Unutilised uncommitted facilities				
Cash management overdraft facility	EUR	Variable (EURIBOR)	**16**	18
			16	18
Total unutilised facilities (committed and uncommitted) excluding cash			**401**	399

(1) A syndicated loan with a consortium of banks with a revolving facility available of €350 million (2013: €350 million). The facility matures in April 2016, is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2017, 2018, 2019 and 2021. We have paid a commitment fee of €4.0 million (2013: €3.9 million).

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 30.

20. Other non-current liabilities

	2014	2013
	€ million	
Defined benefit pension plan liabilities (refer to note 27)	**290**	215
Other defined benefit plan liabilities (refer to note 27)	**70**	60
Long-term employee benefits	**1**	1
Workmens' compensation	**16**	11
Long service awards	**18**	17
Land restoration obligation	**12**	13
Deferred income	**2**	2
Restructuring provisions (refer to note 22)	**10**	9
Other	**6**	3
	425	331

21. Trade and other payables

	2014	2013
	€ million	
Trade creditors	**311**	280
Related party trade payables within the Sappi Limited group	**101**	104
Trade creditors including related parties	**412**	384
Other creditors and accruals	**287**	271
	699	655

Due to the short maturities of trade and other payables, the carrying amount of these trade and other payables approximates its fair value.

22. Provisions

	2014	2013
	€ million	
Restructuring provisions	**35**	63
Long-term (refer to note 20)	**10**	9
Short-term	**25**	54
Other provisions	**—**	—
	35	63

22. Provisions (Continued)

Details of the restructuring provisions are provided below:

	Severance, retrenchment and related costs	Other restructuring	Total
		€ million	
Balance at September 2012	21	—	**21**
Increase in provisions	52	10	**62**
Utilised	(11)	(1)	**(12)**
Released during the year	(2)	—	**(2)**
Other movements	(2)	(4)	**(6)**
Balance at September 2013	58	5	**63**
Increase in provisions	23	3	**26**
Utilised	(18)	(3)	**(21)**
Released during the year	(25)	(6)	**(31)**
Other movements	(4)	2	**(2)**
Balance at September 2014	34	1	**35**

September 2014 restructuring provisions

Europe

During the financial year, the group put into place a plan to reduce the workforce primarily in its coated mechanical cash-generating unit and to restructure its research and development activities in order to better utilise resources. This resulted in a restructuring provision of €13 million, which was unutilised at financial year-end, being raised. The provision is expected to be fully utilised by September 2016.

Another restructuring provision was raised during the year to reduce maintenance costs and, to an extent, payroll costs. This resulted in a restructuring provision of €4 million being raised through other operating expenses in profit or loss. By financial year-end, an amount of €2 million was utilised and €1 million was released to profit or loss for the year. An amount of €1 million remains unutilised at financial year-end which is expected to be fully utilised by September 2015.

North America

In May 2014, Sappi North America announced that it would reduce it's central overhead costs resulting in a restructuring provision of €3 million for severance and retrenchment costs being raised. At financial year-end, an amount of €1 million was utilised with the remaining balance of €2 million expected to be fully utilised by December 2015.

September 2013 restructuring provisions

Due to market decline and consequent overcapacity in our European coated paper markets, the group initiated measures to improve efficiencies and contain costs in our coated paper businesses while investing in higher margin businesses which together, resulted in various restructuring provisions being raised during the 2013 financial year.

Europe

The intention to invest in higher margin businesses resulted in paper machine 2 at Alfeld Mill being converted to produce speciality paper, resulting in a restructuring provision of €7 million being raised primarily for severance and retrenchment costs. During the 2014 financial year, €5 million of the remaining €6 million was utilised and at financial year-end, an amount of €1 million remained unutilised. The provision is expected to be fully utilised by September 2015.

22. Provisions (Continued)

On 28 September 2013, the group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in a restructuring provision of €33 million being raised at Nijmegen Mill and, due to the relocation of certain products to Lanaken Mill, an additional provision of €2 million being raised at that mill. During the 2014 financial year, Nijmegen Mill was sold resulting in an additional provision of €2 million being raised for transitional costs, €1 million being utilised and €29 million being released to other operating expenses in profit or loss. At financial year-end, an amount of €2 million remained unutilised.

To improve the cost effectiveness of Gratkorn Mill, the group is upgrading certain sections of the mill which will result in a workforce reduction. During the 2014 financial year, €2 million of the provision was ultilised and the group had raised an additional €2 million through other operating expenses in profit or loss for the year. At financial year-end, the remaining provision which is expected to be fully utilised by December 2016, was €3 million.

In an attempt to tailor the central fixed costs to be in line with declining volumes, a central overhead cost reduction programme was implemented across Europe. A restructuring provision of €13 million for severance and retrenchment costs was raised. During the 2014 financial year, an amount of €9 million was utilised and €1 million released to other operating expenses in profit or loss. At financial year-end an amount of €2 million remains unutilised. The provision is expected to be fully utilised by the end of September 2015.

23. Notes to the group statement of cash flows

23.1 Cash generated from operations

	2014	Restated 2013
	€ million	
Loss for the year	**(31)**	(466)
Adjustment for:		
—Depreciation	**181**	204
—Amortisation	**2**	2
—Tax (benefit) charge	**(37)**	16
—Net finance costs	**115**	123
—(Impairment reversal) impairments of assets and investments	**(1)**	48
—Impairment of goodwill	**23**	288
—Restructuring provisions and closure costs (reversed) raised	**(5)**	60
—Post-employment benefits funding	**(44)**	(47)
—Loss on disposal of assets and businesses	**23**	—
—Share plan charge	**(3)**	(3)
—Other non-cash items	**14**	28
	237	253

23.2 Decrease (increase) in working capital

Decrease (increase) in inventories	**3**	(17)
(Increase) decrease in receivables	**(9)**	18
Increase (decrease) in payables	**35**	(4)
	29	(3)

23. Notes to the group statement of cash flows (Continued)

23.3 Finance costs paid

	2014	Restated 2013
	€ million	
Interest and other finance costs on liabilities carried at amortised cost	**(122)**	(123)
Net foreign exchange losses	**5**	(2)
Net fair value gain on financial instruments	**1**	1
Non-cash movements included in items above	**10**	11
	(106)	(113)

23.4 Tax refunded (paid)

	2014	2013
Amounts payable (receivable) at beginning of year	**11**	(3)
Tax (charge) benefit to profit or loss	**(9)**	1
Amounts receivable at end of year	**—**	(11)
	2	(13)

23.5 Cash outflow on disposal of business

During the year, the group disposed of Nijmegen Mill which, together with inventory of €11 million, trade and other receivables of €2 million, other long-term loans of €1 million and trade and other payables of €9 million, included cash balances of €17 million.This cash outflow was offset by the release of a net closure provision, after providing for certain disposal related costs, of €27 million. This provision would have been mostly settled using cash resources.

