Offering Memorandum **Not for general circulation in the United States**

Sappi Papier Holding GmbH

€450,000,000 3⅛% Senior Notes due 2026

Interest payable April 15 and October 15

Issue price: 100%

Sappi Papier Holding GmbH (the "Issuer"), an Austrian limited liability company, is offering €450,000,000 aggregate principal amount of its 3⅛% Senior Notes due 2026 (the "Notes").

The Issuer will pay interest on the Notes semi-annually on April 15 and October 15 of each year, beginning October 15, 2019. The Notes will mature on April 15, 2026. Some or all of the Notes may be redeemed prior to April 15, 2022 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 15, 2022 at the redemption prices set forth in this offering memorandum ("Offering Memorandum") plus accrued and unpaid interest (if any) to the redemption date. In addition, at any time prior to April 15, 2022, up to 40% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings at 103.125% of the principal amount thereof plus accrued and unpaid interest (if any) to the redemption date, if at least 60% of the principal amount of the Notes (including additional Notes) remains outstanding.

All of the Notes may also be redeemed at a redemption price of 100% of the outstanding principal amount of the Notes plus accrued and unpaid interest (if any) to, but not including, the redemption date and all Additional Amounts (as defined herein) (if any), if at any time the Issuer or any Guarantor (as defined herein) becomes obligated to pay Additional Amounts as a result of certain changes in law affecting taxation.

Upon the occurrence of certain events constituting a change of control (as defined herein), each holder of Notes may require the Issuer to repurchase all or a portion of its Notes at 101% of outstanding principal amount plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase.

The Notes and the Guarantees (as defined herein) will be the Issuer's and the Guarantors' (as defined herein) senior obligations. The Notes and the Guarantees will rank equally in right of payment with all of the Issuer's and the Guarantors' existing and future senior debt, and senior to any of the Issuer's and the Guarantors' future subordinated debt. Sappi Limited, the parent company of the Issuer, and certain of the Issuer's subsidiaries (together with Sappi Limited, the "Guarantors") will jointly and severally guarantee the Notes on a senior basis (the "Guarantees"). The Guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances.

We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange (the "Exchange") for trading on the Euro MTF Market.

Investing in the Notes involves risks, including risks that are described in the "Risk Factors" section beginning on page 18 of this Offering Memorandum. This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectus securities dated July 10, 2005, as amended.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any other jurisdiction. Unless they are registered, the Notes and the Guarantees may be offered only in transactions that are exempt from, or in a transaction not subject to, registration under the U.S. Securities Act. Accordingly, we are offering the Notes only to qualified institutional buyers ("QIBs") under Rule 144A ("Rule 144A") of the U.S. Securities Act and to non-U.S. persons outside the United States in compliance with Regulation S ("Regulation S") under the U.S. Securities Act. You are hereby notified that the Initial Purchasers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For further details about eligible offerees and resale restrictions, see "Notice to Investors" and "Transfer Restrictions".

We expect that delivery of the Notes will be made to investors in book-entry form through Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") on or about March 26, 2019. Interests in each global note will be exchangeable for the relevant definitive Notes only in certain limited circumstances. See "Book-Entry, Delivery and Form".

Joint Global Coordinators and Physical Bookrunners

Citigroup **Crédit Agricole CIB** **J.P. Morgan**

Joint Bookrunners

Erste Group ING KBC Bank NV NatWest Markets Standard Chartered Bank UniCredit Bank

March 26, 2019

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We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be ten 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+10"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or the next seven business days will be required to specify an alternative settlement code at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors. See "Plan of Distribution".

In making your investment decision, you should rely only on the information contained in this Offering Memorandum. Neither the Issuer, the Guarantors nor any of the Initial Purchasers have authorized anyone to provide you with information that is different from the information contained herein. If given, any such information should not be relied upon. Neither the Issuer, the Guarantors nor any of the Initial Purchasers are making an offer of the Notes in any jurisdiction where the offering of the Notes is not permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

NOTICE TO INVESTORS

THE NOTES AND THE GUARANTEES HAVE NOT BEEN REGISTERED UNDER THE U.S. 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 U.S. SECURITIES ACT PURSUANT TO RULE 144A.

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 (as defined herein), 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 U.S. 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 in the United States.

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 this Offering Memorandum, see notices to investors below and "Transfer Restrictions". By entering into possession of this Offering Memorandum or offering, selling 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 this 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 ("QIBs") pursuant to 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 of the offering of the Notes, 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 S.A. ("Clearstream"). The Notes sold to non-U.S. persons outside the United States pursuant to Regulation S 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 of the offering, 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, CITIGROUP GLOBAL MARKETS LIMITED 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 INVESTORS IN THE EUROPEAN ECONOMIC AREA

MiFID II Product Governance/Professional Investors and ECPs Only Target Market: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation/Prohibition of Sales to European Economic Area Retail Investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This Offering Memorandum has been prepared on the basis that any offer of the Notes in any Member State of the EEA will be made pursuant to the exemption under the Prospectus Directive from a requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended, the "Prospectus Directive") and any relevant implementing measure in each member state of the EEA.

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 ("KMG"), and has not been passported into Austria pursuant to §8b KMG or the Prospectus Directive. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the KMG 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 and §1(1)5a KMG; or (b) to fewer than 150 natural or legal persons per member state (other than "qualified investors" as defined in the Prospectus Directive and the KMG) subject to obtaining the prior consent of the Issuer; and 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 and/or §2 KMG. 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 GERMANY

The Notes may be offered and sold in the Federal Republic of Germany only in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as amended, the Commission Regulation No. (EC) 809/2004 of April 29, 2004, as amended, or any other laws applicable in Germany governing the issue, offering and sale of securities. This Offering Memorandum has not been approved under the German Securities Prospectus Act or the Prospectus Directive and, accordingly, the Notes may not be offered publicly in the Federal Republic of Germany. The Notes will be offered in the Federal Republic of Germany in reliance on an exemption from the requirement to publish an approved securities prospectus under the German Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the German Securities Prospectus Act and other applicable laws. The Issuer has not filed and does not intend to file a securities prospectus with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) ("BaFin") or obtain a notification to BaFin from another competent authority of a member state of the EEA, with which a securities prospectus may have been filed, pursuant to Section 17 (3) of the German Securities Prospectus Act.

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 in the United Kingdom (i) who 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) who are high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Financial Promotion Order or (iii) to whom an invitation or inducement to engage in investment activities (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"). In the United Kingdom, any investment activity to which this Offering Memorandum relates will only be available to, and will only be engaged with, Relevant Persons. Any person in the United Kingdom that is not a Relevant Person should not act or rely on this Offering Memorandum or any of its contents.

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 and/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 (the "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.

NOTICE TO ITALIAN INVESTORS

The offer of the Notes has not been registered with the *Commissione Nazionale per la Società e la Borsa* ("CONSOB") (the Italian securities exchange commission), pursuant to Italian securities legislation. Accordingly, no Notes may be offered, sold or delivered, directly or indirectly nor may copies of this Offering Memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except in accordance with Italian securities, tax and other applicable laws and regulations.

Each Initial Purchaser has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes or distribute any copy of this Offering Memorandum or any other document relating to the Notes in Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of February 24, 1998 (the "Italian Securities Act") and Article 34-*ter*, paragraph 1, letter (b) of CONSOB regulation No. 11971 of May 14, 1999 (the "CONSOB Regulation on Issuers"), each as amended from time to time; and

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Securities Act and CONSOB Regulation on Issuers.

Any offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy under paragraphs (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of September 1, 1993 (the "Consolidated Banking Act") and CONSOB Regulation No. 20307 of February 15, 2018, all as amended from time to time;

(ii) in compliance with Article 129 of the Consolidated Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(iii) in compliance with any other applicable laws and regulations, including any limitation or requirement that may be imposed from time to time by CONSOB or the Bank of Italy or any other competent authority.

Any investor purchasing the Notes is solely responsible for ensuring that any offer or resale of the Notes by such investor occurs in compliance with applicable laws and regulations.

For selling restrictions in respect of Italy, see also "—European Economic Area" above.

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 consolidated subsidiaries;
- References to the "2016 Refinancing" are to the refinancing that we implemented in March 2016, which comprised the following transactions: (a) the issuance of the 2023 Notes and (b) the redemption of the 2021 Notes;
- References to the "2017 Notes" are to our US$400 million 7.75% senior secured notes due 2017, issued pursuant to an indenture dated as of July 5, 2012;
- References to the "2021 Notes" are to our US$350 million 6.625% senior secured notes due 2021, issued pursuant to an indenture dated as of April 14, 2011;

- References to the “2022 Notes” are to our €450 million 3.375% senior notes due 2022, issued pursuant to an indenture dated as of March 23, 2015. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2022 Notes was released;
- References to the “2023 Notes” are to our €350 million 4.00% senior notes due 2023, issued pursuant to an indenture dated as of March 31, 2016 in connection with the 2016 Refinancing. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2023 Notes was released;
- References to the “2032 Notes” are to our US$250 million 7.50% unsecured guaranteed notes due 2032, of which US$221 million were outstanding as at September 2018;
- 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 “capital expenditure” are to the total of “investment to maintain operations” and “investment to expand operations” for the relevant period, as presented in the statement of cash flows in our Group annual financial statements included elsewhere in this Offering Memorandum;
- References to the “Cham Acquisition” are to the acquisition of the specialty papers business of Cham Paper Group by Sappi, for US$132 million, which closed in February 2018. As part of the Cham Acquisition, we acquired Cham Paper Group’s Carmignano and Condino Mills located in Italy and its digital imaging business located in Cham, Switzerland, as well as all of Cham Paper Group’s brands and know-how;
- References to “Cham Paper Group” are to Cham Paper Group Holding AG, a stock corporation incorporated under the laws of the Swiss Confederation, and its consolidated subsidiaries;
- References to the “FRSC Financial Reporting Pronouncements” are to the Financial Reporting Pronouncements, as issued by the Financial Reporting Standards Council;
- References to “Guarantees” are to the guarantees of the Notes to be provided by the Guarantors pursuant to the Indenture;
- References to “Guarantors” are to Sappi Limited and the Subsidiary Guarantors;
- References to “IFRS” are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”);
- References to the “Indenture” are to the indenture governing the Notes;
- References to “Latin America” are to the countries located on the continent of South America and Mexico;
- 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 “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 “market share” are based on sales volumes in a specified geographic region during the fiscal year ended September 30, 2018;
- References 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 “NBSK” are to northern bleached softwood kraft pulp frequently used as a pricing benchmark for pulp;
- References to “North America” are to the United States, Canada and the Caribbean;
- References to “OeKB” are to Oesterreichische Kontrollbank Aktiengesellschaft, an Austrian development bank;
- References to the “OeKB Term Loan Facilities” are to the OeKB Term Loan Facility I and the OeKB Term Loan Facility II, collectively;

- References to the “OeKB Term Loan Facility I” are to the €81.6 million term loan facility entered into with OeKB on July 5, 2012, as amended and restated on September 18, 2013 and on March 16, 2015 and replaced by a new agreement dated as of June 20, 2017, as amended and restated on February 28, 2018;
- References to the “OeKB Term Loan Facility II” are to the €150 million term loan facility entered into with OeKB on June 20, 2017 in connection with the conversion project at the Somerset Mill, as amended and restated on February 28, 2018;
- References to “PM” are to individual paper machines;
- References to “pulp integration” are to the amount of pulp that we sell, expressed as a percentage of the pulp we purchase, either globally or by region;
- References to the “Refinancing” are to the issuance of the Notes pursuant to this offering and the use of proceeds therefrom to redeem €450 million in aggregate principal amount of our 2022 Notes and pay fees, discounts and commissions, as described in “Summary—Recent Developments—Refinancing”;
- References to the “Revolving Credit Facility” are to the facility described in the section entitled “Description of Other Financing Arrangements” included elsewhere herein;
- References to “Rockwell Solutions” are to Rockwell Solutions Limited, a limited liability company organized under the laws of Scotland;
- References to “SAICA Financial Reporting Guides” are to the South African Institute of Chartered Accountants (“SAICA”) Financial Reporting Guides, as issued by the SAICA Accounting Practices Committee;
- 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 “Subsidiary Guarantors” are to Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International SA, Sappi North America, Inc. (formerly known as S.D. Warren Company), SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Alfeld GmbH, Sappi Ehingen GmbH, Sappi Stockstadt GmbH, Sappi Colombia Holding GmbH, Sappi Lanaken Press Paper NV, Sappi Pulp Asia Limited, Sappi Netherlands B.V., Sappi Maastricht Real Estate B.V. (formerly known as Sappi Maastricht B.V.), Sappi Maastricht B.V. (formerly known as Sappi Maastricht II B.V.), Sappi Europe SA, Sappi Finland I Oy and Sappi Italy Operations S.p.A.;
- References to “tons” are to metric tons (approximately 2,204.6 pounds or 1.1 short tons);
- References to the “Trade Receivables Securitization Program” are to the agreement related to the securitization of certain trade receivables of the Sappi Group through Elektra Purchase No. 29 DAC, arranged by UniCredit Bank AG, dated as of August 12, 2011, as amended on December 19, 2011, February 1, 2013, June 26, 2013, May 23, 2014, March 12, 2015, May 13, 2016, and as further amended and restated on June 22, 2017 and December 30, 2018;
- References to “woodfree paper” are to paper made from chemical pulp, which is pulp made from woodfiber that has been produced in a chemical process;
- References to “CHF” are to the Swiss franc, the currency of the Swiss Confederation;
- 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 “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 “UK pounds sterling”, “GBP” and “£” are to United Kingdom pounds sterling, the currency of the United Kingdom; and
- References to “US dollar(s)”, “dollar(s)”, “US$”, “$” and “US cents” are to United States dollars and cents, the currency of the United States.

Capitalized terms set forth and used in the section entitled “Description of Notes” may have different meanings from the meanings given to such terms and used elsewhere in this Offering Memorandum.

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 reflect 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. Such internal estimates with respect to our industry, while believed by us to be reliable, have not been verified by any independent sources, and neither we nor any of the Initial Purchasers make any representation as to the accuracy of such information.

Unless otherwise provided in this Offering Memorandum, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries. We own or have rights to such trademarks and certain trade names that we use in conjunction with the operation of our business. Each trademark, trade name or service mark of any other company appearing in this Offering Memorandum belongs to its holder. Solely for convenience, trademarks, trade names and copyrights referred to in this Offering Memorandum may be listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to these trademarks, trade names and copyrights.

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.

Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, or the negatives of those words or phrases, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. However, the absence of these words, expressions or phrases does not necessarily mean that a statement is not forward-looking.

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 cyclicality, such as levels of demand, production capacity, actual production, pricing and input costs including raw material costs, energy costs and employee costs) and the potential substantial fluctuations in our results;
- the highly competitive environment in the markets for pulp and paper products;
- a lower demand for our products due to increased popularity of digital media and changes in consumer preferences;
- the impact on our business of adverse changes in global economic conditions;
- the potential incurrence of liabilities that are not covered by insurance, the unavailability or increase in the cost of insurance coverage;
- technological developments that may affect our ability to compete successfully;
- liabilities under environmental, health and safety laws and regulations and the cost of compliance with such laws and regulations;
- consequences of our leverage, including as a result of adverse changes in credit markets that may affect our ability to raise capital when needed;
- our ability to generate sufficient cash flows to fund our business and service our debt;

- risks related to our strategic initiatives and our ability to successfully implement our strategy;
- our ability to carry out capital projects in a timely manner and to manage, complete within budget and realize the expected benefits of any investment;
- risks related to the impact of volatility in the equity markets or default in the bond markets on our ability to fund our post-employment liabilities;
- currency fluctuations;
- 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;
- uncertainties relating to international trade policies, new tariffs and other trade measures;
- our inability to recover increasing input costs through increased prices;
- fluctuations in the price and availability of energy and raw materials;
- our exposure to a limited number of customers;
- our dependence on, and our ability to hire and retain, key staff and highly skilled individuals;
- disruption in our workforce and risks related to work stoppages;
- risks related to the prevalence of HIV/AIDS in certain regions in which we operate;
- risks related to natural catastrophes and climate change;
- risks related to taxation;
- our inherently dangerous manufacturing and forestry operations and risks related to the health and safety of our employees;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies; and
- risks related to the Notes and the Guarantees.

These factors are fully discussed in this Offering Memorandum. See “Risk Factors”. The risks described in the “Risk Factors” section of this offering memorandum are not exhaustive. For further discussion on these factors, see “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 2018 included elsewhere in this Offering Memorandum.

Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any factor, or combination of factors, may cause future results to differ materially from those contained in any forward-looking statements. Therefore, 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 2018, fiscal 2017 or fiscal 2016, or the years ended September 2018, 2017 or 2016 refer to Sappi Limited’s twelve-month financial periods ended on September 30, 2018, October 1, 2017 and September 25, 2016, respectively. References to amounts as at September 2018, September 2017 or September 2016 represent amounts as at, respectively, September 30, 2018, October 1, 2017 and September 25, 2016. References to the “three months” and the “three-month periods” ended December 2018 or December 2017 refer to the periods from October 1, 2018 to December 30, 2018 and October 2, 2017 to December 31, 2017, respectively. References to amounts as at December 2018 and December 2017 represent amounts as at December 30, 2018 and December 31, 2017, respectively. Our Group annual financial statements as of and for the years ended September 2018 and September 2017, included elsewhere in this Offering Memorandum, have been prepared in conformity with IFRS, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. Our Group unaudited condensed consolidated financial information as of December 2018 and for the three-month periods ended December 2018 and December 2017, included elsewhere in this Offering Memorandum, has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. The Group annual financial statements as of and for the year ended September 2016 were audited by an auditor other than KPMG Inc., and are not included in this Offering Memorandum.

With regard to the Issuer, unless otherwise specified, all references in this Offering Memorandum to fiscal 2018 or fiscal 2017, or the years ended September 2018 or 2017, refer to the Issuer's twelve-month financial periods ended on September 30, 2018 and October 1, 2017, respectively. The Issuer's annual consolidated financial statements as of and for the years ended September 2018 and September 2017, 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 consolidated financial statements as of and for the year ended September 2018 and as of and for the year ended September 2017, which include comparative financial information for the year ended September 2016, and its unaudited financial statements as at December 2018 and for the three-month periods ended December 2018 and December 2017, 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 2018 and 2017 included in the F-pages to this Offering Memorandum have been extracted from our annual reports for fiscal 2018 and 2017, respectively, although page references have been modified solely for the convenience of the reader. The consolidated financial information as of and for the years ended September 2018 and 2017 presented in this Offering Memorandum has been derived from the Group's audited consolidated financial statements and related notes, respectively, included elsewhere herein. The consolidated financial information as of and for the year ended September 2016 presented in this Offering Memorandum has been extracted from the consolidated financial information for the 2016 comparative period presented in the Group's audited consolidated financial statements and related notes for 2017, included elsewhere herein. The unaudited condensed consolidated financial information as of December 2018 and for the three-month periods ended December 2018 and December 2017 presented in this Offering Memorandum has been derived from the Group's unaudited condensed consolidated financial statements and related notes, respectively, included elsewhere herein. The summary unaudited financial data for the twelve months ended December 2018 has been derived by adding the Group's audited consolidated financial information for the fiscal year ended September 2018 and the unaudited condensed consolidated financial information for the three months ended December 2018 and subtracting the unaudited condensed consolidated financial information for the three months ended December 2017, which compilation has not been audited or reviewed.

During the three months ended December 2017, the Group changed the financial information by major product category that is regularly reviewed by our Executive Committee, which is our chief operating decision maker. As a consequence of this change, we restated the financial information by major product category for fiscal 2017 in the comparative column of the Group's audited consolidated financial statements as of and for the year ended September 2018 to reflect a retrospective application of the change in product category reporting.

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 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 used in the preparation of our financial statements for the Rand and euro against the US dollar:

	Average rates					Closing rates				
	Three months ended	Three months ended	For fiscal year					As of fiscal year-end		
Exchange rates	December 2018	December 2017	2018	2017	2016	December 2018	December 2017	2018	2017	2016
ZAR to one US$..........	14.313	13.622	13.052	13.381	14.788	14.436	12.372	14.147	13.556	13.714
EUR to one US$..........	0.876	0.849	0.840	0.904	0.900	0.874	0.833	0.861	0.847	0.890
US$ to one EUR ...	1.141	1.178	1.190	1.106	1.111	1.144	1.200	1.161	1.181	1.123

The closing exchange rate of the Rand against the US dollar (as shown on Thomson Reuters) on March 7, 2019 was US$1.00 = ZAR14.500. The closing exchange rate of the US dollar against the euro (as shown on Thomson Reuters) on March 7, 2019 was €1.00 = US$1.119.

For further information regarding the conversion to US dollars, see note 2 to our Group annual financial statements for the year ended September 2018 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:

- ***Adjusted EBITDA***: *Adjusted EBITDA* represents profit for the period before taxation charge (benefit), net finance costs, and 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.
- ***Adjusted EBITDA Excluding Special Items***: *Adjusted EBITDA Excluding Special Items* represents profit for the period before taxation charge (benefit), net finance costs, depreciation and 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 and on written off assets, 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 to Adjusted EBITDA***: *Net Debt to Adjusted EBITDA* represents the ratio of current and non-current interest-bearing borrowings and overdrafts, net of cash, cash equivalents and short-term deposits to profit for the period before taxation charge (benefit), net finance costs, and 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.

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 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 (loss) or profit for the period as an indicator of our operations in accordance with IFRS. For a reconciliation of Adjusted EBITDA and Adjusted EBITDA Excluding Special Items to profit for the period, refer to "Summary Financial and Other Data" and "Selected Consolidated Financial and Other Information of the Sappi Group".

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 believes 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 and on written off assets, 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. For a reconciliation of Operating Profit (Loss) Excluding Special Items to operating profit, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparison of the Three Months ended December 2018 and 2017—Overview" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparison of Fiscal 2018, 2017 and 2016—Overview". For a reconciliation of Net Debt to total interest-bearing borrowings, refer to "Summary Financial and Other Data—Other Information".

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 for 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 diversified woodfibre company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, specialties and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to its direct and indirect customer base. The Group's dissolving wood pulp products are used worldwide by converters to create viscose staple fiber for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer and household products. The Group's range of specialty and packaging paper products includes premium quality packaging papers such as flexible sachets, pouches and wrappers, containerboard used in various consumer, industrial and transport applications and paperboard used for luxury packaging applications in the perfume, confectionary and premium beverages industries. In addition, specialty and packaging paper products include casting release papers used by suppliers to the fashion, textiles, automobile and household industries, functional papers that build upon our expertise in paper coating to incorporate sealing properties and barriers against mineral oils and various other substances, as well as label papers and tissue papers. The Group's range of printing and writing papers 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, uncoated graphic and business papers and, in the Southern African region, newsprint. Finally, we are also exploring adjacent markets in order to extract maximum value from our woodfiber. Our products for such markets include hemicellulose sugars, lignin-based dispersants, dry redispersable nanocellulose, cellulose fiber plastic composites (such as those sold under our Symbio brand) and bio-energy (including our biomass energy projects and fuel rods). With the development of new processes and biomaterials, we aim to extract more value from each tree. During fiscal 2018, we had revenue, profit for the year and Adjusted EBITDA Excluding Special Items of US$5,806 million, US$323 million and US$762 million, respectively. During the three months ended December 2018, we had revenue, profit for the period and Adjusted EBITDA Excluding Special Items of US$1,418 million, US$81 million and US$197 million, respectively.

Our revenue, profit for the period and Adjusted EBITDA Excluding Special Items during the twelve months ended December 2018 were US$5,894 million, US$341 million and US$787 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 2018, 76% of our revenue and 55% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa, principally in North America (27%) and Europe (38%). During fiscal 2018, 76% of our revenue and 56% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa.

The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We operate 17 pulp and paper mills in eight countries, with an aggregate production capacity of approximately 5.7 million tons of paper, 2.3 million tons of paper pulp and 1.4 million tons of dissolving wood pulp. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of dissolving wood pulp and paper 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. Sappi Trading also coordinates our shipping and logistical functions for exports from our core operating regions to other locations throughout the world. 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 specialty paper and accounted for 51% of our sales in fiscal 2018 and 51% of our sales in the twelve months ended December 2018. As at September 2018, we had an aggregate annual paper and pulp production capacity of approximately

3.7 million tons and 1.1 million tons, respectively, at nine paper and related paper pulp mills in six countries across Europe.

Our North American business is engaged primarily in the sale of dissolving wood pulp, coated paper, specialty paper and paperboard, and accounted for 25% of our sales in fiscal 2018 and 25% of our sales in the twelve months ended December 2018. Our North American business has an aggregate paper and pulp production capacity of approximately 1.35 million tons and 865,000 tons, respectively, at three U.S. mills, including approximately 340,000 tons of dissolving wood pulp capacity at our Cloquet Mill.

Our Southern African business produces dissolving wood pulp, paper pulp, timber products and uncoated and commodity paper, and accounted for 24% of our sales in fiscal 2018 and 24% of our sales in the twelve months ended December 2018. We operate four pulp and paper mills in this region with an aggregate annual paper and pulp production capacity of approximately 690,000 tons and 1.7 million tons, respectively, including approximately 1.1 million tons of dissolving wood pulp capacity, as well as one sawmill.

Our Industry

The paper industry is generally divided into the printing and writing paper business (consisting of coated and uncoated 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 printing, writing and packaging papers, and dissolving pulps used mainly in the production of textiles as well as in various other cellulose-based applications in the food, beverage, film, cigarette, health and hygiene, 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 several factors including short-term economic developments. 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—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. Such situations have 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 printing and writing 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.

As demand for printing and writing papers is expected to continue to decrease, we will continue ramping up our production of specialties and packaging papers and continue increasing our production capacity to meet the growing demand from customers. Legislative changes and evolving consumer preferences toward more sustainable packaging are among the main factors driving growth in the specialties and packaging papers segment. In addition, in a very competitive specialties and packaging papers segment, customization and environmentally friendly solutions play an important role. Therefore, in order to respond to customers' expectations and benefit from the growing market segment, innovation and new product development are an essential part of our strategy.

Consumption patterns in the paper pulp industry are associated with changes in printing and writing paper and packaging paper consumption, which are often cyclical, and in the case of certain printing and writing paper grades, are in secular decline. Dissolving pulps, however, have different end uses and applications—the consumption of these types of pulp has largely followed growth rates in the demand for textiles and population growth. Among dissolving pulps, dissolving wood pulp used in textiles has been both the largest and fastest growing sector.

Our Strengths

Leading market positions

We believe that we are the world's largest manufacturer of dissolving wood pulp by sales and volume, with an estimated global market share of 18%. 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 24% and 34% in Europe and North America, respectively (based on production capacity). We have achieved leading positions in our traditional core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands. As demand shifts away from printing and writing paper markets and increasingly toward specialty and packaging papers, we believe we can leverage the position we have achieved in products such as coated woodfree paper, for example by converting our existing paper machines to produce specialties and packaging paper.

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. During the year ended September 2018, our Southern African business was a net seller of pulp with a pulp integration of approximately 266%, while our European and North American businesses were net buyers of pulp with a pulp integration of approximately 56% and approximately 82%, respectively.

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 and of higher margin products, balance supply and demand in the printing and writing paper markets, 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, by converting paper machines to increase capacity and for use in higher margin businesses, and by pursuing an investment policy that is focused on high-return projects. We have strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio.

In line with our strategic objective of improving operational and machine efficiencies and in order to lower costs, we undertook a number of large capital projects during fiscal 2018. For example, we commenced a woodyard upgrade at the Saiccor Mill to improve wood efficiency and to allow for further expansion of the mill, as we plan to expand production capacity at the Saiccor Mill by 110,000 tons in fiscal 2019. This project is expected to improve our energy and water efficiency and result in increased energy and chemical recovery, leading to lower operating costs. We have also invested in upgrades at our Gratkorn Mill, aiming to enhance production efficiency and lower costs.

Accelerating growth in higher margin products and rationalizing declining businesses has also been a focus during fiscal 2018. For example, we converted PM1 at the Somerset Mill, which resulted in increased capacity of the machine and created additional flexibility allowing PM1 to produce both coated woodfree paper and packaging paper. In Europe, we converted the Maastricht Mill to focus its production on paperboard in support of our specialties and packaging papers business in Europe. During fiscal 2019, we intend to undertake a number of capital projects, which are expected to result in the replacement of 200,000 tons of printing and writing paper capacity in Europe with a similar volume of higher margin specialties and packaging papers.

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

As a global diversified woodfibre company, we believe that our 17 pulp and paper mills across Europe, North America and Southern 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 addition, Sappi Trading allows us to reach customers and explore growth opportunities outside our core operating regions, and coordinates our shipping and logistical functions for exports.

In fiscal 2018, our operations in Europe, North America and Southern Africa accounted for 51%, 25% and 24% of our sales, respectively. In the three months ended December 2018, our operations in Europe, North America and Southern Africa accounted for 51%, 25% and 24% of our sales excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparison of the Three Months ended December 2018 and 2017—Sales".

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—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, some of which use our products 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 continually aiming to 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 anticipate customers' needs, 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 consolidating Sappi's position as a global leader in dissolving wood pulp production, the significant expansion of the Group's dissolving wood pulp capacity through two pulp conversion projects at the Ngodwana and Cloquet Mills and, more recently, the successful conversion of printing and writing papers capacity at our Somerset and Maastricht Mills to specialty paper grades capacity. We have also succeeded in shifting printing and writing 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. In fiscal 2018, two conversion projects and a machine upgrade were completed with the aim of matching supply and demand in the printing and writing paper markets, as well as in the specialties and packaging papers markets. Further, in line with our strategy to expand and grow our specialties and packaging papers segment, in February 2018, Sappi management successfully completed the acquisition of the Cham Paper Group, a Swiss-based specialty paper producer (the "Cham Acquisition"). To date, the integration of Cham Paper Group has progressed according to plan and the profitability from the newly acquired mills is in line with expectations.

Our Objectives

Maintain focus on cost base and profitability

We intend to focus on improving our profitability and ensure the sustainability of our operations by further reducing fixed and variable costs, increasing cost efficiencies and investing in cost advantages where possible. During fiscal 2018, we achieved third-party expenditure savings of US$81 million compared to the prior year through efficiency and raw material usage improvements, as well as various procurement initiatives, which was above our target of US$60 million. In 2019, we expect to complete further cost-saving projects and we are targeting a further US$60 million in savings. Among other projects, we commenced an upgrade of our Saiccor Mill woodyard to improve wood efficiency and allow for capacity expansion at the mill. In 2019, we plan to expand Saiccor Mill's capacity by a further 110,000 tons, which we expect to lower operating costs by improving energy and water efficiency and energy and chemical recovery. We intend to pursue these and other initiatives to reduce costs and improve operational performance.

Rationalize declining businesses

Against the backdrop of decreasing demand for printing and writing paper in our core markets, we intend to manage our capacity to strengthen our leadership position in those markets, realizing their strategic importance to the Group and maximizing their significant cash flow generation. To this end, we will strive to maintain operating rates and to lower costs, while continuously balancing printing and writing paper supply and demand in all regions.

In North America, our cost-competitive manufacturing facilities, high level of customer service and excellent paper quality, along with closures or conversions of some of our competitors' mills and machines have allowed us to increase market share, despite decreasing demand in the overall market. During fiscal 2018, we converted PM1 at the Somerset Mill to increase its capacity and give it the flexibility to produce both coated woodfree paper and packaging paper, which we believe will help us achieve our goal of balancing printing and writing paper supply and demand in North America while transitioning more production to specialties and packaging papers.

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. We have also focused on the implementation of our go-to-market strategy, Sappi&You. Sappi&You has supported our efforts to be a preferred supplier in coated woodfree paper grades in particular and has allowed us to increase both direct sales and market share in Europe despite the general market decline in this region. As we anticipate future demand declines for printing and writing paper in this market, we will continue to pursue cost reductions and, where possible, convert PMs to higher margin businesses. During fiscal 2018, we converted the Maastricht Mill to focus predominantly on paperboard in support of our existing specialties and packaging papers business in Europe. In addition, our coating expertise and the growing specialty packaging market has allowed us to reallocate some of our coated woodfree production in both Europe and North America to various grades of specialty packaging paper, without significant capital investment required. In 2019, we plan to undertake projects and make investments at the Lanaken Mill, Ehingen Mill and Alfeld Mill, which we expect will replace 200,000 tons of printing and writing paper capacity with a similar volume of specialties and packaging paper capacity. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both North America and Europe.

In South Africa, our exposure to declining printing and writing papers markets is limited to newsprint, where we believe we are the last remaining local producer, and office paper, in which we have become more cost-competitive following the transfer of production from the Enstra Mill, which we sold in December 2015, to our Stanger Mill.

Maintain a healthy balance sheet

We intend to continue to focus on cash flow generation and managing the cost of our debt in order to maintain a healthy balance sheet, which we believe forms the foundation required in order for us to make the necessary investments in our higher margin and growing businesses. In fiscal 2017, we achieved our target leverage ratio of two times Net Debt to Adjusted EBITDA, and our net finance costs have since stabilized in the range of US$60-70 million per annum. In fiscal 2018, our Net Debt to Adjusted EBITDA leverage ratio stood at 2.07 times, during a year that included capital expenditure of US$541 million. We intend to continue to manage carefully the Group's level of indebtedness, including repaying and refinancing debt to improve our debt maturity profile and lower risk and interest costs when possible, and to maintain our focus on optimizing working capital management.

Accelerate growth in higher margin products and adjacent businesses

We aim to expand production capacity in our higher margin and growing dissolving wood pulp and specialties and packaging papers product categories.

In the dissolving wood pulp product category, we launched our new Verve brand in 2018 to bundle our activities relating to sustainable viscose and lyocell staple fibers and further strengthen our leading position in the dissolving wood pulp market that provides the raw materials for such textile fibers. During fiscal 2018, we also completed a number of capital projects, including the projects to optimize production processes at our Saiccor and Ngodwana Mills, which added 10,000 and 35,000 tons of dissolving wood pulp production capacity, respectively. In fiscal 2019, we will initiate a project to optimize production processes at our Cloquet Mill, adding a further 30,000 tons of production capacity, and we will start the expansion project of our Saiccor Mill to add an additional 110,000 tons of production capacity, as described above. We aim to continue to pursue further significant expansion opportunities in the dissolving wood pulp business, supported by demand from our major customers and from a textile market increasingly looking for more sustainable textile solutions. In line with our strategic objective of pursuing growth in higher margin products, we will aim to pursue any such opportunity that meets our various investment criteria.

Similarly, in order to gain specialties and packaging papers production capacity, we increased capital expenditure in growth projects during fiscal 2018, such as the conversion of PM1 at our Somerset Mill and the conversion of our Maastricht Mill to increase our paperboard production capacity. In addition to such capital projects, we completed two acquisitions in recent years that we believe position us well for growth in the specialties and packaging papers market by complementing our existing product portfolio. During fiscal 2018, we purchased the paper mill assets of Cham Paper Group for US$132 million. The Cham Acquisition has added new paper grades to our specialties and packaging papers portfolio, including Transjet dye sublimation transfer papers used primarily for printing images onto textiles and wide format inkjet papers used, among other applications, in the production of posters for indoor and outdoor settings. In fiscal 2017, we acquired Rockwell Solutions, a firm specializing in innovative barrier packaging solutions, which gives us access to new technology and allows us to accelerate the development of new solutions for the growing specialties and packaging papers market. In addition to increasing our specialty paper production capacity, we believe these acquisitions will support our aim of gaining a greater share-of-wallet with valued brand owners and generate economies of scale and synergies with our existing products.

We also intend to seek new opportunities for growth in fields close to our current businesses, such as the markets for sugars, lignin, nanocellulose and other innovative performance materials produced from renewable resources. We have identified several areas for investment where we believe we have a favorable competitive position and intend to undertake research and development projects, work closely with existing customers and collaborate with research and commercial partners. In 2016, we established our Sappi Biotech business unit in order to drive innovation in adjacent fields and commercialize products resulting from our biomaterials and biochemicals research. In Europe, we completed construction of our nanocellulose pilot plant in the Netherlands during the first half of fiscal 2016 and are currently undertaking co-developments with firms in the motor manufacturing, coatings and cosmetics industries relating to applications for cellulose nanofibril and cellulose microfibrils. In Southern Africa, we have increased the beneficiation of our by-products by investing in increased lignosulphonate capacity at both our Saiccor and Tugela Mills, and are exploring the extraction of sugars from our pulping processes. Since 2017, we have been operating a sugar extraction pilot plant at our Ngodwana Mill to demonstrate technology for sugar extraction from our dissolving pulp waste streams. We are currently developing a further demonstration plant at Ngodwana Mill to scale up our novel Xylex technology (which we acquired from Plaxica in fiscal 2017, together with certain other technologies, for a total amount of US$10.4 million (£7.7 million)) to produce furfural, xylose and xylitol, a low-calorie sweetener that is suitable for diabetics, which may result in the construction of commercial plants if successful. We also intend to continue exploring cogeneration and renewable biomass energy projects.

Recent Developments

The Refinancing

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

The Refinancing comprises the issuance of the Notes pursuant to this offering and the use of the proceeds therefrom, together with cash on balance sheet, to redeem €450 million in aggregate principal amount of our 2022 Notes, pay accrued and unpaid interest to, but excluding, the date of redemption, pay the applicable redemption premium and pay all fees, discounts and commissions related to the Refinancing. The redemption of the 2022 Notes is expected to occur on or after April 9, 2019. See “Use of Proceeds” for more information.

The following table sets forth the estimated sources and uses for the Refinancing (using the closing exchange rate of the US Dollar against the euro, as shown on Thomson Reuters, on March 7, 2019 of US$1.119 to €1.00). Actual amounts will vary from estimated amounts depending on several factors, including our estimates of the cost of redeeming in full the 2022 Notes, and differences from our estimates of fees, discounts and commissions.

Source of Funds	(US$ million)	Use of Funds	(US$ million)
Notes offered hereby	504	Redemption of 2022 Notes[(1)]	513
Cash on balance sheet	22	Fees, discounts and commissions[(2)]	13
Total	526	**Total**	526

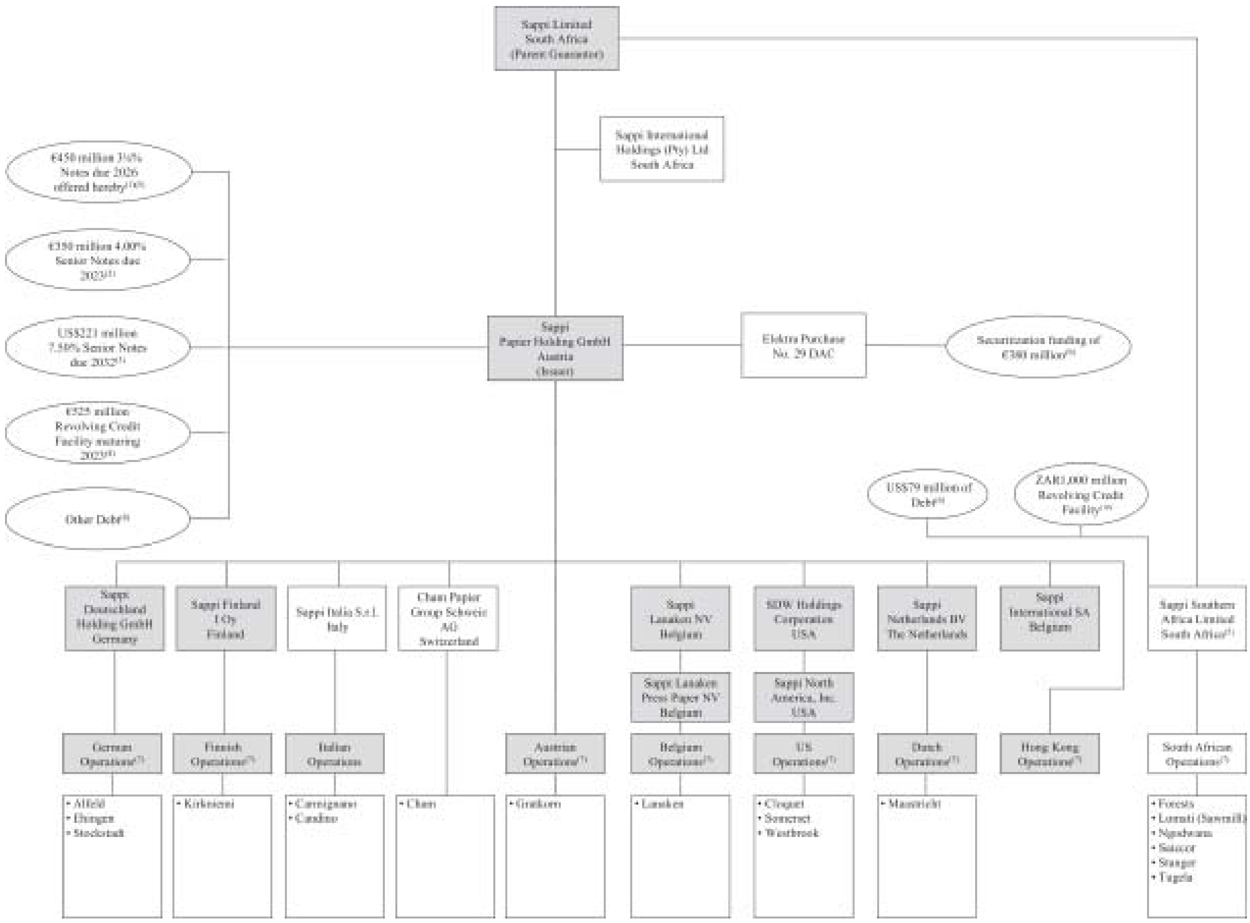
(1) Includes €450 million aggregate principal amount of 2022 Notes to be redeemed plus €8.0 million of accrued interest from October 1, 2018 to, but excluding, the anticipated redemption date for the 2022 Notes of April 9, 2019.

(2) Includes redemption premium of €3.8 million on the 2022 Notes, assuming redemption date of April 9, 2019, and fees and expenses related to the Refinancing.

In the near to medium term, we may undertake additional financing transactions to extend our debt maturities and increase our financial flexibility.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The diagram below depicts, in simplified form, our corporate structure and certain financing arrangements following completion of the Refinancing. For a summary of certain of our other debt obligations, see “Description of Other Financing Arrangements”.



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(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, Sappi North America, Inc. (formerly known as S.D. Warren Company), SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Alfeld GmbH, Sappi Ehingen GmbH, Sappi Stockstadt GmbH, Sappi Colombia Holding GmbH, Sappi Lanaken Press Paper NV, Sappi Pulp Asia Limited, Sappi Netherlands B.V., Sappi Maastricht Real Estate B.V. (formerly known as Sappi Maastricht B.V.), Sappi Maastricht B.V. (formerly known as Sappi Maastricht II B.V.), Sappi Europe SA, Sappi Finland I Oy and Sappi Italy Operations S.p.A., 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 2018, the Guarantors represented 63% of our revenue and 55% of our total Adjusted EBITDA Excluding Special Items. As of December 2018, the Guarantors represented 64% of our total assets. Each of the Subsidiary Guarantors is, directly or indirectly, 100%-owned by Sappi Limited.

(2) Consists of €350 million 4.00% senior notes due 2023. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2023 Notes was released. The 2023 Notes are jointly and severally guaranteed on a senior basis by each of Sappi Limited, Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International SA, Sappi North America Inc. (formerly known as S.D. Warren Company), SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Deutschland GmbH, Sappi Deutschland Holding GmbH, Sappi Alfeld GmbH, Sappi Ehingen GmbH, Sappi Stockstadt GmbH, Sappi Colombia Holding GmbH, Sappi Lanaken Press Paper NV. Sappi Pulp Asia Limited, Sappi Netherlands B.V., Sappi Maastricht Real Estate B.V. (formerly known as Sappi Maastricht B.V.), Sappi Maastricht B.V. (formerly known as Sappi Maastricht II B.V.), Sappi Europe SA, Sappi Finland I Oy and Sappi Italy Operations S.p.A.

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

(4) Consists of a €525 million Revolving Credit Facility. The borrowers under the Revolving Credit Facility are the Issuer and Sappi International SA. The Revolving Credit Facility is unsecured and is guaranteed on a senior basis by the same companies that guarantee the 2022 Notes. As of the date of this Offering Memorandum, the Revolving Credit Facility was undrawn.

(5) The Notes will not be guaranteed by any of the subsidiaries that constitute our Southern African business.

(6) Consisted of US$51 million of public bonds and US$28 million of other debt as at December 2018. See “Description of Other Financing Arrangements—Domestic Medium Term Note Program”.

(7) These operations comprise one or more legal entities. Certain of these entities are obligors under various long-term debt obligations in an aggregate amount of approximately US$5 million, including entities that are part of our Austrian operations.

(8) Consists of US$198 million of other long-term debt and US$49 million of other short-term debt, including €211 million (US$242 million) outstanding under the OeKB Term Loan Facilities, €38 million (US$44 million) of which is short-term debt. The obligations under the OeKB Term Loan Facilities are unsecured.

(9) Consists of a €380 million ($435 million) Trade Receivables Securitization Program pursuant to which the Issuer, Sappi Papier Holding GmbH and Sappi NA Finance LLC sell receivables on a non-recourse basis to Elektra Purchase No. 29 DAC. As of December 2018, the external securitization funding under the Trade Receivables Securitization Program was US$376 million.

(10) Consists of a ZAR1,000million (US$69 million) revolving credit facility of Sappi Southern Africa Limited. As of December 2018, this facility was undrawn.

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	€450,000,000 aggregate principal amount of 3⅛% senior notes due 2026 (the "Notes").
Issue Price	100.000% plus accrued interest on the Notes, if any, from the issue date of the Notes.
Maturity	The Notes will mature on April 15, 2026.
Interest Rates and Payment Dates	We will pay interest on the Notes semi-annually in arrears on April 15 and October 15, beginning on October 15, 2019, at a rate of 3⅛% per annum. Interest will accrue from, and including, 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"), Sappi Gratkorn GmbH, Sappi MagnoStar GmbH, Sappi Austria Produktions-GmbH & Co. KG, Sappi International SA, Sappi North America, Inc. (formerly known as 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 Colombia Holding GmbH, Sappi Europe SA, Sappi Finland I Oy, Sappi Pulp Asia Limited, Sappi Netherlands B.V., Sappi Maastricht Real Estate B.V. (formerly known as Sappi Maastricht B.V.), Sappi Maastricht B.V. (formerly known as Sappi Maastricht II B.V.) and Sappi Italy Operations S.p.A. (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. 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 may adversely affect their validity and enforceability", "Limitations on Validity and Enforceability of the Guarantees and Certain Insolvency Law Considerations" and "Description of Notes—Note Guarantees Release".
Collateral	None.
Ranking of the Notes	The Notes will be senior obligations of the Issuer and will: • be general unsecured obligations of the Issuer; • rank equally in right of payment with all of the Issuer's existing and 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 existing and future indebtedness that is subordinated in right of payment to the Notes; • be effectively subordinated to all existing and any future secured indebtedness of the Issuer to the

extent of the value of the assets securing such indebtedness; 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 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 may adversely affect their validity and enforceability" and "Limitations on Validity and Enforceability of the Guarantees and Certain Insolvency Law Considerations".

The Guarantees will:

- be general unsecured obligations of each Guarantor;
- 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;
- be effectively subordinated to all existing and any future secured indebtedness of such Guarantor that is secured by property or assets, to the extent of the value of the assets securing such indebtedness; and
- be structurally subordinated to all existing and any future indebtedness of such Guarantor's subsidiaries that do not guarantee the Notes.

As of December 30, 2018, after giving pro forma effect to the Refinancing:

- the Parent Guarantor and its consolidated subsidiaries would have had US$1,903 million of debt, US$515 million of which would have been represented by the Notes;
- the Parent Guarantor and its consolidated subsidiaries would have had US$376 million of secured indebtedness; and
- the non-Guarantor subsidiaries would have had US$458 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.

Use of Proceeds	We will use the net proceeds from the offering of the Notes to redeem our 2022 Notes, pay accrued and unpaid interest to the date of redemption, pay the applicable redemption premium and pay fees, discounts and commissions in connection with the Refinancing. See "Use of Proceeds" and "Capitalization".
Optional Redemption	At any time prior to April 15, 2022, 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 15, 2022, 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 15, 2022, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes issued under the Indenture with the net cash proceeds from specified equity offerings at a redemption price equal to 103.125% of the principal amount of the Notes, plus accrued and unpaid interest (if any) to the redemption date provided that at least 60% of the aggregate principal amount of the Notes (including the aggregate principal amount of any additional Notes) issued under the Indenture remain outstanding after the redemption. See "Description of Notes—Optional Redemption".
Additional Amounts	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 its Guarantee 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 or the Guarantees, 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 require us to pay Additional Amounts 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 outstanding principal amount of the Notes, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to, but not including, 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, but not including, the date of 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, but not including, 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. Each of these covenants is subject to a number of important limitations and exceptions as described under “Description of Notes—Certain Covenants”.
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” and “Plan of Distribution”. 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 SA/NV, Luxembourg Branch.
Governing Law of the Indenture, Notes and Guarantees	State of New York.
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 2018 and the fiscal years ended September 2018, 2017 and 2016, and for the three months ended December 2017 and the twelve months ended December 2018.

The summary financial data as of and for the years ended September 2018 and 2017 presented below have been derived from the Group's audited consolidated financial statements and related notes for 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum. The summary financial data as of and for the year ended September 2016 presented below has been extracted from the consolidated financial information for the 2016 comparative period presented in the Group's audited consolidated financial statements and related notes for 2017, which are included elsewhere in this Offering Memorandum. The Group annual financial statements as of and for the year ended September 2016 were audited by an auditor other than KPMG Inc., and are not included in this Offering Memorandum. The summary unaudited financial data as of December 2018 and for the three months ended December 2018 and 2017 presented below has been derived from the Group's unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum. The summary unaudited financial data for the twelve months ended December 2018 has been calculated by adding the summary financial data as of and for the year ended September 2018 to the summary financial data as of and for the three months ended December 2018 and subtracting the summary financial data as of and for the three months ended December 2017, which compilation has not been audited or reviewed.

The Group's financial year-end is on the Sunday closest to the last day of September. Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year, which includes an additional accounting week. Fiscal 2018 and 2016 each operated on a 52 accounting week cycle and fiscal 2017 operated on a 53 accounting week cycle. The three-month period ended December 2018 and December 2017 each consisted of 13 weeks.

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.

The Sappi Limited Group annual financial statements as of and for the fiscal years ended September 2018, 2017 and 2016 have been prepared in conformity with IFRS, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. The Sappi Limited Group unaudited condensed consolidated financial information as of and for the three-month periods ended December 2018 and December 2017 has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa.

	Three Months Ended December		Year Ended September			Twelve Months Ended December
	2018	2017	2018	2017	2016	2018[(a)]
			(US$ million)			
Group Income Statement Data:						
Revenue[(1)]	1,418	1,330	5,806	5,296	5,141	5,894
Cost of sales	1,196	1,121	4,928	4,429	4,270	5,003
Gross profit	222	209	878	867	871	891
Selling, general and administrative expenses[(2)]	100	94	396	334	336	402
Other operating expenses (income)	—	1	(4)	14	—	(5)
Share of profit from equity accounted investees	(1)	(2)	(3)	(7)	(9)	(2)
Operating profit	123	116	489	526	544	496
Net finance costs[(3)]	17	15	68	80	121	70
Profit before taxation	106	101	421	446	423	426
Profit for the period	81	63	323	338	319	341

(a) The Group Income Statement Data for the twelve months ended December 2018 has been derived by adding the Group Income Statement Data for the fiscal year ended September 2018 and Group Income Statement Data for the three months ended December

2018 and subtracting the Group Income Statement Data for the three months ended December 2017, which compilation has not been audited or reviewed.

	As of December 2018	As of September 2018	As of September 2017	As of September 2016
		(US$ million)		
Group Balance Sheet Data:				
Property, plant and equipment	3,006	3,010	2,681	2,501
Inventories	828	741	636	606
Trade and other receivables	707	767	668	642
Cash and cash equivalents	350	363	550	703
Total assets	5,656	5,670	5,247	5,177
Net assets/Shareholders' equity	1,915	1,947	1,747	1,378
Current interest-bearing borrowings and overdrafts	129	113	133	576
Trade and other payables	954	1,009	858	839
Total long-term interest-bearing borrowings	1,778	1,818	1,739	1,535
Shareholders' equity	1,915	1,947	1,747	1,378

	Three Months Ended December 2018	Three Months Ended December 2017	Year Ended September 2018	Year Ended September 2017	Year Ended September 2016	Twelve Months Ended December 2018[a]
			(US$ million)			
Other Information:						
Capital expenditure[4]	106	88	541	357	241	559
Investment to maintain operations	54	24	167	140	155	197
Investment to expand operations	52	64	374	217	86	362
Adjusted EBITDA[5]	192	183	771	785	796	780
Adjusted EBITDA Excluding Special Items[6]	197	172	762	785	739	787
North America	29	18	126	126	124	137
Europe	67	69	299	262	261	297
Southern Africa	101	84	337	396	352	354
Unallocated and eliminations	—	1	—	1	2	(1)
Revenue by source						
North America	351	342	1,432	1,360	1,367	1,441
Europe	732	673	2,970	2,564	2,582	3,029
Southern Africa	348	315	1,404	1,372	1,192	1,437

(a) The Other Information for the twelve months ended December 2018 presented in the table above has been derived by adding the Other Information for the fiscal year ended September 2018 and Other Information for the three months ended December 2018 and subtracting the Other Information for the three months ended December 2017, which compilation has not been audited or reviewed.

	As of and for the Twelve Months Ended December 2018
	(US$ million, except ratios)
Other Information:	
Net debt[7]	1,557
Adjusted net debt[8]	1,575
Net finance costs[9]	70
Adjusted net finance costs[10]	69
Ratio of adjusted net debt to Adjusted EBITDA Excluding Special Items	2.0

	As of and for the Twelve Months Ended December 2018
	(US$ million, except ratios)
Ratio of Adjusted EBITDA Excluding Special Items to adjusted net finance costs	11.4

(1) For each of fiscal 2018, 2017 and 2016, and the three months ended December 2017, revenue is 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 revenue. As of October 1, 2018, the Group adopted IFRS 15 *Revenue from Contracts with Customers*. Refer to Note 1 of our unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017, included elsewhere in this Offering Memorandum for more information on the adoption of IFRS 15 *Revenue from Contracts with Customers*.

(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 2018 included elsewhere in this Offering Memorandum.

(3) Net finance costs represent finance costs, finance income and net foreign exchange gains. Net finance costs for fiscal 2016 include a refinancing charge of US$23 million related to the 2016 Refinancing.

(4) Capital expenditure represents capital expenditure as presented in our statement of cash flows. For the years ended September 2018, 2017, and 2016, the amount of capital expenditure represents the total of "investment to maintain operations" and "investment to expand operations" as presented in the statement of cash flows in our Group annual financial statements included elsewhere in this Offering Memorandum.

(5) We have reconciled profit for the period (rather than operating profit) to Adjusted EBITDA. Adjusted EBITDA represents profit for the period before taxation charge (benefit), net finance costs, and 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 footnote 3 above and the Group's income statement for an explanation of the computation of net finance costs. We use Adjusted EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. Adjusted 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 Adjusted EBITDA is a useful measure of financial performance in addition to profit 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 Adjusted EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe Adjusted 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 Adjusted EBITDA differently, so making comparisons among companies on this basis should be done very carefully. Adjusted 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 for the period as an indicator of our operations in accordance with IFRS.

(6) Adjusted EBITDA Excluding Special Items represents profit for the period before taxation charge (benefit), net finance costs, depreciation, amortization and special items. Special items cover those items which management believes 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) Net debt represents current and non-current interest-bearing borrowings and overdrafts, net of cash and cash equivalents. Interest-bearing borrowings include secured debt represented by borrowings under our securitization program in South Africa. As at September 2018, the Group's outstanding liability under the securitization program in South Africa was equal to US$376 million. As collateral under the program, trade receivables with a value of US$438 million have been pledged. The Group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more details on the South African securitization program, see

footnote 21 to the Group's consolidated audited annual financial statements for the year ended September 2018 included elsewhere in this Offering Memorandum. The following table reconciles Net Debt to total interest-bearing borrowings:

	As of and for the Twelve Months Ended December 2018
	(US$ million)
Current interest-bearing borrowings and overdrafts	129
Total long-term interest-bearing borrowings	1,778
Total interest-bearing borrowings	1,907
Less:	
Cash and cash equivalents	(350)
Net Debt	**1,557**

(8) Adjusted to give effect to the Refinancing as if it 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 2022 Notes will be redeemed on, and accrued interest paid through, the expected redemption date of April 9, 2019 and (ii) upfront fees of US$5 million related to the 2022 Notes will be accelerated and written off. Adjusted net debt is decreased by the capitalization of upfront fees related to the Refinancing. The following table reconciles adjusted net debt to net debt:

	As of and for the Twelve Months Ended December 2018
	(US$ million)
Net Debt	**1,557**
Notes offered hereby	515
Redemption of 2022 Notes[a]	(515)
Use of cash on balance sheet[b]	22
Adjustment to long-term debt[c]	(4)
Adjusted Net Debt	**1,575**

(a) Includes €450 million aggregate principal amount of 2022 Notes to be redeemed.

(b) Use of cash on balance sheet includes redemption premium of €3.8 million on the 2022 Notes, assuming redemption date of April 9, 2019, €8.0 million of accrued interest to, but excluding, the assumed redemption date for the 2022 Notes of April 9, 2019 and fees and expenses related to the Refinancing.

(c) Adjustment to reduce principal amount of long-term debt outstanding to amounts shown on our consolidated balance sheet after taking into account capitalized transaction costs relating to long-term debt. The adjustment comprises the accelerated write-off of upfront fees related to the 2022 Notes of US$5 million, and a US$9 million increase arising from the capitalization of upfront fees related to the Refinancing.

(9) Net finance costs represent finance costs, finance income and net foreign exchange gains. Net finance costs for the twelve months ended December 2018 amount to US$70 million.

(10) Net finance costs adjusted to give effect to the Refinancing (excluding estimated one-off costs of US$13 million related to the Refinancing, which includes accrued interest through to the anticipated redemption date for the 2022 Notes, redemption premium on the 2022 Notes, and the accelerated write-off of upfront fees capitalized) as if it had occurred on the first day of the applicable period.

The following tables reconcile profit for the period to Adjusted EBITDA and Adjusted EBITDA Excluding Special Items.

	Three Months Ended December		Year Ended September			Twelve Months Ended December
	2018	2017	2018	2017	2016	2018
	(US$ million)					
Profit for the period	81	63	323	338	319	341
Add back:						
Depreciation and amortization	69	67	282	259	252	284
Net finance costs	17	15	68	80	121	70

	Three Months Ended December		Year Ended September			Twelve Months Ended December
	2018	2017	2018	2017	2016	2018
	(US$ million)					
Taxation charge	25	38	98	108	104	85
Adjusted EBITDA	**192**	**183**	**771**	**785**	**796**	**780**
Add back:						
Plantation price fair value adjustment[(1)]	(3)	(16)	(27)	(21)	(64)	(14)
Acquisition costs	—	—	2	—	—	2
Net restructuring provisions	—	—	1	1	4	1
Profit (loss) on disposal and written off assets	—	—	(4)	2	(15)	(4)
Asset (impairments) reversals[(2)]	—	—	(3)	6	2	(3)
Employee benefit liability settlement	—	—	—	—	(8)	—
Black Economic Empowerment transaction charge	—	—	1	1	1	1
Fire, flood, storm and other events	8	5	21	11	23	24
Adjusted EBITDA Excluding Special Items	**197**	**172**	**762**	**785**	**739**	**787**

(1) Represents the non-cash change in the fair value of our Plantations. For further information, see notes 2.3.4 and 11 of our Group annual financial statements for the years ended September 2018 and 2017 included elsewhere in this Offering Memorandum.

(2) For further information on asset impairments and reversals, see notes 4 and 10 of our Group annual financial statements for the years ended September 2018 and 2017 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 and are affected by changes in industry capacity and output levels as well as 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 economic and geopolitical developments such as Brexit and changing trade practices in the United States, has led to the decreased availability of credit and an increased cost of capital. This has had a continued adverse effect on the world economy, which consequently has affected, and may continue to adversely affect, the markets for our products insofar as it causes decreases in demand for our products and/or decreases achievable selling prices. The timing and magnitude of demand and price fluctuations in the pulp and paper market have generally varied by region and by type of pulp and paper. Prolonged or significant imbalances between supply of and demand for our core products may require us to impair operating assets and implement capacity reduction measures.

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 input costs. Increases in other input costs including (but not limited to) those for energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently. For example, during fiscal 2018, we experienced a steep increase in purchased pulp prices in Europe, combined with increases in delivery and chemicals costs, which contributed to lower operating margins during the earlier part of the year.

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 notice periods of 6 to 12 months for price changes. Although we have entered into longer-term fixed-price agreements of 6 to 12 months duration primarily for packaging paper and newsprint sales in Southern Africa, such agreements accounted for approximately 6% of consolidated Group sales during fiscal 2018.

Most of our dissolving wood pulp sales contracts are multi-year contracts. The price terms under most of those contracts are reset on a quarterly basis. Because 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 the cyclical decrease that has affected dissolving wood pulp prices in recent years.

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 many 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 benefit from government subsidies. Some of our competitors also have advantages over us, including lower raw material, energy and labor costs and fewer environmental and other governmental regulations with which to comply. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including as a result of a decrease in import duties in accordance with the terms of free trade agreements or any potential revocation or non-renewal of the imposition of anti-dumping duties on Chinese and Indonesian coated paper imports into the United States by the U.S. International Trade

Commission, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs, which could lead to a loss in market share, and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share. See "Our Business—Competition".

Developments in digitalization, including media alternatives to newsprint and paper advertising, the declining use of printing and writing papers and related 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 pressure from consumers for more environmentally friendly solutions. In addition, trends in advertising, electronic data transmission and storage, mobile devices and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Over the last ten to 15 years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines have been declining; meanwhile, 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 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, towards greater use of electronic and digital forms of advertising on the internet via mobile phones and other electronic devices, which tend to be less expensive. While the extent of these trends cannot 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. More generally, demand for printing and writing papers, which product category represented 62% of our sales and 32% of our Operating Profit Excluding Special Items in fiscal 2018, has in recent years exhibited a structural decline in Europe and North America, which we expect to continue. In recent months, we have experienced a faster decline in demand for printing and writing papers than in prior periods. In the face of such structurally declining demand for printing and writing papers, any failure to grow our dissolving wood pulp and specialties and packaging papers businesses could have a material adverse effect on our results of operations, prospects and financial condition.

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

In the past, demand for our paper products declined and pulp prices and demand decreased during times of global economic recession. Economic recession, sovereign debt crises and other macroeconomic events have in the past 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. The economic recovery in certain of our markets remains slow. Certain countries have fallen back into recession and a significant risk remains that measures taken by governments and central banks 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 resulted in market uncertainty generally and in worsening economic conditions, particularly in Europe. We are still negatively impacted by the slow recovery of various economies in the regions in which we operate. Furthermore, we are unable to predict the timing or rate of any recovery.

Finally, we cannot predict the timing, duration or effect of any other downturn in the economy that may occur in the future. These economic risks and others that we may not anticipate could adversely affect the Group's business, results of operations, financial condition or prospects.

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 inadequacy or unavailability of coverage due to reasons unconnected with our business. In addition, volatility in the global financial markets can adversely affect the insurance market and could result in some of our insurers failing and being unable to pay their share of claims.

We have renewed our 2018 asset and business interruption insurance cover at more favorable rates to those of 2017. The maximum self-insured retention for any one property damage occurrence is US$24 million (€20.5 million), with an annual aggregate of US$38 million (€33 million). We are unable to predict whether past or future events will result in more or less favorable terms for 2019. For property damage and business interruption insurance, cost effective cover is not generally available to full replacement value. As at September 2018, the annual limit for claims under our property damage and business interruption insurance policy was US$656 million (€750 million). If we were to experience property damage or business interruption losses in excess of any such policy limits, this could have a material adverse effect on our Group's business, results of operations, financial condition or prospects.

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 2011 to 2018 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.

Furthermore, we may incur liabilities that are not covered by insurance. Given the diversity of our operations, we may not always be able to predict all risks to which we are exposed and as a result, we may not be covered by insurance in specific instances. 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 affect our results of operations.

Innovation and the development of new products to meet customer expectations play an important role in our industry, in particular in growing segments such as specialties and packaging paper. Failure to invest in research and development or to proactively develop new products or processes may negatively affect our ability to compete successfully. In particular, the specialties and packaging papers business is characterized by a high level of customization and specialization to meet specific customer requirements. Further, our competitors may have greater financial or other resources that allow them to develop or otherwise access new products or processes before we do. In order to compete successfully, we must continually develop and introduce new products and services in a timely manner to keep pace with technological and regulatory developments and achieve customer acceptance. We may not be able to respond to these competitive pressures or acquire or develop new technologies on a timely basis or at an acceptable cost. In addition, the services and products that we provide to customers may not meet the needs or preferences of our customers. If we do not timely assess and respond to changing customer expectations, preferences and needs, our financial condition, results of operations or cash flows could be adversely affected.

In addition, we are exposed to risks that are inherent to innovation and new technologies, such as those related to customer acceptance of new products. Therefore, we may incur certain costs relating to developing and marketing new products and we cannot guarantee that the profitability of or demand for such products will meet our expectations.

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

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

Although we strive to ensure that our facilities comply with all applicable environmental requirements, including any permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions or other claims for failure to comply with environmental requirements. Impacts from historical operations, including the land disposal of waste materials, or our ongoing operations may require costly investigation and clean-up. In addition, we could become subject to liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental, health and safety requirements and the costs related to any potential environmental, health and safety 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 any new regulatory requirements, including those related to potential stricter air emissions standards in the United States, Southern Africa and Europe.

In addition, we may not have identified or addressed all sources of environmental, health and safety risks, and there can be no assurances that we will not incur losses related to any such environmental, health and safety risks, that the costs of compliance with environmental, health and safety laws and regulations will not continue to increase or that any such losses or costs incurred will not have a material adverse impact on our results of operations, financial condition or prospects.

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 affect our business and liquidity. As of December 2018, on a pro forma basis after giving effect to the Refinancing, our net interest-bearing debt (current and non-current interest-bearing borrowings plus overdraft, less cash, cash equivalents and short-term deposits) would have been US$1,575 million. While reduction of our indebtedness is one of our priorities, opportunities to grow 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:

- making it more difficult for us to satisfy our obligations, including our obligations under the Notes;
- 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 turmoil in debt and other financial markets, which could result in tight credit restrictions and credit being available at higher cost.

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 ratings or in financial markets, including as a result of renewed turmoil in the European sovereign debt markets, any further downgrades in South African government bonds or deterioration of general economic conditions, may affect our credit ratings or negatively impact our ability to incur additional debt as well as the amount and terms of the debt we are able to issue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—South African Economic and Political Environment".

Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favorable than the terms of the debt being refinanced. We may also need to agree to stricter covenants that place additional restrictions on our business. In addition, a portion of our debt bears interest at a variable rate. Fluctuations in the applicable rates may increase our overall interest expenses and have a material adverse effect on our ability to service our debt obligations.

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 for printing and writing papers in Europe and North America, 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 investments. We may not be able to secure such alternative funding resources on a timely basis or on satisfactory terms. The failure to do so could have a material 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 increase production capacity and enhance productivity and investment in our higher margin specialties and packaging papers and dissolving wood pulp segments. For example, in the second quarter of fiscal 2018, we acquired the specialty paper business of Cham Paper Group for US$132 million. During fiscal 2018, we also significantly increased capital expenditure related to various strategic initiatives, including conversions of our paper machines at our Somerset Mill (in Maine/United States) and our Maastricht Mill (in the Netherlands) and projects to optimize production processes at our dissolving wood pulp plants in our Saiccor and Ngodwana Mills (in South Africa). In the area of biomaterials sourced from dissolving wood pulp, we continued investments in additional biorefinery capacity in fiscal 2018, for example with the construction of a demonstration plant at Ngodwana Mill for the production of xylitol, a low-calorie sweetener, and furfural, a green industrial chemical derived from C5 sugars. This follows investments we made in fiscal 2017 in a sugar extraction pilot plant at Ngodwana Mill and the acquisition of sugar extraction technology from Plaxica (together with certain other technologies, for a total amount of US$10.4 million (£7.7 million)) in the same year. 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 implement successfully 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 announced additional production capabilities, and total supply capacity currently outstrips demand for dissolving wood pulp, which may adversely affect the price of dissolving wood pulp. As we increase production capacity and enhance productivity and investment in the dissolving wood pulp segment, our exposure to the dissolving wood pulp market may grow. In fiscal 2018, our dissolving wood pulp activities accounted for 18% of our sales and 40% of our Adjusted EBITDA Excluding Special Items.

There can be no assurance that any of these initiatives will be completed as anticipated or that the benefits we expect from any strategic initiative will be achieved on a timely basis or at all.

We carry out a number of capital expenditure projects, which, if delivered late, over budget or without achieving the projected quality improvements, capacity increases or cost reductions, could materially adversely affect our results of operations, competitiveness and financial position.

In executing our strategy, we carry out a number of capital expenditure projects. During fiscal 2018, capital expenditure amounted to US$541 million. There is a risk that capital expenditure projects may not be completed on time, may not deliver the expected quality improvements, capacity increases or cost reductions or may exceed the allocated capital budget. Such effects may result from factors such as supplier performance and skill levels or ineffective project management and controls. Any such delays, cost overruns or failures to deliver expected performance could impact our projects' financial return metrics, hamper our normal operations, delay our products' path to market or cause us to lose market share. For example, in fiscal 2018, the project to convert PM1 at our Somerset Mill overran in terms of both cost and time, leading to US$10 million in lost production from the mill and an additional US$35-50 million capital expenditure above budget. Also in fiscal 2018, delayed start-ups of our Saiccor and Ngodwana Mills resulted in lower production and reduced sales volumes in our dissolving wood pulp product category for the year. Such delays, unexpected costs, production interruptions and any other problems experienced in connection with the implementation of any capital project may adversely affect our results of operations, competitiveness and financial position.

Continued volatility in equity markets and continuing low yields or increased rates of default 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 may remain relatively low in North America and Europe, which could negatively affect the funded status of our post-employment defined benefit arrangements. In addition, volatility in our net balance sheet liabilities resulting from the relative change in the value of assets and liabilities may be further enhanced by investment strategies, resulting in exposure to various classes of assets.

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

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

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

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

Fluctuations in the exchange rate between currencies, particularly the Rand and euro in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our earnings, the competitiveness of our exports, the prices of imported competitors' products and the costs of our raw materials. For example, weaker euro/US dollar exchange rates place pressure on our European business, which purchases approximately half of its pulp requirements from non-local suppliers. In addition, a weaker euro/US dollar exchange rate places pressure on our North American business by increasing the levels of imports into the United States and making our exports from the United States less competitive. Further, as was the case during fiscal 2018, a stronger Rand/US dollar exchange rate may place margins under pressure in our Southern Africa segment, as this lowers the effective Rand pricing for dissolving wood pulp (which is priced in US dollars).

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$1.16, US$1.18 and US$1.12 per euro at the end of fiscal 2018, 2017 and 2016, respectively. At the end of December 2018, the euro was trading at US$1.1438 per euro. On March 7, 2019, it was trading at approximately US$1.119 per euro.

The value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R5.66 per US dollar in December 1998 to approximately ZAR14.15, ZAR13.56 and ZAR13.71 per US dollar at the end of fiscal 2018, 2017 and 2016, respectively. At the end of December 2018, the Rand was trading at ZAR14.4361 per US dollar. The Rand was trading at approximately ZAR14.500 per US dollar on March 7, 2019.

For further information, see notes 2 and 31 to our Group annual financial statements for the year ended September 2018 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 seven countries in Europe, two states in the United States and in South Africa and own plantations in South Africa. We also sell our products to customers in various countries worldwide. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

Our business may be impacted by reputational risks relating to our local partners. For example, in 2017, we reported that our auditors, KPMG South Africa, had been implicated in allegations related to patronage and corruption at other clients, which caused us to reassess their provision of services to Sappi due to reputational concerns arising from such reports, which we continue to monitor. Any such reputational risks or negative media coverage could adversely impact our business.

In South Africa, where we own and lease significant amounts of land (379,000 ha) that supply our Sappi Forests operations, we are subject to claims for restitution of land under certain land reform initiatives, such as the Restitution of Land Rights Act, 1994. More recently, there has been a debate in South Africa surrounding proposals for expropriation of land without compensation, such as a draft Expropriation Bill that was published for comment on December 21, 2018, and the support from the governing party and Parliament in favor of a Constitutional amendment in this regard. Any change in such land reform policies or delays in processing land claims and approving settlements by the South African authorities may increase our costs and 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" and "Our Business—Legal Proceedings—Southern Africa".

Uncertainties relating to international trade policies, new tariffs and other trade measures may adversely affect our business, results of operations and financial condition.

A substantial proportion of the products we manufacture in our European, North American and Southern African operations are destined for export to other countries worldwide, in particular in Asia. As a result, our business may be impacted by uncertainties related to international trade policies, such as the recent tariffs dispute between the United States and China. For example, in 2018, the U.S. government imposed tariffs on steel and aluminum and a broad range of other products imported into the United States. In response to the tariffs imposed by the United States, the European Union, Canada, Mexico and China announced tariffs on U.S. goods and services. China has increased tariffs on the casting release paper made at our Westbrook Mill in the United States. As a result, our customers in China must pay such tariffs. Similarly, the products our customers make with our casting release paper are subject to tariffs upon entry into the United States. Any such tariffs, additional tariffs or other trade restrictions may adversely affect the price competitiveness of either our or our customers' products, increase costs or lead to reduced activity and investment levels in our or our customers' industries in general, which could adversely affect our business, results of operations and financial condition.

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. For example, during 2018, we faced increasing prices for certain raw materials such as paper pulp and various process chemicals.

In some countries, electricity generation companies are competing for the same raw materials, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. Although oil prices have decreased from the historical highs of 2008, they could return to high levels in the near 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 affecting 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, or if they are only able to implement such price increases with a certain lag time relative to input cost increases.

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

We require substantial amounts of oil-based chemicals, fuels, water and other raw materials for our production activities and transportation of 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. In February 2019, Eskom imposed a series of rolling blackouts on the national power grid, cutting 4,000 megawatts of power supply after it unexpectedly lost six additional generating units to breakdowns, despite seasonally low summer demand. Eskom has warned that electricity shortages and conditions of intermittent supply could persist for some time and the South African government has announced a plan to restructure Eskom into three separate businesses (encompassing generation, transmission and distribution, respectively) in response to the recent power generation problems and a substantial debt burden. In addition, in order to address its substantial debt burden, Eskom has requested to increase its electricity tariffs by 15% in each of the three years from 2019-2020 to 2021-2022, and the National Energy Regulator of South Africa is currently expected to decide upon such request during March 2019. The prices for and availability of these energy supplies, water and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels, drought or other severe weather and market conditions.

Environmental litigation aimed at protecting forests and species habitats as well as regulatory restrictions on cutting or harvesting may cause significant reductions in the amount of timber available for commercial harvest in the future. 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 further increase significantly from current levels in the future. 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 2018 and 2017, no single customer individually represented more than 10% of our total revenue. 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 globally on credit insurance for our arrangements with certain customers. In fiscal 2018 and the three months ended December 2018, 71% and 69%, respectively, of the Group's receivables were insured or covered by letters of credit and bank guarantees. 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, lower prices or increased competition, could also reduce future orders of our products and have a material adverse effect on our results of operations and financial position. For example, prices for viscose staple fiber, the primary product produced by our dissolving wood pulp customers, dropped over the course of fiscal 2014 due to large reserves of, and declines in the prices for, competitive fibers such as cotton and polyester, for which viscose staple fiber can be used as a substitute. In the three months ended December 2018, although US dollar spot prices for dissolving wood pulp increased during most of the period, lower viscose staple fiber prices and a weaker Chinese RMB placed pressure on our viscose staple fiber customers towards the end of the period, which adversely affected the prices for dissolving wood pulp. If low prices and weak margins prevail in the market for viscose staple fiber, or if prices for competing fibers in the textile industry such as cotton and polyester were to decrease significantly, our dissolving wood pulp 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 the 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. In certain regions, for example in North America, low unemployment rates also make it more difficult to find local resources and skills.

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

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

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

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

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

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

The Southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high. In 2007 and 2008, Southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa affecting 14,000 hectares of our plantations. These abnormal weather conditions might be more frequent because 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 manage directly fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. The availability of harvested timber may also be limited by other abnormal weather conditions, such as droughts. For example, in the three months ended December 2015, a severe drought in South Africa slowed production at the Saiccor Mill for several weeks, which reduced the Operating Profit Excluding Special Items of our Southern Africa business by US$6 million. Continued or increased losses of our wood sources from drought conditions or fire 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 location of forestry plantations, which could affect the quality and quantity of ground water, the use of water by our operational units, the quality of water released back into natural water systems and the control of effluent discharges. The cost, availability and use of our water supply also have a direct impact on our input costs and operating profit.

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

The effects of climate change may also impact our business to the extent they result in reduced availability of woodfiber. Wildfires in Europe and North America over the past few years have been among the most destructive and expensive on record. Should our strategy to mitigate the related risks of raw materials shortages fail, our business may be adversely impacted.

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. For example, during the calendar years 2014 through 2018, we experienced 11 incidents resulting in fatalities in our Southern African operations and two incidents resulting in fatalities in our European operations. Any such incident also could result in 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 incident, to the extent not covered by insurance, and any negative publicity associated therewith could harm our business, reputation, financial condition or results of operations. Whether or not a claim against us succeeds, its defense may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

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

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

We also use information technologies to securely manage our operations and various business functions. We rely on various technologies to process, store and report on our business and interact with customers, vendors and employees. Despite our security design and controls, and those of our third-party providers, we could become subject to cyberattacks, 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, 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. Our ability to generate cash 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 any of our debt financing arrangements, 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” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financial Covenants”.

The Indenture for the Notes will contain, 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 and other fees, if any. This would also result in an event of default under the Notes, the Indenture and some of our other debt instruments. The lending banks could also refuse to extend further credit under their facilities. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. 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 the Notes and our other debt.

Restrictions imposed by the Indenture, the Revolving Credit Facility, the OeKB Term Loan Facilities, the indenture governing the 2023 Notes, the indenture governing the 2032 Notes, and certain of our other credit facilities limit our ability to take certain actions.

The Revolving Credit Facility, the indentures governing the 2023 Notes and the 2032 Notes, the OeKB Term Loan Facilities and other outstanding debt agreements limit, and the Indenture will limit, our flexibility to operate our business. For example, certain of these agreements restrict the Issuer’s and the Guarantors’ ability to, among other things:

- incur additional debt;

- make restricted payments, including dividends or other distributions;
- create certain liens;
- make certain asset dispositions;
- make certain loans or investments;
- issue or sell share capital of our subsidiaries;
- guarantee indebtedness;
- engage in transactions with affiliates; or
- merge, consolidate or sell, lease or transfer all or substantially all of our assets.

In addition, the Indenture will limit, among other things, the ability of our subsidiaries to enter into guarantees with respect to certain types of indebtedness without guaranteeing the Notes, our ability to create certain liens on our principal properties and our ability to secure indebtedness without also securing the Notes. The operating and financial restrictions and covenants in our credit facilities, our indentures and the Indenture may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. However, such restrictions and limitations are subject to certain significant qualifications and exceptions. For example, we estimate the amount available for restricted payments under our consolidated net income builder basket to be approximately US$656 million as of the date of this Offering Memorandum.

We and our subsidiaries may incur substantially more debt.

We and our subsidiaries may incur substantial additional indebtedness in the future, including indebtedness in connection with any future capital investments or acquisitions. The terms of the Indenture, the Notes, our credit facilities and other indebtedness limit, but do not prohibit, us and our subsidiaries from incurring additional indebtedness. Although those agreements contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. As of December 30, 2018, our gross debt (excluding off-balance sheet trade receivables securitization), on an adjusted basis after giving effect to the issuance of the Notes and the use of the proceeds therefrom, was US$1,903 million, which includes the Notes, the 2023 Notes, the 2032 Notes, borrowings under the OeKB Term Loan Facilities, borrowings under our securitization programs, certain public bonds and other debt. In addition, our Revolving Credit Facility provides for aggregate borrowings of up to €525 million.

Furthermore, the Indenture will allow our subsidiaries to incur additional indebtedness that would be structurally senior to the Notes. If new indebtedness is added to our current debt levels, the related risks for us, as described under could intensify. Increases in our total indebtedness could also lead to a downgrade of the credit ratings assigned to the Group or the Notes, which could negatively affect the Notes' trading price.

The Notes will be effectively subordinated to certain secured indebtedness of the Issuer and the Guarantors and structurally subordinated to the indebtedness and other obligations of our non-guarantor subsidiaries.

The Notes and the Guarantees will be general unsecured obligations of the Issuer and the Guarantors, respectively. Accordingly, the Notes will be effectively subordinated to any existing and future secured indebtedness the Issuer or a Guarantor may incur, including indebtedness under our Trade Receivables Securitization Program and indebtedness permitted by the Indenture to be secured, which amounts could be substantial, in each case to the extent of the value of the assets securing such indebtedness.

The Notes will be structurally subordinated to all existing and any future liabilities of our subsidiaries that do not guarantee the Notes. As of December 30, 2018, our subsidiaries that do not guarantee the Notes had US$458 million of gross debt outstanding. For fiscal 2018, 45% of our Adjusted EBITDA Excluding Special Items was attributable to our subsidiaries that do not guarantee the Notes. The subsidiaries that do not guarantee the Notes represented 36% of our consolidated total net assets as of December 30, 2018. In the event of insolvency, liquidation or other reorganization of any of these non-guarantor subsidiaries, our creditors (including the holders of the Notes) will have no legal right to proceed against the assets of such non-guarantor subsidiaries or to cause the liquidation or bankruptcy of such non-guarantor subsidiaries under applicable bankruptcy laws. Creditors of such non-guarantor subsidiaries would be entitled to payment in full from their respective assets before we would be entitled to receive any distribution from such assets. Except to the extent that the Issuer may itself be a creditor with recognized claims against a non-guarantor subsidiary, claims of creditors of such non-guarantor subsidiary will have priority with respect to the assets and earnings of that subsidiary over the claims of the Issuer's creditors, including claims under the Notes. Our non-guarantor subsidiaries are also subject to liabilities to other creditors, including trade creditors, as a result of obligations incurred in the ordinary course of business, which liabilities are also structurally senior to the Notes. Furthermore, we have established the Trade Receivables Securitization Program under which the Issuer and certain of its subsidiaries sell eligible receivables to Elektra Purchase No. 29 DAC (the "Purchaser") under various purchase agreements. The liabilities of the Purchaser under the Trade Receivables Securitization Program are also structurally senior to the Notes. See "Description of Other Financing Arrangements—Trade Receivables Securitization Program".

We may not be able to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us or at all.

Our ability to refinance our indebtedness depends on a number of factors, including the liquidity and capital conditions in the credit markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot refinance our indebtedness, we may not be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including additional restrictions on our operations and higher interest rates, could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various cross-default and cross-acceleration provisions, resulting in the acceleration of a substantial portion (if not all) of our debt, including the Notes, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

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 Guarantors are also 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. In addition, the payment of dividends, the making of loans, advances and other payments to the Issuer by our subsidiaries may be subject to statutory or contractual limitations, are contingent upon the earnings of our subsidiaries and are subject to various business and other considerations. The Notes are not guaranteed by any of the subsidiaries that comprise our Southern Africa operations, including our Sappi Dissolving Wood Pulp, 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 may adversely affect their validity and enforceability.

Our obligations under the Notes will be guaranteed by the Guarantors. The Notes and the Guarantees 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, Italian, South African, Swiss, United States or other applicable law, and such limitations are significant. In addition, enforcement of each Guarantee will be limited to the extent of the amount that can be guaranteed by a particular Guarantor without rendering the Guarantee voidable or otherwise ineffective under applicable law. In addition, enforcement of any of the Guarantees against any Guarantor will be subject to certain defenses available to Guarantors 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 if it found that:

- the Guarantee was incurred 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, and the Guarantor:
  - was insolvent or was rendered insolvent because of the Guarantee;
  - was undercapitalized or became undercapitalized because of the Guarantee; or
  - intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity;
- the Guarantee was not in the best interests or for the benefit of the Guarantor;
- the amount paid or payable under the Guarantee was in excess of the maximum amount permitted by law; or
- the Guarantee permits the party benefitting therefrom to receive a greater recovery than if such Guarantee had not been granted and an insolvency proceeding in respect of the Guarantor is commenced within a legally specified "clawback" period following the granting of the Guarantee.

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 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 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 and Additional Amounts, if any, to the date of purchase. 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 to repay immediately 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 Market, 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.

As the Notes will have fixed interest rates, their market price may drop as a result of increases in market interest rates.

The Notes bear fixed interest rates. A holder of fixed rate notes is particularly exposed to the risk that the price of such notes falls as a result of changes in the market interest rate. While the nominal interest rate is fixed during the life of the Notes, the market interest rate typically changes on a daily basis. As the market interest rate changes, the price of fixed rate notes also changes, but in the opposite direction. Thus, if the market interest rate increases, the price of fixed rate notes typically falls, until the yield of such notes is approximately equal to the market interest rate of comparable issues. If the market interest rate decreases, the price of fixed rate notes typically increases, until the yield of such notes is approximately equal to the market interest rate of comparable issues. If a holder of the Notes holds any Notes until maturity, changes in the market interest rate are without relevance to such holder as the Notes will be redeemed at their principal amount.

The transfer of Notes is restricted.

The Notes have not been, and will not be, registered under the U.S. 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 U.S. Securities Act and any other applicable laws. It is the obligation of investors in the Notes to ensure that all offers and sales of their Notes in the United States and other countries comply with applicable securities 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 Sappi North America, Inc., 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 Sappi North America, Inc., 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 Sappi North America, Inc., 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”.

You may not be able to exercise rights arising from the Notes independently, 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 enforce the Guarantees granted under the Notes.

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. There are also a number of circumstances other than the repayment or discharge of the Notes under which the Guarantees will be automatically released, without your consent or the consent of the Trustee. 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".

Enforcement of the Guarantees 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 will thus be subject to the laws of a number of jurisdictions, and it may be difficult to enforce such rights effectively 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 realize any recovery under the Notes and the Guarantees. See "Limitations on Validity and Enforceability of the Guarantees 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 expected to be approximately US$504 million (using the closing exchange rate of the US Dollar against the euro, as shown on Thomson Reuters, on March 7, 2019 of US$1.119 to €1.00). We intend to use the net proceeds from this offering to redeem €450 million in aggregate principal amount of our 2022 Notes.

The 2022 Notes were originally issued in an aggregate principal amount of €450 million, accrue interest at a rate of 3.375% per annum and mature on April 1, 2022. The redemption of the 2022 Notes is expected to be effected on or after April 9, 2019, at a redemption price of 100.844% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the expected redemption date of April 9, 2019.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization at December 30, 2018, on an actual basis and as adjusted to give effect to the Refinancing (using the closing exchange rate on December 30, 2018 of US$1.1438 to €1.00).

You should read this table together with “Use of Proceeds”, “Summary—Summary Financial and Other Data”, “Selected Consolidated Financial and Other Information of the Sappi Group”, “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 included elsewhere in this Offering Memorandum.

	As at December 2018		
	Actual	**Adjustment for Refinancing**	**As adjusted**
		(US$ million)	
Cash and cash equivalents(1)	350	(22)	328
Short-term debt:			
Other public debt(2)	—	—	—
Other short-term debt(3)	129	—	129
Total short-term debt	129	—	129
Long-term debt:			
Revolving Credit Facility(4)	—	—	—
Notes offered hereby	—	515	515
2022 Notes(5)(6)	515	(515)	—
2023 Notes(6)	400	—	400
7.50% Guaranteed Notes due 2032	221	—	221
Other public debt(2)	51	—	51
Other long-term debt(3)	230	—	230
Securitization debt(7)	376	—	376
Adjustment to long-term debt(8)	(15)	(4)	(19)
Total long-term debt	1,778	(4)	1,774
Total debt	1,907	(4)	1,903
Total shareholders’ equity(9)	1,915	(18)	1,897
Total capitalization(10)	3,822	(22)	3,800

(1) Adjustment reflects the Refinancing based on the closing exchange rate at December 30, 2018, of US$1.1438 to €1.00.

(2) Represents debt under our South African Domestic Medium Term Note Program.

(3) Other short-term debt includes €38 million (US$44 million) of short-term debt outstanding under the OeKB Term Loan Facilities and Other long-term debt includes €173 million (US$198 million) of long-term debt outstanding under the OeKB Term Loan Facilities as of December 30, 2018.

(4) Represents indebtedness under our Revolving Credit Facility. As of December 30, 2018, the Revolving Credit Facility was undrawn and had €525 million of undrawn capacity.

(5) We intend to use the proceeds of this offering to redeem all of our €450 million in aggregate principal amount of 2022 Notes.

(6) On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2022 Notes and 2023 Notes was released. See “Description of Other Financing Arrangements”.

(7) Represents the amount of external securitization funding under our Trade Receivables Securitization Program.

(8) Adjustment to reduce principal amount of long-term debt outstanding to amounts shown on our consolidated balance sheet after taking into account capitalized transaction costs relating to long-term debt. The adjustment comprises the accelerated write-off of upfront fees related to the 2022 Notes of US$5 million, and a US$9 million increase arising from the capitalization of upfront fees related to the Refinancing.

(9) Total shareholders’ equity as adjusted to give effect to the Refinancing, including the redemption premium to be incurred as a result of redemption of our outstanding 2022 Notes with the proceeds of this offering as well as accrued interest from October 1, 2018 to, but excluding, the anticipated redemption dates of our 2022 Notes on April 9, 2019.

(10) Total capitalization is calculated as total 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 December 2018, and for the three months ended December 2018 and 2017, and as of and for the fiscal years ended September 2018, 2017 and 2016.

The summary financial data as of and for the years ended September 2018 and 2017 presented below has been derived from the Group's audited consolidated financial statements and related notes for 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum. The summary financial data as of and for the year ended September 2016 presented below has been extracted from the consolidated financial information for the 2016 comparative period presented in the Group's audited consolidated financial statements and related notes for 2017, which are included elsewhere in this Offering Memorandum. The Group annual financial statements as of and for the year ended September 2016 were audited by an auditor other than KPMG Inc., and are not included in this Offering Memorandum. The summary unaudited financial data as of December 2018 and for the three months ended December 2018 and 2017 presented below has been derived from the Group's unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum.

The Group's financial year-end is on the Sunday closest to the last day of September. Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2018 and 2016 each operated on a 52-accounting week cycle and fiscal 2017 operated on a 53-accounting week cycle. The three-month period ended December 2018 and December 2017 each consisted of 13 weeks.

The following tables should be read in conjunction with "Use of Non-GAAP Financial Measures", "Capitalization", "Management's Discussion and Analysis of Financial Condition and Results of Operations", our 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 2018, 2017 and 2016 have been prepared in conformity with IFRS, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. The Sappi Limited Group unaudited condensed consolidated financial information as of and for the three-month periods ended December 2018 and December 2017 has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa.

	Three Months Ended December		Year Ended September		
	2018	2017	2018	2017	2016
			(US$ million)		
Group Income Statement Data:					
Revenue[(1)]	1,418	1,330	5,806	5,296	5,141
Cost of sales	1,196	1,121	4,928	4,429	4,270
Gross profit	222	209	878	867	871
Selling, general and administrative expenses[(2)]	100	94	396	334	336
Other operating expenses (income)	—	1	(4)	14	—
Share of profit from joint ventures	(1)	(2)	(3)	(7)	(9)
Operating profit	123	116	489	526	544
Net finance costs[(3)]	17	15	68	80	121
Profit before taxation	106	101	421	446	423
Profit for the period	81	63	323	338	319

	As of December 2018	As of September 2018	2017	2016
		(US$ million)		
Group Balance Sheet Data:				
Property, plant and equipment	3,006	3,010	2,681	2,501
Inventories	828	741	636	606
Trade and other receivables	707	767	668	642
Cash and cash equivalents	350	363	550	703
Total assets	5,656	5,670	5,247	5,177
Net assets/Shareholders' equity	1,915	1,947	1,747	1,378
Current interest-bearing borrowings and overdrafts	129	113	133	576
Trade and other payables	954	1,009	858	839
Total long-term interest-bearing borrowings	1,778	1,818	1,739	1,535
Shareholders' equity	1,915	1,947	1,747	1,378

	Three Months Ended December		Year Ended September		
	2018	2017	2018	2017	2016
			(US$ million)		
Cash Flow Information:					
Cash generated by operations	197	162	709	748	693
Movement in working capital	(87)	(83)	(79)	(27)	4
Net finance costs paid[(5)]	(5)	(6)	(66)	(81)	(91)
Taxation	(3)	6	(73)	(100)	(56)
Capital expenditure[(6)]	(106)	(88)	(541)	(357)	(241)
Net cash generated (utilized)[(7)]	(7)	(14)	(254)	108	359
Other Information:					
Adjusted EBITDA	192	183	771	785	796

(1) Our financial year-end is on the Sunday closest to the last day of September. Our fiscal years operate on a 52-accounting week cycle, except every sixth fiscal year which includes an additional accounting week. Fiscal 2018 and 2016 each operated on a 52-accounting week cycle, and fiscal 2017 operated on a 53-accounting week cycle. The three-month periods ended December 2018 and December 2017 each consisted of 13 weeks.

(2) For each of fiscal 2018, 2017 and 2016, and the three months ended December 2017, revenue is 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 revenue. As of October 1, 2018, the Group adopted IFRS 15 *Revenue from Contracts with Customers*. Refer to Note 1 of our unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017, included elsewhere in this Offering Memorandum for more information on the adoption of IFRS 15 *Revenue from Contracts with Customers*.

(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 2018 included elsewhere in this Offering Memorandum.

(4) Net finance costs represent finance costs, finance income and net foreign exchange gains. Net finance costs for fiscal 2016 include a refinancing charge of US$23 million related to the 2016 Refinancing.

(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 2018 and December 2017, 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 profit for the period (rather than operating profit) to Adjusted EBITDA. Adjusted EBITDA represents profit for the period before taxation charge (benefit), net finance costs, and 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 footnote 3 above and the Group's income statement for an explanation of the computation of net finance costs. We use Adjusted EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. Adjusted 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 Adjusted EBITDA is a useful measure of financial performance in addition to profit 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 Adjusted EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe Adjusted 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 Adjusted EBITDA differently, so making comparisons among companies on this basis should be done very carefully. Adjusted 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 for the period as an indicator of our operations in accordance with IFRS.

The following table reconciles profit for the period to Adjusted EBITDA.

	Three Months Ended December		**Year Ended September**		
	2018	**2017**	**2018**	**2017**	**2016**
Profit for the period	81	63	323	338	319
Add back:					
Depreciation and amortization	69	67	282	259	252
Finance costs	17	15	68	80	121
Taxation charge	25	38	98	108	104
Adjusted EBITDA	**192**	**183**	**771**	**785**	**796**

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

Sappi Limited, as the 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 SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. The unaudited condensed consolidated financial information of the Sappi Group as of December 2018 and for the three-month periods ended December 2018 and December 2017 has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa.

The consolidated financial information as of and for the years ended September 2018 and 2017 presented below has been derived from the Group's audited consolidated financial statements and related notes for 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum. The consolidated financial information as of and for the year ended September 2016 presented below has been extracted from the consolidated financial information for the 2016 comparative period presented in the Group's audited consolidated financial statements and related notes for 2017, which are included elsewhere in this Offering Memorandum. The Group annual financial statements as of and for the year ended September 2016 were audited by an auditor other than KPMG Inc., and are not included in this Offering Memorandum. The unaudited condensed consolidated financial information as of December 2018 and for the three months ended December 2018 and 2017 presented below has been derived from the Group's unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017, respectively, which are included elsewhere in this Offering Memorandum.

The Group's financial year-end is on the Sunday closest to the last day of September. Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2018 and 2016 each operated on a 52 accounting week cycle and fiscal 2017 operated on a 53 accounting week cycle. The three-month period ended December 2018 and December 2017 each consisted of 13 weeks.

Company and Business Overview

Sappi is a global diversified woodfibre company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, specialties and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to its direct and indirect customer base. The Group's dissolving wood pulp products are used worldwide by converters to create viscose staple fiber for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer and household products. The Group's range of specialty and packaging paper products includes premium quality packaging papers such as flexible sachets, pouches and wrappers, containerboard used in various consumer, industrial and transport applications and paperboard used for luxury packaging applications in the perfume, confectionary and premium beverages industries. In addition, specialty and packaging paper products include casting release papers used by suppliers to the fashion, textiles, automobile and household industries, functional papers that build upon our expertise in paper coating to incorporate sealing properties and barriers against mineral oils and various other substances, as well as label papers and tissue papers. The Group's range of printing and writing papers 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, uncoated graphic and business papers and, in the Southern African region, newsprint. Finally, we are also exploring adjacent markets in order to extract maximum value from our woodfiber. Our products for such markets include hemicellulose sugars, lignin-based dispersants, dry redispersable nanocellulose, cellulose fiber plastic composites (such as those sold under our Symbio brand) and bio-energy (including our biomass energy projects and fuel rods). With the development of new processes and biomaterials, we aim to extract more value from each tree. During fiscal 2018, we had revenue, profit for the year and Adjusted EBITDA Excluding Special Items of US$5,806 million, US$323 million and US$762 million, respectively. During the three months ended December 2018, we had revenue, profit for the period and Adjusted EBITDA Excluding Special Items of US$1,418 million, US$81 million and US$197 million, respectively.

Our revenue, profit for the period and Adjusted EBITDA Excluding Special Items during the twelve months ended December 2018 were US$5,894 million, US$341 million and US$787 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 2018, 76% of our revenue and 55% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa, principally in North America (27%) and Europe (38%). During fiscal 2018, 76% of our revenue, 56% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa.

The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We operate 17 pulp and paper mills in eight countries, with an aggregate production capacity of approximately 5.7 million tons of paper, 2.3 million tons of paper pulp and 1.4 million tons of dissolving wood pulp.

Sales by source and destination for the three months ended December 2018 and each of fiscal 2018, fiscal 2017 and fiscal 2016 were as follows:

	Sales by Source				Sales by Destination			
	Three Months Ended December 2018[(1)]	2018	2017	2016	Three Months Ended December 2018[(1)]	2018	2017	2016
	%							
Europe	51	51	48	50	44	45	41	44
North America	25	25	26	27	22	23	23	24
Southern Africa	24	24	26	23	9	10	10	9
Asia and others	—	—	—	—	25	22	26	23
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

(1) Excludes the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15).

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 pulp and paper industry and movement in market prices, availability and prices of raw materials and input costs;

(b) Emergence of new technologies, increased preference for digital media and declining demand for printing and writing paper products;

(c) Growth in the specialties and packaging papers sector;

(d) Sensitivity to currency movements; and

(e) Expansions, restructurings, acquisitions, strategic and 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 Pulp and Paper Industry and Movement in Market Prices, Availability and Prices of 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. Despite the aggressive measures taken by governments and central banks following the economic downturn and successive sovereign debt crises of the past decade, the economic recovery in certain of our markets remains 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 2016, 2017 and 2018. Uncertainty relating to trade relations between the United States and China, among others, continues to put pressure on demand and sales prices, particularly for our printing and writing paper products. Market prices for both hardwood and softwood pulp increased significantly in fiscal 2018 due to increased demand from China. Prices for dissolving wood pulp traded at a high level and relatively narrow band in fiscal 2018 as a result of high paper pulp prices providing support, but weak pricing in the downstream viscose staple fiber (“VSF”) market due to additional VSF capacity combined with weaker demand from customers in China acted as an upward constraint.

Emergence of New Technologies, Increased Preference for Digital Media and Declining Demand for Printing and Writing Paper Products

Printing and writing 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 15 years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines has been declining, while 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 printing and writing 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. Globally, we presently expect annual demand declines for coated woodfree papers for the next several years, and we are responding by cutting costs, completing conversion and upgrade projects and scaling down operating rates in printing and writing papers to maximize the significant cash generation potential of these businesses, while simultaneously investing in higher growth businesses not impacted by the secular shift to digital media, such as our dissolving wood pulp business and our specialties and packaging business.

Growth in the specialties and packaging papers sector

Consumers and manufacturers are increasingly demanding more sustainable and environmentally friendly packaging solutions. Such trends in consumer preferences, together with legislative and regulatory changes introducing new rules for less polluting packaging alternatives, are driving growth in demand for specialties and packaging papers. We have identified promising opportunities for growth in this product category, which offers attractive margins, and we have made a number of investments to take advantage of such opportunities, including in a number of conversion projects at our paper mills aimed at shifting capacity toward specialties and packaging papers.