23.6 Proceeds on disposal of non-current assets

	2014	2013
Book value of non-current assets disposed of	**6**	8
Loss on disposal	**(3)**	—
Other sundry receivables	**—**	31
	3	39

24. Encumbered assets

	2014	2013
	€ million	
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Land and buildings	**181**	199
Plant and equipment	**849**	1,044
Trade receivables	**377**	385
Inventories	**160**	158
	1,567	1,786

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

24. Encumbered assets (Continued)

The encumbered land and buildings, plant and equipment and inventory relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 19):
  - US$400 million due in 2017
  - €250 million due in 2018
  - US$300 million due in 2019 and
  - US$350 million due in 2021.
- The committed revolving credit facility of €350 million which was undrawn during the 2014 financial year (refer to note 19).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of €330 million, of which, €295 million was utilised at financial year-end (refer to notes 14 and 19).

25. Commitments

Capital commitments

	2014	2013
	€ million	
Contracted but not provided	**73**	33
Approved but not contracted	**92**	122
	165	155

	2014	2013
Future forecasted cash flows of capital commitments at September:		
2014		121
2015	**138**	18
2016	**8**	8
2017 (2013: Thereafter)	**10**	8
Thereafter	**9**	
	165	155

These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

25. Commitments (Continued)

Lease commitments

	2014	2013
	€ million	
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2014		12
2015	**13**	9
2016	**8**	5
2017	**5**	3
2018	**3**	2
2019 (2013: Thereafter)	**2**	3
Thereafter	**5**	
	36	34

Further information on capital commitments relating to environmental matters can be found in note 33.

26. Contingent liabilities

	2014	2013
	€ million	
Guarantees and suretyships	**18**	25
Other contingent liabilities	**20**	7
	38	32

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivable.

Other contingent liabilities mainly relate to environmental and other tax queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

27. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
			€ million			
Post-retirement plan costs recognised in profit or loss	**17**	16	**3**	22	**4**	3
Employer contributions paid during the financial year			**37**	40	**3**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/other benefit liabilities (refer to note 20)			**290**	215	**70**	60
Accrued contributions (included in 'Trade and other payables')			**—**	—	**—**	4
Net balance sheet liabilities			**290**	215	**70**	64
Development in the balance sheet for the pension/other benefit plans						
Net pension/healthcare subsidy liabilities at beginning of year			**(215)**	(251)	**(64)**	(73)
Net pension/other benefit costs for the year			**(5)**	(27)	**(4)**	(3)
Curtailments for the year recognised in profit or loss[1]			**2**	5	**—**	—
Employer contributions			**37**	40	**3**	3
Net actuarial (losses) gains for the year			**(106)**	13	**—**	6
Translation differences			**(3)**	5	**(5)**	3
Net pension/other benefit liabilities at end of year			**(290)**	(215)	**(70)**	(64)

(1) The current year gain of €2 million arose from a once-off adjustment of benefits in one plan in Europe. The prior year gain of €5 million related to a curtailment gain in The Netherlands.

Actuarial valuations of all plans are performed annually with the exception of the United Kingdom defined benefit pension plan where an actuarial review is performed annually and a formal actuarial funding valuation is performed tri-annually.

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of €17 million (September 2013: €16 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions (total cost charged) to be paid in the next financial year is €15 million.

In addition to company sponsored plans across the group, employees commonly participate in local State plans wherever they exist. State pension plans exist in most regions to provide such benefits as disability and unemployment income protection. Employee eligibility and participation is generally mandatory to local tax payers usually on residence-based criteria in accordance with domestic laws. State benefits vary widely in value and accrual formulae from country to country. Contributions are paid through domestic tax or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in State plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic

27. Post-employment benefits (Continued)

governments. Costs, where incurred, are included with other employee costs elsewhere in the group accounts.

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of associations to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise of management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which, historically, has increased from time to time). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate / pensionable salary definition	Location of scheme
Final average salary	Austria, Germany
Career average revalued earnings	Belgium, Netherlands
Frozen benefit	United Kingdom, North America (salaried plan)
Fixed €-value	Germany
Nominal $-value (periodically revalued)	North America (works plans)

Plans remain open to new hires except for plans in Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

The main strategic choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

27. Post-employment benefits (Continued)

- Europe incl UK[1]: Asset mix based on 30% equity instruments; 70% debt instruments
- North America: Asset mix based on 45% equity instruments; 55% debt instruments

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions across group subsidiaries over the next financial year are €35 million.

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American operation. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Expected company contributions to fund these subsidies over the next financial year are €5 million.