Our operations in South Africa mainly focus on the local containerboard market. In North America, our operations currently make functional packaging papers, label papers and paperboard for folding cartons. In Europe, the focus of our operations is diverse and niche, with higher levels of specialization and customization than most other specialty paper producers. In addition, in this product category, where innovation is a key success factor, research and development centers in each geographic region actively seek to create new products and propose new solutions to our customers.

Currency Fluctuations

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

Exports from the Southern African businesses to other regions are primarily denominated in US dollars. Such exports represented, in local currency terms, 62% and 63% of sales of our Southern African operations in the three months ended December 2018 and 2017, respectively and 61% and 64% of sales of our Southern African operations in fiscal 2018 and fiscal 2017, respectively.

The appreciation of the Rand or the euro against the US dollar diminishes the value of exports from Southern Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins of exports sales as well as those domestic sales, which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which our subsidiaries are exposed. The following table depicts the average and year-end exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements in the three months ended December 2018 and 2017 and in fiscal 2018, fiscal 2017 and fiscal 2016:

	Average rates					Closing rates				
Exchange rates	**Three months ended December 2018**	**Three months ended December 2017**	**2018**	**2017**	**2016**	**December 2018**	**December 2017**	**2018**	**2017**	**2016**
ZAR to one US$	14.313	13.622	13.052	13.381	14.788	14.436	12.372	14.147	13.556	13.714
US$ to one EUR..........	1.141	1.178	1.190	1.106	1.111	1.144	1.200	1.161	1.181	1.123

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

The translation of our annual results into our reporting currency (US dollar) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. In the three months ended December 2018, the euro was weaker against the US dollar with an average exchange rate of US$1.141/euro as compared to an average exchange rate of US$1.178/euro in the three months ended December 2017, and the Rand was weaker against the US dollar with an average exchange rate of ZAR14.313/US$ as compared to an average of ZAR13.622/US$ in the three months ended December 2017. The impact of these currency movements decreased reported revenue in US dollars by US$42 million for the three months ended December 2018 compared to the three months ended December 2017.

On average, the euro strengthened 8% against the US dollar in fiscal 2018 compared to fiscal 2017. The Rand strengthened in fiscal 2018 to an average level against the US dollar of ZAR13.052, or 3% stronger than fiscal 2017 average levels, and ended fiscal 2018 at a closing rate of ZAR14.147/US$, 4% weaker than the closing rate of fiscal 2017. The impact of these currency movements increased reported revenue in US dollars by US$246 million for fiscal 2018, by US$119 million for fiscal 2017 and by US$377 million in fiscal 2016.

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

Expansions, Restructurings, Acquisitions and Strategic 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, converting paper machines and mills to shift capacity toward higher-margin and growing product categories and improve our ability to react to demand shifts in traditional printing and writing paper products, as well as pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

Expansion of dissolving wood pulp and specialties and packaging papers capacity and conversion of existing production capacity: We are currently engaged in several projects to expand our dissolving wood pulp and specialties and packaging papers production capacity, including through the conversion of existing paper machines that previously produced printing and writing papers. During the fiscal periods presented in this Offering Memorandum, such projects have included, among others, the acquisitions Rockwell Solutions and the Cham Paper Group business and the conversions of paper machines at our Somerset and Maastricht Mills, which increased our production capacity in the specialties and packaging papers categories while simultaneously reducing our exposure to the coated woodfree paper market, and projects to optimize production processes at at our Saiccor and Ngodwana Mills aimed at expanding our dissolving wood pulp capacity. Our total specialties and packaging papers sales have grown from 854,000 tons per annum to 1,009,000 tons per annum over the past year following the Cham Acquisition, and our total production capacity in this product category is now almost 1.5 million tons.

Cham Acquisition: In fiscal 2018, we acquired the specialty paper business of Cham Paper Group for US$132 million. In this transaction, we acquired all brands and know-how of Cham Paper Group, the Carmignano and Condino Mills in Italy and a digital imaging business and facility situated in Cham, Switzerland. In total, the Cham Acquisition has added 160,000 tons of specialties and packaging papers production capacity to our operations. We believe the Cham Acquisition will increase our capabilities and relevance in the specialties and packaging papers category by expanding and complementing our existing product portfolio, open up new customers and markets to our existing product portfolio and generate economies of scale and synergies.

Conversion of PM1 at Somerset Mill: During fiscal 2018, we converted PM1 at the Somerset Mill in order to expand its production capacity and give it the flexibility to produce both coated woodfree paper and packaging paper used in the folding carton and food service markets. The rebuild has enabled the launch of new paperboard grades that are used in luxury packaging and folding carton applications, and which complement our existing specialties and packaging papers products. This project, while successfully completed, overran in terms of both costs and time, leading to US$10 million in lost production in excess of what we originally projected, as well as an additional US$35 million to US$50 million of capital expenditure, which negatively impacted our sales volumes and results of operations in fiscal 2018.

Optimization of production processes at Saiccor and Ngodwana Mills: During fiscal 2018, we completed projects to optimize production processes at our Saiccor and Ngodwana Mills, adding a total of 60,000 tons of dissolving wood pulp capacity. Such projects form part of our planned expansion of dissolving wood pulp capacity to increase sales volumes and meet growing demand in this product category. While adding additional production capacity toward the end of fiscal 2018 after completion of the projects, we experienced delayed start-ups at both Saiccor and Ngodwana Mills, negatively impacting dissolving wood pulp production and sales volumes during the fiscal year.

Conversion of Maastricht Mill: During fiscal 2018, we converted the Maastricht Mill so that its production capacity will be focused predominantly on paperboard, in order to support our existing specialties and packaging papers business in Europe. Prior to the conversion, the paper machine at the Maastricht Mill had a capacity of approximately 280,000 tons of coated woodfree paper per year. As a result of the conversion, we currently expect the Maastricht Mill to have a production capacity of 150,000 tons of folding boxboard within the next three years, with the balance of capacity at the mill dedicated to coated woodfree paper.

Acquisition of Rockwell Solutions: In fiscal 2017, we completed the acquisition of Rockwell Solutions, a firm specializing in film coatings for the packaging industry, for US$23 million. This acquisition complemented our growing specialties and packaging papers business, giving us access to innovative barrier coating technologies used in paper-based packaging alternatives to plastic packaging.

Southern African Operations

Sappi Limited is a public company incorporated in South Africa. We have significant operations in Southern Africa, which accounted for 24% and 24% of our sales in the three months ended December 2018 and 2017, respectively (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), and 24%, 26% and 23% of our sales in fiscal 2018, 2017 and 2016, respectively. See "—Operating Results, Financial Condition and Results of Operations" for the proportion of Southern 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 laws and regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters in fiscal 2019. We do separately account for environmental capital expenditures. 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 Dissolving Wood Pulp, and Sappi Forests. Sappi Paper and Paper Packaging consists of one fine paper mill, two packaging paper mills and the Sappi ReFibre operation. The volume, revenue and cost relationship within the Sappi Forests business is substantially different to that of the paper and dissolving wood pulp businesses.

Costs related to our corporate head office, the Group's treasury operations, insurance captive and non-manufacturing entities that are 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 financial results and position of our trading network, Sappi Trading, are allocated to our reportable segments.

The analysis and discussion that 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 revenue, operating profit and Operating Profit Excluding Special Items. Operating profit represents revenue after operating expenses, which comprise cost of sales, selling, general and administrative expenses, other operating expenses or income and share of profit or loss from equity accounted investees. As described in more detail in the discussion and analysis which follows, the key components of the Group's operating expenses can be characterized as variable costs (primarily variable manufacturing costs) or fixed costs (the fixed cost components of cost of sales and selling, general and administrative expenses).

Cost of sales comprises:

- variable costs, which include raw materials and other direct input costs, including:
    - wood (which includes growth and felling adjustments);

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

Selling, general and administrative expenses comprise:

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

Other operating expenses (income) comprise:

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

Comparison of the Three Months ended December 2018 and 2017

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis that 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 2018	Three Months Ended December 2017
	(US$ million)	
Revenue	1,418	1,330
Operating profit	123	116
Special items—(gains) losses	5	(11)
Operating Profit Excluding Special Items	128	105

The following table reconciles Operating Profit Excluding Special Items to profit for the period.

	Three Months Ended December	
	2018	2017
	(US$ million)	
Profit for the period	**81**	**63**
Taxation charge	25	38
Net finance costs	17	15
Operating profit	**123**	**116**
Special items—(gains) losses	5	(11)
Operating Profit Excluding Special Items	**128**	**105**
Plantation price fair value adjustment	(3)	(16)
Net restructuring provisions	—	—
Profit (loss) on disposal of property, plant and equipment	—	—
Fire, flood, storm and other events	8	5
Total special items	**5**	**(11)**

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 2018	December 2018 vs. December 2017	Three Months Ended December 2017
		(US$ million)	
Europe	30	(5)	35
North America	9	12	(3)
Southern Africa	88	3	85
Unallocated and eliminations	(4)	(3)	(1)
Total	**123**	**7**	**116**

Special items Loss (Gain)	Three Months Ended December	
	2018	2017
	(US$ million)	
Europe	4	2
North America	—	2
Southern Africa	(3)	(16)
Unallocated and eliminations	4	1
Total	**5**	**(11)**

Operating Profit (Loss) Excluding Special Items	Three Months Ended December 2018	December 2018 vs. December 2017	Three Months Ended December 2018
		(US$ million)	
Europe	34	(3)	37
North America	9	10	(1)
Southern Africa	85	16	69
Unallocated and eliminations	—	—	—
Total	**128**	**23**	**105**

Special items for the Group in the three months ended December 2018 and the three months ended December 2017 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 estimated timber selling prices, cost associated with harvesting and delivery and discount rates applied. The parameters applied are all derived from market information. A positive US$3 million adjustment was recognized in the three-month period ended December 2018 and a positive US$16 million adjustment was recognized in the three-month period ended December 2017.

Fire, flood and storm and other events: A charge of US$8 million was recorded in the three-month period ended December 2018, mainly relating to turbine damage at the Stockstadt Mill (US$7 million) and a breakdown of the energy plant at Maastricht, leading to damages of US$1 million. A charge of US$5 million was recorded in the three-month period ended December 2017, mainly relating to damage to the digesters at the Ehingen Mill (US$2 million) and losses incurred due to contaminated water at the Somerset Mill (US$2 million).

Group

The operating profit of US$116 million in the three months ended December 2017 increased to an operating profit of US$123 million in the three-month period ended December 2018.

Operating profit in the three months ended December 2018 was negatively affected by special items of US$5 million compared to a positive impact of special items of US$11 million in the three months ended December 2017. Special items in the three months ended December 2018 included a charge of US$8 million relating to turbine damage at Stockstadt Mill in an amount of US$7 million and a breakdown of the energy plant at Maastricht, leading to damages of US$1 million, partially offset by the favorable impact of a US$3 million fair value adjustment to our plantations in Southern Africa. Special items in the three months ended December 2017 included a charge of US$5 million relating to damage to the digesters at Ehingen Mill (US$2 million) and losses incurred due to contaminated water at Somerset Mill (US$2 million), which were more than offset by the favorable impact of a US$16 million fair value adjustment of our plantations in Southern Africa.

Operating Profit Excluding Special Items increased in the three months ended December 2018 to US$128 million from US$105 million in the three months ended December 2017. This increase was due to strong growth following the completion of large capital projects in all three regions during fiscal 2018. Dissolving wood pulp and specialties and packaging paper demand was strong, with sales volumes increasing more than 3% in the three months ended December 2018 when compared to the three months ended December 2017. Despite a slight decline in December 2018, dissolving wood pulp selling prices remained stable throughout most of the quarter. Packaging and specialties paper markets were mixed, with increased sales volumes and higher prices but weaker demand for certain products in Europe and input costs increases putting pressure on margins. Printing and writing paper demand was weak in both North America and Europe, but effective management of our product mix and improvements in contributions per ton resulted in an increase in the profitability of this product category.

Europe

Key figures	Three Months Ended December 2018	Three Months Ended December 2017
	(US$ million)	
Operating profit	30	35
Special items—(gains) losses	4	2
Operating Profit Excluding Special Items	**34**	**37**

Operating profit in the three months ended December 2018 was US$30 million as compared to an operating profit of US$35 million for the comparative period in 2017.

The operating profit in the three months ended December 2018 included unfavorable special items of US$4 million mainly relating to turbine damage at the Stockstadt Mill and a breakdown of the energy plant at Maastricht Mill. The operating profit in the three months ended December 2017 included unfavorable special items of US$2 million mainly relating to damage to the digesters at Ehingen Mill.

Operating Profit Excluding Special Items decreased to US$34 million in the three months ended December 2018 compared to an Operating Profit Excluding Special Items in the three-month period ended December 2017 of US$37 million. The decrease was mainly due to lower demand for coated printing and writing papers and coated packaging papers, along with continued high paper pulp input costs putting pressure on margins, partially offset by the contribution to operating profit from the inclusion of the Cham Paper Group operations, market share gains in the coated woodfree paper segment and higher average net selling prices.

North America

Key figures	Three Months Ended December 2018	Three Months Ended December 2017
	(US$ million)	
Operating profit (loss)	9	(3)
Special items—(gains) losses	—	2
Operating Profit (Loss) Excluding Special Items	**9**	**(1)**

Operating profit in the three months ended December 2018 was US$9 million as compared to an operating loss of US$3 million for the comparative period in 2017.

Operating Profit Excluding Special Items increased to US$9 million in the three months ended December 2018 compared to an Operating Loss Excluding Special Items in the three-month period ended December 2017 of US$1 million. The increase was due to higher dissolving wood pulp and coated paper selling prices, as well as improved dissolving wood pulp and packaging and specialties paper volumes, combined with downtimes at Somerset Mill that were shorter than expected. The increase was partially offset by lower coated paper sales volumes and increasing costs for purchased paper pulp.

Southern Africa

Key figures	Three Months Ended December 2018	Three Months Ended December 2017
	(US$ million)	
Operating profit	88	85
Special items—(gains) losses	(3)	(16)
Operating Profit Excluding Special Items	**85**	**69**

Operating profit for the three months ended December 2018 was US$88 million as compared to an operating profit of US$85 million for the comparative period in 2017.

The operating profit for the three months ended December 2018 included favorable special items of US$3 million, mainly relating to a US$3 million fair value adjustment to the value of our Sappi Forests timber assets. The operating profit in the three months ended December 2017 included favorable special items of US$16 million, mainly comprising a US$16 million fair value adjustment to the value of our Sappi Forests timber assets.

Operating Profit Excluding Special Items was US$85 million in the three months ended December 2018 as compared to an Operating Profit Excluding Special Items in the three-month period ended December 2017 of US$69 million. The increase was mainly due to increased dissolving wood pulp and packaging paper sales volumes combined with higher Rand selling prices, which more than offset energy and woodfiber cost increases.

Sales

An analysis of sales movements in the three months ended December 2018 and in the three months ended December 2017 is presented below:

Sales Volume	Three Months Ended December 2018	December 2018 vs. December 2017	Three Months Ended December 2017
		('000 tons)	
Europe	**809**	**(13)**	**822**
North America	**321**	**(22)**	**343**
Southern Africa	**713**	**82**	**631**
Paper and pulp	396	13	383
Forestry	317	69	248
Total	**1843**	**47**	**1,796**
Printing and writing papers	977	(86)	1,063
Specialties and packaging papers	252	54	198
Dissolving wood pulp	297	10	287
Forestry	317	69	248

Sales	Three Months Ended December 2018	December 2018 vs. December 2017	Three Months Ended December 2017
		(US$ million)	
Europe	**732**	**59**	**673**
North America	**351**	**9**	**342**
Southern Africa	**348**	**33**	**315**
Paper and pulp	329	30	299
Forestry	19	3	16
Delivery Costs Revenue Adjustment[(1)]	**(13)**	**(13)**	—
Total	**1,418**	**88**	**1,330**

(1) Delivery Costs Revenue Adjustment consists of shipping and delivery costs incurred in connection with the sale of our products. In accordance with IFRS 15 *Revenue from Contracts with Customers*, the related costs are set off against revenue based on agent accounting principles. Refer to note 1 of our unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017 included elsewhere in this Offering Memorandum for more information on the adoption of IFRS 15 *Revenue from Contracts with Customers*.

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 2018 compared to the three months ended December 2017 impacted sales negatively by US$41 million in the three months ended December 2018.

Sales for the three months ended December 2018 were US$1,418 million, an increase of 7% compared to the three months ended December 2017 due to higher average selling prices realized and higher volumes in dissolving wood pulp and specialties and packaging papers, partially offset by reduced volumes in printing and writing papers.

Average selling prices realized by the Group in the three months ended December 2018 were approximately 4% higher in US dollar terms than the average selling prices realized in the three months ended December 2017, mainly as a result of price increases achieved in all major product categories and an improved product sales mix due to increased volumes in specialties and packaging papers and reduced volumes in printing and writing papers.

In the three months ended December 2018, sales volume for the Group was approximately 3% higher than in the three-month period ended December 2017. This was mainly due to the completion of large capital projects in all three regions during fiscal 2018, which resulted in increased dissolving wood pulp and specialties and packaging papers volumes. The demand for dissolving wood pulp and specialties and packaging papers was strong, with sales volumes increases partially offset by weaker printing and writing paper demand.

Operating expenses

In the analyses that 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 2018	December 2018 vs. December 2017	Three Months Ended December 2017
		(US$ million)	
Variable Costs			
Delivery	107	(10)	117
Manufacturing	754	68	686
Total Variable Costs	**861**	**58**	**803**
Fixed costs	417	1	416
Special items—(gains) losses	5	16	(11)
Other operating expenses (income)	12	6	6
Total	**1,295**	**81**	**1,214**

(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, Financial Condition and Results of Operations" for a discussion on special items.

Variable and fixed costs are analyzed in further detail below.

Variable costs

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

	Three Months Ended December 2018			Three Months Ended December 2017	
Variable Costs	Costs (US$ million)	US$/Ton	Change in Costs 2018 vs. 2017 (US$ million)	Costs (US$ million)	US$/Ton
Wood	138	75	5	133	74
Energy	106	58	11	95	53
Pulp and other[1]	301	163	37	264	147
Chemicals	209	113	15	194	108
Delivery	107	58	(10)	117	65
Total	**861**	**467**	**58**	**803**	**447**

(1) Pulp includes only bought-in fully bleached hardwood and softwood. Other costs relates to input and raw materials costs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables.

Variable costs, mainly composed of manufacturing costs and delivery charges, relate to costs of inputs, which vary directly with output. The Group's variable costs are impacted by sales volume, exchange rate impacts on translation of our European and South African operations into US dollars and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been actual input cost escalations, in particular increases in paper pulp and chemical prices. See "—Principal Factors Impacting our 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 logistics and procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. We review product design and raw material inputs to ensure product attributes and quality meet market specifications.

Variable costs increased by US$58 million, or 7%, in the three months ended December 2018 compared to the three months ended December 2017. This increase was mainly due to an increase in purchased pulp, energy and chemical prices.

In Europe, overall variable costs per ton increased by 10% in US dollar terms in the three months ended December 2018 compared to the three months ended December 2017, mainly due to an increase in purchased softwood and hardwood pulp, wood, energy, delivery and chemical prices. In North America, variable costs per ton increased by 12% in the three months ended December 2018 compared to the three months ended December 2017, primarily due to an increase in purchased pulp, wood, energy, delivery and chemical prices. In Southern Africa, overall variable costs per ton increased by 4% in US dollar terms in the three months ended December 2018 compared to the three months ended December 2017 mainly due to an increase in purchased pulp, energy and chemical prices and a weaker average Rand exchange rate against the US dollar.

Fixed costs

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

Fixed Costs	Three Months Ended December 2018 Costs	Variance Value	Three Months Ended December 2017 Costs
		(US$ million)	
Personnel	255	10	245
Maintenance	64	2	62
Depreciation	66	1	65
Other	32	(12)	44
Total	**417**	**1**	**416**

Fixed costs in the three months ended December 2018 increased by US$1 million, or less than 1%, compared to the three months ended December 2017. The inclusion of the Cham Paper Group, contributed to a 6% increase in fixed costs in our European operations during the three months ended December 2018 compared to the three months ended December 2017. Fixed costs in the Southern African region increased by 1% in US dollar terms mainly due to inflationary pressures on personnel and maintenance costs, offset by a weaker average Rand exchange rate against the US dollar. Fixed costs decreased by US$12 million in the North American region in the three months ended December 2018 compared to the corresponding period in 2017 mainly due to effective cost control measures.

Net Finance Costs

Net finance costs for the three-month periods ended December 2018 and December 2017 may be analyzed as follows:

Net Finance Costs	Three Months Ended December 2018	2017
	(US$ million)	
Finance costs	22	22
Finance income	(3)	(6)
Net interest[(1)]	**19**	**16**
Net foreign exchange gains (losses)	(2)	(1)
Net finance costs	**17**	**15**

(1) Net interest represents finance costs less finance income.

Net interest (finance costs less finance income) for the three months ended December 2018 was US$19 million compared to US$16 million for the three months ended December 2017. The increase in net interest was primarily a result of the increase in net debt as a result of the Cham Acquisition in February 2018 and increased capital expenditure.

Net foreign exchange losses for the three months ended December 2018 were US$2 million compared to US$1 million of losses for the three months ended December 2017. The increase in net foreign exchange losses was primarily due to the losses that accrued mainly on U.S. dollar/Rand forward contracts entered into in relation to export sales from our Southern African business, as well as other foreign exchange transaction timing differences. 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. External hedging techniques consist primarily of foreign exchange contracts and currency options.

Taxation

	Three Months Ended December	
	2018	2017
	(US$ million)	
Profit before taxation	**106**	**101**
Taxation at the average statutory tax rates	29	27
No tax relief on losses	2	—
No tax charge on profits	(5)	(5)
Rate adjustments[1]	—	19
Prior year adjustments	(2)	(4)
Other taxes	1	1
Taxation charge	**25**	**38**
Effective tax rate	**23%**	**38%**

(1) The effect of tax rate changes relates primarily to the reduction of the federal corporate income tax rate in the United States, where the rate changed from 35% in 2017 to 21% in 2018, as a result of which our deferred tax assets in the United States were impaired in the three months ended December 2017.

Our effective tax rate for the three months ended December 2018 and the three months ended December 2017 was positive 23% and positive 38%, respectively. The reduction in the effective tax rate was mainly due to the one-off adjustment of the federal corporate income tax rate in the United States, which led to an impairment of our deferred tax assets in the United States in the three months ended December 2017.

The European tax rate of 5% is lower than the average statutory tax rate of 31% due to substantial tax loss carryforwards in Austria, Finland, Belgium and the Netherlands, the use of which continues to reduce our effective tax rate in Europe. In North America, the effective tax rate of 25% is equal to the statutory tax rate for the three months ended December 2018. For the three months ended December 2017, the statutory corporate income tax rate in the United States was reduced from 38% to 24.5% leading to a one-off impairment charge of deferred tax assets. The Southern African effective tax rate of 28% is equal to the statutory tax rate.

Profit

Profit for the three months ended December 2018 was US$81 million compared to a profit for the three months ended December 2017 of US$63 million. The main reasons for the change were a US$23 million improvement in Operating Profit Excluding Special Items and a US$13 million decrease in the taxation charge, partially offset by a net decrease in special items of US$16 million and a US$2 million increase in net finance costs.

Comparison of Fiscal 2018, 2017 and 2016

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis that 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	2018	2017	2016
		(US$ million)	
Revenue	5,806	5,296	5,141
Operating profit	489	526	544
Special items—(gains) losses	(9)	—	(57)
Operating Profit Excluding Special Items	480	526	487

The following table reconciles Operating Profit Excluding Special Items to profit for the period.

	Year Ended September		
	2018	2017	2016
		(US$ million)	
Profit for the period	**323**	**338**	**319**
Taxation charge	98	108	104
Net finance costs	68	80	121
Operating profit	**489**	**526**	**544**
Special items—(gains) losses	(9)	—	(57)
Operating Profit Excluding Special Items	**480**	**526**	**487**
Plantation price fair value adjustment	(27)	(21)	(64)
Acquisition costs	2	—	—
Net restructuring provisions	1	1	4
(Profit) loss on disposal and written off assets	(4)	2	(15)
Asset impairments (reversals)	(3)	6	2
Employee benefit liability settlement	—	—	(8)
Black Economic Empowerment charge	1	1	1
Fire, flood, storm and other events	21	11	23
Total special items	**(9)**	**—**	**(57)**

Movements in operating profit and Operating Profit Excluding Special Items are explained below.

Operating Profit (Loss)	2018	2018 vs. 2017	2017	2017 vs. 2016	2016
			(US$ million)		
Europe	166	30	136	11	125
North America	47	—	47	(8)	55
Southern Africa	295	(52)	347	(20)	367
Unallocated and eliminations	(19)	(15)	(4)	(1)	(3)
Total	**489**	**(37)**	**526**	**(18)**	**544**

Special Items (Gain) Loss	2018	2017	2016
		(US$ million)	
Europe	(3)	4	6
North America	2	—	(6)
Southern Africa	(25)	(10)	(62)

Special Items (Gain) Loss	2018	2017	2016
		(US$ million)	
Unallocated and eliminations	17	6	5
Total	**(9)**	**—**	**(57)**

Operating Profit (Loss) Excluding Special Items	2018	2018 vs. 2017	2017	2017 vs. 2016	2016
			(US$ million)		
Europe	163	23	140	9	131
North America	49	2	47	(2)	49
Southern Africa	270	(67)	337	32	305
Unallocated and eliminations	(2)	(4)	2	—	2
Total	**480**	**(46)**	**526**	**39**	**487**

Special items for the Group in fiscal 2018, fiscal 2017 and fiscal 2016 are generally summarized below:

Plantation price fair value adjustment: A positive non-cash US$27 million plantation price fair value adjustment was recognized in fiscal 2018, a positive non-cash US$21 million adjustment was recognized in fiscal 2017, and a positive non-cash US$64 million adjustment was recognized in fiscal 2016, in each case following increases to the market price of timber partially offset by cost increases.

Acquisition costs: In fiscal 2018, operating profit was negatively impacted by US$2 million of acquisition costs, mostly relating to non-recurring integration costs incurred in connection with the Cham Acquisition.

Net restructuring provisions: In fiscal 2018, operating profit was negatively impacted by US$1 million of restructuring provisions raised, relating to fixed cost optimization programs across Europe. In fiscal 2017, operating profit was negatively impacted by a US$1 million charge relating to fixed cost optimization programs across Europe. In fiscal 2016, total restructuring provisions of US$4 million were recorded, comprising a US$3 million charge relating to a program to reduce central overhead costs in Europe and a US$1 million charge relating to fixed cost optimization programs in South Africa.

Profit (loss) on disposal and written off assets: In fiscal 2018, a US$4 million gain was realized as a result of a gain of US$8 million on the disposal of the corporate office building in South Africa, partially offset by a loss on the disposal of certain other assets. In fiscal 2017, a US$2 million loss was realized on the disposal of assets. In fiscal 2016, a US$15 million gain was realized on the disposal of assets, including a profit of US$13 million that was realized from the disposal of our Cape Kraft and Enstra Mills.

Asset (reversals) impairments: In fiscal 2018, a gain of US$3 million was recognized from the reversal of an impairment that had previously been recorded relating to project costs in Southern Africa. In 2017, asset impairments of US$6 million were recorded in Europe and South Africa, related to certain intangible assets and capitalized project costs. In fiscal 2016, asset impairments of US$2 million were recognized from relating to emission trading certificates held as intangible assets in Europe.

Employee benefit liability settlement gain: In fiscal 2016, an employee benefit liability settlement gain of US$8 million arose following a one-time lump sum settlement benefit that was offered to certain eligible terminated vested participants in North America. No such liability was incurred or recorded during fiscal 2018 and fiscal 2017.

Black Economic Empowerment charge: Charges related to a B-BBEE transaction completed during fiscal 2010 amounted to US$1 million in each of fiscal 2018, fiscal 2017 and fiscal 2016.

Fire, flood, storm and other events: Fire, flood, storm and other events resulted in damage of US$21 million in fiscal 2018, including costs of US$13 million from turbine damage at our Saiccor, Alfeld and Stockstadt Mills and unplanned downtime events at our Saiccor, Ngodwana, Somerset and Ehingen Mills resulting in costs of US$10 million, which were partially offset by a contingent consideration release of US$6 million. In fiscal 2017, damage from fire, flood, storm and other events amounted to US$11 million, including fire and cossid moth damaged timber in Southern Africa of US$5 million and turbine failures in our Alfeld and Stockstadt Mills resulting in costs of US$4 million each. Fire, flood, storm and other events resulted in damage of US$23 million in fiscal 2016, including damage to our Gratkorn Mill of US$4 million from a fire and related electrical fault, turbine failures at our Alfeld and Cloquet Mills resulting in costs of US$1 million and US$4 million respectively, and fire and drought damage in our South African forests of US$13 million.

Group

Comparing fiscal 2018 with fiscal 2017

Our operating profit decreased to US$489 million in fiscal 2018 from US$526 million in fiscal 2017.

Operating profit in fiscal 2018 benefited from a positive impact of special items of US$9 million compared to an impact of special items of nil in fiscal 2017. Favorable special items in fiscal 2018 included a positive non-cash plantation price fair value adjustment of US$27 million that was recognized following increases to the market price of timber, net profits on the disposal of assets of US$4 million mainly relating to the disposal of the corporate office building in South Africa and a US$3 million benefit from the reversal of an impairment relating to project costs, which were partially offset by total costs from fire, flood, storm and other events of US$21 million primarily related to turbine damage and unplanned downtime at certain of our mills as described above.

Operating Profit Excluding Special Items decreased in fiscal 2018 to US$480 million from US$526 million in fiscal 2017. This decrease was mainly due to one less accounting week in fiscal 2018 as compared with 2017, which had an impact of US$15 million on Operating Profit Excluding Special Items, increased variable and fixed costs, including high prices for delivery, energy and wood as well as wage inflationary increases in particular in South Africa, a higher depreciation charge as a result of increased capital expenditures, which were partially offset by higher sales prices of our products, an improved sales mix and higher sales volumes.

Comparing fiscal 2017 with fiscal 2016

Our operating profit decreased to US$526 million in fiscal 2017 from US$544 million in fiscal 2016.

The net impact of special items on operating profit in fiscal 2017 was nil, compared to a positive impact of special items of US$57 million in fiscal 2016. Special items in fiscal 2016 included principally a favorable plantation fair value price adjustment of US$64 million, profits on disposal of assets of US$15 million related primarily to the disposal of our Cape Kraft and Enstra Mills and a US$8 million employee benefit liability settlement gain following a one-time lump sum settlement paid to a beneficiary, which were partially offset by fire, flood, storm and other events totaling US$23 million in costs.

Operating Profit Excluding Special Items increased in fiscal 2017 to US$526 million from US$487 million in fiscal 2016. This improvement was mainly due to one additional accounting week in fiscal 2017 as compared with 2016, higher sales volumes and prices, an improved sales mix and a reduction in variable and fixed costs, which were partially offset by unfavorable exchange rate movements.

Europe

Key figures	**2018**	**2017**	**2016**
		(US$ million)	
Operating profit (loss)	166	136	125
Special items—(gains) losses	(3)	4	6
Operating Profit (Loss) Excluding Special Items	**163**	**140**	**131**

Comparing fiscal 2018 with fiscal 2017

An operating profit of US$166 million in fiscal 2018 was an improvement compared to an operating profit of US$136 million in fiscal 2017.

Operating Profit Excluding Special Items increased to US$163 million in fiscal 2018 from an Operating Profit Excluding Special Items in fiscal 2017 of US$140 million. This increase was primarily due to the inclusion of the Cham Paper Group operations we acquired in the second quarter, seven months of which are included in fiscal 2018, as well as the implementation of sales price increases in the second half of the year, partially offset by increases in purchased pulp prices, delivery and chemical costs. Excluding Cham Paper Group sales volumes, overall sales volumes decreased in fiscal 2018 compared with fiscal 2017 as reductions in coated woodfree paper volumes exceeded growth in volumes for specialties and packaging papers, as well as for coated mechanical papers.

Comparing fiscal 2017 with fiscal 2016

Operating profit of US$136 million in fiscal 2017 was an improvement compared to an operating loss of US$125 million in fiscal 2016.

Operating Profit Excluding Special Items increased to US$140 million in fiscal 2017 from US$131 million in fiscal 2016. This improvement was due to growth in specialties and packaging paper volumes, increased export volumes of coated woodfree paper, substantial improvements in production efficiencies, lower variable costs, including for energy and wood, reduced fixed costs, and an improved sales mix, partially offset by reduced selling prices and by reduced volumes in our mechanical coated paper business.

North America

Key figures	2018	2017	2016
	(US$ million)		
Operating profit	47	47	55
Special items—(gains) losses	2	—	(6)
Operating Profit Excluding Special Items	**49**	**47**	**49**

Comparing fiscal 2018 with fiscal 2017

Operating profit was unchanged from the prior period at US$47 million in fiscal 2018.

Operating profit for fiscal 2018 included unfavorable special items of US$2 million, while operating profit for fiscal 2017 was not affected by special items.

Operating Profit Excluding Special Items increased from US$47 million in fiscal 2017 to US$49 million in fiscal 2018. This increase was mainly due to higher sales prices and a more favorable product mix, which included more dissolving wood pulp and packaging papers volumes and reduced coated woodfree paper capacity resulting from the conversion of PM1 at Somerset Mill, which increase was partially offset by increased variable costs led by higher purchased paper pulp prices.

Comparing fiscal 2017 with fiscal 2016

Operating profit decreased from US$55 million in fiscal 2016 to US$47 million in fiscal 2017.

The operating profit for fiscal 2016 included favorable special items of US$6 million, while the operating profit for fiscal 2017 was not affected by special items.

Operating Profit Excluding Special Items decreased from US$49 million in fiscal 2016 to US$47 million in fiscal 2017. This decline was mainly due to lower sales prices of coated paper due to market overcapacity, partially offset by higher sales prices for dissolving wood pulp, improved usage variances, lower wood and energy costs, fixed cost reductions and higher volumes.

Southern Africa

Key figures	2018	2017	2016
	(US$ million)		
Operating profit	295	347	367
Special items—(gains)	(25)	(10)	(62)
Operating Profit Excluding Special Items	**270**	**337**	**305**

Comparing fiscal 2018 with fiscal 2017

Operating profit decreased from US$347 million in fiscal 2017 to US$295 million in fiscal 2018.

The operating profit for fiscal 2018 included favorable special items of US$25 million, which mainly consisted of a favorable plantation price fair value adjustment of US$27 million and a gain of US$8 million due to the disposal of our corporate office building in South Africa, partially offset by property damage and business disruption following turbine damage at our Saiccor Mill amounting to US$1 million and unplanned downtime events at our Saiccor and Ngodwana Mills amounting to US$7 million. Operating profit for fiscal 2017 included favorable special items of US$10 million, which consisted mainly of a favorable plantation price fair value adjustment (US$21 million) partially offset by fire and cossid moth damaged timber (US$5 million), impairment of capitalized project costs relating to a renewable energy project at Ngodwana Mill (US$3 million) and losses on disposal of assets.

Operating Profit Excluding Special Items decreased to US$270 million in fiscal 2018 from an Operating Profit Excluding Special Items in fiscal 2017 of US$337 million. This decrease was mainly due to increased variable costs arising from higher delivery, energy and wood prices, and increased fixed costs mainly influenced by wage inflationary increases and lower dissolving wood pulp sales prices, which were partially offset by increased packaging papers sales prices.

Comparing fiscal 2017 with fiscal 2016

Operating profit decreased from US$367 million in fiscal 2016 to US$347 million in fiscal 2017.

The operating profit for fiscal 2017 included favorable special items of US$10 million, which consisted mainly of a favorable plantation price fair value adjustment (US$21 million) partially offset by fire and cossid moth damaged timber (US$5 million), impairment of capitalized project costs relating to a renewable energy project at Ngodwana Mill (US$3 million) and losses on disposal of assets. This compares with special items of US$62 million included in the operating profit for fiscal 2016, which consisted primarily of a favorable plantation price fair value adjustment of US$64 million, a profit of US$13 million that was realized from the disposal of our Cape Kraft and Enstra Mills partially offset by fire and drought damage to our forests in the amount of US$13 million.

Operating Profit Excluding Special Items improved to US$337 million in fiscal 2017 from an Operating Profit Excluding Special Items in fiscal 2016 of US$305 million. This improvement was mainly due to increased paper prices and an improved product mix, partially offset by the negative impact from a strong average Rand exchange rate, wood, energy and chemical cost increases and inflationary pressure on personnel and maintenance costs.

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

Sales

An analysis of sales movements in fiscal 2018, 2017 and 2016 is presented below:

Sales Volume	2018	Change 2018 vs. 2017	2017	Change 2017 vs. 2016	2016
			('000 tons)		
Europe	**3,366**	**23**	**3,343**	**91**	**3,252**
North America	**1,371**	**12**	**1,359**	**30**	**1,329**
Southern Africa	**2,854**	**146**	**2,708**	**36**	**2,672**
Paper and pulp	1,620	14	1,606	(20)	1,626
Forestry	1,234	132	1,102	56	1,046
Total	**7,591**	**181**	**7,410**	**157**	**7,253**
Printing and writing papers	4,150	(120)	4,270	(24)	4,294
Specialties and packaging papers	1,009	155	854	52	802
Dissolving wood pulp	1,198	14	1,184	73	1,111
Forestry	1,234	132	1,102	56	1,046

Sales	2018	Change 2018 vs. 2017	2017	Change 2017 vs. 2016	2016
			(US$ million)		
Europe	**2,970**	**406**	**2,564**	**(18)**	**2,582**
North America	**1,432**	**72**	**1,360**	**(7)**	**1,367**
Southern Africa	**1,404**	**32**	**1,372**	**180**	**1,192**
Paper and pulp	1,328	21	1,307	171	1,136
Forestry	76	11	65	9	56

Sales	2018	Change 2018 vs. 2017	2017	Change 2017 vs. 2016	2016
			(US$ million)		
Total	**5,806**	**510**	**5,296**	**155**	**5,141**

The main factors affecting sales are volume, price, product sales mix and currency exchange rate movements. The Southern African and European businesses transact in Rand and euro, respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rate from local currency to US dollars during the periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales positively by US$246 million in fiscal 2018, by US$119 million in fiscal 2017 and negatively by US$377 million in fiscal 2016.

Comparing fiscal 2018 with fiscal 2017

In fiscal 2018, sales volume increased by 181,000 tons, or 2%, compared with fiscal 2017.

Sales volumes in Europe increased in fiscal 2018 by 23,000 tons, or 1%, compared to fiscal 2017, mainly due to additional volumes resulting from the Cham Acquisition in the second quarter and strong growth in the mechanical coated paper and specialties and packaging papers categories, which were partially offset by lower demand in the coated woodfree paper market. Excluding the seven months of Cham Paper Group operations included in fiscal 2018, sales volumes decreased in fiscal 2018 compared with fiscal 2017.

In North America, sales volume increased by 12,000 tons, or 1%, in fiscal 2018 compared to fiscal 2017, primarily due increases in specialties and packaging papers and dissolving wood pulp sales volumes, which were partially offset by reduced printing and writing papers volumes due to the conversion of PM1 at Somerset Mill.

Sales volumes in Southern Africa increased by 146,000 tons, or 5%, in fiscal 2018 compared to fiscal 2017, primarily due to growth in specialties and packaging papers and forestry volumes, partially offset by marginally lower dissolving wood pulp volumes due to production problems during the first half of the fiscal year.

Total sales revenue increased by 10% from US$5.3 billion in fiscal 2017 to US$5.8 billion in fiscal 2018. The increase was due to additional volumes resulting from, among other things, the Cham Acquisition in the second quarter, higher sales volumes and prices, as well as an improved sales mix. A stronger average Rand and euro against the US dollar in fiscal 2018 compared to fiscal 2017 increased revenue by US$246 million in fiscal 2018.

Comparing fiscal 2017 with fiscal 2016

In fiscal 2017, sales volumes increased by 157,000 tons, or 2%, compared with fiscal 2016.

Sales volumes in Europe increased in fiscal 2017 by 91,000 tons, or 3%, compared to fiscal 2016, mainly due to strong growth in the coated woodfree and specialties and packaging papers categories, partially offset by a decrease in coated mechanical paper volumes.

In North America, sales volume increased by 30,000 tons, or 2%, in fiscal 2017 compared to fiscal 2016, primarily due to our increased coated paper market share, as well as growth in the specialties and packaging papers and dissolving wood pulp product categories.

Sales volumes in Southern Africa increased by 36,000 tons, or 1%, in fiscal 2017 compared to fiscal 2016, primarily due to a recovery of dissolving wood pulp volumes, which had been negatively impacted by production problems and the effects of a drought in fiscal 2016, offset by the reduction in paper sales volumes resulting from our disposal of Enstra Mill.

Total sales revenue increased by 3% from US$5.1 billion in fiscal 2016 to US$5.3 billion in fiscal 2017. The increase was due to higher sales volumes and prices, as well as an improved sales mix. A stronger average Rand partially offset by a weaker average euro rate in fiscal 2017 compared to fiscal 2016 increased revenue by $119 million in fiscal 2017.

Operating expenses

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

Operating Expenses[1]	2018	Change 2018 vs. 2017	2017	Change 2017 vs. 2016	2016
			(US$ million)		
Variable Costs					
Delivery	490	49	441	10	431
Manufacturing	3,031	325	2,706	76	2,630
Total Variable Costs	**3,521**	**374**	**3,147**	**86**	**3,061**
Fixed Costs	1,767	166	1,601	30	1,571
Special items—(gains) losses	(9)	(9)	—	57	(57)
Other operating costs	38	16	22	—	22
Total	**5,317**	**547**	**4,770**	**173**	**4,597**

(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, Financial Condition and Results of Operations" 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.

	2018			2017			2016	
Variable Costs	Costs	US$/Ton	Change in Costs 2018 vs. 2017	Costs	US$/Ton	Change in Costs 2017 vs. 2016	Costs	US$/Ton
				(US$ million)				
Wood	598	79	(5)	603	81	(21)	624	86
Energy	414	59	39	372	50	17	355	49
Pulp and other[1]	1,171	154	227	944	128	19	925	128
Chemicals	851	112	64	787	106	61	726	100
Delivery	490	65	49	441	60	10	431	59
Total	**3,521**	**464**	**374**	**3,147**	**425**	**86**	**3,061**	**422**

(1) Pulp includes only bought-in fully bleached hardwood and softwood. Other costs relate to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables.

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

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 logistics and procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. We review product design and raw material inputs to ensure product attributes and quality meet market specifications.

Comparing fiscal 2018 with fiscal 2017

Variable costs increased by US$374 million, or 12%, in fiscal 2018 from fiscal 2017. The increase in variable costs was proportionally larger than the increase in sales volumes and reflects an increase in purchased pulp, energy, delivery and chemical prices.

Variable costs per ton in Europe increased by 16% in fiscal 2018 compared to fiscal 2017 mainly due to the effect of a stronger average euro exchange rate against the US dollar, a steep increase in purchased pulp prices, combined with increases in delivery and chemical costs as a direct and indirect result of rising oil prices. On a euro per ton basis, variable costs increased by 8%. Variable costs per ton in North America increased by 4% in fiscal 2018 mainly as a result of higher purchased paper pulp prices. Variable costs per ton in Southern Africa increased by 8% in fiscal 2018 mainly due to increases in delivery, energy and wood costs and a stronger Rand against the US dollar. On a Rand per ton basis, the increase was 6%.

Comparing fiscal 2017 with fiscal 2016

Variable costs increased by US$86 million, or 3%, in fiscal 2017 from fiscal 2016. The increase in variable costs was proportionally slightly larger than the increase in sales volumes, resulting in an increase in variable costs per ton of US$3, or 1%, reflecting wood, energy and chemical cost increases in Southern Africa, offset by lower wood and energy costs and improved production efficiencies in Europe and North America.

Variable costs in Europe decreased by 2% in fiscal 2017 compared to fiscal 2016 as a result of substantial improvements in production efficiencies and lower energy and wood costs. Variable costs in North America decreased by 3% in fiscal 2017 mainly due to improved usage variances and lower wood and energy costs. Variable costs per ton in Southern Africa increased by 15% in fiscal 2016 mainly due to a significantly stronger Rand against the US dollar, wood, energy and chemical cost increases.

Fixed costs

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

Fixed Costs	**2018**	**Change 2018 vs. 2017**	**2017**	**Change 2017 vs. 2016**	**2016**
			(US$ million)		
Personnel	1,043	113	930	36	894
Maintenance	235	23	212	11	201
Depreciation	274	19	255	5	250
Other	215	11	204	(22)	226
Total	**1,767**	**166**	**1,601**	**30**	**1,571**

Comparing fiscal 2018 with fiscal 2017

Fixed costs in fiscal 2018 increased by US$166 million, or 10%, from fiscal 2017 primarily as a result of a US$113 million increase in employment costs, primarily relating to wages and salaries, a US$19 million higher depreciation charge in fiscal 2018 as a result of increased capital expenditures, the Cham Acquisition, which contributed US$26 million to the increase in fixed costs and the stronger Rand and euro resulting in an increase in US dollar costs of US$28 million. Fixed costs in our European operations increased by 14% in fiscal 2018 mainly due to the stronger average euro exchange rate against the US dollar and the Cham Acquisition. Fixed costs in North America increased by 4% in fiscal 2018, whereas fixed costs in the Southern African region increased by 11% in fiscal 2018 due to the stronger average Rand exchange rate against the US dollar and wage inflationary increases.

Comparing fiscal 2017 with fiscal 2016

Fixed costs in fiscal 2017 increased by US$30 million, or 2%, from fiscal 2016, mainly as a result of the significantly stronger Rand resulting in an increase in US dollar costs by an amount of US$33 million. Excluding the currency impact, fixed costs in fiscal 2017 decreased by US$3 million from fiscal 2016. In the North American region, fixed costs were unchanged in fiscal 2017 as compared to fiscal 2016, whereas the European region reduced fixed costs by 3% in fiscal 2017. The Southern African region increased fixed costs by 18% in fiscal 2017, mainly due to the significantly stronger average Rand exchange rate against the US dollar and inflationary pressure on personnel and maintenance costs.

Net Finance Costs

Net finance costs were as follows:

Net Finance Costs	**2018**	**2017**	**2016**
		(US$ million)	
Finance costs	94	107	140
Finance revenue	(18)	(15)	(16)
Net interest[1]	76	92	124
Net foreign exchange gains	(6)	(12)	(2)
Interest capitalized	(2)	—	—
Net fair value loss (gain) on financial instruments	—	—	(1)
Net finance costs	**68**	**80**	**121**

(1) Net interest represents finance costs less finance revenue. Finance costs for fiscal 2016 include a refinancing charge of US$23 million related to the 2016 Refinancing.

Net interest (finance costs less finance revenue) in fiscal 2018 was US$76 million compared to US$92 million in fiscal 2017 and US$124 million in fiscal 2016. The decrease in net interest in fiscal 2018 compared to fiscal 2017 was the result of the repayment of the 2017 Notes, on which we paid interest during the first half of fiscal 2017, during the call window period in April 2017, as well as the repayment of US$38 million of our South African bonds in April 2018, partly offset by the increase in net debt as a result of the Cham Acquisition in February 2018 and increased capital expenditure. The decrease in net interest in fiscal 2017 compared to fiscal 2016 was a result of the repayment of the 2017 Notes in April 2017 and the reduced interest rates from the 2016 Refinancing.

Net foreign exchange gains of US$6 million in fiscal 2018, US$12 million in fiscal 2017 and US$2 million in fiscal 2016 were due to the losses 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 fiscal 2016 net foreign exchange gain was negatively impacted by a US$6 million foreign exchange loss resulting from hedging of the 2023 Notes cash flows between pricing and settlement of the 2023 Notes. 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.

Interest capitalized relates to borrowings incurred in connection with the conversion project at our Somerset Mill in North America. Borrowing costs were capitalized at a rate of 2.65% and amounted to US$2 million.

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 2016, a gain relating to the interest rate swap covering the 2021 Notes was recorded.

Taxation

	2018	**2017**	**2016**
		(US$ million)	
Profit before taxation	**421**	**446**	**423**
Taxation at the average statutory tax rates	113	125	119
Net exempt income and non-tax deductible expenditure	3	3	—

	2018	2017	2016
		(US$ million)	
Effect of tax rate changes[(1)]	13	—	—
No tax relief on losses	5	3	—
No tax charge on profits	(10)	(4)	(12)
Derecognition of deferred tax assets	17	—	—
Recognition of deferred tax assets	(44)	(16)	—
Prior year adjustments	(1)	(4)	(6)
Other taxes	2	1	3
Taxation charge	**98**	**108**	**104**
Effective tax rate	**23%**	**24%**	**25%**

(1) The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the U.S. where the rate changed from 35% in 2017 to 21% in 2018.

Our effective tax rate for fiscal years 2018, 2017 and 2016 was positive 23%, 24% and 25%, 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:

2018

Our tax charge for the year was US$98 million, based on profit before taxation of US$421 million.

In Europe, an increase in deferred tax assets and the utilization of assessed losses reduced the effective rate to 5%.

The North American effective tax rate of 36% has been negatively impacted by one-time adjustments recognized as a result of the reduction of the federal corporate income tax rate in the U.S. from 35% to 21%.

The Southern African tax rate of 27% is lower than the statutory tax rate of 28% due to the impact of non-taxable items.

2017

Our tax charge for the year was US$108 million, based on profit before taxation of US$446 million.

In Europe, we benefited from a total tax relief of US$2 million, or an effective tax rate of negative 3%, consisting of a deferred tax relief and a current tax charge. The deferred tax relief was due mainly to the recognition of a US$16 million tax asset in the Netherlands.

The North American effective tax rate for the year of approximately 31% was lower than the statutory rate of 38% in effect during fiscal 2017 due to the impact of non-taxable items.

The Southern African effective tax rate for the year of 28% was equivalent to the statutory tax rate of 28%.

2016

Our tax charge for the year was US$104 million, based on a profit before taxation of US$423 million.

In Europe, tax charges of US$1 million in Germany and US$5 million in Belgium were raised. Due to non-valued losses, no relief was available on other losses, which consisted primarily of financial expenses in Austria. A current tax charge of US$1 million for sales offices and service companies was also accrued.

The North American effective tax rate of 23% was lower than the statutory rate of 38% in effect during fiscal 2016. The North American effective tax rate was favorably impacted by a release of tax risk provisions.