(1) Weighted average of separate plans in this region

27. Post-employment benefits (Continued)

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

	2014	2013
	€ million	
Jubilee (long service award) in other long term liabilities (refer note 20)	**18**	17
Early retirement (temporary pension) benefit in Belgium	**5**	4
ATZ (early retirement—temporary salary supplement) obligations in Germany and Austria	**9**	6
Workmens' compensation benefit obligations in North America	**16**	14

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2014	Restated 2013	2014	Restated 2013
	€ million			
Components of defined benefit cost recognised in profit or loss				
Current service cost	**12**	14	1	1
Past service (credit) cost	**(16)**	1	—	—
Interest on net defined benefit	**7**	9	3	2
Fund administration costs	**2**	3	—	—
Curtailment gain	**(2)**	(5)	—	—
Net amount recognised in profit or loss	**3**	22	4	3
Components of defined benefit cost recognised in other comprehensive income				
Actuarial gains (losses) arising from membership experience	**1**	(5)	2	4
Actuarial (losses) gains arising from changes in financial assumptions	**(197)**	41	(2)	2
Return on plan assets (excluding amounts included in interest income)	**90**	(23)	—	—
Net amount recognised in other comprehensive income	**(106)**	13	—	6
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,220**	1,286	64	73
Current service cost	**12**	14	1	1
Past service (credit) cost	**(16)**	1	—	—
Interest expense	**48**	47	3	2
Remeasurements	**196**	(36)	—	(6)
Membership experience changes	**(1)**	5	(2)	(4)
Financial assumption changes	**197**	(41)	2	(2)
Non-routine plan amendment, curtailment loss and settlement gain	**(2)**	(5)	—	—
Benefits paid	**(55)**	(53)	(3)	(3)
Translation difference	**46**	(34)	5	(3)
Defined benefit obligation at end of year	**1,449**	1,220	70	64
Present value of wholly unfunded obligation	**122**	111	70	64
Present value of wholly or partially funded obligation	**1,327**	1,109	—	—
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,005**	1,035	—	—
Interest income	**41**	38	—	—
Employer contributions	**37**	40	3	3
Remeasurements				
Return on plan assets	**90**	(23)	—	—
Non-routine plan amendment, curtailment loss and settlement gain		—		—
Benefits paid	**(55)**	(53)	(3)	(3)
Fund administration costs	**(2)**	(3)	—	—
Translation difference	**43**	(29)	—	—
Fair value of plan assets at end of year	**1,159**	1,005	—	—

27. Post-employment benefits (Continued)

The major categories of plan assets at fair value are presented as follows:

	Funded pension plans	
	2014	2013
	€ million	
Investments quoted in active markets		
Equity and high yield investments	404	317
Investment grade debt instruments	501	455
Property investment funds	11	—
Unquoted investments		
Equity and high yield investments[1]	235	198
Cash	8	35
	1,159	1,005

(1) Consist of commingled funds that are not quoted in active markets, but where the underlying securities held by these funds are quoted in active markets or whose prices are determined by other observable market data

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

Assumptions

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

	2014		2013	
	Europe incl UK	North America	Europe incl UK	North America
Discount rate—pension (%)	2.70	4.00	3.80	4.40
Discount rate—post-employment medical aid subsidies (%)		3.70		4.10
Future salary increases (%)	1.50		1.75	—
Cost of living adjustment for pensions in payment (%)[1]	1.90		1.25	—
Healthcare cost trend rate (%)[2]		8.40 → 5.00		8.75 → 5.00
Average life expectancy from retirement (years)[3]				
For current beneficiaries	24.6	23.5	24.5	23.3
For future retiring beneficiaries	26.6	23.5	26.3	23.3

(1) For plans that review adjustments by reference to inflation indices.

(2) Initial rate → long-term rate trend over 8 years (2013: 10 years).

(3) Based on local mortality tables in use (with modifications to reflect expected changes in mortality and other rates).

27. Post-employment benefits (Continued)

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions as at financial year-end is as disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by €192 million (increase by €233 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by €16 million (decrease by €14 million).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by €106 million (decrease by €90 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by €55 million (decrease by €57 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Liability profile

The average duration of the defined benefit plan obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Health-care subsidy
North America	11 years	9 years
Europe (incl UK)	15 years	—

27. Post-employment benefits (Continued)

Regional split of results

	2014		Restated 2013	
	Europe incl UK	North America	Europe incl UK	North America
	€ million			
Defined benefit obligation	**(925)**	**(594)**	(752)	(532)
Fair value of plan assets	**660**	**499**	583	422
Net defined benefit liability	**(265)**	**(95)**	(169)	(110)
Net defined benefit (credit) cost recognised in profit or loss	**(4)**	**11**	11	14
Net amount (loss) gain recognised in other comprehensive income	**(122)**	**16**	(39)	58

28. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (Share options) and (b) may be offered the opportunity to acquire ordinary shares (Scheme shares).

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant Share options or Scheme shares, as the case may be.

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, *inter alia*, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

28. Share-based payments (Continued)

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company, may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:

- a rights offer or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is, to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made to the rights of participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

28. Share-based payments (Continued)

Performance shares and share option activities were as follows during the financial years ended September 2014 and September 2013:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total Shares
Outstanding at September 2012	3,962,900	7,704,895	23.59	11,667,795
Offered	2,214,800	—	—	2,214,800
Paid for/vested	(320,025)	(33,170)	22.90	(353,195)
Returned, lapsed and forfeited	(601,575)	(1,385,740)	43.25	(1,987,315)
Outstanding at September 2013	5,256,100	6,285,985	34.14	11,542,085
Offered	2,111,950	—	—	2,111,950
Paid for/vested	(457,039)	(1,179,767)	31.46	(1,636,806)
Returned, lapsed and forfeited	(511,875)	(14,176)	37.65	(526,051)
Outstanding at September 2014	**6,399,136**	**5,092,042**	**34.58**	**11,491,178**
Exercisable at September 2013	—	3,968,589	37.63	3,968,589
Exercisable at September 2014	—	4,062,712	36.66	4,062,712

(1) Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 39	Issue 39
Date of grant	13 December 2013	13 December 2013
Type of award	Performance	Performance
Share price at grant date	ZAR28.16	ZAR28.16
Vesting period	4 years	4 years
Vesting conditions	Market related—relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market related vesting conditions	Yes	No
Percentage expected to vest	41%	100%
Number of shares offered for Sappi Limited Group	1,839,175	1,839,175
Volatility	30.0%	n/a
Risk free discount rate	1.2% (US yield)	n/a
Expected dividend yield	3.6%	3.6%
Expected percentage of issuance	95%	95%
Model used to value	Monte-carlo	Market price
Fair value of option	ZAR16.16	ZAR21.12

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

29. Derivative financial instruments

Hedging instrument	Hedged item	2014	2013
		€ million	
Non-current assets			
Fair value hedge	Secured notes due April 2021	**7**	11
Current assets			
Forward exchange contracts	Various	**—**	1
Non-current liabilities			
Interest rate currency swap .	Secured notes due July 2017	**16**	36
Interest rate currency swap .	Secured notes due June 2019	**25**	37
		41	73
Current liabilities			
Forward exchange contracts	Various	**3**	1

Refer to note 30 for more detail on financial instruments.