The Southern African effective tax rate of 24% in fiscal 2016 was lower than the statutory tax rate of 28% due to a portion of our income relating to the disposal of our Cape Kraft and Enstra Mills being taxed at the lower capital gains rate, as well as the release of a prior year adjustment of US$1 million upon completion of our tax return for 2015.

Profit

The Group recorded a profit of US$323 million for fiscal 2018 compared to a profit of US$338 million for fiscal 2017 and a profit of US$319 million in fiscal 2016.

The decrease in profit in fiscal 2018 can be attributed to the effect of one less accounting week when compared to fiscal 2017, a number of non-recurring operational and production issues relating to downtime, optimization of production processes and conversion projects in our Southern African and North American businesses and a stronger Rand during most of the year, which placed the profitability of the Southern African business under pressure.

The increase in profit in 2017 can be attributed to the effect of one additional accounting week when compared to 2016 and growth in our dissolving wood pulp and specialties and packaging papers product categories.

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 2018 was US$13 million. The remainder of the short-term debt consisted of additional short-term portions of long-term debt (US$49 million) and short-term trade finance facilities which we expect to be able to refinance on a quarterly basis (US$67 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 12 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 terms of such debt. However, at the end of the three-month period ended December 2018, we had cash and cash equivalents of US$350 million. In addition, both the €525 million Revolving Credit Facility (US$600 million) and the ZAR1,000 million (US$69 million) revolving credit facility of Sappi Southern Africa Limited were undrawn as of December 2018.

One of our liquidity requirements is the payment of annual dividends to shareholders when applicable. The Board of Directors has declared a dividend of US$0.17 per share, payable in ZAR using the exchange rate at the date of declaration, which dividend represents a three times earnings cover adjusted for non-cash items and a 13% increase when compared to the dividend for fiscal 2017 (US$0.15 per share).

Cash Flow

In fiscal 2018 and the three months ended December 2018, we retained our emphasis on cash generation despite our capital expenditure of US$541 million and the acquisition of Cham Paper Group for consideration of US$132 million, such that net cash utilized for the year of US$254 million was managed to remain close to our leverage target of two times Net Debt to Adjusted EBITDA (2.06x as at September 2018). We also focus 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.

	Three Months Ended December		Year Ended September		
Cash Flow Summary	**2018**	**2017**	**2018**	**2017**	**2016**
			(US$ million)		
Cash generated from operations[(1)]	**197**	**162**	**709**	**748**	**693**
Movement in working capital	(87)	(83)	(79)	(27)	4
Net finance costs paid	(5)	(6)	(66)	(81)	(91)
Taxation refund (paid)	(3)	6	(73)	(100)	(56)
Dividend paid	—	—	(81)	(59)	—

Cash Flow Summary	Three Months Ended December 2018	Three Months Ended December 2017	Year Ended September 2018	Year Ended September 2017	Year Ended September 2016
			(US$ million)		
Cash retained (utilized) from operating activities	**102**	**79**	**410**	**481**	**550**
Net investing activities	(109)	(93)	(664)	(373)	(191)
Net cash generated (utilized) from operating and investing activities	**(7)**	**(14)**	**(254)**	**108**	**359**

(1) Cash generated from operations is calculated by adding to the profit 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 2018, 2017 and 2016, see note 24 to our Group annual financial statements for the year ended September 2018 included elsewhere in this Offering Memorandum.

Cash generated from operations

In the three months ended December 2018, we generated cash from operations of US$197 million compared to US$162 million in the same period in 2017.

Cash generated from operations decreased to US$709 million in fiscal 2018 compared to US$748 million in fiscal 2017, mainly due to the US$46 million decrease in Operating Profit Excluding Special Items.

Cash generated from operations was US$748 million in fiscal 2017 compared to US$693 million in fiscal 2016 mainly due to the US$39 million increase in Operating Profit Excluding Special Items.

Net cash generated (utilized) from operating and investing activities

Net cash utilized in the three months ended December 2018 was US$7 million compared to net cash utilized in the three-month period ended December 2017 of US$14 million. The slight improvement was due to cash generated from operations.

Net cash utilized in fiscal 2018 was US$254 million compared to net cash generated of US$108 million in fiscal 2017. The decrease in cash generation was mainly due to higher working capital movements, increased dividends paid, the Cham Acquisition (US$132 million) and increased capital expenditure of US$541 million, which were partly offset by a decrease in finance costs and taxation payments as compared to the prior year.

Net cash generated in fiscal 2017 was US$108 million compared to US$359 million in fiscal 2016. The decrease was mainly due to higher working capital movements, increased cash taxes, the resumption of dividend payments and increases in capital expenditure, partly offset by a decrease in finance costs and by higher cash generated from operations as compared with fiscal 2016.

Non-cash items

Non-cash Items	Three Months Ended December 2018	Three Months Ended December 2017	Year Ended September 2018	Year Ended September 2017	Year Ended September 2016
			(US$ million)		
Depreciation and amortization	69	67	282	259	252
Fellings	17	13	66	63	56
Asset and investment impairments (reversals)	—	—	(3)	—	—
Plantation fair value—price	(3)	(16)	(27)	(21)	(64)
Plantation fair value—volume	(17)	(16)	(69)	(58)	(56)
Restructuring provisions and closure costs raised (reversed)	—	—	1	1	4
Non-cash post-retirement plan settlements and amendments	—	—	—	—	(8)
Post-employment benefits funding	(10)	(10)	(45)	(43)	(51)
(Profit) loss on disposal of assets and businesses	—	—	(4)	2	(15)

Non-cash Items	Three Months Ended December 2018	Three Months Ended December 2017	Year Ended September 2018	Year Ended September 2017	Year Ended September 2016
			(US$ million)		
Share-based payment charges	**1**	3	13	10	—
Other non-cash items	**17**	5	6	9	31
Total	**74**	**46**	**220**	**222**	**149**

Total non-cash items in the three months ended December 2018 amounted to US$74 million, compared to US$46 million in the three months ended December 2017. In fiscal 2018, total non-cash items amounted to US$220 million, compared to US$222 million in fiscal 2017 and US$149 million in fiscal 2016.

Working capital

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

Working capital movement	Three Months Ended December 2018	Three Months Ended December 2017	Year Ended September 2018	Year Ended September 2017	Year Ended September 2016
			(US$ million)		
Inventories	828	697	741	636	606
% revenue[1]	14.6 %	13.1 %	12.8 %	12.0 %	11.8 %
Receivables	707	655	767	668	642
% revenue[1]	12.5 %	12.3 %	13.2 %	12.6 %	12.5 %
Payables[2]	(960)	(837)	(1,015)	(868)	(854)
% Cost of sales[1]	20.1 %	18.7 %	20.6 %	19.6 %	20.0 %
Net working capital[3]	**575**	**515**	**493**	**436**	**394**
Ratio of net working capital to revenue	10.1 %	9.7 %	8.5 %	8.2 %	7.7 %

(1) Figures for three-month periods ended December 2018 and December 2017 have been annualized.

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

(3) Net working capital represents the sum of inventories, receivables and payables.

Optimizing the levels of our working capital remained a key management focus area during fiscal 2018 and the three months ended December 2018. 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 revenue was higher at the end of December 2018 than at the end of December 2017. Net working capital increased to US$575 million at the end of December 2018 from US$515 million at the end of December 2017. Inventories increased by US$131 million at the end of December 2018 compared to the end of December 2017, mainly due to higher purchased pulp prices and higher stock levels, which were partially offset by a favorable currency translation impact of US$47 million. Receivables increased by US$52 million at the end of December 2018 compared to the end of December 2017, mainly due to higher net selling prices, which were partially offset by a favorable currency translation impact of US$24 million. The increase in payables by US$123 million at the end of December 2018 compared to the end of December 2017 is largely due to increased raw materials prices and higher accruals for capital expenditure, partially offset by an unfavorable currency translation impact of US$34 million.

Net working capital expressed as a percentage of revenue was higher at the end of fiscal 2018 than at the end of fiscal 2017. Net working capital increased from US$436 million at the end of fiscal 2017 to US$493 million at the end of fiscal 2018. Inventories increased by US$105 million at the end of fiscal 2018 compared to the end of fiscal 2017, mainly due to higher purchased pulp prices, which were partially offset by a favorable currency translation impact of US$13 million. Receivables increased by US$99 million at the end of fiscal 2018 compared to the end of fiscal 2017, mainly due to higher net selling prices and increased volumes in the fourth quarter, which were partially offset by a favorable currency translation impact of US$9 million. Payables increased by

US$147 million at the end of fiscal 2018 compared to the end of fiscal 2017, which was largely due to increased raw material prices and higher accruals for capital expenditure, partially offset by a favorable currency translation impact of US$21 million.

Net working capital expressed as a percentage of revenue was higher at the end of fiscal 2017 than at the end of fiscal 2016. Net working capital increased to US$436 million at the end of fiscal 2017 from US$394 million at the end of fiscal 2016. Inventories increased by US$30 million at the end of fiscal 2017 compared to the end of fiscal 2016, mainly due to a currency translation impact of US$16 million and an increase in finished goods. Receivables increased by US$26 million at the end of fiscal 2017 compared to the end of fiscal 2016, mainly due to a currency translation impact of US$18 million and an increase in trade receivables due to the higher sales in the last quarter of the fiscal year. The increase in payables by US$14 million at the end of fiscal 2017 compared to the end of fiscal 2016 is due to a currency translation impact of US$26 million, though after taking into account such impact, payables decreased by US$12 million. The decrease in payables is largely due to a reduction in interest accruals and the reduction of restructuring provisions.

Capital expenditure

Cash utilized in investing activities for the three months ended December 2018 and 2017 and the period from fiscal 2016 to fiscal 2018 is as set out in the table below:

	Three Months Ended December		**Year Ended September**		
Investing Activities	**2018**	**2017**	**2018**	**2017**	**2016**
			(US$ million)		
Capital expenditure to maintain and expand operations	106	88	541	357	241
Proceeds on disposal of non-current assets[(1)]	—	—	(11)	(4)	(44)
Acquisition of subsidiary	—	—	132	11	—
Other movements	3	5	2	9	(6)
Total	**109**	**93**	**664**	**373**	**191**

(1) For annual periods, this represents the sum of "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 2018 and December 2017, this represents "proceeds on disposal of assets" 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 2018 and 2017 and fiscal 2018, fiscal 2017 and fiscal 2016 amounted to US$54 million, US$24 million, US$167 million, US$140 million and US$155 million, respectively. Capital spending for expanding or improving our operations during the three-month periods ended December 2018 and 2017 and fiscal 2018, fiscal 2017 and fiscal 2016 amounted to US$52 million, US$64 million, US$374 million, US$217 million and US$86 million, respectively.

During the three months ended December 2018, our capital expenditure was US$106 million, compared to US$88 million for the three months ended December 2017.

During fiscal 2018, our capital expenditure was US$541 million, compared to US$357 million during fiscal 2017. The increase in capital expenditure was mainly due to increased capital expenditure in growth projects, including the conversions of paper machines in Europe and North America as well as projects to optimize production processes at our dissolving wood pulp plants in Southern Africa, as well as cost overruns related to the conversion of PM1 at our Somerset Mill.

During fiscal 2018, we also acquired the specialties printing business of Cham Paper Group for US$132 million, while in fiscal 2017 we acquired the flexible packaging company Rockwell Solutions for US$23 million, of which US$11 million was paid in cash.

During fiscal 2017, our capital expenditure was US$357 million, compared to US$241 million during fiscal 2016. The increase in capital expenditure was mainly due to various upgrade and conversion projects throughout the group, the optimization of processes for the production of dissolving wood pulp at Ngodwana and Saiccor

Mills and the initial costs for the conversion of coated printing and writing paper capacity to specialty paper production in Europe and North America.

We expect that our aggregate capital expenditures for fiscal 2019 will be approximately US$590 million, which will include capital projects to improve and increase production capacity in Europe and Southern Africa. Capital spending is expected to be funded primarily through internally generated funds, drawings under short-term debt facilities and additional long-term debt. For further details about our capital commitments, see note 26 to our Group annual financial statements for the year ended September 2018 included elsewhere in this Offering Memorandum.

Financing cash flows

Net financing cash inflows and outflows relate mainly to both planned and additional voluntary debt repayments and refinancing transactions. During the three months ended December 2018, net financing cash inflows were US$2 million. During fiscal 2018, net financing cash inflows were US$68 million. During fiscal 2017, net financing cash outflows were US$279 million. During fiscal 2016, net financing cash outflows were US$130 million, including US$20 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.

Gross Debt	As of December 2018	As of December 2017	As of September 2018	As of September 2017	As of September 2016
	(US$ million)				
Long term interest-bearing borrowings	1,778	1,831	1,818	1,739	1,535
Short term interest-bearing borrowings	116	136	97	133	576
Bank overdraft	13	—	16	—	—
Gross interest-bearing borrowings	**1,907**	**1,967**	**1,931**	**1,872**	**2,111**

Cash Position	As of December 2018	As of December 2017	As of September 2018	As of September 2017	As of September 2016
	(US$ million)				
Cash and cash equivalents	350	618	363	550	703

36% of total assets excluding cash and cash equivalents as of December 2018 was funded by gross debt as is shown in the table below:

Total Assets Excluding Cash and Cash Equivalents	As of December 2018	As of December 2017	As of September 2018	As of September 2017	As of September 2016
	(US$ million)				
Gross interest-bearing borrowings	1,907	1,967	1,931	1,872	2,111
Shareholder's equity	1,915	1,821	1,947	1,747	1,378
Other net liabilities	1,834	1,761	1,792	1,628	1,688
Cash and cash equivalents	(350)	(618)	(363)	(550)	(703)
Total assets excluding cash and cash equivalents	**5,306**	**4,931**	**5,307**	**4,697**	**4,474**
	%				
Gross interest-bearing borrowings	36	40	36	40	47
Shareholder's equity	36	37	37	37	31
Other net liabilities	35	36	34	35	38
Cash and cash equivalents	(7)	(13)	(7)	(12)	(16)
Total assets excluding cash and cash equivalents	**100**	**100**	**100**	**100**	**100**

Debt profile

Our debt comprises a variety of debt instruments, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and finance leases. See note 21 to our Group annual financial statements for the year ended September 2018 contained elsewhere in this Offering Memorandum for a more detailed discussion on our debt instruments.

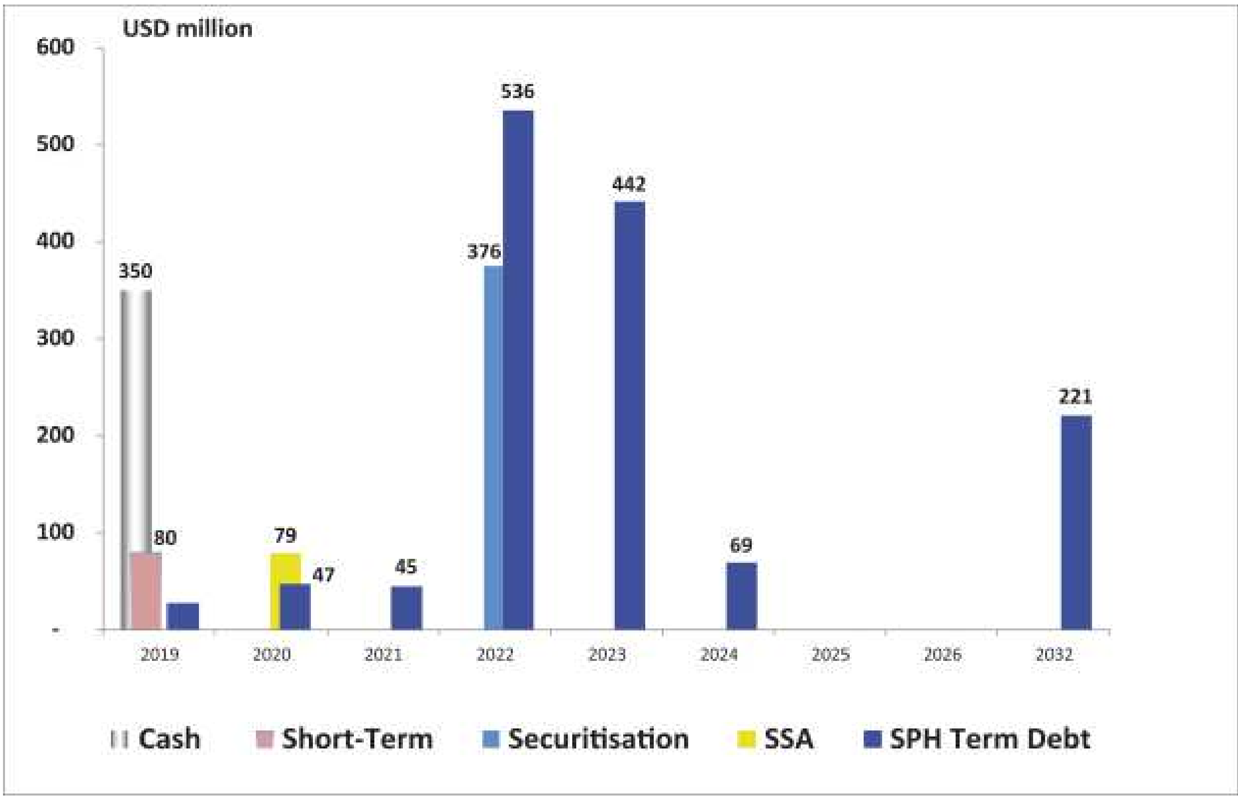
The make-up of our gross debt as of the end of the various periods is set out in the table below:

Debt Profile	As of December 2018	As of December 2017	As of September 2018	As of September 2017	As of September 2016
	(US$ million)				
Long-term debt	1,778	1,831	1,818	1,739	1,535
Short-term debt	116	136	97	133	576
Overdrafts	13	—	16	—	—
Gross interest-bearing borrowings	**1,907**	**1,967**	**1,931**	**1,872**	**2,111**

As at December 2018, short-term debt of US$116 million includes €38 million (US$44 million) corresponding to amortization payments related to the OeKB Term Loan Facilities amounting to €20 million (US$23 million) due June 2018 and €19 million (US$21 million) due September 2019. The remainder of the short-term borrowings consists of the short-term portion of long-term debt and short-term trade finance facilities, which are refinanced quarterly.

The average maturity of our long-term debt as at December 2018 was 5.5 years with the profile as shown below:

Gross debt maturity profile (US$ million)



As at December 2018 and September 2018, short-term debt was US$116 million and US$97 million, respectively, and cash and cash equivalents were US$350 million and US$363 million, respectively.

At December 2018 and September 2018, the Group had unutilized committed borrowing facilities of US$670 million and US$680 million, respectively, including €525 million (US$600 million) under the Revolving

Credit Facility, and available cash and cash equivalents of US$350 million and US$363 million, respectively. At September 2017, the Group had unutilized committed borrowing facilities of US$623 million, including the €465 million (US$549 million) Revolving Credit Facility, and available cash and cash equivalents of US$550 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, June 2015 and June 2017. 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 2018 and September 2018, the unutilized portion was US$1 million and US$8 million, respectively.

US$376 million of the long-term debt at December 2018 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 2018 contained elsewhere in this Offering Memorandum.

In the three months ended December 2018 and fiscal 2018, our financing activities concentrated on maintaining our target net debt levels and interest rates, improving our debt maturity profile and enhancing our liquidity position. In addition, the €330 million Trade Receivables Securitization Program was increased to €380 million and its maturity was extended to January 2022. During fiscal 2018, we repaid the ZAR500 million bond in South Africa from local cash resources and renewed the previous €465 million revolving credit facility maturing in 2020 with our new €525 million Revolving Credit Facility maturing in 2023. We also arranged project financing for our new ZAR1.8 billion project at the Ngodwana Mill from two South African banks and various equity partners. Sappi has a 30% equity participation in the project and the corresponding debt is ring-fenced at the level of the project company and does not appear on Sappi's balance sheet.

In the three months ended December 2017 and fiscal 2017, our financing activities concentrated on reducing gross debt by utilizing our cash resources to repay certain short-term debt and enhancing our liquidity position. During fiscal 2017, we repaid the US$400 million of 2017 Notes from cash on hand, renewed the €330 million Trade Receivables Securitization Program, which now has a maturity date of August 2020, and arranged a new €150 million OeKB term loan, which was used to finance the conversion project of PM1 at our Somerset Mill. In fiscal 2016, our financing activities included refinancing the 2021 Notes with the proceeds from the issuance of the 2023 Notes, which led to annual interest cost savings of approximately US$8 million, and the repayment in full of Sappi Southern Africa's ZAR500 million and ZAR225 million bonds due in 2016 using available local cash resources. In addition, during 2016, upon satisfaction of various release conditions under the relevant debt documentation, all existing security previously granted to secure certain of the Group's indebtedness was released.

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 2018**	**2018**	**2017**	**2016**
US$	17.6 %	18.4 %	18.4 %	34.4 %
EUR	78.2 %	77.4 %	75.1 %	60.0 %
ZAR	4.2 %	4.2 %	6.5 %	5.6 %

Included in the US dollar-denominated debt at September 2016 are the US$400 million 2017 Notes, which were subsequently swapped into euro prior to the repayment of such notes in fiscal 2017.

Interest on Borrowings

Interest payable on borrowings improved in fiscal 2018 when compared with the prior year as a result of the repayment of the 2017 Notes in fiscal 2017 and the repayment of ZAR500 million (US$38 million) of our South

African bonds in April 2018, despite net debt increasing as a result of the Cham Acquisition in February 2018 for US$132 million and the incurrence of additional indebtedness to finance increasing capital expenditures.

Interest Rate Risk

The Group has a policy of maintaining a balance between fixed and variable rate loans that 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$400 million 2017 Notes in fiscal 2012, such notes were swapped from fixed USD interest rates into fixed euro interest rates using an interest rate and currency swap. The US$400 million senior notes due 2017 and the corresponding interest rate currency swaps were repaid in April 2017. There are no remaining interest rate currency swaps as at December 2018. Upon the issuance of ZAR1,155 million in floating rate South African debt in fiscal 2016, such debt was swapped into fixed rates using interest rate swaps. At the end of fiscal 2018, the ratio of gross debt at fixed and floating interest rates, after the impact of the interest rate swaps, was 75:25.

Short-term borrowings

The Group's short-term borrowings position was materially unchanged during the three months ended December 2018. The Group's short-term borrowings position was also materially unchanged during fiscal 2018. The Group issued no commercial paper during the three months ended December 2018, fiscal 2018, fiscal 2017 or fiscal 2016. The Group relies mainly on the Revolving Credit Facility, the securitization programs 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 2018 and "—Off-Balance Sheet Arrangements".

Revolving Credit Facility. On February 28, 2018, we entered into a revolving credit facility agreement, which was amended and restated on June 21, 2018. The revolving credit facility agreement provides for up to €525 million of borrowing availability in euro, US dollars and certain other currencies (the "Revolving Credit Facility"). As of the date of this Offering Memorandum, the Revolving Credit Facility was undrawn. The commitments under the Revolving Credit Facility terminate on February 28, 2023 and the annual interest rate on borrowings is calculated based on LIBOR or Euribor plus a funding margin varying between 0.90% and 2.25% per annum depending on the credit rating assigned to the senior debt of Sappi Limited and the long-term rating assigned to the Group, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, the Issuer and certain other subsidiaries of Sappi Limited. The Revolving Credit Facility contains an interest coverage covenant and a leverage covenant, in each case measured at the Sappi Limited consolidated level and set at levels in line with the long-term forecast of Sappi's results. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals.

2022 Notes. On March 23, 2015 the Issuer issued €450 million 3.375% Senior Notes due 2022 (the "2022 Notes"). The interest on the 2022 Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2022 Notes mature on April 1, 2022. The 2022 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited that will guarantee the Notes. At issuance, the 2022 Notes were secured by first-priority security interests, subject to permitted collateral liens, over certain assets of Sappi Limited, the Issuer and the other subsidiary guarantors of the 2022 Notes. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2022 Notes and certain other secured financing arrangements of the Group was released. Sappi has agreed to observe certain covenants with respect to the 2022 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. We plan to use the proceeds from the offering of the Notes to redeem the outstanding 2022 Notes and pay accrued and unpaid interest to the redemption date and the applicable redemption premium.

2023 Notes. On March 15, 2016, the Issuer issued €350 million 4.00% Senior Notes due 2023 (the "2023 Notes"). The interest on the 2023 Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2023 Notes mature on April 1, 2023. The 2023 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. At issuance, the 2023 Notes were secured by first-priority security interests, subject to permitted collateral liens, over certain assets of Sappi Limited, the Issuer and the other subsidiary guarantors. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2023 Notes and certain other secured financing arrangements of the Group was released. Sappi has agreed to observe certain covenants with respect to the 2023 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

OeKB Term Loan Facilities. On June 20, 2017, the Issuer entered into a new agreement to replace its existing term loan facility with OeKB dated July 10, 2012, as previously amended and restated on September 18, 2013 and March 16, 2015 (as amended and restated on February 28, 2018, the "OeKB Term Loan Facility I"). The commitments under the OeKB Term Loan Facility I are for €81.6 million. At December 2018, the outstanding balance under the OeKB Term Loan Facility I was €61.2 million. The annual interest rate on borrowings is calculated based on the OeKB financing rate plus a margin varying between 0.85% and 2.10%, depending on the credit rating assigned to the Sappi Group, plus certain costs. The margin at the date of this Offering Memorandum was 1.225% per annum. Further, on June 20, 2017, we entered into another term loan facility with OeKB (as amended and restated on February 28, 2018, the "OeKB Term Loan Facility II" and together with OeKB Term Loan Facility I, the "OeKB Term Loan Facilities"). The commitments under the OeKB Term Loan Facility II are for €150 million. At December 2018, the outstanding balance under the OeKB Term Loan Facility II was €150 million. The annual interest rate on borrowings is calculated based on the OeKB financing rate plus a margin varying between 1.20% and 2.60%, depending on the credit rating assigned to the Sappi Group, plus certain costs. The margin at the date of this Offering Memorandum was 1.725% per annum. The OeKB Term Loan Facilities are guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than the Issuer) under the Revolving Credit Facility. The obligations under the OeKB Term Loan Facilities are unsecured. The other material terms of the OeKB Term Loan Facilities, including the financial covenants, the undertakings and the events of default, are substantially the same as the terms of the Revolving Credit Facility.

Domestic Medium Term Note Program. In June 2009, Sappi Southern Africa Limited (previously Sappi Manufacturing (Pty) Ltd and Sappi Southern Africa Proprietary Limited) combined its ZAR3 billion Domestic Medium Term Note Program established in June 2006 (the "Initial Program") with its commercial paper program established in November 2003 ("Initial CP Program"), into a new ZAR5 billion Domestic Medium Term Note Program (the "DMTN Program") which superseded and replaced the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. The DMTN Program was amended and restated first on September 13, 2013 and subsequently on November 23, 2018. This new 2018 program memorandum applies to all notes issued under the DMTN Program and supersedes and replaces any previous program memoranda. On October 16, 2013, Sappi Southern Africa Limited 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 6 mature on April 16, 2020. The proceeds of Series 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 (the "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, further renewed and extended to August 2018 in June 2015, further renewed and extended to August 2020 in June 2017 and further renewed and extended to January 2022 at a higher level of €380 million in December 2018. Under the renewed and extended program, eligible receivables initially originated by several Sappi entities and transferred to the Issuer and Sappi NA Finance LLC are sold on a non-recourse basis by the Issuer and Sappi NA Finance LLC to Elektra Purchase No. 29 DAC (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 January 2022, unless it is terminated earlier. The program could be terminated, amongst other things, 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 such financial metrics are defined in the relevant agreement). As of December 2018, the external securitization funding under the Trade Receivables Securitization Program was US$376 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 indenture, 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. US$29 million of the 2032 Notes became available for repurchase during fiscal 2010 and were repurchased by the Group at a discount.

Financial Covenants

Financial Covenants apply to the outstanding balance under the OeKB Term Loan Facilities, the €525 million Revolving Credit Facility and our Trade Receivables Securitization Program.

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 in the agreements governing the OeKB Term Loan Facilities, the €525 million Revolving Credit Facility and our Trade Receivables Securitization Program. Our financial covenants require (on the basis of the measures so defined), *inter alia*, that:

(i) At the end of each quarter ending from September 2015 to December 2023, the ratio of EBITDA to consolidated net interest expense for that quarter (on a rolling last four quarter basis) be not less than 2.50:1;

(ii) The ratio of Net Debt to EBITDA be not greater than 4.00:1 for all quarters ending from June 2017 to March 2019 and not greater than 3.75:1 for all quarters ending from June 2019 to December 2023; and

(iii) With regard to Sappi Southern Africa Limited and its subsidiaries only, the percentage of net debt to equity must not exceed 65%, and the ratio of EBITDA (before special items) to net interest paid, calculated on a last 12 months basis, must not be less than 2.00:1, both of which are calculated semi-annually in March and September.

The table below shows that as at December 2018 and September 2018 we were in compliance with these covenants. Net debt is calculated using average exchange rates for the four quarters ended December 2018 and September 2018, respectively.

	December 2018	September 2018	Covenants
Group Covenants			
Net Debt to EBITDA	2.00	2.07	< 4.00
EBITDA to Net Interest	11.08	11.18	> 2.50x
Sappi Southern Africa Covenants[(1)]			
Net Debt to Equity	—	0.62%	< 65%
EBITDA to Net Interest	—	N/A	> 2.00x

(1) Sappi Southern Africa Covenants calculated semi-annually in March and September.

The Group financial covenants also apply to our Trade Receivables Securitization Program, with an outstanding balance of US$376 million at the end of December 2018. No Sappi Limited guarantee has been provided for these facilities.

Off-Balance Sheet Arrangements

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

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

If this securitization facility were to be terminated, we would discontinue further sales of trade receivables under the relevant facility 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 that may trigger termination of the facility, including, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact of any such termination on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement was entered into.

The total value of trade receivables sold as at December 2018 amounted to US$78 million (December 2017: US$55 million). The total value of trade receivables sold as at September 2018 amounted to US$71 million (September 2017: US$72 million). Details of the securitization program at the end of fiscal 2018 and 2017 are set out below:

Bank	Currency	Value	Facility	Discount charges
December 2018				
Rand Merchant Bank	ZAR	ZAR1,132 million	Unlimited*	Linked to 3 month JIBAR
December 2017				
Rand Merchant Bank	ZAR	ZAR686 million	Unlimited*	Linked to 3 month JIBAR
September 2018				
Rand Merchant Bank	ZAR	ZAR1,004 million	Unlimited*	Linked to 3 month JIBAR
September 2017				
Rand Merchant Bank	ZAR	ZAR980 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-Southern 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 2018 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 2018 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 table reflects those contractual obligations at the end of fiscal 2018 that could be quantified.

	Payments Due by Period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
			(US$ millions)		
On-Balance Sheet					
Long-term debt obligations[1]	2,299	199	578	1,081	441
Defined benefit and other long-term borrowings reflected on the balance sheet[2]	397	—	—	—	—
Off-Balance Sheet					
Operating lease obligations[3]	91	26	32	14	19
Purchase obligations[4]	71	22	27	9	13
Capital commitments[5]	293	230	63	—	—
Group Total	**3,151**	**477**	**700**	**1,104**	**473**

(1) Includes interest obligations to maturity to service the debt using interest rates prevailing at September 2018. The principal debt is US$1,915 million.

(2) Defined benefit and other long-term liabilities reflected on the balance sheet of US$397 million (fiscal 2017: US$423 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 2018 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 2018 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 2018 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. As at September 2018, the Group held approximately 37.9 million treasury shares on its balance sheet (composed of approximately 17.9 million ordinary shares and 20.0 million "A" ordinary shares issued to the B-BBEE trusts. No shares were acquired during the three months ended December 2018 and fiscal 2018, 2017 and 2016. 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 2018 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. The Board of Directors has declared a dividend of US$0.17 per share for fiscal 2018, payable in ZAR using the exchange rate at the date of declaration, which dividend represents a three times earnings cover adjusted for non-cash items and a 13% increase when compared to the dividend for fiscal 2017 (US$0.15 per share).

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 June 2010, we completed a B-BBEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of the issued share capital 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 was ZAR814 million (US$115 million) (December 2018: ZAR1.9 billion

(US$134 million)), which corresponded to an effective 30% interest in Sappi Southern Africa in 2010. 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 2018 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 examples of 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 plan in North America are closed to future accrual.

During fiscal 2018, the liabilities of our funded defined benefit plans decreased by US$5 million, from US$1,183 million at September 2017 to US$1,178 million at September 2018. Liabilities of our unfunded defined benefit plans decreased by US$12 million, from US$265 million at September 2017 to US$253 million at September 2018. Combined, gross liabilities declined by US$17 million during fiscal 2018. The overall decrease was primarily a result of the beneficial effect of slightly higher discount rates due to rising bond yields in the United States, a past service credit arising in one of our plans in Europe and a slight net reduction in longevity provisions, partially offset by an increase in plan liabilities resulting from the Cham Acquisition.

Defined benefit plan assets increased by US$31 million over the course of fiscal 2018, from US$1,139 million at September 2017 to US$1,170 million at September 2018. The overall increase in plan assets was mainly a result of company contributions paid in during fiscal 2018 and an overall net positive return on assets, as well as plan assets acquired as a result of the Cham Acquisition.

The reduction in liabilities and increase in assets both contributed to a reduction in the overall net balance sheet liability by US$48 million, from a deficit of US$309 million at September 2017 to a deficit of US$261 million as at September 2018. For a reconciliation of the movement in the balance sheet liability over the course of fiscal 2018, see note 28 of our Group annual financial statements for the year ended September 2018 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 incidents. All production units are subjected to regular risk assessments by external risk engineering consultants, 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. Enterprise risk management is under ongoing review, which aims at lowering the risk of incurring losses from incidents.

Sappi follows a practice of insuring its assets against losses arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Our insurance also covers the business interruption costs that may result from such events. This insurance cover excludes insurance for our plantations, which is placed separately. 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.

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$24 million), with an annual aggregate of €33 million (US$38 million). For property damage and business interruption insurance, cost-effective cover to full capacity replacement value is not readily available. However, we believe that the loss limit cover of €750 million (US$871 million) should be adequate for what we have determined as the maximum reasonably foreseeable loss for any single claim. Since fiscal 2011, our property damage insurance policy has been 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 at each balance sheet date for indications of impairment or the reversal of a previously recognized 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 2018 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 property, plant and equipment is capitalized to the cost of the related property, plant and equipment and the part replaced is derecognized.

Depreciation, which commences when the assets are ready for their intended use, is recognized in profit or loss 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 property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and 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 and Equipment	straight-line 3 to 30 years

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 2018 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.

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 profit or loss 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 2018 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 discount rate.

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 five 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, 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 five 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 2018 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 2018 included elsewhere in this Offering Memorandum for the key estimates, assumptions and other information on post-employment benefits.

Adoption of accounting standards in fiscal 2018 and the three months ended December 2018

Standards, interpretations and amendments to standards

The Group adopted the following standards, interpretations, amendments and improvements to standards during the year ended September 2018 and the three months ended December 2018, all of which had no material impact on the Group's reported results or financial position:

Year ended September 2018

- IAS 12 Income Taxes—Recognition of Deferred Tax Assets for Unrealized Losses;
- IAS 7 Statement of Cash Flows—Disclosure Initiative—clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities;
- Annual Improvements 2014-2016 Cycle;

Three Months ended December 2018

- IFRS 2—Classification and Measurement of Share-based Payment Transactions;
- IFRIC 22—Foreign Currency Transactions and Advance Consideration;

- IFRS 9 *Financial Instruments*—IFRS 9 set out a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income (FVOCI). The new classification did not have a significant impact compared to the previous accounting for financial assets under IAS 39. IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The Group applies the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. The application of the ECL model did not result in a material impact compared to the previous accounting under IAS 39.With respect to hedging, a new non-distributable equity reserve called "Cost of hedging reserve" was created. This reserve is used to separate all time value of money and forward point valuations on hedged instruments, as required by IFRS 9. This resulted in an increase to retained earnings and a decrease to "cost of hedging reserve" of US$4 million on adoption of IFRS 9; and

- IFRS 15 *Revenue from Contracts with Customers*—Revenue is derived principally from the sale of goods to customers and is measured at the fair value of the amount received or receivable after the deduction of trade and settlement discounts, rebates and customer returns. For the majority of local and regional sales, transfer occurs at the point of offloading of the shipment into the customer's warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded onto the relevant carrier unless the contract of sale specifies different terms.

  The adoption of IFRS 15 resulted in the Group recognizing revenue from shipping activities as a separate performance obligation when control of the goods passes to customers at the point when the goods have been loaded onto the relevant carrier. Given that the Group is acting as an agent in these activities, revenue is recognized when the shipping is arranged, which is considered to be at the point of loading of the goods, resulting in no significant timing differences compared to revenue recognition under IAS 18. The related shipping costs have been set-off against this revenue based on agent accounting principles, whereas such costs were previously included in cost of sales. Refer to note 2 of our unaudited condensed consolidated financial statements and related notes as of December 2018 and for the three months ended December 2018 and 2017 included elsewhere in this Offering Memorandum for more information on the adoption of IFRS 15.

  The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this new standard at the date of initial application (*i.e.*, October 2018). As a result, the Group does not apply the requirements of IFRS 15 to the comparative periods presented.

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 16 *Leases*—IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Under IFRS 16, lessors will continue to classify leases as operating or finance leases, which will be substantially similar to lease accounting under IAS 17 Leases. IFRS 16 will become effective for us in October 2019. Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.

We do not currently expect that the following standards will have a material impact on the Group's reported results or financial position:

- IFRIC 23—Uncertainty over Income Tax Treatments—Effective October 2019;
- IAS 19—Plan Amendment, Curtailment or Settlement—Effective October 2019;
- IAS 28—Long-term Interests in Associates and Joint Ventures—Effective October 2019; and
- Annual Improvements 2015—2017 Cycle—Amendments to IFRS 1 and IAS 28—Effective October 2019.

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 sales in fiscal 2018, 26% of our sales in fiscal 2017 and 23% of our sales in fiscal 2016. In the three months ended December 2018 and 2017, South Africa accounted for 24% and 24%, respectively, of our sales (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15). See "—Operating Results, Financial Condition and Results of Operations" for the proportion of Southern African operating profit to total profit.

South Africa features a highly developed, sophisticated "first world" infrastructure at the core of its economy. The International Monetary Fund (IMF) estimates that the South African economy grew by 0.8% in 2018. The IMF forecasts the South African gross domestic product to grow by 1.4% in calendar year 2019.

Currently, Standard and Poor's (S&P) maintains a credit rating on South African government bonds of "BB" with a "stable" outlook, which places the rating in the sub-investment grade category. Fitch downgraded its credit rating on South African government bonds in to "BB+" in April 2017, which also corresponds to a sub-investment grade rating. The outlook of the Fitch credit rating is "stable". However, South African government bonds are currently rated "Baa3" with a "stable" outlook by Moody's, which places such bonds at the low end of investment grade ratings according to the Moody's scale. Accordingly, as of the date of this Offering Memorandum, South Africa's government bonds are rated as sub-investment grade by two of the three major credit rating agencies, and at the low end of the investment grade spectrum by the third major credit rating agency. We believe continued prospects of anaemic growth of the South African economy and sizeable contingent liabilities will continue to exert downward pressure on the credit ratings of South Africa's government bonds, and Moody's has recently highlighted the risks of such contingent liabilities, in particular the risks to the creditworthiness of South African government bonds arising from the financial support provided to Eskom by the South African government. Any further downgrades could lead to a loss of the investment grade rating from Fitch and a further deterioration of the sub-investment grade ratings given by S&P and Moody's.

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

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

The Restitution of Land Rights Act (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. 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; however, such Amendment Act has been sent back to Parliament for reconsideration by the Constitutional Court and further amendments to the regime are expected in the future. The claims that 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. The process of land claims is expected to continue for many years. As one of the largest landowners 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 Southern African operations continues. See "Our Business—Legal Proceedings—Southern Africa".

In 2018, the South African Parliament initiated a process to explore amending the Constitution of the Republic of South Africa (the "Constitution") to allow for expropriation of land in the public interest without compensation. Various public consultation forums have been held and ongoing dialogue continues. We remain in close contact with Business Leadership South Africa, the organization representing South African businesses in the discussions surrounding the proposed changes. On November 15, 2018, the Constitutional Review Committee (the "CRC") issued a report recommending that Section 25 of the Constitution be amended to establish expropriation of land without compensation as a legitimate option for land reform, so as to ensure equitable access to land and further empower the majority of South Africans to be productive participants in ownership, food security and agricultural reform programs. Furthermore, the CRC recommended in its report that the South African Parliament urgently establish a mechanism to amend the Constitution and that it must table, process and pass a bill to that effect before the end of the current legislature. The CRC report was adopted by both Houses of Parliament in early December 2018. On December 6, 2018, the National Assembly resolved to establish an ad hoc committee to initiate and produce a constitutional amendment before the end of the current Parliament. The ad hoc committee is expected to report back to the National Assembly by March 31, 2019. Until publication of a bill, it is unclear how the proposed expropriation of land without compensation might affect our operations.

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 67% of employees presented themselves for HIV testing and counseling (HCT) in 2018, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2017 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 15.3% versus the South African workforce prevalence rate of 18.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.49% in 2017 to 0.35% in 2018.

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. 46 of 2013) 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 in the country, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment.

The old Forest Sector Charter (the "Old Charter") was published in the Government Gazette in June 2009 as the "Forest Sector Code". The Old Charter applied to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses were signatories to the Old Charter via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). The Old Charter set the objectives and principles for B-BBEE, and included 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 the issued share capital of Sappi Limited were issued to its strategic empowerment partners, and to various trusts for the benefit of its black managers, its employees and communities in the geographic areas where Sappi's South African businesses had operations. The value of the B-BBEE transaction (ZAR814 million (US$115 million)) corresponded to an effective 30% interest in Sappi Southern Africa in 2010.

On October 11, 2013, the government issued amended Codes of Good Practice, which were implemented in April 2015 and which required alignment of the existing B-BBEE Codes, such as the Old Charter. An amended

Forest Sector Code was published on April 21, 2017 (the “Amended Forest Sector Code”). The Amended Forest Sector Code contains, among other provisions, a new B-BBEE scorecard and targets that will apply to measured enterprises operating within the Forest Sector; undertakings by government, industry and labour to perform series of actions aimed at enabling the forest sector and individual businesses to achieve their B-BBEE targets; an agreement to establish a Forest Sector Charter Council to oversee and facilitate the implementation of the Code, as well as procedures for progress reporting and review. The new B-BBEE scorecard and targets of the Amended Forest Sector Code increase the requirements on measured entities and, in particular, require us to achieve a much higher score and attain “sub-minimum” scores to meet the same B-BBEE Contributor Status recognition level we previously attained.

Empowerdex has been our verification agent under the Old Charter, and later under the Amended Forest Sector Code, since 2006. While the standards of the Old Charter were in effect, we improved our Contributor Level Status, as verified by Empowerdex, from “level 8 contributor” status (with a score of 37.32) in 2006 to “level 3 contributor” status (with a score of 80.65) in 2016. Despite the stricter standards imposed under the Amended Forest Sector Code, our scores as verified by Empowerdex have continued to improve since its implementation, rising from “level 3 contributor” status (with a score of 91.60) in 2017 to “level two contributor” status (with a score of 95.04) in 2018. An overview of the historical development of our Contributor Level Status ratings is shown in Tables 1 and 2 below.

Table 1: Historical B-BBEE ratings of Sappi Southern Africa Limited

Certificate Issued	Certificate Valid till	Ownership	Management	Employment Equity	Skills Develop	Preferential Procurement	Supplier Development	Enterprise Development	Socio-Economic Development	Total Score	Level
2006	Jan-07										8
Jan-07	Jan-08	-	2.82	1.91	5.48	7.44		15.00	4.67	37.32	8
Feb-08	Feb-09	-	2.82	1.91	6.83	7.56		15.00	4.67	38.79	8
Apr-08	Apr-09										7
Aug-09	Aug-10	-	4.15	2.58	10.31	17.22		15.00	4.71	53.97	6
Oct-10	Oct-11	15.74	4.49	3.69	9.55	18.76		14.96	8.00	75.19	3
Nov-11	Nov-12	15.30	6.21	2.40	9.15	18.47		15.00	8.00	74.53	4
Dec-12	Dec-13	15.10	5.25	2.49	8.10	19.26		15.00	8.00	73.20	4
Nov-13	Nov-14	15.28	5.13	2.54	9.55	17.29		15.00	8.00	72.79	4
Nov-14	Nov-15	24.50	4.94	2.63	9.00	19.54		15.00	8.00	83.61	3
Nov-15	Nov-16	24.33	2.29	2.25	9.43	18.94		15.00	8.00	80.24	3
Nov-16	Nov-17	24.34	2.08	1.99	10.18	19.06		15.00	8.00	80.65	3
*The new Forestry Sector Charter Code gazetted on 1 April 2017											
Dec-17	Nov-18	26.18	6.48	4.08	12.51	16.18	6.68	11.93	7.56	91.60	3

Table 2: Current B-BBEE rating for Sappi Southern Africa Limited

Certificate Issued	Certificate Valid till	Ownership	Management	Employment Equity	Skills Develop	Preferential Procurement	Supplier Development	Enterprise Development	Socio-Economic Development	Total Score	Level
Dec-18	Dec-19	27.00	6.48	4.12	12.63	16.05	9.76	11.93	8.00	95.04	2

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 Khulisa, 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.

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 concerning 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 of the South African Reserve Bank ("SARB") (previously known as the Exchange Control Department) is responsible for the day-to-day administration of exchange controls.

Most South African commercial banks have been appointed to act as authorized dealers in foreign exchange ("Authorized Dealers"). Authorized Dealers may buy and sell foreign exchange, subject to conditions and within limits prescribed by the SARB. From time to time, the SARB updates the Currency and Exchanges Manual for Authorized Dealers (the "Manual"), which sets out the conditions, permissions and limits applicable to the transactions in foreign exchange which may be undertaken by Authorized Dealers.

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

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

The purpose of exchange controls is, *inter alia*, to regulate inflows and outflows of capital from South Africa. South African residents are not permitted to export capital from South Africa except as provided for in the Excon Rules. No South African resident is thus entitled to enter into any transaction in terms of which capital (whether in the form of funds or otherwise) or any right to capital is directly or indirectly exported from South Africa without the approval of either the SARB or, in certain cases, by an Authorized Dealer.

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

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

Controls on current account transactions, with the exception of certain discretionary expenses and transfer pricing between related parties, are dealt with by Authorized Dealers in terms of the Manual.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents to manage their exposure to foreign exchange commitments and accruals.

Although the stated intention of the South African Government is to relax gradually 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. See "Limitations on Validity and Enforceability of the Guarantees 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 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 funds from their emigrant capital account without appropriate SARB approval. For purposes of this paragraph, funds from their emigrant capital account 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 and are under the control of an Authorized Dealer.

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. We monitor interest rate risk and may utilize derivative financial instruments to manage the balance between fixed and variable interest rates in response to changes in the interest rate environment.

Currency risk. We are exposed to economic, transaction and translation currency risks. We primarily manage currency risk using internal hedging mechanisms with external hedging, such as foreign currency forward exchange contracts, being applied thereafter.

See note 31 to our Group annual financial statements for the year ended September 2018 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 2018 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 2018 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 Key Sources of Estimation Uncertainty".

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 Key Sources of Estimation Uncertainty".

For additional descriptions of these risks, see notes 2, 11 and 28 to our Group annual financial statements for the year ended September 2018 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. There are differences between the types of pulp required for our paper making operations and the grades of pulp we produce, as well as regional differences. We are therefore a buyer as well as a seller of pulp. 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 2018 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

We primarily service three product markets in the pulp and paper industry: dissolving wood pulp, specialties and packaging papers and printing and writing papers. In addition, we produce paper pulp for sale and for use in our own paper production. Dissolving wood pulps are 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. Our specialties and packaging papers business consists of flexible packaging, label papers, functional papers, containerboard, paperboard, silicone base papers, casting and release papers, dye sublimation papers, digital imaging papers, and tissue paper. Finally, our printing and writing paper business consists of woodfree paper, mechanical paper and newsprint.

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 printing and writing paper have been adversely impacted by changes in consumer preferences for digital media over traditional print media, with the trend most evident in the mature markets of western and central Europe and North America.

Consumption patterns in the paper pulp industry are associated with changes in printing and writing paper and specialties and packaging paper consumption, which are often cyclical, and in the case of certain printing and writing paper grades, are in secular decline. Dissolving wood 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 2018.

Major Product Categories	Description and Typical Uses
Dissolving Wood Pulp	A highly purified form of cellulose extracted from timber. 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 specialty segments
Specialties and packaging papers	
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 flexible packaging (such as sachets, pouches and wrappers), containerboard (corrugated shipping containers), paperboard (such as folding boxboard for luxury packaging) and machine glazed kraft (grocery bags). Packaging paper can be coated to enhance its barrier and aesthetics properties, providing additional functionality.

Major Product Categories	Description and Typical Uses
Specialties papers	Includes a variety of specialized grades of paper such as label papers, functional papers (such as those coated to enhance barrier and sealing properties), silicone base papers (for self-adhesive applications), casting and release papers (used in, among others, the fashion, textiles automobile and household industries), dye sublimation papers (for digital transfer printing), inkjet papers (for poster and technical printing applications) and tissue paper.
Printing and Writing Papers	
Woodfree paper	
Coated paper	Higher level of smoothness and opacity 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, envelopes, pamphlets and magazines.
Mechanical paper	
Newsprint	Manufactured from mechanical and bleached chemical pulp and/or recycled waste paper. Uses include advertising inserts and newspapers.
Coated mechanical paper	Coated mechanical fiber based paper, primarily used for magazines, catalogues, newspaper inserts and advertising material. Manufactured from mechanical pulp produced by mechanical grinding or refining of wood or woodchips.
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 (lignin) which bind the wood fibers to leave cellulose fibers. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.
Timber products	Sawn timber for construction and furniture manufacturing purposes.

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

	Three Months Ended December 2018		Year Ended September 2018		2017		2016	
	High	Low	High	Low	High	Low	High	Low
Coated Woodfree Paper								
100 gsm delivered Germany (euro per ton)[(1)]	840	800	830	740	760	680	750	690
60 lb. delivered U.S. (US$ per short ton)[(2)]	1055	1025	1040	855	885	820	900	840
Coated Mechanical Paper								
60 gsm. LWC offset reels(euro per ton)[(3)]	660	625	660	580	615	580	635	595
Paper Pulp								
NBSK (US$ per ton)[(4)]	1230	1200	1230	909	906	808	830	789
NBHK (US$ per ton)[(5)]	1050	1026	1050	897	890	651	811	662
Dissolving Wood Pulp								
92 alpha (US$ per ton)[(6)]	944	916	940	897	990	830	951	830

(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, PIX.