30. Financial Instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
   - interest rate risk
   - currency risk and
   - commodity price risk

b) liquidity risk and

c) credit risk

Sappi International, located in Brussels manages the group's treasury activities. It is primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, insofar as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

30. Financial Instruments (Continued)

a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about SPH's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2014 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 28 September 2014. The information is presented in EURO's, which is the group's reporting currency.

	Expected maturity date						Total Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
	2015	2016	2017	2018	2019	2020+				
	€ equivalent in millions									
US Dollar										
Fixed rate debt[1]	—	—	310	—	233	171	714	**836**	666	754
Average interest rate (%)	—	—	7.86	—	8.53	7.64	8.03			
Variable rate debt[2]	—	102	—	—	—	278	380	**420**	371	399
Average interest rate (%)	—	3.62	—	—	—	7.41	6.39			
Euro										
Fixed rate debt	—	1	1	247	—	1	250	**298**	248	290
Average interest rate (%)	—	2.22	2.10	6.71	—	2.07	6.67			
Variable rate debt[3]	80	210	99	—	—	—	389	**389**	389	389
Average interest rate (%)	1.70	2.19	4.17	—	—	—	2.60			
Total										
Fixed rate debt	—	1	311	247	233	172	964	**1,134**	914	1,044
Average interest rate (%)	—	2.22	7.85	6.71	8.53	7.61	7.68			
Variable rate debt	80	312	99	—	—	278	769	**809**	760	788
Average interest rate (%)	1.70	2.66	4.17	—	—	7.41	4.49			
Fixed and variable	**80**	**313**	**410**	**247**	**233**	**450**	**1,733**	**1,943**	**1,674**	**1,832**
Current portion							80	**80**	61	62
Long-term portion							1,653	**1,864**	1,613	1,770
Total interest-bearing borrowings (refer note 19)							1,733	**1,944**	1,674	1,832

(1) US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on

30. Financial Instruments (Continued)

quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.70% and 8.53% (depending on currency). At September 2014, after giving effect to interest rate swaps, 56% of Sappi's borrowings were at fixed rates of interest and 44% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 19.

Hedging of interest rate risk

Sappi uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The valuation of the hedging instruments includes an adjustment for credit risk, i.e. an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 and to the US$300 million Senior Secured Notes due 2019. The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2014, the above mentioned hedges were effective. The swaps showed a total negative fair value of €41 million. The negative fair value of the currency leg of the swaps, related to the principal amount, of €8 million was booked to profit or loss to offset the unrealised

30. Financial Instruments (Continued)

corresponding foreign currency gain on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of €33 million was deferred in OCI. Due to the inclusion of the credit risk, a positive ineffective portion of €0.4 million was booked to the income statement.

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of €2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

At September 2014, the abovementioned fair value hedge was highly effective and the swaps had a positive fair value of €7 million which has been offset by the negative fair value adjustment to the bonds of €8 million, resulting in a life-to-date net negative impact on the group income statement of €1 million.

30. Financial Instruments (Continued)

Summary of outstanding hedges

	Interest rate	Maturity date	Nominal value	Total fair value(1)	Net impact OCI	Net impact Profit or loss
		€ millions				
September 2014						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	**July 2017**	**US$400 million**	**(16)**	**(11)**	**(5)**
IRCS	US Dollar 8.38% into EUR 8.33%	**June 2019**	**US$300 million**	**(25)**	**(22)**	**(3)**
Fair value hedges						
IRS	US Dollar 6.63% fixed to variable (LIBOR)	**April 2016**	**US$350 million**	**7**	**—**	**(1)**
				(34)	**(33)**	**(9)**

	Interest rate	Maturity date	Nominal value	Total fair value(1)	Net impact OCI	Net impact Profit or loss
		€ millions				
September 2013						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	(36)	(12)	(24)
IRCS	US Dollar 8.38% into EUR 8.33%	June 2019	US$300 million	(37)	(18)	(19)
Fair value hedges						
IRS	US Dollar 6.63% fixed to variable (LIBOR)	April 2016	US$350 million	11	—	(1)
				(62)	(30)	(44)

(1) This refers to the carrying value.

The total fair values of the IRCSs and IRSs are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately €20 million.

IRS converting fixed US Dollar rates into variable rates

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short- and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material. This has been assessed in a sensitivity analysis that tested movements on the US Dollar interest rate curve in the same direction (parallel shift), as well as tested the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

Sensitivity analysis: interest rate risk—in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet

30. Financial Instruments (Continued)

securitisation programme) stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
	€ million	
Securitisation—Elektra N°29 Ltd	295	1
Commitment fee on unused revolving credit facility	350	1
Interest on utilised bank syndicated loans	136	1
	781	3
Impact calculated on total portfolio amounts to	0.38%	

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
			€ million	
Total debt	1,733	964	769	4
Ratio fixed/floating to total debt		56%	44%	

The floating rate debt represents 44% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by €4 million.

Currency risk

SPH is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

a) Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders

b) Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts and

c) Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

30. Financial Instruments (Continued)

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2014 and 2013 financial years discloses financial instruments as determined by IAS 39 Financial Instruments: Recognition and Measurement, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

	Total financial instruments	Total in scope	USD	EUR	ZAR	GBP	Other
			€ million				
September 2014							
Non-current assets							
Other non-current assets	**12**	**10**	—	10	—	—	—
Derivative financial assets	**7**	**7**	7	—	—	—	—
Current assets							
Trade receivables	**481**	**481**	201	228	—	30	22
Prepayments and other receivables	**74**	**15**	2	13	—	—	—
Derivative financial assets	**—**	**—**	—	—	—	—	—
Cash and cash equivalents	**270**	**270**	155	108	—	3	4
		783	365	359	—	33	26
Non-current liabilities							
Interest-bearing borrowings	**1,653**	**1,653**	1,095	558	—	—	—
Derivative financial instruments	**41**	**41**	(644)	685	—	—	—
Other non-current liabilities	**425**	**—**	—	—	—	—	—
Current liabilities							
Interest-bearing borrowings	**80**	**80**	—	80	—	—	—
Overdraft	**—**	**—**	—	—	—	—	—
Derivative financial instruments	**3**	**3**	3	—	—	—	—
Trade creditors	**412**	**412**	122	157	100	6	27
Other creditors and accruals	**287**	**154**	50	103	—	—	1
		2,343	626	1,583	100	6	28
Foreign exchange gap		**(1,560)**	(261)	(1,224)	(100)	27	(2)
September 2013							
Non-current assets							
Other non-current assets[(1)]	13	10	—	9	—	—	1
Derivative financial assets	11	11	11	—	—	—	—
Current assets							
Trade receivables	461	461	190	217	1	31	22
Prepayments and other receivables[(2)(3)]	77	18	2	16	—	—	—
Derivative financial assets	1	1	1	—	—	—	—
Cash and cash equivalents	226	226	104	119	1	—	2
		727	308	361	2	31	25
Non-current liabilities							
Interest-bearing borrowings	1,613	1,613	1,038	575	—	—	—
Derivative financial instruments	73	73	(677)	750	—	—	—
Other non-current liabilities	331	7	1	6	—	—	—
Current liabilities							
Interest-bearing borrowings	61	61	—	61	—	—	—
Overdraft	1	1	—	—	—	—	1
Derivative financial instruments	1	1	1	—	—	—	—
Trade creditors[(1)]	384	384	89	190	104	—	1
Other creditors and accruals	271	148	38	108	—	—	2
		2,288	490	1,690	104	—	4
Foreign exchange gap		(1,561)	(182)	(1,329)	(102)	31	21

(1) License fees and brands of €11 million which was previously included in the total carrying value of the other non-current assets and in the scoped out balance has been removed as goodwill and intangible assets is disclosed separately on the balance sheet.

30. Financial Instruments (Continued)

(2) Prepaid income tax of €13 million which was previously included in the total carrying value of prepayments and other receivables and in the scoped out balance has been removed as prepaid income tax is disclosed separately on the balance sheet.

(3) Related party balances, previously separately disclosed, have been incorporated into their respective balance sheet account balances.

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2014		2013	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value favourable (unfavourable)
		€ million			
Foreign currency					
Bought:	US Dollar	**2**	**—**	2	—
	Euro	**32**	**—**	27	—
Sold:	US Dollar	**(74)**	**(3)**	(76)	(1)
	Euro	**(13)**	**—**	(14)	—
		(53)	**(3)**	(61)	(1)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2014 financial year.

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being December 2014.

As at September 2014, there was an open exposure of €10 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	Exposure (€ million)	+10%	−10%
AUD	5.4	0.5	(0.6)
CHF	(1.3)	(0.1)	0.1
EUR	(4.5)	(0.4)	0.5
GBP	2.0	0.2	(0.2)
USD	22.8	2.1	(2.5)
ZAR	(13.6)	(1.3)	1.5
Other currencies	(0.5)	(0.1)	0.1
Total	10.3	0.9	(1.1)

Based on the exposure at the end of September 2014, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a gain of €0.9 million or a loss of €1.1 million respectively.

30. Financial Instruments (Continued)

Cash flow hedges

Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/ZAR spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2014 financial year, the hedge was 100% effective.

	2014		2013	
	Hedged notional	Foreign exchange result deferred in OCI	Hedged notional	Foreign exchange result deferred in OCI
	US$ million			
Bond 2021	**23**	**(1)**	21	(1)
Bond 2032	**171**	**(13)**	160	(1)
	194	**(14)**	181	(2)
Net investment value of North America	**501**		434	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

No pulp swaps have been contracted during the 2014 financial year.

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

a) managing its bank balances, cash concentration methods and cash flows

b) managing its working capital and capital expenditure

30. Financial Instruments (Continued)

c) ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements and

d) ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 19.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

30. Financial Instruments (Continued)

Liquidity risk management

The following tables for the 2014 and 2013 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, classified by liquidity, and does not necessarily indicate the group's actual cash flows.

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	> 5 years	Total
			€ million					
September 2014								
Non-current assets								
Other non-current assets	**10**	**10**	—	—	5	1	5	11
Derivative financial assets	**7**	**7**	3	3	4	—	—	10
Current assets								
Trade receivables	**481**	**481**	481	—	—	—	—	481
Prepayments and other receivables	**15**	**15**	15	1	—	—	—	16
Cash and cash equivalents	**270**	**270**	270	—	—	—	—	270
			769	4	9	1	5	788
Non-current liabilities								
Interest-bearing borrowings	**1,653**	**1,877**	20	49	409	1,118	657	2,253
Derivative financial instruments	**41**	**41**	—	—	1	10	—	11
Current liabilities								
Interest-bearing borrowings	**80**	**80**	80	—	—	—	—	80
Derivative financial instruments	**3**	**3**	3	—	—	—	—	3
Trade payables	**412**	**412**	412	—	—	—	—	412
Other creditors and accruals	**154**	**154**	154	—	—	—	—	154
			669	49	410	1,128	657	2,913
Liquidity gap			100	(45)	(401)	(1,127)	(652)	(2,125)
September 2013								
Non-current assets								
Other non-current assets	10	10	—	—	3	3	5	11
Derivative financial assets	11	11	3	3	5	3	—	14
Current assets								
Trade receivables	461	461	461	—	—	—	—	461
Prepayments and other receivables[1]	18	18	18	—	—	—	—	18
Derivative financial assets	1	1	1	—	—	—	—	1
Cash and cash equivalents	226	226	226	—	—	—	—	226
			709	3	8	6	5	731
Non-current liabilities								
Interest-bearing borrowings	1,613	1,771	18	47	110	1,211	488	1,874
Derivative financial instruments	73	73	2	2	3	33	28	68
Other non-current liabilities	7	7	—	—	1	6	1	8
Current liabilities								
Interest-bearing borrowings	61	61	61	—	—	—	—	61
Overdraft	1	1	1	—	—	—	—	1
Derivative financial instruments	1	1	1	—	—	—	—	1
Trade creditors[1]	384	384	384	—	—	—	—	384
Other creditors and accruals	148	148	148	—	—	—	—	148
			615	49	114	1,250	517	2,545
Liquidity gap			94	(46)	(106)	(1,244)	(512)	(1,814)

(1) Related party balances, previously separately disclosed, have been incorporated into their respective balance sheet account balances.