(5) Northern Bleached Hardwood Kraft Pulp CIF Western Europe, PIX.

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

Dissolving Wood Pulp

The viscose staple fiber ("VSF") and lyocell fiber industry, which manufactures textile and non-woven fibers, is the largest and fastest growing market segment for dissolving wood pulp and accounts for a majority of dissolving wood pulp consumption. VSF and lyocell staple fibers produced from dissolving wood pulp are converted to yarn and ultimately textiles, creating naturally soft, breathable fabrics, which are smooth to the touch, hold color and drape well. The fibers produced from dissolving wood pulp can also be blended with cotton and polyester fabrics. Our dissolving wood pulp activities accounted for 18% of our sales and 40% of our Adjusted EBITDA Excluding Special Items in fiscal 2018.

Market prices for dissolving wood pulp are influenced by several variables, including the selling prices for VSF and lyocell fibers, the pricing differential between paper pulp and dissolving wood pulp and currency movements. As VSF and lyocell are partial substitutes for competing textile fibers such as cotton and polyester, prices for cotton and polyester affect VSF prices and therefore indirectly affect dissolving wood pulp prices. Most of our VSF-grade dissolving wood pulp production is sold on long-term contracts with longstanding customers at prices that are generally based on a formula linked to market prices for dissolving wood pulp and are adjusted based on negotiations with the applicable customers. The remaining VSF-grade dissolving wood pulp production is sold on the spot market at prices affected by the factors described above. 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.

Specialties and Packaging Papers

Specialties and packaging papers encompass a wide range of paper-based applications in the industrial, agricultural, consumer goods, advertising and specialty printing industries, among others. Demand for specialties and packaging papers in general is supported by increasing demand from industrial customers and consumer preference for more sustainable and environmentally friendly packaging solutions. In addition, many specialties and packaging papers solutions can be highly customized to the needs of particular customers, which is supportive of operating margins in this product category. Our specialties and packaging papers activities accounted for 19% of our sales and 18% of our Adjusted EBITDA Excluding Special Items in fiscal 2018.

Packaging Papers. We provide a wide range of packaging solutions to the industrial, agricultural and consumer goods industries. This includes containerboard products for consumer packaging and shelf-ready packaging for agricultural and industrial uses and paperboard for luxury packaging with more graphic applications, in particular in the cosmetic, perfume, confectionary and premium beverage industries. Our product range also includes flexible packaging such as sachets, pouches, wrappers and multi-walled shipping sacks for use in the transport of goods as well as grocery bags for use by the end consumer.

Market demand for packaging papers is affected by changes in the world economy, local economic growth, retail sales and by changes in production capacity, demand and inventory levels. In addition, demand for packaging papers is also encouraged by customer demand for and regulatory initiatives incentivizing less-polluting alternatives to plastic packaging, such as the rules to reduce marine litter introduced by the European Union in May 2018.

Specialties Papers. Our specialties papers offerings include label papers, functional papers with sealing properties and barrier properties against various substances including mineral oil residues, oxygen, water vapor and grease, silicone base papers for self-adhesive applications such as graphic art applications with outdoor advertisements and tissue papers. We also produce specialized casting and release papers that are used by suppliers to the fashion, textiles, automobile and household industries, among others, to manufacture products including synthetic leather, decorative laminates and other textured surface materials. Finally, with the Cham Acquisition in fiscal 2018, our specialties papers range now includes dye sublimation papers, which are used for digital transfer printing onto various materials such as textiles, gadgets, and apparel, and large-format inkjet papers used for indoor and outdoor posters as well as technical printing in the construction industry.

Due to the specialized and highly customized nature of such applications, the high value-added specialties 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 specialty paper, price fluctuations have historically tended to lag and be less precipitous than price changes in markets for more standardized paper products.

Printing and Writing Papers

Our printing and writing papers activities are divided into uncoated woodfree paper, coated woodfree paper, coated mechanical paper and newsprint production. While demand for many of these product categories has been in decline in recent years, particularly in developed markets, we believe that printing and writing papers will continue to play a major role in the pulp and paper industry and that opportunities will exist to offset declining demand by gaining market share. Our printing and writing papers activities accounted for 61% of our sales and 42% of our Adjusted EBITDA Excluding Special Items in fiscal 2018.

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 U.S. 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 fall, 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 in 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), specialty 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. Like most printing and writing papers, demand continues to decline in mature markets, with small growth coming from emerging markets.

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. Demand for coated mechanical paper tends to follow the trends in demand for magazines. Readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease in larger markets as consumers opt for digital formats.

Newsprint. Declining newspaper readership and publishing industry consolidation around the world has led to a global decline for newsprint, though pockets of growth exist in ad-financed daily newspapers typically found in large metropolitan cities.

Paper Pulp

In addition to dissolving wood pulp, we also produce a wide range of paper pulp grades for our own use and for external sales, including mechanical pulp used in newsprint, bleached kraft pulp and bleached sulphite pulp.

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

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 108 Oxford Road, Houghton Estate, Johannesburg, 2198, Republic of South Africa. We currently have our primary listing on the JSE Limited, formerly the Johannesburg Stock Exchange.

Sappi is a global diversified woodfibre company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, specialties and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to its direct and indirect customer base. The Group's dissolving wood pulp products are used worldwide by converters to create viscose staple fiber for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer and household products. The Group's range of specialty and packaging paper products includes premium quality packaging papers such as flexible sachets, pouches and wrappers, containerboard used in various consumer, industrial and transport applications and paperboard used for luxury packaging applications in the perfume, confectionary and premium beverages industries. In addition, specialty and packaging paper products include casting release papers used by suppliers to the fashion, textiles, automobile and household industries, functional papers that build upon our expertise in paper coating to incorporate sealing properties and barriers against mineral oils and various other substances, as well as label papers and tissue papers. The Group's range of printing and writing papers 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, uncoated graphic and business papers and, in the Southern African region, newsprint. Finally, we are also exploring adjacent markets in order to extract maximum value from our woodfiber. Our products for such markets include hemicellulose sugars, lignin-based dispersants, dry redispersable nanocellulose, cellulose fiber plastic composites (such as those sold under our Symbio brand) and bio-energy (including our biomass energy projects and fuel rods). With the development of new processes and biomaterials, we aim to extract more value from each tree. During fiscal 2018, we had revenue, profit for the year and Adjusted EBITDA Excluding Special Items of US$5,806 million, US$323 million and US$762 million, respectively. During the three months ended December 2018, we had revenue, profit for the period and Adjusted EBITDA Excluding Special Items of US$1,418 million, US$81 million and US$197 million, respectively.

Our revenue, profit for the period and Adjusted EBITDA Excluding Special Items during the twelve months ended December 2018 were US$5,894 million, US$341 million and US$787 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 2018, 76% of our revenue and 55% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa, principally in North America (27%) and Europe (38%). During fiscal 2018, 76% of our revenue, 56% of our Adjusted EBITDA Excluding Special Items were generated, and, as of December 2018, 65% of our net operating assets were located, outside Southern Africa.

The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We operate 17 pulp and paper mills in eight countries, with an aggregate production capacity of approximately 5.7 million tons of paper, 2.3 million tons of paper pulp and 1.4 million tons of dissolving wood pulp. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of dissolving wood pulp and paper 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. Sappi Trading also coordinates our shipping and logistical functions for exports from our core operating regions to other locations throughout the world. 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 specialty and packaging paper and coated mechanical paper in Europe. Headquartered in Brussels, Belgium, the segment operates nine paper mills in six countries with an aggregate annual production capacity of approximately 3.7 million tons of paper and 1.2 million tons of related paper pulp, which represents approximately 50% 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$2,970 million and US$732 million, or 51% and 51% of our sales in fiscal 2018 and the three-month period ended December 2018 (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), respectively.

North America

Our North American business is a leading producer and supplier of dissolving wood pulp, coated woodfree paper, coated specialty paper and packaging paper in the United States. In addition, following the conversion of PM1 in our Somerset Mill during fiscal 2018, our North American business also produces paperboard. Headquartered in Boston, Massachusetts, the segment operates three paper mills in the United States with an aggregate annual production capacity of approximately 1.4 million tons of paper and approximately 865,000 tons of pulp (including 340,000 tons of dissolving wood pulp), which represents approximately 65% of our pulp requirements in North America. Our North American business accounted for US$1,432 million and US$351 million, or 25% of our sales in fiscal 2018 and 25% of our sales in the three months ended December 2018 (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), respectively.

Southern Africa

Our Southern African business, headquartered in Johannesburg, South Africa, is an integrated producer of dissolving wood pulp, paper pulp, packaging paper, uncoated paper, specialty paper and timber products. The segment operates two paper and paper packaging mills, one dissolving wood pulp mill, one combined paper, paper packaging and dissolving wood pulp mill and one sawmill, and is managed in three divisions: Sappi Paper and Paper Packaging, Sappi Dissolving Wood Pulp and Sappi Forests. In addition, our Sappi Biotech business unit, established in 2016 with the aim of innovating and commercializing products in the areas of biomaterials and biochemicals, operates a sugar extraction pilot plant and a lignosulphonate plant, among other facilities, in this region. We are a major pulp and paper producer in Africa, with a production capacity of approximately 440,000 tons of paper packaging products, 250,000 tons of printing and writing paper, 1.1 million tons of dissolving wood pulp and 670,000 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 516,000 hectares of plantation. Approximately 65% 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$1,404 million and US$348 million, or 24% and 24%, of our sales in fiscal 2018 and the three months ended December 2018 (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), 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), São Paulo (Brazil), Shanghai (China), Bogotá (Colombia), Nairobi (Kenya), Mexico City (Mexico), Singapore, Vienna (Austria), Johannesburg and Durban (South Africa). It manages a network of agents around the world, who are responsible for exports to nearly 90 countries. All sales and costs associated with Sappi Trading are allocated to our three reportable segments.

Our Strengths

Leading market positions

We believe that we are the world's largest manufacturer of dissolving wood pulp by sales and volume, with an estimated global market share of 18%. 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 24% and 34% in Europe and North America, respectively (based on production capacity). We have achieved leading positions in our traditional core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands. As demand shifts away from printing and writing paper markets and increasingly toward specialty and packaging papers, we believe we can leverage the position we have achieved in products such as coated woodfree paper, for example by converting our existing paper machines to produce specialties and packaging paper.

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. During the year ended September 2018, our Southern African business was a net seller of pulp with a pulp integration of approximately 266%, while our European and North American businesses were net buyers of pulp with a pulp integration of approximately 56% and approximately 82%, respectively.

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 and of higher margin products, balance supply and demand in the printing and writing paper markets, 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, by converting paper machines to increase capacity and for use in higher margin businesses, and by pursuing an investment policy that is focused on high-return projects. We have strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio.

In line with our strategic objective of improving operational and machine efficiencies and in order to lower costs, we undertook a number of large capital projects during fiscal 2018. For example, we commenced a woodyard upgrade at the Saiccor Mill to improve wood efficiency and to allow for further expansion of the mill, as we plan to expand production capacity at the Saiccor Mill by 110,000 tons in fiscal 2019. This project is expected to improve our energy and water efficiency and result in increased energy and chemical recovery, leading to lower operating costs. We have also invested in upgrades at our Gratkorn Mill, aiming to enhance production efficiency and lower costs.

Accelerating growth in higher margin products and rationalizing declining businesses has also been a focus during fiscal 2018. For example, we converted PM1 at the Somerset Mill, which resulted in increased capacity of the machine and created additional flexibility allowing PM1 to produce both coated woodfree paper and packaging paper. In Europe, we converted the Maastricht Mill to focus its production on paperboard in support of our specialties and packaging papers business in Europe. During fiscal 2019, we intend to undertake a number of capital projects, which are expected to result in the replacement of 200,000 tons of printing and writing paper capacity in Europe with a similar volume of higher margin specialties and packaging papers.

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

As a global diversified woodfibre company, we believe that our 17 pulp and paper mills across Europe, North America and Southern 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 addition, Sappi Trading allows us to reach customers and explore growth opportunities outside our core operating regions, and coordinates our shipping and logistical functions for exports.

In fiscal 2018, our operations in Europe, North America and Southern Africa accounted for 51%, 25% and 24% of our sales, respectively. In the three months ended December 2018, our operations in Europe, North America and Southern Africa accounted for 51%, 25% and 24% of our sales excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15, respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Comparison of the Three Months ended December 2018 and 2017—Sales”.

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—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, some of which use our products 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 continually aiming to 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 anticipate customers' needs, 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 consolidating Sappi's position as a global leader in dissolving wood pulp production, the significant expansion of the Group's dissolving wood pulp capacity through two pulp conversion projects at the Ngodwana and Cloquet Mills and, more recently, the successful conversion of printing and writing papers capacity at our Somerset and Maastricht Mills to specialty paper grades capacity. We have also succeeded in shifting printing and writing 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. In fiscal 2018, two conversion projects and a machine upgrade were completed with the aim of matching supply and demand in the printing and writing paper markets, as well as in the specialties and packaging papers markets. Further, in line with our strategy to expand and grow our specialties and packaging papers segment, in February 2018, Sappi management successfully completed the acquisition of the Cham Paper Group, a Swiss-based specialty paper producer (the "Cham Acquisition"). To date, the integration of Cham Paper Group has progressed according to plan and the profitability from the newly acquired mills is in line with expectations.

Our Objectives

We endeavor to be, on a sustainable basis, among the most profitable companies in the area of 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, maintaining a healthy balance sheet to reduce risk and improve our strategic flexibility, and accelerating growth in higher margin products and adjacent businesses.

Maintain focus on cost base and profitability

We intend to focus on improving our profitability and ensure the sustainability of our operations by further reducing fixed and variable costs, increasing cost efficiencies and investing in cost advantages where possible. During fiscal 2018, we achieved third-party expenditure savings of US$81 million compared to the prior year through efficiency and raw material usage improvements, as well as various procurement initiatives, which was above our target of US$60 million. In 2019, we expect to complete further cost-saving projects and we are targeting a further US$60 million in savings. Among other projects, we commenced an upgrade of our Saiccor Mill woodyard to improve wood efficiency and allow for capacity expansion at the mill. In 2019, we plan to expand Saiccor Mill's capacity by a further 110,000 tons, which we expect to lower operating costs by improving energy and water efficiency and energy and chemical recovery. We intend to pursue these and other initiatives to reduce costs and improve operational performance.

Rationalize declining businesses

Against the backdrop of decreasing demand for printing and writing paper in our core markets, we intend to manage our capacity to strengthen our leadership position in those markets, realizing their strategic importance to the Group and maximizing their significant cash flow generation. To this end, we will strive to maintain operating rates and to lower costs, while continuously balancing printing and writing paper supply and demand in all regions.

In North America, our cost-competitive manufacturing facilities, high level of customer service and excellent paper quality, along with closures or conversions of some of our competitors' mills and machines have allowed us to increase market share, despite decreasing demand in the overall market. During fiscal 2018, we converted PM1 at the Somerset Mill to increase its capacity and give it the flexibility to produce both coated woodfree paper and packaging paper, which we believe will help us achieve our goal of balancing printing and writing paper supply and demand in North America while transitioning more production to specialties and packaging papers.

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. We have also focused on the implementation of our go-to-market strategy, Sappi&You. Sappi&You has supported our efforts to be a preferred supplier in coated woodfree paper grades in particular and has allowed us to increase both direct sales and market share in Europe despite the general market decline in this region. As we anticipate future demand declines for printing and writing paper in this market, we will continue to pursue cost reductions and, where possible, convert PMs to higher margin businesses. During fiscal 2018, we converted the Maastricht Mill to focus predominantly on paperboard in support of our existing specialties and packaging papers business in Europe. In addition, our coating expertise and the growing specialty packaging market has allowed us to reallocate some of our coated woodfree production in both Europe and North America to various grades of specialty packaging paper, without significant capital investment required. In 2019, we plan to undertake projects and make investments at the Lanaken Mill, Ehingen Mill and Alfeld Mill, which we expect will replace 200,000 tons of printing and writing paper capacity with a similar volume of specialties and packaging paper capacity. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both North America and Europe.

In South Africa, our exposure to declining printing and writing papers markets is limited to newsprint, where we believe we are the last remaining local producer, and office paper, in which we have become more cost-competitive following the transfer of production from the Enstra Mill, which we sold in December 2015, to our Stanger Mill.

Maintain a healthy balance sheet

We intend to continue to focus on cash flow generation and managing the cost of our debt in order to maintain a healthy balance sheet, which we believe forms the foundation required in order for us to make the necessary investments in our higher margin and growing businesses. In fiscal 2017, we achieved our target leverage ratio of two times Net Debt to Adjusted EBITDA, and our net finance costs have since stabilized in the range of US$60-70 million per annum. In fiscal 2018, our Net Debt to Adjusted EBITDA leverage ratio stood at 2.07 times, during a year that included capital expenditure of US$541 million. We intend to continue to manage carefully the Group’s level of indebtedness, including repaying and refinancing debt to improve our debt maturity profile and lower risk and interest costs when possible, and to maintain our focus on optimizing working capital management.

Accelerate growth in higher margin products and adjacent businesses

We aim to expand production capacity in our higher margin and growing dissolving wood pulp and specialties and packaging papers product categories.

In the dissolving wood pulp product category, we launched our new Verve brand in 2018 to bundle our activities relating to sustainable viscose and lyocell staple fibers and further strengthen our leading position in the dissolving wood pulp market that provides the raw materials for such textile fibers. During fiscal 2018, we also completed a number of capital projects, including the projects to optimize production processes at our Saiccor and Ngodwana Mills, which added 10,000 and 35,000 tons of dissolving wood pulp production capacity, respectively. In fiscal 2019, we will initiate a project to optimize production processes at our Cloquet Mill, adding a further 30,000 tons of production capacity, and we will start the expansion project of our Saiccor Mill to add an additional 110,000 tons of production capacity, as described above. We aim to continue to pursue further significant expansion opportunities in the dissolving wood pulp business, supported by demand from our major customers and from a textile market increasingly looking for more sustainable textile solutions. In line with our strategic objective of pursuing growth in higher margin products, we will aim to pursue any such opportunity that meets our various investment criteria.

Similarly, in order to gain specialties and packaging papers production capacity, we increased capital expenditure in growth projects during fiscal 2018, such as the conversion of PM1 at our Somerset Mill and the conversion of our Maastricht Mill to increase our paperboard production capacity. In addition to such capital projects, we completed two acquisitions in recent years that we believe position us well for growth in the specialties and packaging papers market by complementing our existing product portfolio. During fiscal 2018, we purchased the paper mill assets of Cham Paper Group for US$132 million. The Cham Acquisition has added new paper grades to our specialties and packaging papers portfolio, including Transjet dye sublimation transfer papers used primarily for printing images onto textiles and wide format inkjet papers used, among other applications, in the production of posters for indoor and outdoor settings. In fiscal 2017, we acquired Rockwell Solutions, a firm specializing in innovative barrier packaging solutions, which gives us access to new technology and allows us to accelerate the development of new solutions for the growing specialties and packaging papers market. In addition to increasing our specialty paper production capacity, we believe these acquisitions will support our aim of gaining a greater share-of-wallet with valued brand owners and generate economies of scale and synergies with our existing products.

We also intend to seek new opportunities for growth in fields close to our current businesses, such as the markets for sugars, lignin, nanocellulose and other innovative performance materials produced from renewable resources. We have identified several areas for investment where we believe we have a favorable competitive position and intend to undertake research and development projects, work closely with existing customers and collaborate with research and commercial partners. In 2016, we established our Sappi Biotech business unit in order to drive innovation in adjacent fields and commercialize products resulting from our biomaterials and biochemicals research. In Europe, we completed construction of our nanocellulose pilot plant in the Netherlands during the first half of fiscal 2016 and are currently undertaking co-developments with firms in the motor manufacturing, coatings and cosmetics industries relating to applications for cellulose nanofibril and cellulose microfibrils. In Southern Africa, we have increased the beneficiation of our by-products by investing in increased lignosulphonate capacity at both our Saiccor and Tugela Mills, and are exploring the extraction of sugars from our pulping processes. Since 2017, we have been operating a sugar extraction pilot plant at our Ngodwana Mill to demonstrate technology for sugar extraction from our dissolving pulp waste streams. We are currently developing a further demonstration plant at Ngodwana Mill to scale up our novel Xylex technology (which we acquired from Plaxica in fiscal 2017, together with certain other technologies, for a total amount of US$10.4 million (£7.7 million)) to produce furfural, xylose and xylitol, a low-calorie sweetener that is suitable for diabetics, which may result in the construction of commercial plants if successful. We also intend to continue exploring cogeneration and renewable biomass energy projects.

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 2018 and the three months ended December 2018.

	Year Ended September 2018				
	Europe	**North America**	**Southern Africa**	**Unallocated and Eliminations**	**Total**
			(’000 tons)		
Sales volume	3,366	1,371	2,854	—	7,591
			(US$ million)		
Sales	2,970	1,432	1,404	—	5,806
Operating profit (loss)	166	47	295	(19)	489
Operating Profit Excluding Special Items	163	49	270	(2)	480

	Three Months Ended December 2018				
	Europe	**North America**	**Southern Africa**	**Unallocated and Eliminations**	**Total**
			(’000 tons)		
Sales volume	809	321	713	—	1,843
			(US$ million)		
Sales	732	351	348	(13)	1,418
Operating profit (loss)	30	9	88	(4)	123
Operating Profit (Loss) Excluding Special Items	34	9	85	—	128

The following table sets forth Group sales by product for each of fiscal 2018 and 2017:

Sales by Product Category	Year Ended September			
	2018		2017[(1)]	
	(US$ million)			
Dissolving wood pulp	1,043	18 %	1,059	20 %
Specialties and packaging papers	1,087	19 %	833	16 %
Printing and writing papers	3,600	62 %	3,339	63 %
Forestry	76	1 %	65	1 %
Total	**5,806**	**100 %**	**5,296**	**100 %**

(1) During the three months ended December 2017, the Group changed the financial information by major product category that is regularly reviewed by our Executive Committee, which is our chief operating decision maker. As a consequence of this change, we restated the financial information by major product category for fiscal 2017 in the comparative column of the Group's audited consolidated financial statements as of and for the year ended September 2018 to reflect a retrospective application of the change in product category reporting. See "Presentation of Financial Information".

Adjusted EBITDA Excluding Special Items by Product Category	Year Ended September			
	2018		2017[(1)]	
	(US$ million)			
Dissolving wood pulp	306	40 %	386	49 %
Specialties and packaging papers	138	18 %	117	15 %
Printing and writing papers	318	42 %	281	36 %
Unallocated and eliminations	—	—	1	<1 %
Total	**762**	**100 %**	**785**	**100 %**

(1) During the three months ended December 2017, the Group changed the financial information by major product category that is regularly reviewed by our Executive Committee, which is our chief operating decision maker. As a consequence of this change, we restated the financial information by major product category for fiscal 2017 in the comparative column of the Group's audited consolidated financial statements as of and for the year ended September 2018 to reflect a retrospective application of the change in product category reporting. See "Presentation of Financial Information".

Facilities and Operations

Europe

Coated woodfree and mechanical paper and specialty paper are the main products produced and sold by our European business. Our European operations contributed 51% of our sales in fiscal 2018 and 51% of our sales in the three months ended December 2018. For fiscal 2018 and the three months ended December 2018, our European operations sold approximately 3.4 million tons and 809,000 tons, respectively, of pulp and paper products. The following table sets forth the annual production capacity and products for fiscal 2018 at each of our nine mills in Europe.

Mill	Mill Location	Production capacity ('000 tons) Paper[(1)]	Paper Products	Production capacity ('000 tons) Pulp[(1)]	Pulp Products
Alfeld	Germany	275	Coated and uncoated specialty paper	120	Bleached chemical pulp for own consumption
Carmignano	Italy	100	Specialty paper; dye sublimation paper; flexible packaging paper; inkjet paper and label paper	—	—
Condino	Italy	60	Specialty paper; dye sublimation paper; flexible packaging paper; inkjet paper and silicone base paper	—	—
Ehingen............	Germany	280	Coated woodfree paper, coated specialty paper	140	Bleached chemical pulp for own consumption and market pulp
Gratkorn	Austria	980	Coated woodfree paper	250	Bleached chemical pulp for own consumption
Kirkniemi	Finland	750	Coated mechanical paper	300	Bleached mechanical pulp for own consumption
Lanaken	Belgium	530	Coated mechanical paper, coated woodfree paper	165	Bleached chemi-thermo mechanical pulp for own consumption
Maastricht	Netherlands	280	Coated woodfree paper, coated specialty paper	—	—
Stockstadt	Germany	445	Coated woodfree paper, uncoated woodfree paper	145	Bleached chemical pulp for own consumption and market pulp
Total Europe		**3,700**		**1,120**	

(1) Capacity at maximum continuous run rate.

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 275,000 tons and a pulp production capacity of 120,000 tons per annum. It produces coated and uncoated specialty paper products with a variety of finishes. 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. In early 2002, a €50 million rebuild of Alfeld's PM 2 was completed. In the first fiscal quarter of 2014, we completed the €60 million conversion of Alfeld's PM 2 from coated woodfree paper production to specialty packaging paper production. The Alfeld Mill produces totally chlorine-free ("TCF") bleached sulphite pulp for its own use.

Carmignano. As part of the acquisition of the specialty paper business of Cham Paper Group in 2018, we acquired the Carmignano Mill, located in northern Italy. The Carmignano Mill has a paper production capacity of 100,000 tons per annum. The mill produces specialty paper, dye sublimation paper, flexible packaging paper, inkjet paper and label paper.

Condino. As part of the acquisition of the specialty paper business of Cham Paper Group in 2018, we acquired the Condino Mill, located in northern Italy. The Condino Mill has a paper production capacity of 60,000 tons per annum. The mill produces specialty paper; dye sublimation paper, flexible packaging paper, inkjet paper and silicone base paper.

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 280,000 tons per annum, some of which capacity was reallocated to specialty packaging paper in 2016. In 2018, a machine upgrade was completed expanding Ehingen's white topliner offering. 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 980,000 tons of triple-coated woodfree paper on just two paper machines and 250,000 tons of TCF chemical pulp per annum, which pulp is produced only for internal use. 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 completed upgrades to the pulp mill and PM 11 at Gratkorn expanding the product range capabilities of the mill. In January 2018, we announced plans to invest in Gratkorn to upgrade PM 9 to optimize raw materials and energy consumption and reduce production costs. The project comprised a total investment of approximately €30 million and was completed in January 2019.

Kirkniemi. As part of the Metsä Board Corporation (previously known as 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 750,000 tons of paper and 300,000 tons of mechanical pulp per annum, which pulp is produced only for internal use. 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 was completed in fiscal 2015. The Kirkniemi Mill also underwent a variety of modifications to its PM3 to increase energy efficiency and improve quality consistency.

Lanaken. The Lanaken Mill, situated in Lanaken, Belgium, began commercial operations in 1966. It produces coated mechanical paper and lower-weight coated woodfree 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 530,000 tons per annum. One machine principally produces coated wood-free paper and was completely overhauled in 1992. An additional off-line coater was also installed during the upgrade to provide triple coating capability. In 2019, we aim to complete the conversion of PM 8 to enable the production of coated woodfree paper on this machine, which has until now exclusively produced coated mechanical paper. The Lanaken Mill also produces chemi-thermo-mechanical pulp ("CTMP") in an integrated plant, which has a production capacity of 165,000 tons per annum. This enables the mill to supply up to 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. Prior to its conversion completed in 2018, the mill had 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, underwent an extensive €102 million refurbishment and upgrade in 1996 and was converted to enable production of coated specialty paper in 2018. Following the conversion, the Maastricht Mill is expected to ramp up its production of folding boxboard, while also producing coated woodfree paper. The Maastricht Mill specializes in high basis-weight, triple-coated woodfree paper for graphics applications and folding boxboard.

Stockstadt. We acquired the shares of M-real Stockstadt GmbH, which holds the Stockstadt Mill located in Stockstadt, Germany, from the Metsä Board 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 145,000 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.

Our European operations also include Rockwell Solutions, a coated barrier film and paper producer located in Dundee, Scotland, which we acquired in 2017, with a capacity of approximately 100 million m^2 per annum. Rockwell Solutions develops innovative barrier packaging solutions. The technology acquired with Rockwell Solutions has enabled us to offer our customers a wider range of customized coated barrier solutions and accelerate our growth in a market focused on sustainable packaging solutions.

North America

Dissolving wood pulp, coated woodfree paper and specialty and packaging paper are the main products produced and sold by our North American business, which contributed 25% of our sales in fiscal 2018 and in the three months ended December 2018. For fiscal 2018 and the three months ended December 2018, our North American operations sold approximately 1.4 million tons and 321,000 tons, respectively, of pulp and paper products (including dissolving wood pulp). The following table sets forth the annual production capacity and products for fiscal 2018 at each of our three mills in the United States.

Mill	Mill Location	Production capacity ('000 tons) Paper[(1)]	Paper Products	Production capacity ('000 tons) Pulp[(1)]	Pulp Products
Cloquet	Minnesota	340	Coated woodfree paper	340	Dissolving wood pulp
Somerset	Maine	970	Coated woodfree paper and packaging paper	525	Bleached chemical pulp for own consumption and market pulp
Westbrook	Maine	40	Coated specialty paper	—	—
Total North America		**1,350**		**865**	

(1) Capacity at maximum continuous run rate.

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 340,000 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 340,000 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. In 2019, we plan to complete a project to optimize production processes and thereby expand our capacity of dissolving wood pulp at the Cloquet Mill by approximately 30,000 tons.

Somerset. The Somerset Mill is a low-cost producer with three paper machines employing our 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. Following the rebuild of one of the Somerset Mill's machines was completed in September 2018 to expand production and give it the flexibility to produce either coated woodfree or packaging paper, the mill has a production capacity of 970,000 tons of paper and 525,000 tons of pulp per annum. The bleached chemical pulp produced at Somerset is used for our own consumption and is sold in the market. Investments in natural gas energy at the mill were completed during 2014, and we completed the modernization of the mill's woodyard during fiscal 2018.

Westbrook. Westbrook is Sappi's original mill, with origins dating back to 1854. The mill is primarily a coated specialty paper production facility with a capacity of 40,000 tons of paper per annum. Its paper machine primarily produces base paper, which is coated off-line. Westbrook also has six specialty 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, 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 Dissolving Wood Pulp, Sappi Paper and Paper Packaging, and Sappi Forests. Our Southern African operations contributed 24% of our sales in fiscal 2018 and 24% of our sales in the three months ended December 2018. For fiscal 2018 and the three months ended December 2018, our Southern African operations sold approximately 1.6 million tons and 396,000 tons, respectively, of pulp and paper products (including dissolving wood pulp), and approximately 1.2 million tons and 317,000 tons, respectively, of forestry products. Our three Southern African divisions are described below.

Sappi Dissolving Wood Pulp

Sappi Dissolving Wood Pulp produces dissolving wood pulp at our Saiccor and Ngodwana Mills, which have a combined production capacity of approximately 1.1 million tons per annum. 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. 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 mill dedicated to the production 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 optimize production processes 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 with the increased capacity coming on line in September 2008 and full operational efficiency achieved in April 2009. During 2018, we completed a project to optimize production processes and thereby increase capacity by a further 10,000 tons, which became available during early 2019. During 2018, we also announced and began construction on a project that is expected to increase production at the Saiccor Mill by 110,000 tons. We currently expect to complete this project in the last fiscal quarter of 2020.

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. During 2018, we completed a project to optimize production processes and thereby increase capacity by 35,000 tons to 250,000 tons of dissolving wood pulp.

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 2018 at each of our pulp and paper mills (excluding our dissolving wood pulp mills described above) and our waste paper recycling facilities in South Africa.

Mill	**Production capacity ('000 tons) Paper[(1)]**	**Paper Products**	**Production capacity ('000 tons) Pulp[(1)]**	**Pulp Products**
Ngodwana	240	Kraft linerboard	210	Unbleached chemical pulp for own consumption
	140	Newsprint	110	Mechanical pulp for own consumption
Stanger	110	Office paper and tissue paper	60	Bleached bagasse pulp for own consumption
Tugela	200	Corrugating medium	150	Neutral Sulfite Semi-Chemical pulp for own consumption
Sappi ReFibre	—	—	140	Waste paper collection and recycling for own consumption
Total Southern Africa paper and paper packaging	**690**		**670**	

(1) Capacity at maximum continuous run rate.

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 240,000 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 has a production capacity of nearly 210,000 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. In April 2017, we launched a trial sugar extraction plant at Ngodwana Mill as part of our strategy to develop activities in the adjacent biochemicals business.

Stanger. The Stanger Mill commenced operations in 1976 producing coated woodfree paper, but now produces office 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 has a production capacity of 30,000 tons of tissue and 60,000 tons of bleached bagasse pulp per annum, in each case for our own consumption only. 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 would only produce uncoated woodfree paper and tissue paper going forward. As a result, 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 200,000 tons of packaging paper per annum. The mill produces corrugating medium for market and neutral sulfite semi-chemical pulp for its own consumption. The mill currently has a production capacity of 150,000 tons per annum of neutral sulfite semi-chemical pulp. At Tugela, we also produce Lignex, an effective wetting and binding agent to suppress dust and bind unpaved roads, which is used particularly in the agricultural industry.

Sappi ReFibre. Sappi ReFibre (formerly Sappi Waste Paper) collected approximately 140,000 tons of waste paper during each of fiscal 2017 and 2018. Most of the waste paper is supplied to our mills to meet the fiber requirement of our packaging grades. A portion of Sappi ReFibre's assets were sold in connection with the sale of the Cape Kraft Mill in November 2015. Following such sale, the waste paper supplied by Sappi ReFibre to our mills has been reduced to 24% of the fiber requirements of our packaging grades.

Sappi Forests

Sappi Forests supplies or procures all of our Southern African operations' fiber requirements of approximately 5.0 million tons per annum. This fiber comes from owned or contracted sources situated in Mpumalanga and KwaZulu Natal 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	379,000
Leased by us or managed directly in South Africa	8,000
Contracted supply (owned and managed by farmers to which we provide technical advice and support)	129,000
Total	516,000

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 that 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 52 million seedlings and rooted cuttings are grown annually at Sappi Forests nurseries. 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. Climate change has also impacted some of our plantations and has the potential to significantly impact our woodfiber base. 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 the upgrade of Ngodwana nursery was completed in 2017. These two nurseries, together with our other nurseries in the Escarpment and Richmond, provide Sappi Forests with the required facilities to deploy rapidly the improved genetic planting stock to mitigate against these threats. We also take a number of measures aimed at mitigating the risks caused by climate change. Such actions include the initiation of investigations to determine which plantations are most at risk, the replacement of pure tree species with more robust hybrid varieties, adjustments to our tree breeding strategy based on our use of modelled future climate data, as well as other actions aimed at ensuring the sustainable production of timber. We are also beginning to engage in long-term soil monitoring. During 2018, Sappi, in collaboration with the Institute for Commercial Forestry Research, launched a collaborative research project to monitor soil organic matter. Data from soil monitoring will be used to interpret and relate changes in soil quality parameters to stand productivity and site management.

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 Southern 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 specialty paper products, is performed by our operating business in the respective region, supplemented by Sappi Trading network outside of these core regions. The marketing and distribution of our dissolving wood pulp is performed on behalf of our Dissolving Wood Pulp business by Sappi Trading when and where applicable. We operate 37 sales offices internationally across six continents.

We sell the majority of our woodfree and mechanical paper products through merchants. We also sell printing and writing paper directly to printers and publishers, specialties and packaging paper to converters or directly to end customers, 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. They also 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 markup 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 printing and writing papers and packaging and specialty papers (which comprise paper for labeling, packaging and other specialty uses).

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

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, the sales effort is supported by several technical representatives located in different regions in North America. In fiscal 2018 and the three months ended December 2018, our North American sales force sold coated woodfree paper to approximately 14 merchants with distribution locations throughout the United States and Canada. Rather than competing with merchant distributors, the North American sales force focuses on generating demand with key printers, publishers and corporations, which are then serviced by the merchant distributors.

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

For each of fiscal 2018 and the three months ended December 2018, 21% of our North American sales volumes were outside North America, with the vast majority representing dissolving wood pulp sales. Our sales of dissolving wood pulp (including the dissolving wood pulp from our Cloquet Mill) outside of North America and our paper sales in other regions are managed by Sappi Trading. Our paper sales to Europe are managed by our European business.

Southern Africa

In South Africa, packaging and specialty products are sold directly to corrugators and converters. The majority of fine paper volumes are sold directly rather than through merchants. Sappi Trading manages the selling and administration of exports of Sappi Southern Africa's products, including dissolving wood pulp and packaging papers produced at the Saiccor, Ngodwana and Tugela mills.

Customers

We sell our products to a large number of customers, many of whom have long-standing relationships with Sappi. 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. During fiscal 2018, no single customer individually represented more than 10% of our total revenue.

Converter customers for our paper products include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2018 and the three months ended December 2018, include: Mpact, Neopak, Corruseal, APL, CTP group, Houers, Golden Era, 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 non-wet strength labels. No converter customer, however, represented more than 10% of our total revenue during fiscal 2018.

A significant portion of dissolving wood pulp sales are to customers with long-term supply agreements, with pricing set by the use of an index-based pricing mechanism. A smaller portion of dissolving wood pulp sales are sold on the spot market, with pricing set by monthly negotiations. The Aditya Birla group and Lenzing Group are our two largest customers for dissolving wood pulp, together representing approximately 15% of our total revenue during fiscal 2018.

Merchant sales constitute the majority of our coated woodfree and mechanical paper sales in North America. Pricing of coated paper products is generally subject to change upon notice of 30 days with longer notice periods (typically three to six 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. No merchant customer represented more than 10% of our total sales during fiscal 2018.

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 2018 and the three months ended December 2018, include Igepa Group, Antalis (owned by Sequana Capital), Papyrus, Elliott Baxter, Zing, Europapier and Berberich. Two of these merchants, Antalis and Igepa Group, collectively represented 11% of our total European revenue during fiscal 2018.

North America

In North America, our most significant merchant customers, based on sales during fiscal 2018 and the three months ended December 2018, include Veritiv, Lindenmeyr (owned by Central National Gottesman Inc.), Midland and a select number of regionally strong merchants. Lenzing and Birla, which are both large producers of viscose staple fiber and are partially integrated with their own dissolving wood pulp production, are two of our most important customers for the dissolving wood pulp produced at our Cloquet Mill. Our most significant customers for paperboard, coated one-side label papers and grease resistant bag papers are Joe Piper, Connemara Converting and Gateway Packaging Company.

Southern Africa

Our South African uncoated cut-size paper products are distributed in Southern Africa to copier manufacturers, retailers and merchants. Our most significant regional cut-size paper customers include the Massmart Group and Peters Papers.

Our most significant South African packaging paper and newsprint customers, based on sales in fiscal 2018 and the three months ended December 2018, include The CTP Group, which uses Sappi's newsprint. The most significant converter customers include Mpact, APL, Corruseal, Neopak and Golden Era.

A significant number of the cellulosic fiber manufacturers around the world purchase dissolving wood pulp from Sappi Dissolving Wood Pulp. This includes large groups such as the Aditya Birla Group and the Lenzing Group (which are both large producers of cellulosic fibers and are partially integrated with their own dissolving wood pulp production). Most of our dissolving wood pulp sales contracts are multi-year contracts.

During both fiscal 2018 and the three months ended December 2018, approximately 62% of the total sales value of our Southern African operations was destined for the export market.

Competition

Overview

Although the markets for pulp and paper products have regional characteristics, they are highly competitive international markets involving many 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. 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. These anti-dumping duties for imports into North America were reviewed in 2016 and extended for an additional five-year period, such that they are now due to expire, subject to further review and extension, in 2021. Any potential revocation or non-renewal of such duties could cause us to lose market share, increase expenditure or reduce pricing with respect to our coated paper in North America and could have a material and adverse impact on our results of operations. In 2014, the Chinese Ministry of Commerce (MOFCOM) imposed anti-dumping duties on imported dissolving wood pulp originating in Canada, the United States and Brazil. Because our exposure to the dissolving wood pulp market in China is through our Southern African operations, our organization was unaffected. More recently, China has increased tariffs on the casting release paper made at our Westbrook Mill in the United States. As a result, our customers in China must pay such tariffs. Similarly, the products our customers make with our casting release paper are subject to tariffs upon entry into the United States. In line with our strategy of reducing costs, we have begun seeking alternative customers for our casting release paper in other countries in South East Asia as well as other parts of the world.

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 specialty paper market, however, places greater emphasis on product innovation, quality and the consistency with which a given level of quality is achieved, as well as more specific technical considerations.

The printing and writing paper sector, comprising coated and uncoated woodfree and mechanical products, reduced annual production capacity by 8.3 million tons in Western Europe and 7.0 million tons in North America between 2011 and 2018.

Europe

The market leaders in coated woodfree paper production in Europe are Sappi, UPM-Kymmene, Stora Enso, Lecta and Burgo-Marchi Group. As of 2016, the market leaders for both specialty and packaging papers in Europe include, among others, Sappi, Mondi, SCA, Munksjö, UPM, Delfort, Felix Schöller, Köhler, Iggesund and Metsä Board.

North America

The market leaders in coated woodfree paper production in North America are Verso, Sappi and Nine Dragons. In late 2017, two U.S.-based producers of coated woodfree paper, WestLinn Paper and Appleton Coated, ceased production. Taken together, these two closures amounted to approximately 14% of North American coated freesheet capacity. In June 2018, Nine Dragons purchased the U.S. assets of Catalyst Paper.

In respect of dissolving wood pulp, our competitors based in North America include Georgia Pacific, Cosmo Specialty Fibres, Fortress Global Entreprises, Birla and Rayonier Advanced Materials. In November 2017, Rayonier Advanced Materials purchased Tembec Inc., a Montreal-based producer of paper and dissolving wood pulp. Global competitors include April (Indonesia), PT Toba (Indonesia), Sun Paper (China), Rayonier Advanced Materials (USA), Borregard (Norway), Hunan Juntai (China), Fujian Nanping (China), Nippon Paper Industries (Japan), Fortress Specialty Cellulose (Canada), Sodra Morrum (Sweden), Stora Enso (Finland), Hallein (Austria) and various cotton linter pulp producers in China.

As of 2016, our North American competitors in packaging paper grades include, among others, WestRock, Georgia Pacific, Graphic Packaging and Clearwater. Our competitors in specialty paper grades in the United States are Verso and Nine Dragons.

Southern Africa

As of 2016, the Mondi Paper Company Limited and Mpact Limited are significant competitors in the Southern African market, specifically in the uncoated cut-size and packaging paper sectors. We believe we are currently the only local producer of newsprint.

In respect of dissolving wood pulp, Sappi is the only producer in South Africa. Global competitors include April (Indonesia), PT Toba (Indonesia), Sun Paper (China), Rayonier Advanced Materials (USA), Borregard (Norway), Hunan Juntai (China), Fujian Nanping (China), Nippon Paper Industries (Japan), Fortress Specialty Cellulose (Canada), Sodra Morrum (Sweden), Stora Enso (Finland), Hallein (Austria) and various cotton linter pulp producers in China.

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 for the production of wood pellets, in the same markets as us, thereby driving prices upwards. In addition to cost and availability of energy, other key considerations with respect to supply requirements include the need for legally harvested and sustainably managed forests and plantations, as well as climate change considerations.

We use third-party forestry certification programs to help assure us and our customers that we and our wood and pulp suppliers are adhering to responsible forestry and sourcing practices. Because of limited availability of certified forest fiber, nearly all of our supply chains use a blend of certified and uncertified fiber. To maintain the highest levels of assurances with respect to our chain-of-custody certifications, we follow leading global standards, which have instituted additional control measures for uncertified lands to eliminate the presence of controversial sources. At a minimum, all woodfiber purchased by Sappi globally must come from well-managed forests, be legally harvested and have received third-party verification that it is from controlled and non-controversial sources in accordance with the FSC Controlled Wood Standard, as well as the risk-based due diligence systems of the Programme for the Endorsement of Forest Certification ("PEFC") and, in North America, the Sustainable Forestry Initiative ("SFI").

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

Europe

Wood

Our European business purchases approximately 3.6 million cubic meters of pulpwood per annum for its pulp mills. The pulpwood 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 Heinzel Zellstoff Pöls and the Mondi Frantschach Group. We hold a 42.5% ownership interest in Papierholz Austria.

The wood chips and logs used in the Lanaken CTMP plant are purchased through Sapin S.A. (“Sapin”), a wholly owned subsidiary of Sappi.

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

Under a wood supply agreement, Metsä Board Corporation’s parent company (Metsäliitto Group) is required to 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 50% of our paper pulp requirements in the region. The remainder is mostly supplied through open market contracts, the biggest supplier being Metsä Group, which supplies up to 160,000 tons of pulp per annum.

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 approximately 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 owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian 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 a 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 ENGIE 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 approximately 51% of their power needs on-site, with the remainder purchased from an Austrian power company. Both mills’ steam requirements are met through biomass and natural gas, the latter of which is supplied by a German gas supplier.

The total steam requirements and approximately 25% of the electricity requirements of the Kirkniemi Mill are met by on-site production of a 95 MW multi-fuel boiler and biomass boiler, both owned and operated by Sappi. The multi-fuel boiler became operational in the summer of 2015 and uses solid fuels, such as bark from the mill’s debarking process, other wood based fuels, asphaltenes and coal. Any additional biomass is purchased from local suppliers. The mill’s electricity requirements are met through purchases from a Finnish power company and delivered via the public grid, with the existing 75 MW gas turbine and HRSG serving as backup sources.

Stockstadt generates approximately 60% of its power needs on-site with the remainder purchased from an Austrian power company. The mill's steam requirements are met through the usage of biomass and mineral coal as fuels.

Substantially all of the steam and approximately 80% of the electricity requirements of the Carmignano Mill are satisfied by a 10 MW CHP plant, owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian supplier at market prices. Carmignano Mill's remaining electricity requirements of approximately 20 GWh are satisfied by a supply contract with Axpo.

Substantially all of the steam and electricity requirements of the Condino Mill are satisfied by a 10 MW CHP plant, owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian supplier at market prices. A surplus of about 20 GWh electrical energy generated is supplied to the local grid.

Chemicals

Major chemicals used by our European operations include calcium carbonate, kaolin, latex, starch and base chemicals. We purchase these chemicals from a portfolio of suppliers, and we have multiple sources of supply for each of the major chemicals we use in Europe. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon several factors, including energy and crude oil prices, the availability of feed stocks, transportation costs and 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 (which was purchased by Weyerhaeuser in 2016) 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 9% 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

Two of our three North American paper mills have integrated pulp mills, namely Somerset and Cloquet. The Somerset pulp mill produces approximately 80% of its pulp requirements, with the balance coming from market purchases of both softwood and hardwood paper pulps. Our Cloquet pulp mill can produce all the required paper pulp for its two paper machines. However, in 2013, and in line with our strategy to grow into higher margin segments, we converted the pulp mill to enable the production of dissolving wood pulp. We operate the pulp mill to fulfill customer requirements for dissolving wood pulp, as well as optimizing profitability for our paper business by utilizing paper pulps from this mill rather than making market purchases, when possible. When necessary, our Cloquet Mill purchases both softwood and hardwood paper pulps to cover any pulp supply requirements in excess of the amounts we produce. Somerset and Cloquet also utilize recovered fiber and offer products containing up to 10% recycled fiber in accordance with EPA definitions and processes. Our Westbrook Mill is unintegrated and buys pulp either from Somerset or on the open market.

All of Sappi North America's coated and packaging paper and pulp mills are triple chain-of-custody certified in accordance with the leading global sustainable forestry certification systems including the Forest Stewardship Council® (FSC-C014955), the SFI and PFEC. Additionally, Sappi North America's wood procurement operations are certified to the SFI Certified Sourcing Standard.

Energy Requirements

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

A substantial portion of our North American electricity requirements are satisfied through our own onsite electricity generation or co-generation agreements. In October 2014, the company entered into a 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 provides 100% of Somerset's purchased electrical requirements. This contract was extended and is currently due to expire in October 2020. In November 2014, we completed a series of natural gas upgrades at Somerset Mill. These upgrades provide us with the ability to operate using several major fuel alternatives, thereby reducing overall energy costs and improving the Somerset Mill's carbon footprint.

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.

Our procurement team develops and implements certain fuel purchasing strategies aimed at mitigating the impact of volatility in fuel prices.

Chemicals

Major chemicals used by our North American operations include clays, carbonates, lattices and plastic pigments, starches, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the specialty 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.

Our procurement team negotiates supply agreements aimed at ensuring continuity of supply at competitive prices for these materials and mitigating the impact of market price fluctuations.

Southern Africa

Wood

Through its direct ownership of plantations and contractual agreements with independent commercial growers, Sappi Forests is able to meet the annual fiber requirements of the Southern African region of approximately 5.0 million tons per annum.

Pulp

Our Southern African operations, in aggregate, manufacture all of the unbleached pulp required for our own paper production in the region and supply small quantities to the local market. Bleached pulp is purchased from local and international suppliers that have several of grades of pulp suitable for use on our paper machines. All dissolving wood pulp production is sold internationally.

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 and oil, both for steam generation and electricity production, 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 2009, we commissioned a new electricity generating turbine unit at our Saiccor Mill, and from fiscal 2012, we have generated more than 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, particularly electricity costs, have risen sharply in recent years, which has had a significant impact on costs in the region. In fiscal 2018, electricity purchased from Eskom amounted to approximately 7% of the total variable costs of our Southern African operations. Eskom has also recently struggled to meet demand, for example in February 2019, when Eskom imposed a series of rolling blackouts on the national power grid, cutting 4,000 megawatts of power supply after it unexpectedly lost six additional generating units to breakdowns, despite seasonally low summer demand. Eskom has warned that electricity shortages and conditions of intermittent supply could persist for some time and the South African government has announced a plan to restructure Eskom into three separate businesses (encompassing generation, transmission and distribution, respectively) in response to the recent power generation problems and a substantial debt burden. In addition, in order to address its substantial debt burden, Eskom has requested to increase its electricity tariffs by 15% in each of the three years from 2019-2020 to 2021-2022, and the National Energy Regulator of South Africa is currently expected to decide upon such request during March 2019.