30. Financial Instruments (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2014 and 2013 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

					Maturity analysis				
					Undiscounted cash flows				
	Total	Fair value hedge	Cash flow hedge	No Hedge Accounting	0–6 months	6–12 months	1–2 years	2–5 years	> 5 years
	€ million								
September 2014									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**7**	**7**	**—**	**—**	3	3	4	—	—
—receiving leg	**(27)**	**(27)**	**—**	**—**	(6)	(7)	(14)	—	—
—paying leg	**34**	**34**	**—**	**—**	9	10	18	—	—
Foreign exchange risk									
IRCS and FX forward contracts	**—**	**—**	**—**	**—**	—	—	—	—	—
—receiving leg	**23**	**—**	**—**	**23**	23	—	—	—	—
—paying leg	**(23)**	**—**	**—**	**(23)**	(23)	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**—**	**—**	**—**	**—**	—	—	—	—	—
—paying leg	**—**	**—**	**—**	**—**	—	—	—	—	—
—receiving leg	**—**	**—**	**—**	**—**	—	—	—	—	—
Foreign exchange risk									
IRCS and FX forward contracts	**44**	**—**	**41**	**3**	4	—	1	1	5
—paying leg	**581**	**—**	**685**	**(104)**	(81)	22	45	45	340
—receiving leg	**(537)**	**—**	**(644)**	**107**	85	(22)	(44)	(44)	(335)
September 2013									
Assets									
Fair value of derivatives by risk factor									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	11	11	—	—	2	3	5	3	—
—receiving leg	49	49	—	—	8	9	17	17	—
—paying leg	(38)	(38)	—	—	(6)	(6)	(12)	(14)	—
Foreign exchange risk									
IRCS and FX forward contracts	1	—	—	1	1	—	—	—	—
—receiving leg	47	—	—	47	47	—	—	—	—
—paying leg	(46)	—	—	(46)	(46)	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	—	—	—	—	—	—	—	—	—
—paying leg	—	—	—	—	—	—	—	—	—
—receiving leg	—	—	—	—	—	—	—	—	—
Foreign exchange risk									
IRCS and FX forward contracts	74	—	73	1	3	2	3	33	28
—paying leg	681	—	750	(69)	(47)	22	45	431	365
—receiving leg	(607)	—	(677)	70	50	(20)	(42)	(398)	(337)

30. Financial Instruments (Continued)

Fair values

All financial instruments are carried at fair value. The carrying amounts for cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate fair value due to their short-term nature.

As a result of the implementation of IFRS 13 , the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available for sale financial assets.

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

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

September 2014

	Balance sheet carrying value	As determined by IAS 39		Categories in accordance with IAS 39				
		Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Fair Value
	€ million							
Non-current assets								
Other non-current assets	**12**	2	10	—	3	—	7	10
Derivative financial assets	**7**	—	7	7	—	—	—	7
	19	2	17	7	3	—	7	17
Current assets								
Trade receivables	**481**	—	481	—	481	—	—	481
Prepayments and other receivables	**74**	59	15	—	15	—	—	15
Cash and cash equivalents	**270**	—	270	—	268	2	—	270
	825	59	766	—	764	2	—	766

30. Financial Instruments (Continued)

	Total balance	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Other financial liabilities	Fair value
	€ million					
Non-current liabilities						
Interest-bearing borrowings	**1,653**	—	1,653	—	1,653	1,877
Derivative financial instruments	**41**	—	41	41	—	41
Other non-current liabilities	**425**	425	—	—	—	—
	2,119	425	1,694	41	1,653	1,918
Current liabilities						
Interest-bearing borrowings	**80**	—	80	—	80	80
Derivative financial instruments	**3**	—	3	3	—	3
Trade payables	**412**	—	412	—	412	412
Other payables and accruals	**287**	133	154	—	154	154
	782	133	649	3	646	649

September 2013

	Balance sheet carrying value	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Loans and receivables	Categories in accordance with IAS 39: Held to maturity	Categories in accordance with IAS 39: Available-for-sale	Fair Value
	€ million							
Non-current assets								
Other non-current assets[1]	13	3	10	—	3	—	7	10
Derivative financial assets	11	—	11	11	—	—	—	11
	24	3	21	11	3	—	7	21
Current assets								
Trade receivables	461	—	461	—	461	—	—	461
Prepayments and other receivables[2][3]	77	59	18	—	18	—	—	18
Derivative financial instruments	1	—	1	1	—	—	—	1
Cash and cash equivalents	226	—	226	—	226	—	—	226
	765	59	706	1	705	—	—	706

30. Financial Instruments (Continued)

	Total balance	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Other financial liabilities	Fair value
	€ million					
Non-current liabilities						
Interest-bearing borrowings	1,613	—	1,613	—	1,613	1,771
Derivative financial instruments	73	—	73	73	—	73
Other non-current liabilities	331	324	7	—	7	7
	2,016	323	1,693	73	1,620	1,851
Current liabilities						
Interest-bearing borrowings	61	—	61	—	61	61
Overdraft	1	—	1	—	1	1
Derivative financial instruments	1	—	1	1	—	1
Trade creditors[3]	384	—	384	—	384	384
Other creditors and accruals	271	123	148	—	148	148
	718	123	595	1	594	595

(1) License fees and brands of €11 million which was previously included in the total carrying value of the other non-current assets and in the scoped out balance has been removed as goodwill and intangible assets is disclosed separately on the balance sheet.

(2) Prepaid income tax of €13 million which was previously included in the total carrying value of prepayments and other receivables and in the scoped out balance has been removed as prepaid income tax is disclosed separately on the balance sheet.

(3) Related party balances, previously separately disclosed, have been incorporated into their respective balance sheet account balances.

The level in the fair value hierarchy into which financial instruments, that are measured at fair value, are categorised below. There have been no transfers between the categories of the fair value hierarchy.

	2014 Total fair value	2014 Fair value hierarchy Level 1	2014 Level 2	2014 Level 3	2013 Total fair value	2013 Fair value hierarchy Level 1	2013 Level 2	2013 Level 3
	€ million							
Non-current assets								
Other non-current assets	**7**	**7**	**—**	**—**	7	7	—	—
Derivative financial instruments	**7**	**—**	**7**	**—**	11	—	11	—
Current assets								
Derivative financial instruments	**—**	**—**	**—**	**—**	1	—	1	—
	14	**7**	**7**	**—**	19	7	12	—
Non-current liabilities								
Derivative financial instruments	**41**	**—**	**41**	**—**	73	—	73	—
Current liabilities								
Derivative financial instruments	**3**	**—**	**3**	**—**	1	—	1	—
	44	**—**	**44**	**—**	74	—	74	—

30. Financial Instruments (Continued)

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 50% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 14 of the group annual financial statements.

31. Related party transactions

Transactions between SPH company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sale of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	€ million							
Intercompany to Sappi Papier Holding								
—Sappi Limited	**—**	—	**10**	11	**—**	1	**4**	3
—Lignin insurance Co Ltd	**—**	—	**—**	—	**—**	—	**1**	—
—Sappi Southern Africa Limited	**12**	7	**613**	551	**3**	1	**100**	105
Joint ventures								
—Sapin SA	**—**	—	**23**	21	**—**	—	**1**	1
—Papierholz Austria GmbH, Austria	**—**	—	**85**	76	**—**	—	**4**	6
—ProNARO[1]	**—**	—	**120**	73	**—**	—	**6**	3
	12	7	**851**	732	**3**	2	**116**	118

(1) During the prior financial year, the group entered into a joint venture agreement to hold 50% of the equity interest in this entity.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash.

31. Related party transactions (Continued)

Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Shareholders

The company's principal shareholder is Sappi Holding GmbH who's shares are held by Sappi Limited.

Directors

Key management personnel include our Advisory and Managing boards. The details of the emoluments of our key management personnel are disclosed in Annexure B.

Interest of directors in contracts

None of the directors have a material interest in any transaction with the company or any of its subsidiaries, other than those on a normal employment basis.

Subsidiaries

Details of investments in subsidiaries are disclosed in Annexure A.

32. Events after balance sheet date

The group has entered into an agreement to transfer one of its European defined benefit pension schemes to an industry-wide pension fund. The transfer is currently subject to regulatory audit and is expected to be recorded in the quarter ending March 2015.

33. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and take actions with respect to its operations accordingly.

North America

Sappi North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi North America 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 €4 million. In 2014, Sappi North America entered into an agreement with the City of Westbrook, two non-governmental organisations, 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

33. Environmental matters (Continued)

alternative designs. Pursuant to the agreement, the fish passage at the Saccarappa hydrofacility must be operational during the third quarter of 2017. 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 Sappi North America's 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 Sappi North America's dams along the Presumpscot River is estimated to be in the range of approximately €14 million to €22 million. This estimate includes costs incurred on the Cumberland Mill's 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, Sappi North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. At the end of December 2012, the USEPA issued the final rules for Boiler MACT. Initial indications are that installation of emissions control equipment will be required at each mill and that overall compliance under the final rules will require capital expenditures of up to €8 million. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know precisely the effect, if any, of such legislation will have on our financial results and our operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The BAT conclusions for the production of pulp, paper and board were published on 30 September 2014. Within four years, our European mills will need to have considered the new requirements through their permits.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the

33. Environmental matters (Continued)

environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.

- A timber and timber product regulation has been adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place.
- The European Emission Trading System, in which all our European mills participate, is exposed to decisions that further increase the risk of carbon leakage. For 2014 to 2016, the European Commission decided to postpone the auctioning of 900 million allowances until 2019 to 2020 (back-loading). The Commission also intends to increase the annual reduction of the allowance caps of our mills from 1.7% annually today to 2.2% annually as of 2021.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

34. Dividends

	2014	2013
	€ million	
	—	75

On 28 February 2013, a dividend of €75 million which was previously approved by the shareholder during the financial year, was paid.