In 2018, Sappi Southern Africa reached an agreement with the Department of Energy to build a renewable energy plant at the Ngodwana Mill. Sappi and its consortium partners KC Africa and African Rainbow Energy and Power will establish a 25 MW biomass energy unit at the mill, which we expect to contribute to the national grid from July 2020. Sappi will have a 30% stake in this facility. Furthermore, we are currently pursuing several renewable and co-generation energy projects aimed at further increasing our electricity self-sufficiency in the region and thus reducing 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 Southern African operations include caustic soda, sodium chlorate, magnesium oxide, calcium carbonates, specialty chemicals, 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 with multiple sources suitable for our mills. Most of these chemicals are subject to commodity price and foreign currency fluctuations based upon several 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. Some of our operations require permits, and these may be subject to modification, renewal and revocation. Violations of environmental requirements could lead to substantial costs and liabilities, including remedial costs, damage claims and administrative, 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, treatment of 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 was September 2018. To date, not all member states have met the implementation deadline regarding BAT. 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. Currently, the responsible authorities in the member states in which we operate are in the process of reviewing environmental permits in order to ensure compliance with the new BAT Reference Documents.

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.

- The European Union Timber Regulation ("EUTR"), a timber and timber product regulation adopted by the European Commission, contains obligations that 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, which are known as European Union Allowances ("EUAs") 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, together with a high amount of freely allocable EUAs. These were either traded between mills or sold onto the market. In the current phase, 2013-2020, the EU has significantly reduced the amount of freely allocable EUAs, which we believe will lead us to have a substantial shortfall of emissions rights by 2020. Our efforts to reduce energy consumption, combined with the surplus of EUAs we were allowed to carry over from the previous phase, have largely mitigated the financial impact of the shortage thus far. In order to cover our projected shortfall of future emissions rights, we have purchased EUAs in accordance with our hedging strategy. We believe that such EUA purchases will be sufficient to cover our energy requirements through 2020, and as a result we believe that we are well-positioned to fulfill our compliance obligation in the current Phase 3 of ETS. Phase 4 of ETS will cover the period from 2021 to 2030, and will include a number of new principles and provisions to protect the industry against the risk of carbon leakage and the risk of application of a cross-sectoral correction factor. While such principles have been published, the emissions benchmark and the free allocation of EUAs for our industry have not yet been fixed. However, it is possible that such free allocation could be further reduced during Phase 4.

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 was to be operational during the third quarter of 2017, but state and federal regulators have approved an extension of that deadline to May 2019. The deadline is expected to be extended another two years, to May 2021, once Sappi North America's application to surrender the Saccarappa hydrofacility license is approved. Surrender of the license includes removal of the Saccarappa hydrofacility and installation of a fish passage. Commencement of construction activities is pending issuance of an order by the Federal Energy Regulatory Commission (the "FERC"), which order is expected to be consistent with the provisions of the agreement. The total estimated construction cost of Sappi North America's proposed design is approximately US$6 million. Installation of the Cumberland Mills dam fish passage may also trigger, over several decades, 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. 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 have cost estimates for all such potential obligations or know the precise timing for incurrence of the related future costs, assuming such obligations are triggered. For example, the current estimate for fish passages associated with the next upstream dams (Mallison Falls and Little Falls) is approximately $8 million but, as any obligation to conduct such work would not be triggered until 2026 at the earliest and is contingent on the fish counts at Saccarappa, such estimates may be subject to change in the future. The further upstream dams (Gambo and Dundee) are also contingent liabilities which, under the agreement, will not be triggered before 2053. At this time, any future obligations for Gambo and Dundee are not estimable.

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, the U.S. Congress has considered comprehensive Federal legislation, such as carbon credits or taxes, to address or mitigate the effects of 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") promulgated a rule in 2010 mandating that sources considered to be large emitters of GHGs report those emissions. All three of our mills file annual reports of their GHG emissions in accordance with the USEPA reporting rule. The USEPA also has issued a GHG emissions permitting rule, referred to as the "Tailoring Rule", which may require some industrial facilities to obtain permits for GHG emissions under the U.S. Clean Air Act's Prevention of Significant Deterioration ("PSD") and Title V operating permit programs. The U.S. Supreme Court ruled in June 2014 that the USEPA exceeded its statutory authority in issuing the Tailoring Rule but upheld the Best Available Control Technology ("BACT") requirements for GHGs emitted by sources already subject to PSD or Title V permitting requirements for other pollutant. Our mills hold Title V permits and each is also subject to PSD requirements. It is not known whether the USEPA will revise its rules in response to the Court's decision or what the USEPA would require as best available control technology. In fact, no technologies or methods of operation for reducing or capturing GHGs have been proven successful in large scale applications, other than improvements in fuel efficiency. Thus, if future modifications to our facilities require PSD review for other pollutants, GHG BACT requirements could be triggered and may require significant additional costs. 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 scarce 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 and/or registration system administered in terms of this Act.
- The National Environmental Management Act, which 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 authorizations for undertaking listed or specified activities and imposes a duty of care regarding environmental harm.
- The National Environmental Management: Air Quality Act (promulgated in 2005, the "Air Quality Act"), which, among other statutes, provides for the setting of minimum emission standards. The regulations setting such minimum emission standards were published in 2013. The regulations require existing plants like Ngodwana Mill to comply with the 2015 minimum emission standards for existing plants and set forth stricter minimum emission standards for new plants as of April 1, 2020. Capital expenditure costs for the Ngodwana Mill, the facility most impacted by the 2020 rules, are estimated to be approximately ZAR220 million in total, ZAR176 million of which has already been expended, and which includes costs for various maintenance and improvement projects, as well as those required to comply with the new emissions rules. The stricter standards in effect under the Air Quality Act since 2015 have not had a material impact on our mills, and we currently do not expect the standards effective starting in 2020 to 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 contaminated land reporting and rehabilitation. It regulates waste management by way of a licensing system and the imposition of norms and standards for certain waste management activities.

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, and a Climate Change Bill is presently being debated in South Africa. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period, which originally ran from 2014 to 2017. This period was extended to 2020, after which the new international agreement on climate change made under the United Nations Framework Convention on Climate Change, (the Paris Agreement), will commence.

South Africa ratified the Paris Agreement in 2016. Sappi has submitted a compulsory pollution prevention plan, as well as a voluntary carbon budget, to the South African Department of Environmental Affairs, which has approved such budget and plan. Our performance against the carbon budget and pollution prevention plan is reported on an annual basis. While our carbon budget targets are currently voluntary, they will become mandatory starting in 2021.

Carbon tax legislation was presented in Parliament in November 2018 and is currently being debated by Parliament. The South African Finance Minister has stated that such bill will be passed and the tax will commence with effect from June 1, 2019. The introduction of such legislation poses a potential risk of additional costs going forward for our Southern African operations. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa ("PAMSA"), to promote the incorporation of rebates for carbon sequestration in the carbon tax design. 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, Italy and the Netherlands, these programs are funded by mandatory contributions by employers and employees. In Germany and the United Kingdom, 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 capacity expansion project at Saiccor, 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 2018. These facilities are owned unless otherwise indicated.

Location	Use	Approximate Size[(1)]	Secured/Leased
Rosebank, Johannesburg, South Africa	Sappi Headquarters[(11)]	4,486 m^2	Leased
North America			
Boston, Massachusetts	Headquarters[(10)]	2,964 m^2	Leased
Skowhegan, Maine (Somerset Mill)	Manufacturing facility: coated woodfree paper, packaging paper and bleached chemical pulp	1,086.9 ha	Financing Collateral
Westbrook, Maine	Manufacturing facility: coated specialty paper and research and development facility	124.5 ha	
Cloquet, Minnesota	Manufacturing facility: coated woodfree paper and dissolving wood pulp	433.6 ha	Financing Collateral
Allentown, Pennsylvania	Coated paper sheeting facility	12.4 ha	
Dayton, New Jersey	Distribution center[(3)]	14,528 m^2	Leased
South Portland, Maine	Financial and customer service office[(2)]	3,410 m^2	Leased
Chicago, Illinois	Distribution center[(9)]	20,909 m^2	Leased
Ayer, Massachusetts	Distribution center[(13)]	24,339 m^2	Leased
Europe			
Bornem, Belgium	Distribution center[(10)]	5,328 m^2	Leased
Brussels, Belgium	Headquarters[(4)]	0.2 ha	Leased
Carmignano di Brenta, Italy	Manufacturing facility: specialty paper, dye sublimation paper, flexible packaging paper, inkjet paper and label paper	14.2 ha	
Borgo Chiese, Italy (Condino Mill)	Manufacturing facility: specialty paper, dye sublimation paper, flexible packaging paper, inkjet paper and silicone base paper	8.1 ha	
Dundee, Scotland (Rockwell Solutions Ltd)	Manufacturing facility: coated barrier film and paper	1.0 ha	
Gratkorn, Austria	Manufacturing facility: coated woodfree paper and bleached chemical pulp[(8)]	104.6 ha	Financing Collateral, Partly Leased
Maastricht, Netherlands	Manufacturing facility: coated woodfree paper, coated specialty paper and research and development facility	14.6 ha	Financing Collateral
Lanaken, Belgium	Manufacturing facility: coated mechanical paper, coated woodfree paper and bleached chemi-thermo mechanical pulp	29.5 ha	
Alfeld, Germany	Manufacturing facility: coated and uncoated specialty paper and bleached chemical pulp	38.5 ha	
Ehingen, Germany	Manufacturing facility: coated woodfree paper, coated specialty paper and bleached chemical pulp	42.6 ha	
Wesel, Germany	Logistics center[(5)]	24.0 ha	Partly Leased
Stockstadt, Germany	Manufacturing facility: coated woodfree paper, uncoated woodfree paper and bleached chemical pulp	59.3 ha	
Kirkniemi, Finland	Manufacturing facility: coated mechanical paper and bleached mechanical pulp	114.0 ha	Financing Collateral
Krakow, Poland	Shared Service Center[(12)]	0.2 ha	Leased
Southern Africa			
Johannesburg, South Africa	Headquarters[(7)]		
Sappi Dissolving Wood Pulp			
Umkomaas, South Africa (Saiccor Mill)	Manufacturing facility: dissolving wood pulp[(6)]	195.7 ha	
Sappi Paper and Paper Packaging			
Ngodwana, South Africa	Manufacturing facility: kraft linerboard, newsprint, mechanical pulp, unbleached chemical pulp and dissolving wood pulp	5,304.9 ha	
Tugela, South Africa	Manufacturing facility: neutral sulfite semi-chemical pulp and corrugated medium	808.3 ha	
Stanger, South Africa	Manufacturing facility: office paper, tissue paper and bleached bagasse pulp[(6)]	55.4 ha	Partly Leased
Sappi Forests			
Barberton, South Africa (Lomati Sawmill)	Sawmill	24.1 ha	
Durban, South Africa (KwaZulu-Natal Plantation)	Plantation: pulpwood and sawlogs	164,074 m^2	
Ngodwana, South Africa (Mpumalanga Plantation)	Plantation: pulpwood and sawlogs	214,399 m^2	

(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) Subject to leases expiring in 2025.

(3) Subject to a lease expiring September 30, 2021.

(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 on August 21, 2020.

(10) Subject to a lease expiring in 2021.

(11) Subject to a lease expiring on August 31, 2027.

(12) Subject to a lease expiring in May 2019.

(12) Subject to a lease expiring in July 2025.

Employees

The following table sets forth the number of employees as at December 2018 and the close of each fiscal year ended September 2018, 2017 and 2016.

	December 2018	2018	2017	2016
Europe	5,742	5,747	5,211	5,109
North America	2,071	2,041	2,079	2,087
Southern Africa	4,703	4,726	4,701	4,644
Sappi Trading	110	111	109	110
Other	123	123	58	101
Total	**12,749**	**12,748**	**12,158**	**12,051**

Europe

Approximately 66% of our European employees are members of a trade union and are represented through Works Councils.

Our European operations are subject to industry-wide collective agreements that are in place with trade unions in Germany, Finland, Austria, Italy 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.

There were no work stoppages across our European organization during fiscal 2018 and the three months ended December 2018.

North America

Approximately 65% of employees are represented by 11 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 contract with the USW for the Somerset Mill was set to expire in August 2018, but currently remains in effect while the parties continue to negotiate. Labor contracts with employees at the Westbrook Mill and the Cloquet Mill were successfully renegotiated during fiscal 2017 and fiscal 2018, respectively. The labor contracts are automatically extended until either party terminates on 10 days’ notice.

We have experienced no work stoppages in North America for more than 20 years and believe 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 51% of our Southern African permanent employees are represented by trade unions.

Our annual negotiations in the Sawmilling Industry were concluded on July 2, 2018, with a 7% increase in basic wages, while the Pulp and Paper Chamber negotiations were concluded on July 16, 2018, with a company-level agreement to a 7.75% increase in basic wages. The new minimum wage in the Forestry sector, as published by the South African Minister of Labor, was implemented starting on March 1, 2018. As a result, Sappi Southern Africa has increased the minimum wage of its Forestry division employees by 5.6%. In the absence of a formal collective bargaining structure in the Forestry division, workers' committees were engaged during the implementation process.

We have experienced no major strike action in our Southern African operations since 2011. In July 2018, our Ngodwana Mill in the Mpumalanga Province experienced an industrial action by a non-recognized trade union, the National Union of Metal Workers of South Africa ("NUMSA"), which demanded organizational rights. The strike was contained to one day in duration, and an agreement was concluded with NUMSA on a membership verification process. While there have recently been incidents of social unrest and a relatively more volatile industrial relations climate in South Africa, we believe that our proactive engagement strategy and initiatives have allowed us to maintain a stable industrial relations environment across our operations. 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 that affect both parties.

The Employment Equity Act (No. 55 of 1998) (the "Act") requires certain employers to implement affirmative action measures designed to ensure that suitably qualified persons from designated groups (*i.e.*, Black people, women and people with disabilities) 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 has in place an Employment Equity Plan as required by the Act. The current plan covers the period from July 1, 2015 through June 30, 2020 (the "2020 Employment Equity Successive Plan"). We believe Sappi Southern Africa is currently on track to achieve its 2020 Employment Equity Successive Plan targets. We submitted the latest progress report on such plan to the Department of Labor on December 12, 2018, ahead of the January 2019 deadline. Sappi Southern Africa is required to submit a further Employment Equity Successive Plan covering the period from July 1, 2020 through June 30, 2025. Work is currently underway to prepare such plan, which is due for submission on July 1, 2020.

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 2018. Employment Equity Committees 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 67% of employees presented themselves for HIV testing and counseling (HCT) in 2018, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2017 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 15.3% versus the South African workforce prevalence rate of 18.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.49% in 2017 to 0.35% in 2018.

In circumstances where headcount reductions are being considered, the legal consultation process has been followed with employees and their representatives.

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 that, either individually or taken together, 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 was to be operational during the third quarter of 2017, but state and federal regulators have approved an extension of that deadline to May 2019. The deadline is expected to be extended another two years, to May 2021, once Sappi North America's application to surrender the Saccarappa hydrofacility license is approved. Surrender of the license includes removal of the Saccarappa hydrofacility and installation of a fish passage. Commencement of construction activities is pending issuance of an order by the Federal Energy Regulatory Commission (the "FERC"), which order is expected to be consistent with the provisions of the agreement. The total estimated construction cost of Sappi North America's proposed design is approximately US$6 million. Installation of the Cumberland Mills dam fish passage may also trigger, over several decades, 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. 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 have cost estimates for all such potential obligations or know the precise timing for incurrence of the related future costs, assuming such obligations are triggered. For example, the current estimate for fish passages associated with the next upstream dams (Mallison Falls and Little Falls) is approximately $8 million but, as any obligation to conduct such work would not be triggered until 2026 at the earliest and is contingent on the fish counts at Saccarappa, such estimates may be subject to change in the future. The further upstream dams (Gambo and Dundee) are also contingent liabilities which, under the agreement, will not be triggered before 2053. At this time, any future obligations for Gambo and Dundee are not estimable.

In fiscal 2018, a dispute arose with the general contractor and construction manager for the conversion project of PM1 at our Somerset Mill, Boldt Construction ("Boldt"). Boldt is claiming it is owed amounts billed of US$28 million for work performed on the project, which we dispute. We are currently engaged in arbitration proceedings with Boldt, and, to date, settlement discussions have not been successful.

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. 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; however, such Amendment Act has been sent back to Parliament for reconsideration by the Constitutional Court and further amendments to the regime are expected in the future. The claims that 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. The process of land claims is expected to continue for many years. As one of the largest landowners 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 Southern African operations continues.

In 2018, the South African Parliament initiated a process to explore amending the Constitution of the Republic of South Africa (the "Constitution") to allow for expropriation of land in the public interest without compensation. Various public consultation forums have been held and ongoing dialogue continues. We remain in close contact with Business Leadership South Africa, the organization representing South African businesses in the discussions surrounding the proposed changes. On November 15, 2018, the Constitutional Review

Committee (the “CRC”) issued a report recommending that Section 25 of the Constitution be amended to establish expropriation of land without compensation as a legitimate option for land reform, so as to ensure equitable access to land and further empower the majority of South Africans to be productive participants in ownership, food security and agricultural reform programs. Furthermore, the CRC recommended in its report that the South African Parliament urgently establish a mechanism to amend the Constitution and that it must table, process and pass a bill to that effect before the end of the current legislature. The CRC report was adopted by both Houses of Parliament in early December 2018. On December 6, 2018, the National Assembly resolved to establish an ad hoc committee to initiate and produce a constitutional amendment before the end of the current Parliament. The ad hoc committee is expected to report back to the National Assembly by March 31, 2019. Until publication of a bill, it is unclear how the proposed expropriation of land without compensation might affect our operations.

There are currently 68 open land claims against Sappi. At the end of December 2018, the status of these claims are as follows: 4 claims (covering 2,699 hectares) have been agreed and sold, 19 claims (covering 44,264 hectares) are to be settled by negotiation, 20 claims (covering 36,625 hectares) have been referred to Court and 25 claims (covering 21,108 hectares) are unresolved and invalid and subject to further discussion and investigation with the Commission. 38 claims (covering 47,142 hectares) have been withdrawn by the Commission. Sappi is actively managing the open claims.

Sappi Southern Africa Limited (“SSA”) is currently engaged in discussions with the South African Revenue Services (“SARS”) with respect to tax assessments stemming from a transfer pricing audit SARS conducted regarding years 2011-2014. On September 14, 2017, SARS issued a letter of findings notifying SSA of a potential upward adjustment to taxable income of ZAR883 million (US$62 million), which would result in an additional tax liability of approximately ZAR316 million (US$22 million), in addition to potential interest and penalties. SSA disputed SARS’ analysis and objected to both the proposed adjustments and additional interest and penalties. On February 26, 2018, SARS issued a finalization of audit letter to SSA confirming the assessment of additional taxable income, interest and penalties. SSA has formally objected to the assessments received and is currently awaiting a response from SARS to its objections. Despite these objections, SSA made a payment without prejudice to SARS of ZAR268 million (US$19 million) in fiscal 2018, which would prevent any further interest from accruing if SSA were unsuccessful in its objection. We have also recorded a provision in our fiscal 2018 financial statements in the same amount, which we believe to be in an amount sufficient to cover any liabilities resulting from this or related transfer pricing matters.

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. The Commission has not taken any further steps to advance the investigation since 2015. As at the end of December 2018, the investigation had not commenced as the proceedings were being challenged by a third party.

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 20 Directors at any time. The Board currently consists of 13 Directors.

The business address for all of the Directors is 108 Oxford Road, Houghton Estate, Johannesburg 2198, Republic of South Africa. The Directors are South African citizens except for Rob Jan Renders (Dutch citizen), Karen Osar (United States citizen) and Michael Fallon, Sir Nigel Rudd and Stephen Binnie (British citizens).

Non-executive directors

Anthony Nigel (Sir Nigel) Russell Rudd
(Independent Chairman)

Age: 72

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

Sappi board committee memberships
Audit and Risk Committee (ex officio)
Human Resources and Compensation Committee (ex officio)
Nomination and Governance Committee (Chairman)
Social, Ethics, Transformation and Sustainability Committee (ex officio)

Other board and organization memberships
Aquarius Platinum Limited (Chairman)
BBA Aviation plc (Chairman)
Business Growth Fund (Chairman)
Heathrow Airport Holdings Ltd (Non-Executive Chairman))
Meggitt PLC (Chairman)

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.

Brian Beamish
(Independent)

Age: 62

Qualifications: BSc (Mechanical Engineering), PMD

Nationalities: British and South African

Appointed: March 2019

Sappi board committee memberships
Mr. Beamish is currently expected to be appointed to Sappi board committees in May 2019.

Other board and organization memberships
Lonmin plc (Chairman)
Nordgold S.E. (Non-executive director)
Sita Capital Partners LLP (Partner, Mining Fund)

Skills, expertise and experience
Mr. Beamish is a British-South African mechanical engineer who is currently the Chairman of Lonmin plc. His executive career was spent with Anglo American plc, where his final role was that of Group Director for Mining & Technology (2010-2013). Mr. Beamish has over 40 years' experience in the mining industry in technical, operational and senior management and leadership positions, coupled with project leadership and oversight experience in a capital-intensive industry with global exposure. Mr. Beamish has recently been involved in the establishment of a start-up mining fund. He has extensive board experience, including at the level of Chairman.

Michael (Mike) Anthony Fallon
(Independent)

Age: 61

Sappi board committee memberships
Audit and Risk Committee
Human Resources and Compensation Committee (Chairman)

Skills, expertise and experience

Qualifications: BSc Hons (First Class)

Nationality: British

Appointed: September 2011

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 specialty 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.

James Lopez
(Independent)

Age: 59

Qualifications: B.A. (Economics)

Nationality: American

Appointed: March 2019

Sappi board committee memberships
Mr. Lopez is currently expected to be appointed to Sappi board committees in May 2019

Other board and organization memberships
Softwood Lumber Board (Chairman)

Skills, expertise and experience
Mr. Lopez is the former President and CEO of Tembec Inc. (2006-2017), a manufacturer of lumber, pulp, paper/paperboard and specialty cellulose and a global leader in sustainable forest management practices. Prior to becoming CEO of Tembec, Mr. Lopez progressed through management, senior management and executive positions within Tembec from 1989. In 2017, Mr. Lopez successfully negotiated the sale of Tembec. In his early career, Mr. Lopez was Plant Manager at The Kellogg Company and Project Manager at Synergetics Inc. Mr. Lopez is also former Chairman of Forest Products Innovation, the Forest Products Association of Canada and the Ontario Forest Products Association. He has 35 years of global executive and board experience, as well as experience in raising funding in the U.S. public debt markets and in government relations.

Nkateko Peter Mageza
(Independent)

Age: 64

Qualifications: FCCA (UK)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships
Audit and Risk Committee Human Resources and Compensation Committee

Other board and organization memberships
Anglo American Platinum Limited
Ethos Private Equity Proprietary 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.

Zola Malinga
(Independent)

Age: 41

Qualifications: BCom, CA(SA)

Nationality: South African

Sappi board committee memberships
Audit and Risk Committee

Other board and organization memberships
Grindrod Bank
Grindrod Limited
South African Property Owners Association

Skills, expertise and experience

Appointed: October 2018

Ms. Malinga, a Chartered Accountant, has over ten years' experience in investment banking and corporate finance. She is the founder and executive director of Jade Capital Partners, a women-owned investment company that invests in the property and industrial sectors. She was previously a director in the Real Estate Finance Division of Standard Bank, where she was also a member of the Executive and Deal Approval Committees. Prior to being appointed to the Sappi Board, she was an Investment Banker at Standard Bank and a Corporate Finance Consultant at Investec Bank Limited. Mrs. Malinga holds various board positions and previously served as a non-executive director on Sasol Inzalo Limited and Hospital Property Fund Limited.

John (Jock) David McKenzie
(Lead Independent Director)

Age: 71

Qualifications: BSc (Chemical Engineering) (*cum laude*), MA, PMD

Nationality: South African

Appointed: September 2007

Sappi board committee memberships
Human Resources and Compensation Committee Nomination and Governance Committee

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

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.

Dr. Bonakele (Boni) Mehlomakulu *(Independent Director)*

Age: 46

Qualifications: PhD (Chemical Engineering), MSc (Chemistry)

Nationality: South African

Appointed: March 2017

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

Other board and organization memberships
Hulamin Limited
Yokogawa South Africa
Abasekunene Holdings (Pty) Ltd (Director)
Abasekunene Family Trust (Founder and Trustee)

Skills, expertise and experience
Dr. Mehlomakulu is currently the Chief Executive Officer of the South African Bureau of Standards (SABS). In addition to her non-executive directorship at Sappi, her external industry portfolios include being the Deputy Chair of Unisa Council, non-executive director of Hulamin Limited and Yokagawa South Africa, as well as a council member of the International Standards Organisation (ISO, Geneva). Past boards and directorships include PBMR Proprietary Limited, Nuclear Energy Corporation of South Africa (NECSA), Eskom Holdings SOC Limited, the Technology Innovation Agency (TIA) and SABS Commercial.

Mohammed Valli (Valli) Moosa
(Independent)

Age: 62

Qualifications: BSc (Mathematics and Physics)

Nationality: South African

Appointed: August 2010

Sappi board committee memberships
Nomination and Governance Committee
Social, Ethics, Transformation and Sustainability Committee (Chairman)

Other board and organization memberships
Anglo Platinum Limited (Chairman)
Sanlam Limited
Sun International Limited (Chairman)
Lereko Investments

Skills, expertise and experience

Mr. Moosa 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: 69

Qualifications: MBA (Finance)

Nationality: American

Appointed: May 2007

Sappi board committee memberships
Audit and Risk Committee

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

Skills, expertise and experience
Mrs. Osar was Executive Vice President and Chief Financial Officer of specialty 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.

Robertus Johannes Antonius Maria (Rob Jan) Renders
(Independent)

Age: 65

Qualifications: MSc (Mechanical Engineering), MDP

Nationality: Dutch

Appointed: October 2015

Sappi board committee memberships
Audit and Risk Committee
Human Resources and Compensation Committee

Other board and organization memberships
Walki Group OY (Chairman)

Skills, expertise and experience
Mr. Renders, currently a business consultant, was a member of the Board of Duropack GmbH from 2012 until the end of May 2015, as well as CEO of Duropack from May 2013 until May 2015. He also served from 2006 to 2010 as Chairman of the Board of OTOR Société Anonyme, a leading packaging provider in France. Between 1989 and 2006 he held various positions at Svenska Cellulosa Aktiebolaget ("SCA"), a leading global producer of hygiene products and packaging solutions, including mill manager at SCA Packaging De Hoop, Managing Director of SCA Packaging De Hoop, President of SCA Packaging Containerboard, President of SCA Packaging Europe and Senior Vice-President Special Project Global Packaging for SCA Group.

Executive Directors

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

Age: 51

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

Nationality: British/South African

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 Proprietary 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: 55

Sappi board committee memberships
Audit and Risk Committee
Attends meetings of the Audit and Risk Committee and Social, Ethics, Transformation and Sustainability Committee by invitation

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

Nationality: South African

Appointment Date: July 2014

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: 63, 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. Mr. Gardner recently completed his term as 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: 58, Qualifications: BSc (Mechanical Engineering), MBA (Financial Management and Information Technology)

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 Metsä Board 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. Mr. Thiel is also a director at Ngodwana Energy (Pty) Ltd.

Berend (Berry) John Wiersum, Chief Executive Officer of Sappi Europe, Age: 63, Qualifications: MA (Medieval and Modern History)

Mr. Wiersum joined Sappi in January 2007 as Chief Executive Officer of 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 to 2012 and currently a board member of this organization. He is also Chairman of the Euro-Graph Association.

Gary Bowles, Group Head Technology, Age: 59, Qualifications: BSc (Electrical Eng), GCC, PR 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. Mr. Bowles is a board member of the LignoTech SA JV.

Mohamed Mansoor, Executive Vice President of Sappi Dissolving Wood Pulp, Age: 51, Qualifications: BSc (Chemistry and Mathematics), BSc Hons (Chemistry), MBA

Mr. Mansoor joined Sappi at Saiccor Mill in 1991. In January 1999, he was appointed as Product Manager Dissolving Wood Pulp and relocated to Hong Kong. In June 2007, he was appointed General Manager Pulp in Hong Kong after spending three years as Vice President Pump Sales in Sappi's New York office and in January 2018, he joined the Group Executive Committee as Executive Vice President of Sappi Dissolving Wood Pulp and joined the Sappi North American board.

Fergus Marupen, Group Head Human Resources, Age: 53, Qualifications: BA (Hons) (Psychology), BEd (Education Management), MBA

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: 45, 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 North America and Sappi Southern Africa (until 2017).

Executive Officers

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

Compensation

The non-executive directors' fees are proposed by the Executive Committee, agreed by the Human Resources and Compensation Committee, recommended for approval by the Board of Directors and approved at the annual general meeting by the shareholders.

See notes 34 to 36 to the Group annual financial statements for the year ended September 2018 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 34 to 36 to the Group annual financial statements for the year ended September 2018 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, as 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
Stephen Robert Binnie	2016	2019
Michael Anthony Fallon	2017	2020
Nkateko Peter Mageza	2018	2021
Zola Malinga	2018	2021
John David McKenzie	2018	2021

Name	Start of term	Latest date of end of term
Dr. Boni Mehlomakulu	2017	2020
Mohammed Valli Moosa	2018	2021
Karen Rohn Osar	2016	2019
Glen Thomas Pearce	2018	2021
Rob Jan Renders	2018	2021
Sir Nigel Rudd	2018	2021
Brian Beamish	2019	2022
James Lopez	2019	2022

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

Audit and Risk Committee

An Audit and Risk 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, evaluates the effectiveness of the external and internal audit process, and reviews compliance with the Group's code of ethics.

The Audit and Risk Committee is appointed by shareholders at the annual general meeting each year and consists of five independent non-executive directors of the Board (Nkateko Peter Mageza (Chairman), Michael Anthony Fallon, Zola Malinga, Rob Jan Renders 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 Chief Executive Officer and Chief Financial Officer attend meetings by invitation. The Audit and Risk 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 and Risk Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit and Risk Committee Chairman on a regular basis. The Audit and Risk Committee Chairman attends the annual general meeting. Nkateko Peter Mageza 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 (Sir Nigel Rudd (Chairman), John David McKenzie and Mohammed Valli Moosa). 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 (Michael Anthony Fallon (Chairman), Nkateko Peter Mageza, John David McKenzie and Rob Jan Renders). 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 two independent non-executive directors (Mohammed Valli Moosa (Chairman) and Dr. Boni Mehlomakulu), as well as the Chief

Executive Officer, Mr. Stephen Robert Binnie. The Chief Financial Officer attends meetings by invitation and the Chairman of the Group attends Committee meetings ex officio. 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 2016 (King IV) and applies the various principles in the achievement of good governance outcomes. 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") or options to acquire ordinary shares ("Share Options"). Participants may also be given the opportunity to acquire a combination of Scheme Shares or Share Options. Under the rules of the Share Incentive Scheme, Scheme Shares allow the participants to enter into a loan with the Share Incentive Scheme to acquire Sappi Limited ordinary shares at a specific issue price, and Share Options allow the participant to purchase one Sappi Limited ordinary per share option, in each case, subject to the terms and conditions of the Share Incentive Scheme.

The JSE Limited (formerly known as the 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 fiscal 2005, 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 may be offered conditional contracts to acquire Shares for no cash consideration (the "Conditional Contracts"). If the performance criteria from time to time determined by the Human Resources and Compensation Committee of the Board of Directors ("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 performance against an appropriate peer group of companies.

The JSE Limited 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 2018 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.

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 2018 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 2018, certain Directors and Executive Management of Sappi had been granted an aggregate of 2,901,313 Performance Shares. No Share Options had been granted. None of the Directors and Executive Management of Sappi holds more than 1% of our issued share capital. See notes 34 to 36 to our Group annual financial statements for the year ended September 2018 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.

MAJOR SHAREHOLDERS AND CERTAIN TRANSACTIONS

Major Shareholders

The following table sets forth certain information with respect to the ownership of the ordinary shares, ZAR1.00 par value, of Sappi Limited by the shareholders of record of Sappi Limited as of December 30, 2018, holding 5% or more of the outstanding ordinary shares.

Name of Registered Holder	Number of Shares	Percentage
Public Investment Corporation	80,336,251	14.8
All Directors and Executive Officers as a Group	2,316,905	0.4

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 2018 contained elsewhere in this Offering Memorandum for details relating to the B-BBEE transaction.

As of December 30, 2018, the issued Ordinary Share capital consisted of 557,202,573 Ordinary Shares, of which 14,562,985 Ordinary Shares are held in treasury. The remaining 542,639,588 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 14,562,985 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 December 30, 2018, the four largest ordinary shareholders of record (all of which are nominees) owned approximately 38% of the shares. We believe that, as of December 30, 2018, based on registered addresses and disclosure by nominee companies, 18.5% of our shares were held beneficially in the United States, 65.5% of our shares were held beneficially in South Africa and 16% 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) and otherwise be provided on payment of a prescribed fee charged by the registered holder of the securities, 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, by giving written notice, require either of these persons 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. This information must be provided not later than 10 business days after receipt of the notice. 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 multiple 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 December 30, 2018, 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	80,336,251	14.8

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 December 30, 2018, 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
Public Investment Corporation	70,838,383	13.1
Prudential Investment Managers	60,845,147	11.2
Allan Gray Limited	45,999,401	8.5
BlackRock Inc.	28,205,060	5.2

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 regulated company, an amalgamation or merger involving the regulated company, a scheme of arrangement between a regulated company and its shareholders, the acquisition of, or announced intention to acquire, a beneficial interest in voting securities of the regulated company, the announced intention to acquire a beneficial interest in the remaining voting securities of the regulated 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	2018	2017	2016	2018	2017	2016	2018	2017	2018	2017
					(US$ million)					
proNARO GmbH	—	—	—	118.0	117.3	125.8	—	—	—	—
Umkomaas Lignin (Pty) Ltd	5.2	5.2	4.8	—	—	0.1	0.6	0.7	—	—
Papierholz Austria GmbH	—	—	—	91.5	82.9	82.5	—	—	—	5.0
The Boldt Company[(1)]	—	—	—	88.0	8.0	—	—	—	25.7	—
	5.2	**5.2**	**4.8**	**297.5**	**208.2**	**208.4**	**0.6**	**0.7**	**25.7**	**5.0**

(1) The related-party arrangement with Boldt ended August 2018. There are ongoing disputes over amounts billed and arbitration has been requested by Boldt. See “Business—Legal Proceedings—North America”.

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. No expense has been recognized in fiscal 2018 for bad or doubtful debts in respect of the amounts owed by related parties.

Directors

See notes 34 to 36 to our Group annual financial statements for the year ended September 2018 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

During fiscal 2018, the Nomination and Governance Committee assessed the independence of Mr. Moosa in detail following the termination of a lock-in restriction on the disposal of shares from Sappi's Black Economic Empowerment transaction on October 31, 2018 and concluded that in their view, and after taking steps to become reasonably informed themselves, that Mr. Moosa can be regarded as independent. The committee also determined that 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

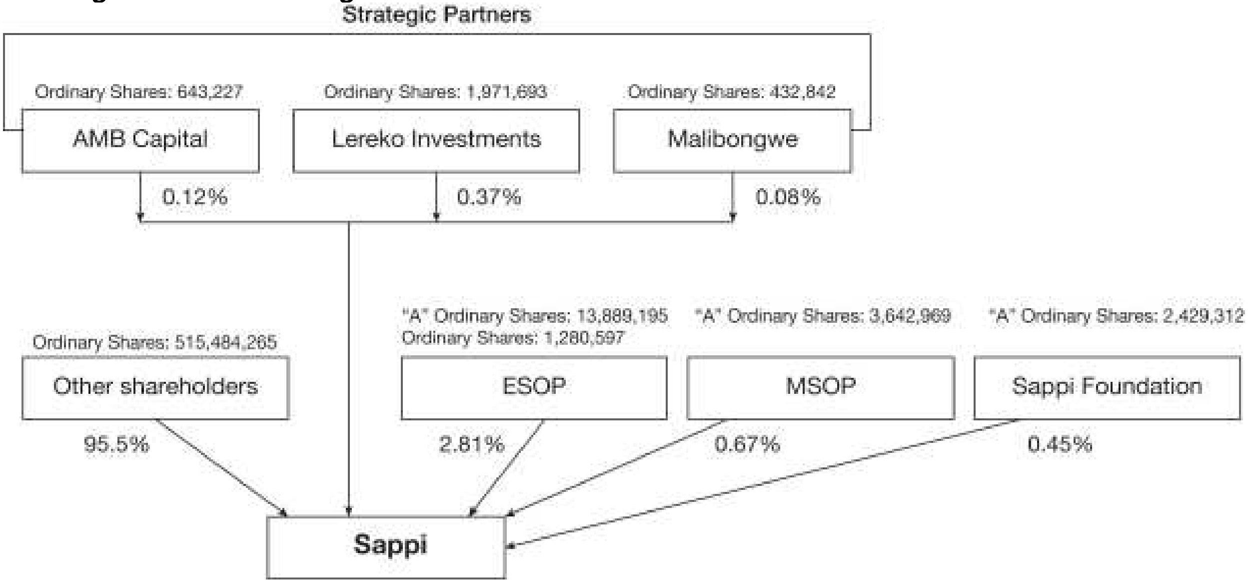
In June 2010, Sappi completed a Broad Based Black Economic Empowerment ("B-BBEE") transaction (the "B-BBEE Transaction"). The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans ("HDSAs") in 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.

Shareholding structure following the B-BBEE Transaction



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 B-BBEE Transaction, with the remaining "A" Ordinary Shares to be converted into Ordinary Shares and then 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).

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 comprises a variety of arrangements, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and finance leases. For further information regarding our existing indebtedness, see “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 2018 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.

Revolving Credit Facility

On February 28, 2018, the Issuer and Sappi International SA, as borrowers, entered into a revolving credit facility with J.P. Morgan Europe Limited acting as facility agent (which is our “Revolving Credit Facility”) in an amount of €525 million available for drawing in euro, US dollars or any other currency which is readily available and freely convertible into euro and has been approved by all the lenders. The Revolving Credit Facility is governed by English law. The Revolving Credit Facility was amended and restated on June 21, 2018. As of December 2018, the Revolving Credit Facility was undrawn.

Borrowers

The borrowers under the Revolving Credit Facility are the Issuer and Sappi International SA. Other wholly owned subsidiaries of Sappi Limited may accede as borrowers under the Revolving Credit Facility if, among other conditions, such subsidiaries are approved by all the lenders.

Guarantees

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

Guarantor coverage test

The Revolving Credit Facility contains guarantor coverage tests pursuant to which we are required to test whether the aggregate EBITDA (as defined therein) 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 must accede to the Revolving Credit Facility as additional guarantors to maintain compliance with these guarantor coverage tests. We are also required to ensure a relevant Group company (excluding a Southern African subsidiary and PE Paper Escrow GmbH) accedes to the Revolving Credit Facility as an additional guarantor if its EBITDA represents at least 5% of the consolidated EBITDA of the Group or its gross assets represent at least 7.5% of the consolidated gross assets of the Group.

Amount and repayment of borrowings

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

Interest rates and fees

The annual interest rate on loans is calculated based on LIBOR or, for borrowings in euro, EURIBOR, plus a margin varying between 0.90% and 2.25% *per annum* depending on the credit rating assigned to the Revolving Credit Facility and the long-term rating assigned to the Group. Interest on loans is payable on the last day of the loan's interest period and, if the interest period exceeds six months, on the dates falling at six-month intervals after the day the loan was made.

We are required to pay a commitment fee equal to 35% of the then applicable margin *per annum* on the undrawn and uncancelled amount of the Revolving Credit Facility and a utilization fee of 0.10% *per annum* (if the aggregate outstanding loans are less than 33% of the maximum amount of the Revolving Credit Facility), 0.20% *per annum* (if the aggregate outstanding loans are equal to or greater than 33% and up to 66% of the maximum amount of the Revolving Credit Facility) or 0.40% *per annum* (if the aggregate outstanding loans are greater than 66% of the maximum amount of the Revolving Credit Facility) on the amount of the aggregate outstanding loans under the Revolving Credit Facility.

Financial covenants

The Revolving Credit Facility includes financial covenants, which require that:

- on each quarter end date, the ratio of EBITDA to consolidated net interest expense (as such terms shall be defined in the Revolving Credit Facility) for the previous four consecutive quarters should not be less than 2.50:1; and
- on each quarter end date, the ratio of Net Debt to EBITDA (as such terms shall be defined in the Revolving Credit Facility) for the previous four consecutive quarters should not be greater than 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 Limited following the earlier of Sappi Limited becoming aware of a Change of Control and Sappi Limited providing notice to the agent of a Change of Control (as such terms are defined in the Revolving Credit Facility), and (ii) a lender giving notice within 10 days following the expiration of that negotiation period, the commitments of that lender under the Revolving Credit Facility will be cancelled and all outstanding loans, together with accrued interest and all other amounts accrued, will become immediately due and payable on a date not less than 10 days after the relevant notice has been received from that lender in respect of that lender's commitments.

Undertakings

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

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

Events of default

The Revolving Credit Facility contains events of default including failure to make payment of amounts due, defaults under other agreements evidencing indebtedness, failure of an obligor to be a wholly owned subsidiary of Sappi Limited, certain events having a material adverse effect on our Group, a material qualification in Sappi's or 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 Revolving Credit Facility.

2022 Notes

On March 23, 2015, the Issuer issued €450 million 3.375% Senior Notes due 2022 (the "2022 Notes"). The interest on the 2022 Notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2015. The 2022 Notes mature on April 1, 2022.

The Issuer may redeem all or part of the 2022 Notes on or after April 1, 2018 at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% of the principal amount of the 2022 Notes redeemed on or after April 1, 2020.

The 2022 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and substantially the same subsidiaries of the Issuer that guarantee the Notes. At issuance, the 2022 Notes were secured by first-priority security interests, subject to permitted collateral liens, over certain assets of Sappi Limited, the Issuer and the other subsidiary guarantors. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2022 Notes and certain other secured financing arrangements was released.

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

The offering of the 2022 Notes was not registered under the U.S. Securities Act or any U.S. state securities laws. The 2022 Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act. The 2022 Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. For further information, see note 21 to our Group annual financial statements for the year ended September 2018 included elsewhere in this Offering Memorandum.

2023 Notes

On March 15, 2016, the Issuer issued €350 million 4.00% Senior Notes due 2023 (the "2023 Notes"). The interest on the 2023 Notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2016. The 2023 Notes mature on April 1, 2023.

The Issuer may redeem all or part of the 2023 Notes prior to April 1, 2019 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 2023 Notes on or after April 1, 2019 at specified redemption prices plus accrued and unpaid interest to the redemption date. The specified redemption prices decrease annually to 100% of the principal amount of the 2023 Notes redeemed on or after April 1, 2021.

The 2023 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 2023 Notes are unsecured. At issuance, the 2023 Notes were secured by first-priority security interests, subject to permitted collateral liens, over certain assets of Sappi Limited, the Issuer and the other subsidiary guarantors. On August 31, 2016, all collateral securing the 2023 Notes and certain other secured financing arrangements was released.

We have agreed to observe certain covenants with respect to the 2023 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 2023 Notes have the right to require the Issuer to repurchase all or any part of their 2023 Notes at a purchase price equal to 101% of the principal amount of the 2023 Notes repurchased, plus accrued and unpaid interest to the date of purchase.

The offering of the 2023 Notes was not registered under the U.S. Securities Act or any U.S. state securities laws. The 2023 Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act. The 2023 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 2018 included elsewhere in this Offering Memorandum.

OeKB Term Loan Facilities

General

On July 10, 2012, the Issuer entered into a new OeKB term loan facility arranged by UniCredit Bank Austria AG to finance the expansion of Sappi's pulp production facilities at Cloquet Mill, which was amended and restated on September 18, 2013 and March 16, 2015 and replaced by a new agreement dated as of June 20, 2017, as amended and restated on February 28, 2018 (the "OeKB Term Loan Facility I"). The commitments under the OeKB Term Loan Facility I are for €81.6 million. As of the date of this Offering Memorandum, the outstanding balance under the OeKB Term Loan Facility I is €61.2 million. The OeKB Term Loan Facility I is provided by UniCredit Bank Austria AG and a syndicate of financial institutions and the lenders refinanced their commitments with financing provided by the Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB"), an Austrian bank providing financial services.

On June 20, 2017, the Issuer entered into a new OeKB term loan facility arranged by UniCredit Bank Austria AG to finance the expansion of Sappi's pulp production facilities at Somerset Mill, which was amended and restated on February 28, 2018 (the "OeKB Term Loan Facility II", and together with OeKB Term Loan Facility I, the "OeKB Term Loan Facilities"). The commitments under the OeKB Term Loan Facility II are for €150 million and such amount was fully drawn on June 30, 2018. As of the date of this Offering Memorandum, the outstanding balance under the OeKB Term Loan Facility II is €150 million. The OeKB Term Loan Facility II is provided by UniCredit Bank Austria AG and Erste Group Bank AG, who refinanced their commitments with financing provided by the OeKB.

Borrower

The Issuer is the borrower under the OeKB Term Loan Facilities and UniCredit Bank Austria AG is acting as agent on behalf of the lenders.

Guarantees

The OeKB Term Loan Facilities are guaranteed by Sappi Limited and substantially the same subsidiaries of the Issuer that guarantee the notes. The obligations under the OeKB Term Loan Facilities are unsecured.

Repayment of borrowings

The Issuer is required to repay the OeKB Term Loan Facilities in annual repayments based on a percentage of total commitments.

The OeKB Term Loan Facility I has to be repaid as follows: 25% at June 30, 2018, 25% at June 30, 2019, 25% at June 30, 2020 and 25% at June 30, 2021. The first such repayment was made on June 30, 2018.

The OeKB Term Loan Facility II has to be repaid as follows: 12% at September 30, 2019, 12% at September 30, 2020, 12% at September 30, 2021, 12% at September 30, 2022, 12% at September 30, 2023 and 40% at March 31, 2024. As of the date of this Offering Memorandum, no repayment has been made.

Interest Rate

The annual interest rates on borrowings are 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 Sappi Group (OeKB Term Loan Facility I: 0.85% at BBB-/BBB-/Baa3 or higher, 1.10% at BB+/BB+/Ba1, 1.35% at BB/BB/Ba2, 1.60% at BB-/BB-/Ba3, 2.10% at B+/B+/B1 or lower; OeKB Term Loan Facility II: 1.20% at BBB-/BBB-/Baa3 or higher, 1.60% at BB+/BB+/Ba1, 1.85% at BB/BB/Ba2, 2.10% at BB-/BB-/Ba3, 2.60% at B+/B+/B1 or lower), plus certain mandatory costs. Initially, the margin was 1.35% per annum for OeKB Term Loan Facility I and 1.85% per annum for OeKB Term Loan Facility II.

Other Terms

The other material terms of the OeKB Term Loan Facilities, including the financial covenants, the undertakings and the events of default are substantially the same as the terms of the Revolving Credit Facility. The OeKB Term Loan Facilities are 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 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 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 first on September 13, 2013 and subsequently on November 23, 2018. This new 2018 program memorandum applies to all notes issued under the DMTN Program and supersedes and replaces any previous program memoranda.

On April 16, 2013, Sappi Southern Africa Limited 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 6 mature on April 16, 2020. The proceeds of Series 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 U.S. 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 U.S. Securities Act, and were not offered and sold within the United States.

Trade Receivables Securitization Program

On August 12, 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, further renewed and extended to August 2020 in June 2017 and further renewed and extended to January 2022 at a higher level of €380 million in December 2018. Under the renewed and extended program, eligible receivables initially originated by several Sappi entities and transferred to the Issuer and Sappi NA Finance LLC are sold on a non-recourse basis by the Issuer 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 January 31, 2022, 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 to control, or be able to exert (directly or indirectly) a dominating influence over all sellers, servicers, Sappi International SA and the Issuer or the failure of Sappi North America, Inc. (formerly known as 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 2018, the external securitization funding under the Trade Receivables Securitization Program was US$376 million. For further information, see notes 17 and 21 to our Group annual financial statements for the year ended September 2018 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 indenture, 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 2018 included elsewhere in this Offering Memorandum.

DESCRIPTION OF NOTES

Sappi Papier Holding GmbH ("*SPH*" or the "*Issuer*") will issue €450 million aggregate principal amount of senior notes due 2026 (the "*Notes*") to be issued under an indenture to be dated as of March 26, 2019 (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 by reference or otherwise 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 and the Notes. This does not restate those documents in their entirety. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the Notes. Copies of the Indenture and the form of Notes 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 Notes will be issued in registered form. The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders of Notes will have rights under the Indenture.

Brief Description of the Notes and the Note Guarantees

The Notes

The Notes:

- will be general unsecured obligations of the Issuer;
- 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 2023 Notes, the Revolving Credit Facility and the OeKB Term Loan Facilities;
- will be senior in right of payment to all existing and any future subordinated Indebtedness of the Issuer that is subordinated to the Notes;
- will be effectively subordinated to all existing and any future secured Indebtedness of the Issuer to the extent of the value of the assets securing such Indebtedness;
- will be structurally subordinated to all existing and any future liabilities of the subsidiaries that do not guarantee the Notes; 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 International SA, Sappi North America, Inc. (formerly known as S.D. Warren Company), SDW Holdings Corporation, Sappi Cloquet LLC, Sappi Lanaken NV, Sappi Colombia Holding GmbH, 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 Real Estate B.V., Sappi Maastricht B.V., Sappi Ehingen GmbH, Sappi Europe SA, Sappi Stockstadt GmbH, Sappi Finland I Oy and Sappi Italy Operations S.p.A.

Each Note Guarantee:

- will be a general unsecured obligation of the Guarantor;
- 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 2023 Notes, the Revolving Credit Facility and the OeKB Term Loan Facilities by that Guarantor;

- will be effectively subordinated to all existing and any future secured Indebtedness of the Guarantor to the extent of the value of the assets securing such Indebtedness;
- will be structurally subordinated to all existing and any future Indebtedness of the Guarantor's subsidiaries that do not guarantee the Notes; and
- will be senior in right of payment to all existing and 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 Subsidiary Guarantor. During fiscal 2018 and the three months ended December 30, 2018, respectively, the Guarantors represented approximately 63% and 66% of our sales and approximately 55% and 56% of our Adjusted EBITDA excluding special items, and as of December 30, 2018, the Guarantors represented approximately 64% 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 Note 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 30, 2018, on a *pro forma* basis after giving effect to the Refinancing, the Parent's non-guarantor Subsidiaries would have had approximately US$458 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 any of the restrictive covenants in the Indenture. The Parent's Unrestricted Subsidiaries will not guarantee the Notes.

Principal, Maturity and Interest

The Issuer will issue €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 numbers or common codes and ISIN numbers, as applicable. 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 will issue Notes in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will mature on April 15, 2026. The Notes will be repaid at par on maturity.

Interest on the Notes will accrue at the rate of 3⅛% per annum. Interest on the Notes will be payable semi-annually in arrears on April 15 and October 15 commencing on October 15, 2019. 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 April 1 and October 1.

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 composed of 12 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 Market and the rules of the Luxembourg Stock Exchange so require, Luxembourg. The initial Paying Agents will be The Bank of New York Mellon, London Branch in London and The Bank of New York Mellon SA/NV, Luxembourg Branch 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 Market 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 SA/NV, Luxembourg Branch. 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 of the Notes. 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 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 that 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 of Notes 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 of Notes, 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 of Notes has validly tendered (and not validly withdrawn) for repurchase in connection with a Change of Control Offer, a Notes 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 having power to tax, 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 of Notes after such withholding or deduction (including any withholding or deduction from Additional Amounts) 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 of Notes or the Beneficial Owner of 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, having a permanent establishment in the relevant Tax Jurisdiction or having any other present or former connection with the relevant Tax Jurisdiction, in each case 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 of Notes (except to the extent that the holder of Notes 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 other similar Taxes;

(4) [Reserved];

(5) any Note presented for payment by or on behalf of a holder of Notes (where such presentation is required) 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 written request of the Issuer or any relevant Guarantor addressed with reasonable prior written notice to the holder or Beneficial Owner of Notes, to comply with any certification, identification, information or other reporting requirements (to the extent such holder or Beneficial Owner of Notes 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 of Notes 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 of Notes 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 or the relevant Guarantor, as applicable, will also pay and indemnify the holder of Notes 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 or any Note Guarantee.

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 of Notes 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, the Notes 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 described under this heading 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, including with respect to maintenance of share capital, corporate benefit or purpose, fraudulent conveyance or transfer, voidable preference, financial assistance, 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 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 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 Colombia Holding GmbH, Sappi Deutschland Holding GmbH, Sappi Deutschland GmbH, Sappi Ehingen GmbH and Sappi Stockstadt GmbH;
- Hong Kong: Sappi Pulp Asia Limited;
- Italy: Sappi Italy Operations S.p.A.;
- Netherlands: Sappi Netherlands B.V., Sappi Maastricht Real Estate B.V. and Sappi Maastricht B.V.;
- South Africa: Sappi Limited; and
- United States: SDW Holdings Corporation, Sappi North America, Inc. 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), (10) 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 or permitted 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 “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) 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"; or

(11) as otherwise permitted in accordance with the Indenture.

Optional Redemption

Optional Redemption of Notes

At any time prior to April 15, 2022, the Issuer may on one or more occasions redeem up to 40% of the aggregate principal amount of Notes issued under the Indenture, upon not less than 10 nor more than 60 days' notice, at a redemption price equal to 103.125% of the principal amount of the Notes redeemed plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, 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 60% of the aggregate principal amount of the Notes issued under the Indenture (including the aggregate principal amount of any Additional Notes issued under the Indenture, but excluding Notes held by the Parent and its Subsidiaries) remain outstanding immediately after the occurrence of each such redemption; and

(2) the redemption occurs within 120 days of the date of the closing of such Equity Offering.

At any time prior to April 15, 2022, the Issuer may on one or more occasions redeem all or a part of the Notes upon not less than 10 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, but not including, 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" and "Optional Redemption of Notes upon Certain Tender Offers", the Notes will not be redeemable at the Issuer's option prior to April 15, 2022.

On or after April 15, 2022, the Issuer may on any one or more occasions redeem all or a part of the Notes upon not less than 10 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 12-month period beginning on April 15 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
2022	101.5625%
2023	100.7810%
2024 and thereafter	100.0000%

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.

Optional Redemption of Notes upon Certain Tender Offers

In connection with any tender offer for, or other offer to purchase, all of the Notes (including any Change of Control Offer, Notes Offer or Asset Sale Offer), in the event that holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not validly withdraw such Notes in such tender offer or other offer to purchase, and the Issuer, or any third party making such a tender offer for, or other offer to purchase, all the Notes held by such holders of Notes in lieu of the Issuer, purchases all of the Notes validly tendered and not validly withdrawn by such holders, the Issuer or such third party will have the right upon not less than 10 nor more than 60 days' prior notice to the holders of the Notes, to redeem all Notes that remain outstanding following such purchase at a price equal to the price paid to each other holder of the Notes in such tender offer (other than any incentive payment for early tenders or similar payment and any accrued and unpaid interest), *plus*, to the extent not included in the tender offer payment, accrued and unpaid interest and Additional Amounts, if any, thereon, to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). In determining whether the holders of at least 90% of the aggregate principal amount of the outstanding Notes have validly tendered and not validly withdrawn Notes in a tender offer or other offer to purchase for all of the Notes, as applicable, Notes owned by an affiliate of the Issuer or any successor thereof, shall be deemed to be outstanding for the purposes of such tender offer or other offer to purchase, as applicable.

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 10 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 100% of the outstanding principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, 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 (including 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 (i) 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 and (ii) 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.

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, but not including, 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 provide a notice to each holder of the Notes 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, including administrative interpretations thereof, 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 laws, regulations or stock exchange rules conflict with, or are more favorable or less onerous to the Issuer than, the Change of Control provisions of the Indenture, the Issuer will comply with the applicable laws, regulations or stock exchange rules 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 validly 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 validly 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 deliver (or cause to be delivered) the Change of Control Payment for such Notes to each holder of Notes validly tendered, and the Trustee will promptly authenticate (or cause to be authenticated) and deliver (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; *provided* that each such new Note will be in a principal amount that is at least €100,000 and integral multiples of €1,000 in excess thereof. 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 validly tendered and not validly 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 Market 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 180 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 the applicable 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, redeem or repay Indebtedness of the Issuer or a Guarantor which is *pari passu* in right of payment with the Notes or any of the Note Guarantees; *provided*, *however*, that, in connection with any purchase, prepayment, redemption or repayment of Indebtedness pursuant to this clause (2), the Parent or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) (except in the case of revolving Indebtedness, including the Revolving Credit

Facility) to be permanently reduced in an amount equal to the principal amount so purchased, prepaid, redeemed or repaid;

(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;

(6) to repurchase, prepay, redeem or repay Indebtedness of a Restricted Subsidiary which is not a Guarantor; *provided*, *however*, that, in connection with any repurchase, prepayment, redemption or repayment of Indebtedness pursuant to this clause (6), such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) (except in the case of revolving Indebtedness, including the Revolving Credit Facility) to be permanently reduced in an amount equal to the principal amount so repurchased, prepaid, redeemed or repaid;

(7) enter into a binding commitment to apply the Net Proceeds pursuant to clause (3), (4) or (5) 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.

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, but not including, 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 validly tendered into and not validly withdrawn from (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated by the Issuer among the Notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and *pari passu* Indebtedness. 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, including administrative interpretations thereof, 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, or are more favorable or less onerous to the Issuer than, 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", in accordance with the applicable procedures of the relevant clearing system, 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 delivered to holders of Notes at least 10 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 delivered to holders of Notes 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.

Notice of any redemption may, in the Issuer's discretion, be given prior to completion of a transaction (including an Equity Offering, an incurrence of Indebtedness, a Change of Control or other transaction) and any redemption notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering). In addition, if such redemption, purchase or notice of redemption is subject to satisfaction of one or more conditions precedent, such notice shall describe each such condition, and if applicable, may state that, at the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed; *provided* that in no case shall the notice have been delivered less than 10 days or more than 60 days prior to the date on which such redemption (if any) occurs (other than as specified in the immediately preceding paragraph in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture). In addition, the Issuer may provide in any such notice that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

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, or the redemption date as permitted to be delayed under the Indenture. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes that 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 delivery. So long as any 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 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, be 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, the Notes have achieved Investment Grade Status, and 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"; and

(7) 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 third 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 (i) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Parent or any of its Restricted Subsidiaries and (ii) 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 and the Fair Market Value of property or assets 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 any of the following:

(1) the payment of any dividend or the consummation of any redemption, repurchase or retirement of Equity Interests or Indebtedness within 60 days after the date of declaration of the dividend or giving of the redemption, repurchase or retirement notice, as the case may be, if at the date of declaration or notice, such 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 is 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, defeasance 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,

defeased, 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 calendar 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 (including any Person controlled by the foregoing) 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 B-BBEE 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 accrued and unpaid interest, fees, underwriting discounts, premia, defeasance costs and other costs and expenses (including original issue discount, indemnity fees, upfront fees or similar fees) incurred or payable 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*, that 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;

(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, purchase money obligations or other financings, 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; (b) (i) the Guarantee by SPH or any of its Restricted Subsidiaries of Indebtedness of 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 thirty (30) Business Days of incurrence;

(12) Indebtedness represented by Guarantees of any Management Advances;

(13) Indebtedness incurred in a Qualified Securitization Financing;

(14) Indebtedness of any Person (i) 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) or (ii) incurred to provide all or any portion of the funds used to consummate the transactions 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 incurred or 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 *pro forma* 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 earn-outs 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 B-BBEE 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 B-BBEE 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.

For purposes of determining compliance with, and the outstanding amount of any particular Indebtedness incurred pursuant to, this covenant:

(1) in the case of any Indebtedness issued with original issue discount, the amount of any Indebtedness outstanding as of any date will be the amount of the liability in respect thereof determined in accordance with IFRS;

(2) the amount of any Indebtedness outstanding as of any date will be 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 amount of any Indebtedness outstanding as of any date will be 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.

Financial Calculations

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with any merger, acquisition or other Investment, in each case, the consummation of which is not conditioned upon the availability of, or on obtaining, third party financing, where there is a time difference between commitment and closing or incurrence (including in respect of incurrence of Indebtedness, Restricted Payments and Permitted Investments), the date of determination of the availability of such basket or ratio and of any Default or Event of Default shall, at the option of the Parent or the Issuer, be the date the definitive agreements for such merger, acquisition or other Investment are entered into (or, in case of an acquisition or other Investment in the form of a tender or exchange offer in connection with which no definitive agreement is entered into with the target company, the date of delivery of a binding offer, a "certain funds" tender offer, an irrevocable notice or a similar event) and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such merger, acquisition or other Investment and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such transaction (and not for purposes of any subsequent availability of any basket or ratio). For the avoidance of doubt, (x) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated EBITDA, Total Assets or the share price or share value of any Person) subsequent to such date of determination and at or prior to the consummation of the relevant transaction, such baskets or ratios will be deemed not to have been exceeded as a result of such fluctuations solely for purposes of determining whether the transaction is permitted under the Indenture and (y) such baskets or ratios shall not be tested at the time of consummation of such transaction or related transactions; *provided* that if the Parent elects to have such determinations occur at the time of entry into such definitive agreement (or the date of delivery of a binding offer, a “certain funds” tender offer, an irrevocable notice or a similar event, as the case may be), any such transactions (including any incurrence of Indebtedness and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered into (or such date of delivery of a binding offer, a “certain funds” tender offer, an irrevocable notice or a similar event, as the case may be) and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement (or delivery of a binding offer, a “certain funds” tender offer, an irrevocable notice or a similar event, as the case may be) and before the consummation of such transaction; *provided further* that the Consolidated Net Income (and any other financial term derived therefrom), other than for purposes of calculating any ratios in connection with such merger, acquisition or other Investment, shall not include any Consolidated Net Income of or attributable to the target company or assets associated with any such merger, acquisition or Investment unless and until the consummation of such merger, acquisition or Investment shall have actually occurred.

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 Permitted Liens, or unless all payments due under the Indenture and the Notes or any Note Guarantee, as the case may be, are secured (i) on an equal and ratable basis with (or on a senior basis to) the obligations so secured or (ii) on a senior basis in the case of a Lien securing Indebtedness that is by its terms expressly subordinated to the Notes or any Note Guarantee, in each case, until such time as such obligations are no longer secured by a Lien.

Any Lien created in favor of the holders of the Notes under this covenant will be automatically and unconditionally released and discharged upon:

(1) the release and discharge of the initial Lien to which it relates;

(2) repayment in full of the Notes;

(3) legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture with respect to all the Notes issued thereunder as provided below under the captions “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and Discharge;”

(4) as described under “—Amendment, Supplement and Waiver;” or

(5) (i) a Subsidiary Guarantor ceasing to be a Restricted Subsidiary (including as a result of any sale, exchange or transfer (including by way of merger or consolidation), to any Person, of all of the Capital Stock in such Restricted Subsidiary or another Restricted Subsidiary that is a direct or indirect parent thereof) or (ii) a sale, lease, conveyance or other disposition to any person other than the Issuer or a Restricted Subsidiary of the Issuer of the property or assets to which the initial Lien relates, in each case (i) and (ii) that does not violate the covenant described under “—Repurchase at the Option of Holders—Asset Sales” (including any requirements relating to the application of proceeds) and is otherwise in compliance with the Indenture.

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 two paragraphs 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), (10), (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, other than clause (23)) 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. For purposes of the preceding sentence, all Indebtedness secured by a Permitted Lien listed in the second sentence of this paragraph shall be excluded in computing the amount of Indebtedness secured by a Lien.

For the avoidance of doubt, with respect to any Lien securing Indebtedness that was permitted to secure such Indebtedness at the time of the incurrence of such Indebtedness, such Lien shall also be permitted to secure any Increased Amount of such Indebtedness. The "*Increased Amount*" of any Indebtedness shall mean any increase of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness with the same terms, accretion of original issue discount or liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies or increases in the value of property securing Indebtedness.

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 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 Facilities, the 2022 Indenture, the 2022 Notes, the 2022 Note Guarantees, the 2023 Indenture, the 2023 Notes, the 2023 Note Guarantees and the Revolving Credit Facility;

(3) agreements or instruments 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 (i) 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 (ii) the Parent determines, in good faith, 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 agreement or 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 Facilities 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) 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;

(2) 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

(3) each such Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to maintenance of share capital, corporate benefit or purpose, fraudulent conveyance or transfer, voidable preference, financial assistance, and other legal restrictions, 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 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, the United Kingdom, 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 and the Indenture;

(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, the United Kingdom, 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 and the Indenture;

(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 the Parent and 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 Release") 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 and the Indenture;

(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; and

(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 such transaction is among the Issuer and the Guarantors and the Issuer is not the surviving entity, the relevant Guarantor will assume the obligations of the Issuer under the Indenture and the Notes. 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 Guarantor 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 not materially 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, authorized signatories, employees or consultants of the Parent or any Restricted Subsidiary;

(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 of the Parent; 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 conditions described in the first paragraph of this covenant 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 pay or cause to be paid 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, its member states or the United Kingdom), 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.

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 29, 2019, annual reports containing the following information: (a) audited consolidated balance sheet of the Parent as of the end of the most recent fiscal year (and comparative information for the end of the prior fiscal year) and audited consolidated income statement and statement of cash flow of the Parent for the most recent fiscal year (and comparative information for the prior fiscal year), including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) to the extent applicable, unaudited *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) material 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 31, 2019, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed income statement and statement of cash flow of the Parent 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) to the extent applicable, unaudited *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).

At any time that any of the Parent's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Parent, 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 Subsidiaries (other than any Unrestricted 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 in the first paragraph of this covenant, 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 Market 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. Upon complying with the reporting requirements of Section 13(a) or 15(d) of the U.S. Exchange Act, the Parent will be deemed to have complied with the provisions contained in the preceding paragraphs.

Intercreditor Agreement

The Indenture will provide that, at the request and direction of the Issuer and without the consent of the holders of the Notes, in connection with the incurrence by the Parent or any of its Restricted Subsidiaries of any Indebtedness secured by a Lien, the incurrence of which is not prohibited by the Indenture, the Parent, the relevant Restricted Subsidiaries and the Trustee shall enter into with the holders of such Indebtedness (or their duly authorized representatives) an intercreditor agreement (an "*Intercreditor Agreement*"), on terms not violating the terms of the Indenture (for such matters covered by the Indenture) or terms not affecting adversely the rights of the holders of the Notes in any material respect (for such matters not covered by the Indenture); *provided* that such Intercreditor Agreement will not impose any personal obligations on the Trustee or, in the opinion of the Trustee, 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 request and direction of the Issuer and without the consent of the holders of the Notes, the Trustee and any security agent shall from time to time enter into one or more amendments to any 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 addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes), (3) add Restricted Subsidiaries to any such Intercreditor Agreement, (4) secure the Notes (including Additional Notes), (5) make provision for equal and ratable pledges of assets to secure Additional Notes, (6) implement any Liens, (7) amend any such 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, it being understood that an increase in the amount of Indebtedness being subject to the terms of an Intercreditor Agreement 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".

The Indenture will also provide that, in relation to any Intercreditor Agreement, the Trustee (and the 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 any amendments thereto, and the Trustee or any 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 Intercreditor Agreement or any amendment to any 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 "—Repurchase at the Option of the Holders—Asset Sales" or failure by the Issuer or the 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 other provision described under the captions "—Repurchase at the Option of Holders—Change of Control" or "—Repurchase at the Option of Holders—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, of 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) 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 20 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

(9) 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.

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 of Notes 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 of Notes 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 of Notes (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 of Notes, 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 (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).

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. The Indenture will provide that (i) if a Default occurs for a failure to deliver a required certificate in connection with another default (an "*Initial Default*") then at the time such Initial Default is cured, such Default for a failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and (ii) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "—Reports" or otherwise to deliver any notice or certificate pursuant to any other provision of this Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, authorized signatory, 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, 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 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 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 and the Note Guarantees 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), an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting holder of Notes):

(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; or

(10) make any change in the preceding amendment and waiver provisions.

Notwithstanding the immediately preceding paragraph, the Indenture will provide that any Guarantee 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 and the Trustee may amend or supplement the Indenture, the Notes or the Note Guarantees:

(1) to cure any ambiguity, defect, inconsistency or error or reduce the minimum denomination of the Notes;

(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 of Notes in any material respect;

(5) to conform the text of the Indenture, the Note Guarantees 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 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 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 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;

(9) to provide for the Trustee to enter into an intercreditor agreement in connection with the incurrence of any Liens required to be granted for the benefit of the holders of the Notes pursuant to the first paragraph of the covenant described under the caption "—Liens";

(10) to comply with the covenant described under the caption "—Merger, Consolidation or Sale of Assets";

(11) to make any amendment to the provisions of the Indenture relating to the transfer and legending of the Notes as permitted by the Indenture, including, without limitation, to facilitate the issuance and administration of the Notes; *provided* that compliance with the Indenture as so amended may not result in the Notes being transferred in violation of the U.S. Securities Act or any applicable securities laws; or

(12) to comply with the rules of any applicable securities depositary.

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 any intercreditor agreement, 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, destroyed or mutilated 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 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, 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)).

If requested by the Issuer, the Trustee may distribute any amounts deposited in trust to the holders of the Notes prior to maturity of the Notes or the redemption date, as the case may be; *provided*, *however*, that the holders of the Notes shall have received at least three Business Days' notice from the Issuer of such earlier repayment or redemption date (which may be included in the notice of redemption). For the avoidance of doubt, the distribution and payments to the holders of the Notes prior to the maturity or redemption date as set forth above will not include any negative interest payment, present value adjustment, break costs or any other costs or premia on such amounts.

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 of Notes 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 of Notes or the Trustee, as the case may be, the Issuer and the Guarantors shall indemnify and hold harmless such holder of Notes 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. At all other times, the Trustee has only its express duties under the Indenture and no implied duties shall be assumed. 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 of Notes 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 on any amounts collected by it for payment of its fees, expenses and indemnities ahead of the holders of the Notes.

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 Market.

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 Market 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.

Consent to Jurisdiction and Service of Process

The Indenture will provide that the Issuer and each Guarantor will appoint Sappi North America, Inc. (f/k/a 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 Borough of Manhattan, 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.

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 2009 Revolving Credit Facility and the incurrence of borrowings under an OeKB facility.

"*2009 Revolving Credit Facility*" means the credit agreement entered into on August 27, 2009 and amended and restated on April 28, 2011, September 19, 2013, March 16, 2015 and on August 31, 2017, 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 and restated or otherwise modified from time to time, and which was repaid and canceled in full during fiscal 2018.

"*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 $350 million Senior Secured Notes due 2021 and the use of proceeds therefrom and the amendment and restatement of the 2009 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 predecessor facility to the OeKB Term Loan Facilities.

"*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 issued.

"*2015 Refinancing*" means certain refinancing transactions undertaken by the Parent in 2015, including the issuance by the Issuer of the 2022 Notes and the use of proceeds therefrom and the amendment and restatement of the 2009 Revolving Credit Facility and the predecessor facility to the OeKB Term Loan Facilities.

"*2016 Refinancing*" means certain refinancing transactions undertaken by the Parent in 2016, including the issuance by the Issuer of the 2023 Notes and the use of proceeds therefrom.

"*2017 Indenture*" means the indenture governing the 2017 Notes, as amended, supplemented, restated or otherwise modified from time to time.

"*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.

"*2022 Indenture*" means the indenture governing the 2022 Notes, as amended, supplemented, restated or otherwise modified from time to time.

"*2022 Notes*" means the €450 million Senior Notes due 2022 issued by the Issuer and any additional notes issued under the 2022 Indenture.

"*2022 Note Guarantee*" means the Guarantee by each guarantor thereof, of the Issuer's obligations under the 2022 Indenture and the 2022 Notes, executed pursuant to the provisions of the 2022 Indenture.

"*2023 Indenture*" means the indenture governing the 2023 Notes, as amended, supplemented, restated or otherwise modified from time to time.

"*2023 Note Guarantee*" means the Guarantee by each guarantor thereof, of the Issuer's obligations under the 2023 Indenture and the 2023 Notes, executed pursuant to the provisions of the 2023 Indenture.

"*2023 Notes*" means the €350 million Senior Notes due 2023 issued by the Issuer and any additional notes issued under the 2023 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, consolidated, amalgamated or otherwise combined 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, consolidating, amalgamating or otherwise combining 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.

"*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; and

(2) the excess of:

(a) the present value at such redemption date of (i) the redemption price of such Note at April 15, 2022 (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 15, 2022 (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 a 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 B-BBEE 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 (No. 22 of 1994), 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 compulsory 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".

"*B-BBEE 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 15, 2022, 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 15, 2022; *provided*, *however*, that, if the period from such redemption date to April 15, 2022 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,

provided that if such rate would otherwise be less than zero, it shall be deemed to be zero.

“*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; *provided* that for purposes of the Indenture, IFRS will be deemed to treat operating and other leases in a manner consistent with the treatment thereof under IFRS as in effect prior to January 1, 2019, notwithstanding any modification or interpretative changes thereto.

“*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 Kingdom, the United States of America, Japan, 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 Kingdom, Japan, 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 Kingdom, the United States of America or any state thereof, Japan, 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 any time 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 or the equivalent rating category of another internationally recognized rating agency on the date of the acquisition, and, in each case, maturing within one year after the date of acquisition;

(5) Indebtedness or preferred stock issued by Persons with a rating of "BBB-" or higher from S&P or "Baa3" or higher from Moody's or the equivalent rating category of another internationally recognized rating agency with maturities of 12 months or less from the date of acquisition;

(6) bills of exchange issued in a member state of the European Union, the United Kingdom, Japan, the United States of America, Switzerland or Canada eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(7) interests in investment companies or money market funds, in each case, at least 90% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (6) 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 other than in a transaction which complies with the provisions described under the caption "—Merger, Consolidation or Sale of Assets";

(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 S.A., or any successor securities clearing agency.

"*Commission*" means the U.S. Securities and Exchange Commission.

"*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 intangible assets 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 (12) 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 charges and 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 distributed 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 as if such transaction had occurred on the first day of the relevant period. 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, 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 Facilities or the Revolving Credit Facility, (c) restrictions pursuant to the 2017 Notes or the 2017 Indenture, the 2022 Notes or the 2022 Indenture or the 2023 Notes or the 2023 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), (5), (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);

(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, the 2015 Refinancing, the 2016 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 B-BBEE 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 Parent 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 Parent'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.

"*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, any Permitted Obligor or any Finance Subsidiary (including the Revolving Credit Facility, the OeKB Term Loan Facilities 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 Facilities 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.

"*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*" may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Parent setting out such "Fair Market Value" as determined by such Officer or such Board of Directors of the Parent in good faith.

"*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 four-quarter 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 four-quarter 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;

(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); and

(7) the consolidated interest expense of such Person and its Subsidiaries which are Restricted Subsidiaries for such period attributable to interest on borrowings under a revolving credit facility shall be computed based upon the average daily balance of such borrowings during such four-quarter period.

"*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 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 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 Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its 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 such Person, *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 prior to January 1, 2019.

"*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 as in effect on the date of any calculation or determination required hereunder; *provided* that at any time after the Issue Date, the Parent may elect to establish that IFRS shall mean IFRS as in effect on or prior to the date of such election; *provided further* that any such election shall be irrevocable. Notwithstanding the foregoing, for purposes of any calculations pursuant to the Indenture (but not for purposes of the financial statements required to be delivered pursuant to the "—Reports" covenant), IFRS will be deemed to treat operating leases in a manner consistent with the treatment thereof under IFRS as in effect prior to January 1, 2019, notwithstanding any modifications or interpretative changes thereto that may occur on or after January 1, 2019.

"*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 prior to January 1, 2019;

(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.

"*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 26, 2019.

"*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, managers, 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. or any successor to its rating agency business.

"*net cash 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 Facilities*" means the facility agreements for (i) an amount of €150.0 million and (ii) an amount of €81.6 million, entered into on June 20, 2017, as amended and restated on February 28, 2018, among SPH, as borrower, the Parent and certain of the Parent's Subsidiaries, as guarantors, UniCredit Bank Austria AG and Erste Group Bank AG as mandated lead arrangers and agents, 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 agreements 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 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;

(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 2022 Notes, the 2023 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 B-BBEE 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 or consistent with past practice;

(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 (*plus* improvements, accessions, proceeds or dividends or distributions in respect of the original assets);

(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";

(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 accrued and unpaid interest, fees, underwriting discounts, defeasance costs and other costs and expenses, including original issue discount, indemnity fees, upfront fees or similar fees, 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 the greater of (i) US$285.0 million and (ii) 5% of Total Assets, 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.

For purposes of determining compliance with this definition or the covenant described under "—Certain Covenants—Liens", (a) Liens need not be incurred solely by reference to one category of Permitted Liens described in this definition but are permitted to be incurred in part under any combination thereof and any other available exemption and (b) in the event that a Lien (or any portion thereof) meets the criteria of one or more categories of Permitted Liens, the Issuer will, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition.

"*Permitted Obligor*" means any Restricted Subsidiary that is an obligor under the Revolving Credit Facility, the OeKB Term Loan Facilities 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 and unpaid interest on the Indebtedness and the amount of all fees and expenses, underwriting discounts, premia, defeasance costs, other costs and expenses, including original issue discount, indemnity fees, upfront fees or similar fees, incurred or payable 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 Permitted Refinancing 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 or 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 February 28, 2018, 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 Services, a division of The McGraw Hill Companies, Inc. or any successor to its rating agency business.

"*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.

"*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, accounted for 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 and any and all successors and assigns thereto.

"*SPH Bonds due 2032*" means 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 the Parent, as shown on the most recent balance sheet (excluding the footnotes thereto) of the Parent 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 the 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.

"*U.S. Securities Act*" means the U.S. Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"*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 U.S. 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 S.A. ("Clearstream").

The notes sold outside the United States pursuant to Regulation S under the U.S. 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 the trustee and us 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, if any) 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 of 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 the initial purchasers nor us 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 tax 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 and which could apply retroactively.

United States Federal Income Tax Considerations

General

This section summarizes the material U.S. tax consequences to holders of the Notes. However, the discussion is limited in the following ways:

- The discussion only covers you if you purchase your Notes for cash in the initial offering at the issue price of the Notes (generally, the first price at which a substantial amount of the Notes are sold to investors for cash (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers));
- The discussion only covers you if you hold your Notes as “capital assets” within the meaning of Section 1221 of the Code (generally, property held for investment);
- The discussion does not cover you if you are subject to special rules, such as those applicable to banks and other financial institutions, 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, persons required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement 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 the Notes;
- The discussion does not cover you if you are a partner in a partnership (including 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; and
- The discussion does not cover any U.S. federal tax considerations other than U.S. federal income tax considerations, and it does not cover any 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.

Tax Consequences to U.S. Holders

For the purposes of this discussion, a “U.S. Holder” is a beneficial owner of a Note that is:

- an individual that is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or 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 if (a) a U.S. court can exercise primary supervision over the administration of the trust and one or more “United States persons,” as defined in Section 7701(a)(30) of the Code, have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996, and it has a valid election in effect under applicable Treasury Regulations to continue to be treated as a United States person.

Stated Interest

- 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 regular method of accounting (cash or accrual) for U.S. federal income tax purposes.
- If you are a cash method U.S. Holder, 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 exchange 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 must be consistently applied to all debt instruments from year to year. The election cannot be revoked without the consent of the U.S. Internal Revenue Service ("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 exchange 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 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 United States 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, Exchange, Redemption, Retirement or Other Taxable Disposition of the Notes

On your sale, exchange, redemption, retirement or other taxable disposition of your Note:

- You will have taxable gain or loss equal to the difference between the amount realized by you and your adjusted tax basis in the Note. Your adjusted tax basis in the Note will generally be 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, your amount realized on the disposition of your Note will generally be the U.S. dollar value of the euros or foreign currency you receive based on the spot exchange rate determined on: (1) for a Note that is traded on an established securities market for U.S. federal income tax purposes, (a) for a cash basis U.S. Holder or properly electing accrual basis U.S. Holder, the settlement date for the sale of the Note, and (b) for a non-electing accrual basis U.S. Holder, the date of sale; and (2) for a Note that is not traded on an established securities market for U.S. federal income tax purposes, the date of sale. In the case of (1)(b) and (2), 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 exchange rate on the date of settlement differs from the U.S. dollar value on the date of sale.

- Your gain or loss will generally be: (1) U.S. source capital gain or loss, except to the extent that such gain or loss 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; and (2) U.S. source ordinary income or loss to the extent any gain or loss arises from currency fluctuations between your purchase date and settlement date. If you are a non-corporate U.S. 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, exchange, redemption, retirement or other taxable disposition of the Notes.
- 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 if 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, you would be required to recognize capital gain or loss in connection with such deemed exchange. In addition, after such deemed exchange, you 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. You should consult your own tax advisors concerning specific consequences arising from a discharge in your 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 or 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. Under certain circumstances, an entity may be treated as an individual for purposes of these rules. 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.

Tax Consequences to Non-U.S. Holders

This section applies to you if you are a non-U.S. Holder. A "non-U.S. Holder" is a beneficial owner of a Note that is not a "U.S. Holder" as defined above.

Stated Interest

Subject to the discussion of backup withholding below, you generally 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, under certain circumstances, interest income that is effectively connected with a corporate non-U.S. Holder's conduct of a trade or business within the U.S. may be subject to an additional “branch profits tax” at the rate of 30% (or a lower applicable income tax treaty rate, provided certain certification requirements are met).

Sale, Exchange, Redemption, Retirement or Other Taxable Disposition of the Notes

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 upon the sale, exchange, redemption, retirement or other taxable disposition of 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); or
- if you are an individual, you are present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met.

Gain realized by a non-U.S. Holder described in the first bullet point above generally will be subject to U.S. federal income tax in the same manner as if you were a U.S. Holder. In addition, under certain circumstances, gain that is effectively connected with a corporate non-U.S. Holder’s conduct of a trade or business within the U.S. may be subject to an additional “branch profits tax” at the rate of 30% (or a lower applicable income tax treaty rate, provided certain certification requirements are met). Gain realized by a non-U.S. Holder described in the second bullet point above generally will be subject to tax at a gross rate of 30% (or a lower applicable income tax treaty rate, provided certain certification requirements are met) to the extent of the excess of such non-U.S. Holder’s U.S. source gains during the tax year over certain U.S. source losses during such tax year.

To the extent that the amount realized on any sale, exchange, redemption, retirement or other taxable disposition of the Notes is attributable to accrued but unpaid interest, such amount will be treated as interest for U.S. federal income tax purposes.

Information Reporting and Backup Withholding

In general, payments of principal and interest, and proceeds from the sale, exchange, redemption, retirement or other taxable disposition of the Notes, paid within the United States or through certain United States-related financial intermediaries to a U.S. Holder may be subject to information reporting and backup withholding unless the U.S. Holder (i) is an exempt recipient or (ii) in the case of backup withholding (but not information reporting), provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred, and the payor is not notified by the IRS or by a broker that the U.S. Holder has underreported interest or dividend income.

Non-U.S. Holders will generally not be subject to information reporting and backup withholding on payments of principal and interest, and proceeds from the sale, exchange, redemption, retirement or other taxable disposition of the Notes. Information reporting and backup withholding may apply, however, in cases where amounts are paid within the United States or through certain United States-related financial intermediaries. Non-U.S. Holders should consult their tax advisors concerning the application of information reporting and backup withholding in their particular situations.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a holder may be allowed as a refund or a credit against the holder’s U.S. federal income tax liability provided the required information is timely provided to the IRS.

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 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 tax 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 tax 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. Prospective investors should consult their own independent advisers as to the implications of their subscribing for, purchasing, holding, exchanging or disposing of the Notes under the laws of the jurisdictions in which they may be subject to tax. The discussion of certain Austrian taxes set forth below is included for information purposes only.

Where in this overview English terms and expressions are used to refer to Austrian concepts, the meaning to be attributed to such terms and expressions shall be the meaning attributed to the equivalent Austrian concepts under Austrian tax law.

This summary of Austrian tax issues is based on the assumption that the Notes are legally or actually offered to an undefined group of persons (*in rechtlicher oder tatsächlicher Hinsicht einem unbestimmten Personenkreis angeboten*) 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 Austrian withholding tax at source, provided that it does not make interest payments directly to the holders of the Notes.

Austrian resident investors

Individuals

Interest, capital gains and income from derivatives realized from the Notes by an individual investor resident in Austria for tax purposes (*i.e.*, an individual having a domicile (*Wohnsitz*) and/or his habitual abode (*gewöhnlicher Aufenthalt*) in Austria), are taxable at a special income tax rate of 27.5%. The tax base is generally considered to be the interest paid or, with respect to capital gains from the Notes, 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 from the Notes subject to the special 27.5% tax rate are not deductible.

Austrian withholding tax (*Kapitalertragsteuer*) at a rate of 27.5% is triggered if interest is paid by an Austrian paying agent within the meaning of § 95 (2) (1) Austrian Income Tax Act (*Einkommensteuergesetz*, "EStG") (*auszahlende Stelle*; *e.g.*, an Austrian bank, Austrian branch of a non-Austrian bank or in certain circumstances an Austrian issuer). In relation to realized capital gains or income from derivatives, Austrian withholding tax at a rate of 27.5% is triggered if the Notes are deposited with (i) an Austrian depository within the meaning of § 95 (2) (2) EStG (*depotführende Stelle*) or (ii) in the absence of an Austrian depository, if the payments are made 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 27.5% Austrian withholding tax constitutes final taxation (*Endbesteuerung*) so that no further income tax will be assessed and the interest income or realized capital gain or income from derivatives is not to be included in the investor's income tax return (*Einkommensteuererklärung*). In case of individuals holding the Notes as private assets, losses from the Notes can only be set-off against other investment income subject to the special 27.5% tax rate (such as, for example, interest income from the Notes). However, the losses may not be set off, *inter alia*, against interest income from bank deposits or interest from other non-securitized claims vis-à-vis banks (except for manufactured payments (*Ausgleichszahlungen)* and lending fees (*Leihgebühren*), *e.g.*, under a stock lending transaction or a repo transaction) or distributions effected by private foundations, foreign foundations and other comparable legal estates (*Zuwendungen jeder Art von Privatstiftungen, ausländischen Stiftungen oder sonstigen Vermögensmassen, die jeweils mit einer Privatstiftung vergleichbar sind*) in the meaning of § 27 (5) (7) EStG and cannot be set-off against any other income of the investor and cannot be carried forward to subsequent years. An Austrian depository, if any, has to set-off losses arising on the securities accounts of the same private individual investor at the same depository subject to and in accordance with the provisions of § 93 (6) EStG.

For individuals holding the Notes as business assets, the deduction of such 27.5% 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 realized capital gains and income from derivatives have to be declared in the income tax return and are subject to the special income tax rate of 27.5% (unless generating this type of income constitutes a key area of the respective investor's business activity). Depreciation and losses derived from the sale, redemption or other disposal of the Notes must primarily be set-off against realized capital gains from other financial assets and income from derivatives and appreciation in value of such assets within the same business unit (*Wirtschaftsgüter desselben Betriebes*), a remaining loss can only be set-off to the extent of 55% 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 Notes in his personal income tax return, and income tax is assessed at a special 27.5% income tax rate unless, under the Liechtenstein withholding tax act implementing the bilateral Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation (in force since January 1, 2014), a Liechtenstein paying agent (*Zahlstelle*) has withheld final withholding tax discharging the investor's Austrian income tax liability (within the restricted scope of the withholding tax liability provided therein).

Taxpayers, whose regular progressive personal income tax is lower than 27.5%, may opt for taxation of the income from the Notes (together with all other investment income subject to the special 27.5% tax rate) at their regular personal income tax rate (*Regelbesteuerungsoption*). Any tax withheld will then be credited against the income tax. Whether the use of the option is beneficial from a tax perspective should be determined by consulting a tax advisor. Expenses of direct economic connection with such income remain not deductible if the option for taxation at the regular personal income tax rate is exercised.

Withdrawals and other transfers of the Notes from the securities account (*Entnahmen oder sonstiges Ausscheiden aus dem Depot*) are in general deemed as a disposal of the Notes (treated as a sale of the Notes). As an exception to this general rule, and provided that Austria's taxing right with respect to the Notes is not being restricted, withdrawals and other transfers of Notes from an investor's securities account are not deemed to be a disposal if the requirements pursuant to § 27 (6) (2) 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.

Furthermore, the transfer of the investor's tax residence (*Wegzug*) outside of Austria, the transfer of the Notes to a non-resident individual or corporation without consideration (*unentgeltliche Übertragung*) or any other circumstances which lead to a restriction of Austria's taxing right with respect to the Notes are, in general, deemed as disposal of the Notes resulting in exit taxation. Upon application of the taxpayer, the exit taxation of the Notes held as private assets can be deferred until the actual disposal of the Notes in case the investor transfers his or her tax residence outside of Austria to an EU member state or a member state of the European Economic Area or transfers the Notes for no consideration to another individual resident in an EU member state or a member state of the European Economic Area. In all other cases leading to a restriction of Austria's taxation right with respect to the Notes vis-à-vis an EU member state or a member state of the European Economic Area the taxpayer may apply for a payment of the triggered income tax in instalments over a period of five years. In the event that the Notes represent current business assets (*Umlaufvermögen*), a payment period of two years applies instead.

Corporate investors

A corporation that is subject to unlimited corporate income tax liability in Austria (*i.e.*, a corporation that has its corporate seat (*Sitz*) and/or place of effective management (*Ort der Geschäftsleitung*) in Austria) receiving income from the Notes (including interest income, realized capital gains or income from derivatives) will be subject to Austrian corporate income tax at a rate of 25% pursuant to the provisions of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*, "KStG"). If the interest income, realized capital gains or income from derivatives received from the Notes is paid to a corporate investor by an Austrian paying agent or an Austrian depository (see the considerations on the relevant nexus for Austrian withholding tax purposes above), Austrian withholding tax is generally triggered at a rate of 27.5%. However, in the case of corporations (within the meaning of § 1 (1) KStG) receiving income from the Notes, the Austrian paying agent or Austrian depository is entitled to withhold Austrian withholding tax at a rate of only 25%. Such withholding tax (either withheld at a rate of 27.5% or 25%) is generally creditable against the corporate investor's Austrian corporate income tax liability or, if exceeding such corporate income tax liability, refundable. 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 and the tax authority.

For corporate investors the restrictions for the set-off of losses are not applicable. Losses from investment income can be set-off against all other income. 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

Interest income, realized capital gains and income from derivatives derived from the Notes by individuals who have neither a domicile nor their habitual abode in Austria or by corporate investors that have neither their corporate seat nor their place of effective management in Austria, are, in general, only taxable in Austria if the respective income is attributable to a permanent establishment in Austria. Where such non-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.

Provided that interest payments are not made by an Austrian paying agent or an Austrian depository, interest payments made to non-Austrian resident individual investors or non-Austrian resident corporate investors should not be subject to withholding tax (*Kapitalertragsteuer*).

In addition, non-resident individuals (*i.e.*, non-residents other than corporations) not having a permanent establishment in Austria that receive interest payments within the meaning of § 27 (2) (2) EStG and accrued interest within the meaning of § 27 (6) (5) EStG may be subject to limited Austrian tax liability. However, this only applies if such interest income is paid out through an Austrian paying agent within the meaning of § 95 (2) (1) EStG, thus being subject to Austrian withholding tax, and if (i) the debtor of the interest payments has its domicile, seat or place of effective management in Austria or is an Austrian branch of a non-Austrian credit institution or (ii) the underlying financial instrument has been issued by an Austrian issuer. Such specific limited tax liability for interest payments does not apply to individuals who are resident in a state with which an automatic exchange of information is in place (which fact must be proven by a certificate of residence), nor to non-resident corporations. In these cases, interest payments under the Notes are only taxable in Austria if the respective income is attributable to a permanent establishment in Austria. As a consequence, in particular, non-EU-resident individuals may be subject to such limited tax liability if the 27.5% Austrian withholding tax is triggered. Such withholding tax may be triggered 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. An applicable double tax treaty may also restrict an Austrian taxation right on interest income.

An Austrian paying agent or Austrian depository may abstain from levying the 27.5% or 25% Austrian withholding tax pursuant to either § 94 (5) or (13) EStG, *e.g.*, as regards income from Austrian sources paid to non-Austrian residents that are not subject to limited tax liability pursuant to § 98 (1) (5) EStG.

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 €50,000 per year or gifts among unrelated persons that do not exceed an aggregate amount of €15,000 within five years or for gratuitous transfers to foundations following under the Austrian Foundation Tax 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 § 27 (3) and (4) EStG (except for participations in corporations) if income from these financial assets is subject to income tax at a flat rate of 27.5%. 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 Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation.

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 where 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 be noted 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

Withholding Tax on Interest

A withholding tax on South African-sourced interest paid to or for the benefit of a foreign person (non-resident) applies at a rate of 15% of the amount of interest in terms of section 50A-50H of the Income Tax Act, 1962 (the "Income Tax Act"). The withholding tax could be reduced by the application of relevant double tax agreements provided that there has been compliance with certain formalities.

Interest income is deemed to be from a South African source, in terms of section 9 of the Income Tax Act, if that interest:

(a) is attributable to an amount incurred by a South African tax resident, unless the interest is attributable to a permanent establishment which is situated outside of South Africa; or

(b) is received or accrues in respect of the utilization or application in South Africa by any person of any funds or credit obtained in terms of any form of "interest-bearing arrangement".

The Issuer is not a South African tax resident. The Issuer will not itself utilize or apply any funds raised in terms of the Notes in South Africa. Accordingly, the Notes should not give rise to South African-sourced interest, and should therefore not be subject to interest withholding tax in South Africa.

Guarantee

The abovementioned withholding tax is limited to the payment of interest, defined to include interest and similar finance charges. 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. However, to the extent that Sappi Limited is required to pay default interest on any Guarantee payments, such interest payments may be subject to a final withholding tax on interest levied at a rate of 15% (which rate may be reduced if a double tax agreement applies and certain formalities are complied with).

Income Tax

Non-residents of South Africa are subject to income tax on all income derived from a South African source (subject to domestic exemptions or relief in terms of an applicable double taxation treaty). As indicated above under “Withholding Tax on Interest”, the interest paid in terms of the Notes would not be South African-sourced interest. Any default interest paid in terms of the Guarantee will be South African-sourced interest.

A “resident”, as defined in section 1 of the Income Tax Act, is subject to income tax on his/her worldwide income. Accordingly, all Note holders who are “residents” of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned pursuant to the Notes.

Under section 24J of the Income Tax Act, broadly speaking, any discount or premium to the principal amount of the Note will be treated as part of the interest income on the Note. Section 24J of the Income Tax Act deems interest income to accrue to a Note holder on a day-to-day basis until that Note holder disposes of the Note. The day-to-day basis accrual is determined by calculating the yield to maturity and applying this rate to the capital for the relevant tax period.

Specific provisions relating to the fair value taxation of financial instruments for “covered persons” (as defined in section 24JB of the Income Tax Act) have been enacted and were effective from January 1, 2014. South African resident Note holders should seek advice as to whether this provision may apply to them.

To the extent that the disposal of the Note gives rise to an “adjusted gain on transfer or redemption of an instrument” or an “adjusted loss on transfer or redemption of an instrument”, as envisaged in section 24J of the Income Tax Act, the normal principles are to be applied in determining whether such adjusted gain or adjusted loss should be subject to income tax in terms of the Income Tax Act.

Capital Gains Tax

Capital gains and losses of residents of South Africa on the disposal of the Notes are subject to capital gains tax, unless the Notes are purchased for re-sale in the short term as part of a scheme of profit-making, in which case the proceeds will be subject to income tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes under section 24J of the Income Tax Act, will not be taken into account when determining any capital gain or loss. If the Notes are disposed of or redeemed prior to or on maturity, an “adjusted gain on transfer or redemption of an instrument”, or an “adjusted loss on transfer or redemption of an instrument”, as contemplated in section 24J of the Act, must be calculated. Any such adjusted gain or adjusted loss is deemed to have been incurred or to have accrued in the year of assessment in which the transfer or redemption occurred. The calculation of the adjusted gain or adjusted loss will take into account, among others, all interest which has already been deemed to accrue to the Note holder over the term that the Note has been held by the Note holder. Under section 24J(4A) of the Income Tax Act, where an adjusted loss on transfer or redemption of an instrument realized by a Note holder includes any amount representing interest that has previously been included in the income of the Note holder, that amount will qualify as a deduction from the income of the Note holder during the year of assessment in which the transfer or redemption takes place and will not give rise to a capital loss.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to the Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person in South Africa.

To the extent that a Note holder constitutes a “covered person”, as defined in section 24JB of the Income Tax Act, and section 24JB applies to the Notes, the Note holder will be taxed in accordance with the provisions of section 24JB of the Income Tax Act and the capital gains tax provisions would not apply.

Note holders are advised to consult their own professional advisors as to whether a disposal of the Notes will result in a liability to capital gains tax.

Taxation of Foreign Exchange Gains and Losses

As the Notes will be denominated in Euros, a South African tax resident Note holder who is (1) a company; (2) a trust carrying on a trade; or (3) a natural person who holds the Notes as trading stock will be required to account for foreign exchange gains and losses on translation and realization of the Notes in accordance with the provisions of section 24I of the Income Tax Act. Such persons will be required to include in or deduct from their income any translation and realization exchange gains or losses on the Notes.

No taxable foreign exchange gains or losses will arise for such persons where the Notes are attributable to a permanent establishment outside of South Africa and the functional currency of that permanent establishment is Euros.

No foreign exchange gains or losses on translation and realization of the Notes in accordance with the provisions of section 24I of the Income Tax Act will arise for non-resident holders of the Notes, unless such Notes are attributable to a South African permanent establishment of such non-resident holder.

Securities Transfer Tax (STT)

No STT is payable on the issue or transfer of the Notes under the Securities Transfer Tax Act, 2007 (the “STT Act”), because the Note does not constitute a “security”, as defined for the purposes of the STT Act.

Common Reporting Standard

The exchange of information is expected to be governed by the broader Common Reporting Standard (CRS).

On October 29, 2014, 51 jurisdictions signed the multilateral competent authority agreement (MCAA), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications.

More than 40 jurisdictions have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017 (early adopters).

Under CRS, financial institutions resident in a CRS country would be required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On December 9, 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation (DAC), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC amended the previous Directive on administrative cooperation in direct taxation (Directive 2011/16/EU) and entered into force on January 1, 2016 (except for Austria for which said DAC shall enter into force on January 1, 2017).

Investors who are in any doubt as to their position should consult their professional advisers.

PLAN OF DISTRIBUTION

We intend to offer the notes through the initial purchasers. Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, Erste Group Bank AG, ING Bank N.V., London Branch, KBC Bank NV, NatWest Markets plc, Standard Chartered Bank and UniCredit Bank AG 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 U.S. 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 U.S. 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 U.S. 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 U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the U.S. Securities Act or under a registration statement declared effective under the U.S. 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

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be ten 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+10"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or the next seven business days will be required to specify an alternative settlement code at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors.

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 date of issuance of the Notes 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 currently acts as facility agent under the Revolving Credit Facility. In addition, affiliates of the initial purchasers, including UniCredit, are lenders under the Revolving Credit Facility and the OeKB Term Loan Facilities.

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 U.S. 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 U.S. 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 U.S. Securities Act) ("QIBs") in compliance with Rule 144A and (ii) to persons other than U.S. persons (as defined in Rule 902 under the U.S. Securities Act) ("Foreign Purchasers") in offshore transactions (as defined in Rule 902 under the U.S. Securities Act) in compliance with Regulation S.

In addition, until 40 days after the later of the commencement of the offering of the Notes 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 U.S. 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 U.S. 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 U.S. 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 U.S. Securities Act, or (B) pursuant to an effective registration statement under the U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT, (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. 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 U.S. 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 U.S. SECURITIES ACT;

(8) each purchaser, by its purchase of the Notes, shall be deemed to have represented and covenanted that

(a) 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:

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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

(vii) 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; and

(b) to the extent such purchaser is a pension or welfare plan as defined in Section 3 of ERISA or a plan as defined in Section 4975 of the Code, it is represented by a fiduciary independent of the Issuer who (i) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the Notes, (ii) has exercised independent judgment in evaluating whether to invest the assets of such plan in the Notes, and (iii) understands and acknowledges (A) that none of the Issuer, or any of its affiliates, have and will undertake to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the purchase and holding of the Note and (B) the Issuer has financial interests in the plan's purchase and holding of the Notes, which interests may conflict with the interest of the plan;

(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, 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 2018 and 2017 and for the years then ended included in this Offering Memorandum have been audited by KPMG Inc., independent auditors, as stated in their reports included herein. Our audit report dated December 7, 2017, included elsewhere in this Offering Memorandum, contains an explanatory paragraph which states that the financial statements of Sappi Limited as of and for the year ended September 2016 were audited by another auditor, who expressed an unmodified opinion on those financial statements in a report dated December 9, 2016.