Annexure A

INVESTMENTS IN SUBSIDIARIES
for the year ended 28 September 2014

	Type of consolidation	Location of registered office	2014 % Effective group holding	2013 % Effective group holding
Direct subsidiaries of SPH				
Sappi (UK) Sales Office Limited[(1)]	Full	United Kingdom-Lancashire	**100.0**	100.0
Sappi Austria Produktions GmbH & Co. KG	Full	Austria-Gratkorn	**99.6**	99.6
Sappi Austria Vertriebs GmbH & Co. KG	Full	Austria-Gratkorn	**100.0**	100.0
Sappi Deutschland Holding GmbH	Full	Germany-Alfeld	**100.0**	100.0
Sappi Esus Beteiligungsverwaltungs GmbH	Full	Austria-Wien	**100.0**	100.0
Sappi Europe (Iberica) S.L.	Full	Spain-Madrid	**100.0**	100.0
Sappi Finland I Oy	Full	Finland-Helsinki	**100.0**	100.0
Sappi Finland Operations Oy	Full	Finland-Helsinki	**100.0**	100.0
Sappi Gratkorn GmbH	Full	Austria-Gratkorn	**100.0**	100.0
Sappi Italia S.r.l.	Full	Italy-Milano	**100.0**	100.0
Sappi International SA	Full	Belgium-Brussels	**99.9**	99.9
Sappi Lanaken N.V.	Full	Belgium-Lanaken	**100.0**	100.0
Sappi Netherlands B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Pulp Asia Ltd	Full	Hong Kong-Wan Chai	**100.0**	100.0
Sappi Trading Australia (Pty) Ltd	Full	Australia-Chatswood	**100.0**	100.0
Sappi Trading de Mexico S.A. De C.V.	Full	Mexico-Lomas de Chapultepec	**100.0**	100.0
Sappi Trading do Brasil LTDA	Full	São Paulo-Brasil	**100.0**	—
Sappi Trading Hong Kong Ltd	Full	Hong Kong-North Point	**99.0**	99.0
Sappi Trading Pulp AG	Full	Switzerland-Thalwil	**100.0**	100.0
Sappi Singapore Pte Ltd	Full	Singapore	**100.0**	100.0
Sappisure Försakrings AB	Full	Sweden-Stockholm	**100.0**	100.0
US Paper Corporation	Full	USA-New York	**100.0**	100.0
Sappi de Mexico Services S.A.	Full	Mexico-Lomas de Chapultepec	**100.0**	100.0
Sappi de Colombia S.A.S	Full	Colombia-Bogota D.C.	**100.0**	100.0
Addapp Corporation	Full	USA-Delaware	**85.0**	—
Elektra[(2)]	Full	Republic of Ireland-Dublin	**100.0**	100.0
SDW Holdings Corporation	Full	USA-Massachusetts	**100.0**	100.0
Indirect subsidiaries of SPH				
Albertcentrale N.V.	Full	Belgium-Lanaken	**98.0**	49.0
Chemische Werke Zell -Wildshausen GmbH	Full	Stockstadt-Germany	**100.0**	100.0
Leykam Gemeinnuetzige Wohn-, Bau- und Siedlungs GmbH	Equity	Austria-Gratkorn	**16.5**	16.5
Papierholz Austria GmbH	Equity	Austria—St. Gertraud	**42.5**	42.5
proNARO GmbH	Equity	Germany	**50.0**	50.0
Sapin S.A.	Equity	Belgium-Harze	**50.0**	50.0
Sappi Alfeld GmbH	Full	Germany-Alfeld	**100.0**	100.0
Sappi Blackburn NV	Full	Belgium-Brussels	**100.0**	100.0
Sappi China Holdings B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Cloquet LLC	Full	USA-Massachusetts	**100.0**	100.0
Sappi Deutschland GmbH	Full	Germany-Hannover	**100.0**	100.0
Sappi Ehingen GmbH	Full	Germany-Ehingen	**100.0**	100.0
Sappi Europe (Polska) SP ZOO	Full	Poland-Warszawa	**100.0**	100.0
Sappi Europe Ltd	Full	United Kingdom-Lancashire	**100.0**	100.0
Sappi Europe S.A.	Full	Belgium-Brussels	**100.0**	100.0
Sappi France S.A.R.L.	Full	France-Paris	**100.0**	100.0
Sappi Hellas LLC	Full	Greece-Athens	**100.0**	100.0
Sappi Istanbul Kagit ve Ticaret Limited Sirketi	Full	Turkey-Instanbul	**100.0**	100.0
Sappi US Holding BV[(3)]	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Lanaken Press Paper N.V.	Full	Belgium-Lanaken	**100.0**	100.0
Sappi Logistics Wesel GmbH	Full	Germany-Voerde	**100.0**	100.0
Sappi Maastricht B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi MagnoStar GmbH	Full	Austria-Gratkorn	**100.0**	100.0
Sappi Netherlands Services B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Nijmegen B.V.	Full	Netherlands-Nijmegen	**100.0**	100.0
Sappi Paper Hong Kong Ltd	Full	Hong Kong-North Point	**100.0**	100.0
Sappi Sales Schweiz AG	Full	Biberist—Switzerland	**100.0**	100.0
Sappi Stockstadt GmbH	Full	Stockstadt-Germany	**100.0**	100.0
Sappi UK Holdings B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Warmtekracht B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Wasserverband Region Gratkorn-Gratwein	Full	Austria-Gratkorn	**51.0**	51.0
SD Warren Company	Full	USA-Massachusetts	**100.0**	100.0
Cloquet Terminal Railroad Company Inc	Full	USA-Massachusetts	**100.0**	100.0
Presumpscot Water Power Co	Full	USA-Massachusetts	**100.0**	100.0
Sappi Pulp Americas LP	Full	USA-New York	**100.0**	100.0

(1) Sappi (UK) Sales Office Limited (company registration number 02523638) is exempt from the requirements to audit its accounts under section 479A of the UK Companies Act 2006. Under section 479C of the Companies Act 2006, Sappi Papier Holding GmbH, being the parent undertaking of Sappi (UK) Sales Office Limited, has given a statutory guarantee of all the outstanding liabilities to which the company is subject at 28 September 2014.

(2) Elektra is a Special Purpose Entity created for the purpose of securitisation of the group's trade receivables. SPH exercises control over Elektra even though it does not own share capital in Elektra, hence it is consolidated as part of the SPH group.

(3) Deregistered during the 2014 financial year.

Board members' remuneration

for the year ended 28 September 2014

€	2014	2013
Advisory Board		
The members of the Advisory Board for the year ended 28 September 2014 were:		
Roeloff Boëttger[(1)]		
Stephen Binnie		
Glen Pearce[(2)]		
Werner Huber		
Hans-Jürg Schürmann		
Total remuneration paid to members:		
Total remuneration paid to members:		
Remuneration paid to current members[(3)]	**1,721,108**	357,903
Remuneration paid to earlier members[(4)]	**206,667**	200,079
	1,927,775	557,982
Managing Board		
The members of the Managing Board for the year ended 28 September 2014 were:		
Jörg Pässler		
Bernd Ross		
Stephen Blyth		
Berend Wiersum		
Mark Gardner		
William Morrow[(5)]		
Total remuneration paid to members:		
Remuneration paid to current members[(3)]	**2,530,602**	2,121,715
Remuneration paid to earlier members[(4)]	**228,289**	222,721
	2,758,891	2,344,436

(1) Retired from the board due to ill health at end of June 2014.

(2) Appointed to the advisory board on 1 July 2014.

(3) Includes all remuneration earned during the financial year (board fees, salaries, bonuses, separation packages, performance related payments, expense allowances, contributions paid under pension and medical aid schemes and benefits received from credit scheme share funding) for the exercise of their duties in the parent undertaking and in the subsidiaries.

(4) Includes total remuneration (severance payments, pension payments and related fringe benefits) of earlier board members and their heirs, which have been paid during the financial year for the exercise of their duties in the parent undertaking and in the subsidiaries.

(5) Appointed to the managing board on 5 June 2014.

The financial statements were approved by the board of directors on 09 February 2015 and were signed on its behalf by:

Jörg Passler	Stephen Blyth
Berend Wiersum	Mark Gardner
Bernd Ross	William Morrow

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