With respect to the unaudited interim financial information as of December 2018 and for the three months ended December 2018 and December 2017 included herein, KPMG Inc., independent auditors, has reported that it applied limited procedures in accordance with IAS 34, *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. However, KPMG Inc.'s separate report included in the Group's unaudited condensed consolidated interim financial statements as of December 2018 and for the three months ended December 2018 and 2017, and included herein, states that KPMG Inc. did not audit and it does not express an opinion on such unaudited condensed consolidated interim financial statements. Accordingly, the degree of reliance on KPMG Inc.'s report on such information should be restricted in light of the limited nature of the review procedures applied.

The consolidated financial statements of Sappi Papier Holding GmbH and subsidiaries as of September 2018 and for the year then ended included in this Offering Memorandum have been audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, independent auditors, as stated in their report included herein. The consolidated financial statements of Sappi Papier Holding GmbH and subsidiaries as of September 2017 and for the year then ended have been audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, independent auditors, as stated in their report included therein.

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 Sappi North America, Inc., SDW Holdings Corporation and Sappi Cloquet LLC) are incorporated in and have their respective principal executive offices in Austria, Belgium, Finland, Germany, the Netherlands, Hong Kong and Italy. The majority of the directors and executive officers of Sappi Limited, the Issuer and the Subsidiary Guarantors (other than Sappi North America, Inc., 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 Sappi North America, Inc., 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 Sappi North America, Inc., 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 Sappi North America, Inc., 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 CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a summary description of certain limitations on the validity and enforceability of the Guarantees 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 and the Guarantees. 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.

Regulation (EU) 2015/848 of the European Parliament and of the Council of May 20, 2015 on Insolvency Proceedings (the "E.U. Insolvency Regulation") entered into force on June 26, 2017 and is applicable to insolvency proceedings opened on or after that date. It replaces Council Regulation (EC) No. 1346/2000 of May 29, 2000 on insolvency proceedings (which continues to apply to insolvency proceedings opened prior to June 26, 2017). The E.U. Insolvency Regulation is effective in all Member States of the E.U (each a "Member State") (other than Denmark).

Pursuant to 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" ("COMI"). The determination of where a company has its COMI is a question of fact and is made at the time of the filing of the insolvency application. There is a presumption under Article 3(1) of the E.U. Insolvency Regulation that a company has its COMI in the Member State in which it has its registered office in the absence of proof to the contrary (that presumption shall only apply if the registered office has not been moved to another Member State within the three-month period prior to the request for the opening of insolvency proceedings). However, the E.U. Insolvency Regulation also states in its preamble at Recital 30 that the COMI of a company should correspond to the place where the company conducts the administration of its interests on a regular basis and is therefore ascertainable by third-parties. Courts have taken into consideration a number of factors in determining the COMI of a company, including, in particular, where board meetings are held, the location where the company conducts the majority of its business or has its head office and the location where the majority of the company's creditors are established.

The question of where a company's COMI is located must be determined at the time that the relevant insolvency proceedings are opened. If main insolvency proceedings are validly opened in one Member State, they will be recognized and have effect in all other Member States (other than Denmark) pursuant to the E.U. Insolvency Regulation. If the company is found to have its COMI in a place other than the relevant Member State (other than Denmark), the courts of that Member State will only have jurisdiction to open secondary insolvency proceedings in that Member State and only then provided that the company concerned has an "establishment" (within the meaning and as defined in Article 2(10) of the E.U. Insolvency Regulation) in that Member State. An "establishment" is defined as "any place of operations where a debtor carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets." Accordingly, the opening of secondary insolvency proceedings in another Member State will also be possible if the debtor had an establishment in such Member State in the three-month period prior to the request for commencement of main insolvency proceedings.

The effects of such secondary insolvency proceedings will be restricted to the assets of the company located in that Member State and the main insolvency proceedings will be opened in the Member State (other than Denmark) in which the company is found to have its COMI. Where main proceedings in the Member State in which the debtor has its COMI have not yet been commenced, territorial insolvency proceedings may only be commenced in another Member State where the debtor has an establishment where either (a) insolvency proceedings cannot be commenced in the Member State in which the debtor's COMI is situated because of the conditions laid down by that Member State's law; or (b) the opening of territorial insolvency proceedings is requested by (i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested, or (ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will, subject to certain exceptions, be governed by the *lex fori concursus*, *i.e.*, the local insolvency law of the court that has assumed jurisdiction over the insolvency proceedings of the debtor.

The courts of all Member States (other than Denmark) must recognize the judgment of the court commencing main proceedings, which will be given the same effect in the other Member States so long as no secondary proceedings have been commenced there. The insolvency administrator appointed by a court in a Member State which has jurisdiction to commence main proceedings (because the debtor's COMI is there) may exercise the powers conferred on it by the laws of that Member State in another Member State (such as to remove assets of the debtor from that other Member State) subject to certain limitations, as long as no insolvency proceedings have been commenced in that other Member State or no preservation measures have been taken to the contrary further to a request to commence insolvency proceedings in that other Member State where the debtor has assets.

The concept of "group proceedings" has been introduced in the E.U. Insolvency Regulation with the aim of bolstering communication and efficiency in the insolvency of several members of a group of companies. Under Article 61 of the E.U. Insolvency Regulation, group coordination proceedings may be requested before any court having jurisdiction over the insolvency proceedings of a member of the group, by an insolvency practitioner appointed in insolvency proceedings opened in relation to a member of the group. Participation in group proceedings and adherence to the coordinating insolvency practitioner's recommendations or plan, however, is voluntary.

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.

According to the AIA, for a period of six months from the opening of insolvency proceedings, contractual counterparties of the debtor may terminate contracts only for good cause. In this context, the deterioration of the economic situation or the lack of timely performance by the debtor prior to the opening of insolvency proceedings is not considered a good cause allowing a termination. This restriction only applies if a termination of a contract would jeopardize the continuation of the debtor's business. No restrictions apply if a termination of a contract is necessary to prevent the contractual partner from incurring severe personal or economic damages. Furthermore, a contractual stipulation providing for the right to withdraw from an agreement or for an automatic termination in the event of opening of insolvency proceedings against the other party is not enforceable.

According to the AIA, a request for preferential realization (*Absonderung*) of pledged assets of a debtor that are essential for the continuation of the debtor's business cannot be made within a period of six months from the opening of insolvency proceedings.

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings.

The Austrian Business Reorganisation Act (Unternehmensreorganisationsgesetz)

The Austrian Business Reorganization Act (*Unternehmensreorganisationsgesetz-URG*) governs business reorganizations, which are designed to enable businesses in temporary financial distress to continue to do business after having undergone a reorganization procedure. A business reorganization procedure may be opened if a substantial and sustainable deterioration of the quota of own funds (*Eigenmittelquote*) may be certifiably anticipated. Only the debtor may apply for the opening of a reorganization procedure, *provided*, *however*, that it is not insolvent at the time of its application. Failure to timely apply for the opening of reorganization proceedings may result in personal liability of the representatives of the relevant corporation, if the need for reorganization manifested in a quota of own funds (*Eigenmittel*) is less than 8% and a fictitious duration of debt redemption (*fiktive Schuldtilgungsdauer*) of more than 15 years applies. Pursuant to section 19 of the Austrian Business Reorganization Act, a contractual stipulation providing for the right to withdraw from an agreement or for its automatic termination in the event of the opening of reorganization proceedings relating to the other party is not enforceable.

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 enforce the Guarantees under the Notes.

Limitation on Enforcement

The provision of upstream guarantees by the Austrian Guarantors is 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*) ("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 granted by an Austrian limited liability company or limited partnership, the unlimited partner(s) of which is/are a corporation(s), in order to guarantee or secure liabilities of a direct or indirect parent or sister company are considered disbursements under Austrian capital maintenance rules and are thus invalid (in whole or in part) and unenforceable if the granting of the Guarantees 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 provide a guarantee with respect to liabilities of a direct or indirect parent or sister company and in order to reduce the risk of violating Austrian capital maintenance rules and the resultant invalidity and unenforceability, it is standard market practice for indentures, credit agreements and guarantees 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, the Indenture will contain such limitation language and the Guarantees of the Austrian Guarantors 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.

No case law is available to confirm and it is thus not certain whether the limitations set forth in the Indenture entered into by Austrian Guarantors, in particular regarding the limitation of the amount guaranteed 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 to the extent possible or whether the Guarantees 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.

Hardening Periods and Clawback

Under the voidance rules of 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 the execution of the relevant agreement. Consequently, upon the issuance of the Notes, the relevant hardening/suspect periods in relation to the Guarantees will commence. Furthermore, the relevant hardening/suspect periods will be extended by the term of a reorganization proceeding if such reorganization proceeding terminates within the relevant hardening/suspect periods. See "—The Austrian Business Reorganisation Act (*Unternehmensreorganisationsgesetz*)".

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.

On May 1, 2018, book XX of the Belgian Code of Economic Law (*Wetboek Economisch Recht/Code de Droit Economique*) entered into force, consolidating all insolvency legislation in a single text (the "Insolvency Law").

The Insolvency Law provides for two insolvency procedures: a judicial reorganization procedure (*gerechtelijke reorganisatie/réorganisation judiciaire*) and a bankruptcy procedure (*faillissement/faillite*).

Judicial Reorganization

In principle, a debtor may file a petition for judicial reorganization if the continuity of the enterprise is at risk, whether immediately or in the future. The contents of this principle are broad and are defined in practice by the courts. Pursuant to the Insolvency Law, if the net assets of the debtor have fallen under 50% of the debtor's registered capital, the continuity of the enterprise is always presumed to be at risk.

As from the filing of the petition and as long as the court overseeing a judicial reorganization has not issued a ruling on the reorganization 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, subject to certain exceptions, none of the debtor's assets may be disposed of by any of its creditors as a result of the enforcement of any rights against the debtor (including under any security interests that such creditors may hold with respect to such assets).

Within a period of 15 days as from the filing of the petition, the court will hear the debtor on the petition for reorganization and will hear the report from the delegated judge. After this hearing, the court will rule within 8 days on the petition for judicial reorganization. If the conditions for judicial reorganization appear to be met, the court will declare the judicial reorganization procedure open, allowing a temporary moratorium for a maximum period of 6 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 on enforcement. 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, with a few exceptions, and the debtor cannot be declared bankrupt or wound up by court order. During the duration of the moratorium, no attachments can be made with regard to pre-existing claims. Creditors retain however the possibility to create legal or contractual security.

Conservatory attachments that existed prior to the opening of the judicial reorganization 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 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. Receivables which form part of a pledge over business assets do not benefit from such exemption. Moreover, the moratorium will not cover a pledge on financial instruments or certain credit claims (*bankvorderingen/créances bancaires*) (each within the meaning of the Financial Collateral Law of December 15, 2004). These can be enforced notwithstanding the enforcement prohibition imposed by the moratorium (unless considered an abuse of rights). Such exception, however, does not apply to pledges on cash held in accounts, except 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 reorganization procedure, the board of directors and management of the debtor continue to exercise their management functions. However, upon request of the debtor, the court may appoint an enterprise mediator (*ondernemingsbemiddelaar/médiateur d'entreprise*) to assist with the reorganization of the whole or part of the assets or activities of the debtor. The court may also appoint a judicial administrator (*gerechtsmandataris/mandataire de justice*), upon the request of any interested party or the public prosecutor, in the event of manifestly grave shortcomings (*kennelijk grove tekortkomingen/manquements graves et caractérisés*) of the debtor or any of its corporate bodies insofar as such measure can safeguard the continuity of the debtor. In addition, in the event of manifestly gross negligence (*kennelijk grove fout/faute grave et caractérisée*), the court may, upon the request of any interested party or the public prosecutor appoint a temporary administrator (*voorlopig bewindvoerder/administrateur provisoire*). Furthermore, upon request of any interested party or upon its own initiative, the court may decide that the company loses all or part of the management of all or part of its assets or activities in case of important, precise and consistent indications (*gewichtige, bepaalde en met elkaar overeenstemmende aanwijzigingen/indices graves, précis et concordants*) that the conditions for bankruptcy are met.

The reorganization 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 reorganization procedure, and certain contractual terms such as default interest, may not be enforceable during such a procedure. Furthermore, a creditor may not terminate a contract on the basis of a debtor's default that occurred prior to the reorganization 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 reorganization 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 Reorganization by Collective Agreement, by Amicable Settlement or by Court-ordered Transfer of Enterprise

A judicial reorganization procedure may result in (i) an amicable settlement between the debtor and two or more of its creditors, (ii) a collective agreement or (iii) a court-ordered transfer of (part of) enterprise.

The type of reorganization 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 reorganization by collective agreement, the creditors agree to a reorganization plan during the reorganization procedure.

Within a period of 8 days following the ruling declaring the judicial reorganization procedure open, the debtor must inform each of its creditors individually of the amount and ranking 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 reorganization 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 one month 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 reorganization plan during the moratorium period, with the assistance of a court-appointed administrator or enterprise mediator, 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. However, the plan cannot provide for the reduction or release of debts related to employment, alimony, physical damage and criminal fines.

The plan must be filed with the Clerk's Office of the Enterprise Court at least 20 days in advance of the date on which the creditors will vote on the approval of the reorganization 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 reorganization 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.

In the case of a court-ordered transfer, co-contractors of ongoing agreements can be forced to continue to perform the agreement without their consent after the transfer (except for *intuitu personae* agreements) provided historical debts under that agreement are paid.

Bankruptcy

A bankruptcy procedure may be initiated by the debtor, by unpaid creditors, or upon the initiative of the public prosecutor's office, by the provisional administrator of the debtor's assets, or by the bankruptcy receiver of "*main insolvency proceedings*" opened in another EU member state (other than Denmark) in accordance with the E.U. 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/faillietverklaring*) are that the debtor 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*), appointed by the court, 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). However,:

(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 (unless parties have agreed otherwise) as of the bankruptcy judgment. However, parties may agree to continue to perform under such contracts.

As a general rule, 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 on 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 first report of 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, subject to certain exceptions. The bankruptcy receiver will do so upon an order of the court. However, a first-ranking mortgagee will be entitled to pursue the enforcement of its mortgage as soon as the first report of claims has been finalized.

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 the main principles only:

- *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. Tax and social security claims incurred during the judicial reorganization proceedings will be preferential debts of the estate in a subsequent liquidation or bankruptcy.
- *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.
- *Unsecured creditors:* 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).

In an effort to encourage a second chance for entrepreneurs, the Insolvency Law provides that any assets, amounts, sums of distributions (such as income generated by a new activity) received after bankruptcy are excluded from the estate if their cause dates from after the bankruptcy.

Limitation on Enforcement

Corporate Benefit

The granting of a guarantee 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. This is a question of fact and there is no specific test to be applied. The corporate benefit rules and their application in the context of granting guarantees 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 and consideration has to be given to any direct and/or indirect benefit the company would derive from the transaction and is particularly relevant for upstream or cross-stream guarantees. It is generally considered by legal scholars that such benefit should be proportional to the risk for the guarantor resulting from the granting and/or enforcement of the guarantee concerned. The financial support granted by the company should not exceed its financial capabilities. Belgian case law does not offer clear guidelines on when a group transaction is within the individual group member's corporate benefit and when aforementioned conditions are met.

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 could be declared null and void and, under certain circumstances, the creditor that benefits from the guarantee could be held liable for up to the amount of the guarantee. Alternatively, the guarantee 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. 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 guarantee 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 will contain such limitation language and the guarantees of the Belgian Guarantors 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 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).

Corporate Purpose

In addition, the granting of a guarantee 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 may not include any liability which would result in unlawful financial assistance within the meaning of article 629 of the Belgian Companies Code.

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 (the "German Guarantors") 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 E.U. 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 (*Insolvenzordnung*), 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 (*überwiegend wahrscheinlich*). As a guideline, the debtor is deemed illiquid if it is unable to pay 10% or more of its due and payable liabilities during the subsequent three weeks, unless it is virtually certain that the company can close the liquidity gap shortly thereafter (*demnächst*) and it is deemed acceptable to the creditor to continue to wait for the payments owed by such debtor (*positive Fortführungsprognose*). 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 or, under certain circumstances, the shareholder 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 immovable 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 €6,000,000 (after deducting an equity shortfall if the debtor is over-indebted), (ii) revenues of at least €12,000,000 in the 12 months prior to the last balance sheet date and/or (iii) an annual average of 50 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 und Insolvenzverwalter*), (ii) orders for "debtor-in-possession" proceedings (*Anordnung der Eigenverwaltung*), and (iii) appointments of a preliminary trustee or a trustee (*vorläufiger Sachwalter* or *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 an 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" (*Eigenverwaltung*), 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 (*Masseverbindlichkeiten*) 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 movable 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 immovable 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 debtor’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 distribute any dividends on subordinated insolvency claims.

Under German insolvency law, there is no group insolvency concept, which generally means that, despite the economic ties between various entities within one group of companies, there will be one separate insolvency proceeding for each of the entities if and to the extent there exists an insolvency reason on the part of the relevant entity. Each of these insolvency proceedings will be legally independent from all other insolvency proceedings (if any) within the group. In particular, there is no consolidation of assets and liabilities of a group of companies in the event of insolvency and no pooling of claims among the respective entities of a group. Recently, the German legislator adopted an act to facilitate the handling of group insolvencies (*Gesetz zur Erleichterung der Bewältigung von Konzerninsolvenzen)* which came into force on April 21, 2018. However, this act mainly provides for coordination of and cooperation between insolvency proceedings of group companies. The act does not provide for a consolidation of the insolvency proceedings of the insolvent group companies, or a consolidation of the assets and liabilities of a group of companies or pooling of claims amongst the respective entities of a group, but rather stipulates four key amendments of the German Insolvency Code in order to facilitate an efficient administration of group insolvencies: (i) a single court may be competent for each group entity insolvency proceeding; (ii) the appointment of a single person as insolvency administrator for all group companies is facilitated; (iii) certain coordination obligations are imposed on insolvency courts, insolvency administrators and creditors’ committees; and (iv) 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).*

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 such as Guarantees of the Notes by the German Guarantors is subject to certain provisions of the German Limited Liability Company

Act (the *Gesetz betreffend die Gesellschaften mit beschränkter Haftung*, “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 (*Stammkapital*). 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, 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 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 the granting of any guarantee. In the event that a transaction is successfully challenged, the beneficiaries of such guarantee (such as the holders of Notes) would be under an obligation to repay the amount already received under the relevant security or guarantee, or to waive the guarantee. On March 29, 2017, the German legislature passed an act for the improvement of legal certainty concerning clawback pursuant to the German Insolvency Code and the German Law of Avoidance (*Gesetz zur Verbesserung der Rechtssicherheit bei Anfechtungen nach der Insolvenzordnung und nach dem Anfechtungsgesetz*), which entered into force on April 5, 2017 (subject to certain transitional provisions). The amendments to the German Insolvency Code (*Insolvenzordnung*) and the German Law of Avoidance (*Anfechtungsgesetz*) concern, *inter alia*, the provisions on avoidance for intentionally disadvantaging third party creditors (*Vorsatzanfechtung*), cash transactions (*Bargeschäfte*) and interest accruing on avoidance claims.

In particular, an act or 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 (*Befriedigung*) for a debt 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 interests, 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. In the case that the relevant act granted a creditor, or enabled a creditor to obtain, security or satisfaction for a debt, the avoidability of acts is limited to four years. In the case that the relevant act granted a creditor, or enabled a creditor to obtain, security or satisfaction for a debt to which such creditor was entitled in that form and that time, knowledge of such creditor of the intention of the debtor to prejudice its insolvency creditors shall (only) be presumed if the beneficiary knew that the debtor was illiquid and that the relevant act disadvantaged the other creditors. The fact that the creditor agreed on a payment plan with the debtor or agreed to deferred payments shall establish the presumption that he had no knowledge of the debtor being illiquid at this time;
- 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 (i) was concluded within

two years prior to the filing for the opening of insolvency proceedings or (ii) 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 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, if any.

The granting of security concurrently with the incurrence of debt may be qualified as a "cash transaction" and may as such be exempted—under certain circumstances—under the German Insolvency Code (*Insolvenzordnung*) (*Bargeschäftsprivileg*) from avoidance rights.

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 Code 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.

The German restructuring laws may be subject to further amendments in the near future due to the current EU Commission's proposal as of November 22, 2016 for a directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU which may, *inter alia*, stipulate that claims of the relevant creditors may be modified by majority vote and against the voting of a single creditor even outside formal insolvency proceedings.

The Netherlands

Insolvency

Where a company (incorporated in the Netherlands or elsewhere) has its "centre of main interests" or an "establishment" in the Netherlands, it may be subjected to Dutch insolvency proceedings governed by Dutch insolvency laws, subject to certain exceptions provided for in the E.U. Insolvency Regulation. See "—European Union." This is particularly relevant for Sappi Maastricht Real Estate B.V., Sappi Maastricht B.V., and Sappi Netherlands B.V. (together the "Dutch Guarantors" and each a "Dutch Guarantor"), which have their corporate seat (*statutaire zetel*) in Maastricht, the Netherlands, and are therefore presumed (subject to proof to the contrary) to have their "centre of main interests" in the Netherlands.

Dutch insolvency laws may not be as favorable to your interests as creditors as the insolvency laws of other jurisdictions. The following is a brief description of certain aspects of Dutch insolvency law.

Any insolvency proceedings applicable to the Dutch Guarantors may be governed by Dutch insolvency laws. There are two insolvency regimes under Dutch law applicable to legal entities. The first, a suspension 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 the assets of a debtor and distribute the proceeds thereof to its creditors. In practice a suspension of payments often results in the bankruptcy of the debtor. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*Faillissementswet*).

Only the debtor can make an application for a suspension of payments, and only if it foresees that it will be unable to continue to pay its debts as they fall due. Once the application has been filed, a court will immediately (*dadelijk*) grant a provisional suspension of payments and appoint one or more administrators (*bewindvoerders*). A meeting of creditors is required to decide on the definitive suspension of payments. 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 ratified by the court (*gehomologeerd*), the provisional moratorium ends. The definitive moratorium will generally be granted, unless a qualified minority (*i.e.*, more than one-quarter of the amount of claims held by creditors represented at the creditors' meeting or more than one-third of the number of creditors of the amount of claims held by creditors) of the unsecured, non-preferential, creditors declare against it or if there is a valid fear that the debtor will try to prejudice the creditors during a suspension of payments or if there is no prospect that the debtor will be able to satisfy its creditors in the (near) future. That the debtor must be able to satisfy its creditors does not mean that they must be paid in full. It suffices that creditors can be satisfied to some extent (for example, by receiving a percentage of their claims within the framework of a composition). Other than in the case of the ordering by a competent court of a statutory stay of execution of up to two months (extendable by another period of up to two months) imposed by court order pursuant to Article 241a of the Dutch Bankruptcy Act, a suspension of payments will only affect unsecured, non-preferential creditors. During such stay of execution, a secured creditor may not, without the court's consent (i) claim the asset subject to the security right if it is under the control of (*in de macht van*) the debtor subject to a suspension of payments or (ii) seek recourse against the asset.

Under Dutch law, a debtor can be declared bankrupt when it has ceased to pay its debts. Bankruptcy can be requested by a creditor of a claim when there is at least one other creditor. At least one of the claims (of the creditor requesting bankruptcy or the other creditor) needs to be due and payable. The debtor can also request the application of bankruptcy proceedings itself. Furthermore, the Public Prosecution Service (*het Openbaar Ministerie*) can request the application of bankruptcy proceedings for reasons of public interest (*openbaar belang*). In Dutch bankruptcy proceedings, a debtor's assets are generally liquidated and the proceeds distributed to the debtor's creditors according to the relative priority of those creditors' claims and, to the extent certain creditors' claims have equal priority, in proportion to the amount of such claims. Certain parties, such as secured creditors, will benefit from special rights. Secured creditors, such as pledgees and mortgagees, may enforce their rights separately from bankruptcy and do not have to contribute to the liquidation costs; however, enforcement of the security interest might be subject to the following: (i) a statutory stay of execution of up to two months (extendable by another period of up to two months) imposed by court order pursuant to Article 63a of the Dutch Bankruptcy Act, which has the same effects as set forth above for stays of execution in suspensions of payment; (ii) a receiver (curator) can force a secured party to foreclose its security interest within a reasonable time (as determined by the receiver pursuant to Article 58(1) of the Dutch Bankruptcy Act), failing which the receiver will be entitled to sell the relevant rights or assets and distribute the proceeds to the secured party after a deduction of liquidation costs; and (iii) excess proceeds of enforcement must be returned to the company's receiver and may not be offset against an unsecured claim of the company's secured creditor. Consequently, Dutch bankruptcy laws could reduce your potential recovery in Dutch bankruptcy proceedings.

Both a suspension of payments and bankruptcy have retroactive effect from 00.00 hours of the day on which the suspension of payments or the bankruptcy of the relevant Dutch company is declared.

Unlike Chapter 11 proceedings under United States bankruptcy law, where both secured and unsecured creditors are generally barred from seeking to recover on their claims, a suspension of payment and bankruptcy proceedings against Dutch debtors would allow secured creditors and preferential creditors (including tax and social security authorities) to satisfy their claims by proceeding against the assets (that secure their claims) as if there were no bankruptcy or suspension of payments. However, a statutory stay of execution as described above may be ordered by the competent court both in a suspension of payments and bankruptcy. Furthermore, certain preferred creditors have a preference by virtue of law. Unlike secured creditors, preferred creditors are not entitled to foreclose on assets of the bankrupt. They do have priority in the distribution of the proceeds of the bankrupt's assets. Restrictions on the enforcement of security interests may apply. For instance, higher ranking rights must be respected. These may include secured creditors and tax and social security authorities. A statutory stay of execution of security rights and other rights, as described above, may be imposed. Such set-off may be allowed prior to the bankruptcy, although at that time it may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for the set-off.

Any pending executions of judgments against the debtor will be suspended by the operation of law when a suspension of payments is granted and terminated by the operation of law when bankruptcy is declared. In addition, all attachments on the debtor's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination. Litigation pending on the date of the bankruptcy order is automatically stayed.

Both in a definitive suspension of payments and bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding for all unsecured and non-preferential creditors if it is: (i) approved by a simple majority (*gewone meerderheid*) of the number of creditors being present or represented at the creditors' meeting, representing at least 50% of the amount of the claims that are acknowledged and conditionally admitted; 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 a Dutch suspension of payments proceeding or bankruptcy. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be claimed in a composition.

The claim of a creditor, other than a claim to the extent that it is secured by Dutch law security, may be limited depending on the date the claim becomes due and payable in accordance with its terms. Claims that fall due more than one year after the date of the bankruptcy will be valued for distribution purposes as of the date the bankruptcy was declared. Claims that become payable within one year after the bankruptcy was declared will be considered payable from the day the bankruptcy was declared.

All unsecured, pre-bankruptcy claims will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, entitled to distributions. "Verification" under Dutch law means, in the case of a suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, the unsecured, pre-bankruptcy claims are submitted to a receiver for verification, and the receiver then makes a determination as to the claim's existence, ranking and value and whether and to what extent it should be admitted in the bankruptcy proceedings (for voting). In the situation of bankruptcy, creditors who wish to dispute the receiver's verification of their claims will be referred to a claim validation proceeding (*renvooiprocedure*) in order to establish the amount and rank of the disputed claim, while in a suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These procedures could cause holders of Notes to recover less than the principal amount of their Notes or less than they could recover in a United States liquidation proceeding or in similar proceedings in other jurisdictions. The *renvooi* proceedings could also cause payments to the holders of Notes to be delayed. Interest on claims accruing after the bankruptcy order date cannot be admitted unless secured by a pledge or mortgage, in which case interest will be admitted pro memoria. To the extent that interest is not covered by the proceeds of the security, the creditor may not derive any rights from the admission. No interest is payable in respect of unsecured claims as of the date of a bankruptcy.

Fraudulent transfer / conveyance

Dutch law contains specific provisions dealing with fraudulent conveyance both in and outside bankruptcy: the *actio pauliana* provisions. Under Dutch law, any creditor of a Dutch Guarantor or its receiver (*curator*) may nullify any transaction or legal act entered into by a Dutch Guarantor in connection with the Notes, under certain circumstances, if (i) the transaction or legal act entered into by a Dutch Guarantor in connection with the Notes was conducted without a prior existing legal obligation to do so (*onverplicht*); (ii) the creditor(s) concerned or, in the case of its or their bankruptcy, any creditor was prejudiced as a consequence of such transactions or legal act (irrespective of whether a creditor's claim arose prior to or after such transactions); and (iii) at the time the transaction or legal act entered into by a Dutch Guarantor in connection with the Notes was conducted (including the granting of the Guarantees), the relevant Dutch Guarantor and, unless the transactions were conducted for no consideration (*om niet*), the counterparty knew or should have known that one or more of the entities' creditors (existing or future) would be prejudiced (*actio pauliana*).

A receiver (*curator*) may nullify a transaction on behalf of and for the benefit of the joint insolvent debtor's creditors, and the burden of proof of the above-mentioned elements of fraudulent conveyance in principle rests on the receiver. Knowledge of prejudice is, however, presumed by law for certain transactions performed within a "suspect period" of one year prior to an adjudication of bankruptcy. This is applicable for certain transactions only, the most common application being (i) in cases where the obligations of the bankrupt party materially exceed those of the other party, (ii) the satisfaction of existing obligations of the bankrupt party that are not yet due, and (iii) acts between the bankrupt party and its counterparty when the shares in both are held (indirectly) by the same shareholder or if the bankrupt party and its counterparty are part of the same group of companies. The foregoing requirements for invoking fraudulent transfer provisions outside a bankruptcy apply mutatis mutandis when invoking fraudulent transfer provisions during a bankruptcy. In addition, the receiver may challenge a transaction if it was conducted on the basis of a prior existing legal obligation to do so (*verplichte rechtshandeling*), if (i) the transaction was conducted at a time when the counterparty knew that a request for bankruptcy had been filed or (ii) if such transaction was conducted as a result of deliberation between the debtor and the counterparty in order to give preference to the counterparty over the debtor's other creditors. Consequently, the validity of any such transactions conducted by a Dutch legal entity may be challenged and it is possible that such a challenge would be successful.

Further Limitations on Enforcement

In general, receipt of any payment under a Dutch law-governed guarantee or security interest may be affected by (i) the standards of reasonableness and fairness (*maatstaven van redelijkheid en billijkheid*), (ii) force majeure (*niet toerekenbare tekortkoming*) and unforeseen circumstances (*onvoorziene omstandigheden*), and (iii) the other general defenses available to debtors under Dutch law in respect of the validity, binding effect and enforceability of such guarantee or security interest. Other general defenses include claims that a guarantee or security interest should be voided because it was entered into through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress (*bedreiging*) or error (*dwaling*). Other impeding factors include rights of suspension (*opschorting*), a dissolution of a contract (*ontbinding*) and set-off (*verrekening*). The enforceability of the obligations of the Dutch Guarantors may also be limited under the 1977 Sanction Act (*Sanctiewet 1977*) or otherwise by international sanctions and, in proceedings in a Dutch court, the court may mitigate amounts due in respect of litigation, enforcement and collection costs.

Furthermore, if a Dutch Guarantor enters into a transaction (such as the granting of a guarantee), the validity and enforceability of the relevant transaction may be contested by the Dutch company or its administrator (*bewindvoerder*) in a suspension of payments or its receiver (curator) in bankruptcy, if (i) that transaction is not in the company's corporate interest (*vennootschappelijk belang*) and (ii) the other party to the transaction knew or should have known this without independent investigation. In determining whether the granting of a guarantee is in the interest of the relevant company, a Dutch court would not only consider the text of the objects clause in the articles of association of the company but also all relevant circumstances, including whether the company derives certain commercial benefits from the transaction in respect of which the guarantee was granted and any indirect benefit derived by the relevant Dutch company as a consequence of the interdependence of it with the group of companies to which it belongs and whether or not the subsistence of the relevant Dutch company is jeopardized by conducting such transaction. The mere fact that a certain legal act (*rechtshandeling*) is explicitly mentioned in the objects clause in the articles of association of the company may not be conclusive evidence to state that such legal act is in the corporate interests.

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 classified 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, such as employees and The South African Revenue Services, 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. 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 obligations of the company that arise under an agreement 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 which may impact 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

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 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 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. No further approval will be required for the repatriation of funds realized by the non-resident party benefitting from the guarantee subject to any other conditions set out in the SARB approval, such as providing notice to the SARB of the repatriation.

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) (the "CWUMPO") 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 statutory demand by a creditor;

    (ii) where execution or other process on a judgment, decree or court order 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 as they fall due 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.

    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.

    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 typically occurs where the shareholders of a company pass the requisite resolution to place the company into liquidation. If the directors of the company or, in the case of a company having more than two directors, the majority of the company's directors have issued a certificate of solvency within five weeks immediately preceding the date of the passing 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 winding up. In the absence of such a certificate, the liquidation will be a creditors' voluntary winding up. In addition, there is a special procedure under section 228A of the CWUMPO for the directors of the company or, in the case of a company having more than two directors, the 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.

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 an automatic stay on actions or proceedings against the company and such actions or proceedings may thereafter be proceeded with or commenced against the company only with 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 Part 13, Division 2 of the Companies Ordinance (Cap. 622) (the "CO") 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 typically require the agreement of a majority in number representing three-fourths in value of the creditors (or class of them), or of the voting rights of the 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. Claims entitled to priority may include, among others, (a) all expenses of the winding up, including those 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 other finance documents to which the Hong Kong Guarantor is a party in respect of any period after the date of the resolution to wind up the company or winding-up order (as applicable) 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 CO) 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 or indemnity given by the Hong Kong Guarantor constitutes unlawful financial assistance, unless certain statutory exceptions apply, then such Guarantee 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 sections 265B and 265C of the CWUMPO)) before the commencement of the winding up of a company may be voidable 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 creditor, guarantor or surety of the company if the relevant act has the effect of putting that person in a better position (in the event of the company going into insolvent liquidation) than if the action had not been taken. In order for that action to be deemed an unfair preference, 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 (within the meaning of section 178 of the CWUMPO).

Under Hong Kong insolvency law, any transaction entered into at an undervalue within five years before the commencement of the winding up of a company may be voidable 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 entered into that transaction. The company enters into a transaction with a person at an undervalue if the company makes a gift to that person, or otherwise enters into a transaction with that person on terms that provide for the company to receive no consideration or the company enters into a transaction with that person for a consideration the value of which, in money or money's worth, is significantly less than the value, in money or money's worth, of the consideration provided by the company. In order to be deemed a transaction at an undervalue, the (i) transaction must not have been entered into (a) in good faith and (b) for the purpose of carrying on its business, (ii) the company must not have had reasonable grounds to believe that the transaction would benefit the company and (iii) at the time or as a result of the preference, the company must not have been able to pay its debts when they fall due (within the meaning of section 178 of the CWUMPO).

Under Hong Kong insolvency law, the court may, on the application of the liquidator, make orders to, among others, set aside the whole or part of the company's obligations (and make other orders) with respect to, or vary the terms of 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 date the resolution to wind up the company was passed or the winding-up order was made (as the case may be). A credit transaction will be presumed to be extortionate unless the contrary is proved if, having regard to the risk accepted by the person providing the credit, (i) the terms of it are or were such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of credit or (ii) it otherwise grossly contravenes ordinary principles of fair dealing.

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 times, 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.

If the Guarantee 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. In the event of Sappi Finland's insolvency, insolvency proceedings may be initiated in Finland. Such proceedings would then be governed by Finnish law. In case of insolvency proceedings connected to another EU member state within the meaning of regulation (EU) 2015/848 of the European Parliament and of the Council on Insolvency Proceedings, and provided that said regulation is applied to such EU member state, the regulation shall apply.

The following is a brief description of certain aspects of Finnish insolvency law.

The provisions of the Finnish Bankruptcy Act (*Konkurssilaki, 120/2004, as amended*), the Finnish Restructuring Act (*Laki yrityksen saneerauksesta, 47/1993, as amended*) and the Finnish Act on the Recovery of Assets to the Bankruptcy Estate (the "Recovery Act") (*Laki takaisinsaannista konkurssipesään, 758/1991, as amended*) 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 two alternative types of proceedings: company restructuring (Finnish: *yrityssaneeraus*) and bankruptcy (Finnish: *konkurssi*). Liquidation proceedings (Finnish: *selvitystila*) under the Companies Act (*Osakeyhtiölaki, 624/2006, as amended*) generally concern only solvent companies as there is an obligation to conclude liquidation proceedings and file for bankruptcy if the full settlement of all of the company's debts is not possible in liquidation.

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 company 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 (Finnish: *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 debt arrangements with creditors and execute other measures. 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 for 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 that have arisen before the filing of the restructuring application 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 must be repaid and can be 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

Arrangements of Unsecured Debt

Creditors with equal ranking have an equal status in the arrangements of the restructuring debts (*i.e.*, debts that have arisen before the filing of the application) 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) changing the repayment schedule; (ii) ordering that debt payments be considered as payments against principal first, and as payments of interest and other credit costs only second; (iii) reducing the obligation to pay interest and other credit costs with respect to the remaining term of a debt; and (iv) reducing the outstanding principal balance of unpaid debt. The restructuring program may also include the full or partial refinancing of debt, either as a lump sum funded by the issuance of new debt or with payments in lieu of performance that are considered reasonable having regard to the creditor's position and field of business.

Arrangements of 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 part of the claim that is not covered by the value of the security is regarded as unsecured debt for the purposes of the restructuring proceedings. Regarding business mortgages, only 50% of the value of the mortgaged property will be considered as secured debt. The value of the property will be determined by the restructuring program.

The following debt arrangements may be applied to secured debt: (i) changing the repayment schedule; (ii) ordering that debt payments be applied as payments against principal first and as payments of interest and other credit costs second; or (iii) reducing the obligation to pay interest and other credit costs with respect to the remaining term of the debt. The restructuring program may also include the full or partial refinancing of secured debt as a lump sum payment funded by the issuance of new 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 half of the original credit period. As for reducing interest and other credit costs, the length of the remaining credit period should be taken into consideration in the restructuring program, 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 affirm 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 a 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 and at least one group of creditors must have voted for approval of the program by majority. 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 approved, an estate administrator (Finnish: *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 distributing any possible surplus amount to the 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 continue the company's business operations, in which case the assets should be realized as soon as reasonably possible.

As a main rule, the bankruptcy estate has an option to choose whether to commit 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 (*Yrityskiinnityslaki 634/1984, as amended*), 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 lodgement date.

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 the 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:

- creditors of secured claims (excluding claims secured by business mortgage) and holders of retention rights, with priority over the proceeds from the respective security asset;

- creditors of the administrative expenses of the bankruptcy estate, creditors with claims on the basis of contracts that the bankruptcy estate (rather than the debtor) has entered into, and any liabilities for which the bankruptcy estate is responsible by operation of law;
- if the company has undergone restructuring proceedings before the bankruptcy, (a) fees and expenses of the restructuring administrator with penal interest incurred until the time of payment of the fees and expenses and after satisfaction of said payment and (b) creditors of a debt that has arisen between the commencement and discontinuation of restructuring proceedings;
- a claim which is secured by business mortgage will receive prior to unsecured and non-preferred claims a disbursement of 50% of the value of the mortgaged assets after claims with higher priority have first been paid.

The law also 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.*, a capital loan). The Finnish state has no preferential rights regarding taxes and other fiscal charges.

The assets of the bankruptcy estate are to be 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 of pledged property 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. At the request of the bankruptcy estate, assets of the bankruptcy estate may also be sold in accordance with the provisions of the Enforcement Code (*Ulosottokaari, 705/2007, as amended*) if the bailiff consents to the same.

Recovery

General

Under Finnish law, recovery (*i.e.*, claw back) is governed by the Recovery Act (758/1991, as amended). The grounds for recovery set out in the Recovery Act are also to be applied in bankruptcy as well as in restructuring proceedings.

Under the Recovery Act, in bankruptcy 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. In restructuring, both the restructuring administrator(s) and creditors may seek recovery, subject to certain procedures.

Generally, an action for recovery must be filed (i) in the case of bankruptcy, by the estate administrator or the creditors within one year from the commencement of the bankruptcy proceedings and (ii) in the case of restructuring, by the restructuring administrator or the creditors within six months of commencement of restructuring proceedings. However, if the grounds for recovery appear after said one-year (bankruptcy) or six-month (restructuring) period, an action may be filed later if it is filed by the estate administrator or restructuring administrator within three months from the date when the grounds for such action became or should have become apparent to the bankruptcy estate or the restructuring administrator.

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; and (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 (natural or legal) person within the debtor's sphere of interest, within two years, unless it is shown that the debtor was not insolvent or did not become insolvent due to the payment) 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.

When a transaction is recovered, the property that has been received from the debtor is returned to the bankruptcy estate or the debtor. The bankruptcy estate or the debtor also returns the compensation that had been paid for the property. If the compensation has been placed beyond the reach of the creditors and the party that paid the compensation knew or should have known that this was the intention of the debtor, there is no obligation to return the compensation. If the property to be returned no longer exists, or is otherwise not returnable, compensation for the value of the property must be made. In addition, should the return of certain property cause inconvenience to the party under such obligation, a court may entitle such party to pay compensation equal to the value of the property instead of returning the property. The Recovery Act also sets forth an obligation to compensate for any decrease in value of the returnable property.

Limitation on Enforcement

A Finnish company may only distribute its assets as specified in the Finnish Companies Act (*Osakeyhtiölaki*, 624/2006, as amended). Other transactions that reduce the assets of the company or increase its liabilities without a sound business reason constitute unlawful distribution of assets. Granting of guarantees and security is subject to the rules applicable to distribution of funds and therefore it is required that the granting of a guarantee/security is based on sound business reasons (corporate benefit). The Finnish Companies Act also 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.

In addition to the corporate benefit requirement the company may not be insolvent and the granting of a guarantee/security may not result in the company becoming insolvent.

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 will contain such limitation language and the Guarantee of Sappi Finland 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 (624/2006, as amended) regulating distribution of assets, (ii) Chapter 13, Section 10 of the Finnish Companies Act regulating financial assistance and (iii) 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.

Republic of Italy

Introduction

The following is a brief description of certain aspects of insolvency law in Italy, which does not include special provisions applying to banks, insurance and other companies authorized to carry out certain reserved activities, nor does it provide a comprehensive description of insolvency laws application where publicly-owned companies are involved. Insolvency laws and regulations are currently being reviewed and significant amendments are expected in the near future. In particular, on October 11, 2017 the Italian Senate approved Law No. 155 dated October 19, 2017 pursuant to which the government issued Legislative Decree No. 14 dated

January 12, 2019 (the “Legislative Decree No. 14/2019”), which carried out a substantial reform of Italian insolvency laws on the basis of the guidelines provided in Law No. 155. The main innovations, which must be implemented by the government within 12 months, include: (i) the elimination of the term “bankrupt” (*fallito*) due to its negative connotation and its replacement with a reference to a judicial liquidation; (ii) new definition of state of crisis; (iii) the adoption of the same procedural framework to access the different insolvency procedures provided by law; (iv) express acknowledgement and adoption of the definition of debtor’s center of main interest as provided for in the E.U. Insolvency Regulation; (v) a new set of rules concerning group restructurings; (vi) restrictions to the use of the pre-bankruptcy composition with creditors (*concordato preventivo*) in order to favor going-concern restructurings; (vii) a new preventive alert and mediation phase to avoid insolvency; and (viii) jurisdiction of specialized courts over proceedings involving large debtors. However, the main provisions included therein will only come into force 18 months after the publication of such legislative decree in the Italian Official Gazette (*Gazzetta Ufficiale*), which occurred on February 14, 2019. Therefore, the practical consequences of the implementation of Legislative Decree No. 14/2019 and its potential impact on the existing insolvency proceedings cannot be foreseen, particularly in light of the possibility that such legislative decree may be subject to amendments that may impact the provisions set forth therein.

Limitations on Granting Guarantees under Italian Law

Under Italian law, the entry into a transaction (including the granting of a guarantee) by a company must be permitted by the applicable laws and by its by-laws (*statuto sociale*) and is subject to compliance with the rules on corporate benefit, corporate authorization and certain other Italian mandatory provisions. If a guarantee is being provided in the context of an acquisition, group reorganization or restructuring, financial assistance issues may also be triggered.

An Italian company entering into a transaction (including granting a guarantee) must receive a real and adequate benefit in exchange for the guarantee being provided by such company. The concept of real and adequate benefit is not defined in the applicable legislation and its existence is purely a business decision by the directors and the statutory auditors, if any. As a general rule, corporate benefit is to be assessed at the level of the relevant company on a stand-alone basis, although upon certain circumstances and subject to specific rules, the interest of the group to which such company belongs may also be taken into consideration. While corporate benefit for a down-stream guarantee (*i.e.*, a guarantee granted to secure financial obligations of direct or indirect subsidiaries of the relevant grantor) is usually self-evident, the validity and effectiveness of an up-stream or cross-stream guarantee (*i.e.*, a guarantee granted to secure financial obligations of the direct or indirect parent or sister companies of the relevant grantor) granted by an entity organized under the laws of Italy depends on the existence of a real and adequate benefit in exchange for the granted guarantee and may be challenged unless it can be proved that the grantor may derive some benefits or advantages from the granting of such guarantee. The general rule is that the risk assumed by an Italian guarantor must not be disproportionate to the direct or indirect economic benefit to it. In particular, in case of an up-stream and cross-stream guarantee for the financial obligations of group companies, examples may include financial consideration in the form of access to cash flows through intercompany loans from other members of the group, while transactions featuring debt financings of distributions to shareholders are largely untested in Italian courts, and, therefore, limited guidance is provided as to whether and to what extent such transactions could be challenged for lack of corporate benefit and conflict of interest.

As a general rule, the absence of a real and adequate benefit could render the transaction (including the granting of a guarantee) entered into by an Italian company ultra vires and potentially affected by a conflict of interest. Civil liabilities may be imposed on the directors of an Italian grantor if a court holds that it did not act in the best interest of the grantor and that the acts carried out do not fall within the corporate purpose of the company or were against mandatory provisions of Italian law. The lack of corporate benefit could also result in the imposition of civil liabilities on those companies or persons ultimately exercising control over an Italian grantor or having knowingly received an advantage or profit from such improper control. Moreover, the guarantee granted by an Italian company could be declared null and void if the lack of corporate benefit was known or presumed to be known by the third party and such third party acted intentionally against the interest of the Italian company.

The above principles on corporate benefit apply equally to up-stream and down-stream guarantees granted by Italian companies.

The Indenture for the Notes will expressly provide that the liability of Sappi Italy Operations S.p.A. (“Sappi Italy”), in its capacity as Guarantor under the Indenture and the Guarantee, shall not exceed, at any time, an amount equal to the aggregate outstanding amount, from time to time, of any intercompany loan, documentary credit or any other item constituting financial indebtedness made available to it (or to any of its direct or indirect subsidiaries) by the Parent Guarantor or any of its subsidiaries, less:

(a) any amount paid by Sappi Italy from time to time pursuant to the Guarantee or the Indenture; and

(b) the aggregate amount (if any) that, at the time of the enforcement of a guarantee granted by Sappi Italy pursuant to the Guarantee and the Indenture, has already been paid by Sappi Italy pursuant to, or is due and payable as a result of a demand under, any guarantee granted by Sappi Italy with respect to any other indebtedness for borrowed money or any other amount raised pursuant to a note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument.

Notwithstanding any other provision under the Indenture, any guarantee granted by Sappi Italy pursuant to the Guarantee and the Indenture shall not guarantee any liability to the extent that such liability (x) was incurred or utilized for the purposes of financing or refinancing (directly or indirectly) the acquisition, acquisition costs, subscription or increase (direct or indirect) of the corporate capital of Sappi Italy; and/or (y) is otherwise in breach of articles 2358 or 2474 of the Italian Civil Code, as the case may be.

In any event, pursuant to article 1938 of the Italian Civil Code, the maximum amount that Sappi Italy may be required to pay in respect of its obligations as Guarantor pursuant to the Guarantee and the Indenture shall not exceed the euro amount corresponding to 150% of the principal amount of the Notes.

Financial assistance

In addition, the granting of a guarantee by an Italian company cannot include any liability which would result in unlawful financial assistance within the meaning of Article 2358 or 2474, as the case may be, of the Italian Civil Code pursuant to which, subject to specific exceptions, it is unlawful for a company to give financial assistance (whether by means of loans, security, guarantees or otherwise) to support the acquisition or subscription by a third party of its own shares or quotas or those of any entity that (directly or indirectly) controls the Italian company. Financial assistance for refinancing indebtedness originally incurred for the purchase or subscription of its own shares or quotas or those of its direct or indirect parent company would also be a violation. Any loan, guarantee or security given or granted in breach of these provisions is null and void. In addition, directors may be personally liable for failure to act in the best interest of the company.

Insolvency laws

The insolvency laws of Italy may not be as favourable to investors' interests as those of other jurisdictions with which investors may be familiar. In Italy, courts play a central role in the insolvency process. Moreover, in court procedures may be materially more complex than in equivalent situations in jurisdictions with which holders of the Notes may be familiar.

The following is a brief description of certain aspects of insolvency law in Italy, which does not include special provisions applying to banks, insurance and other companies authorized to carry out certain reserved activities nor does it provide a comprehensive description of insolvency laws application when public companies are involved.

Certain provisions of Italian law have been amended or have entered into force only recently and, therefore, may be subject to further implementation and/or interpretations and have not been tested to date in the Italian courts. In this respect, the most recent reform has been approved by the Italian Government on June, 23 2015 through a law-decree containing urgent reforms applicable, *inter alia*, to Italian bankruptcy law (the "Decree"). The Decree entered into force in June 2015 (the date of its publication in the *Gazzetta Ufficiale*) and has been converted into law by the Italian Law No. 132/2015 ("Law 132"). Law 132 entered into force on August 21, 2015 (the date after its publication in the *Gazzetta Ufficiale*).

The two primary aims of Italian Royal Decree No. 267 of March 16, 1942 (the main Italian bankruptcy legislation), as reformed and currently in force (the "Italian Bankruptcy Law"), are to liquidate the debtor's assets and protect the goodwill of the going concern (if any) for the satisfaction of creditors' claims as well as, in case of the *"Prodi-bis*" procedure or "*Marzano"* procedure, to maintain employment. These competing aims have often been balanced by the sale of businesses as going concerns and ensuring that employees are transferred along with the businesses being sold. However, the Italian Bankruptcy Law has been recently amended with a view to promoting rescue procedures rather than liquidation focusing on the continuity and survival of financially distressed businesses and enhancing pre-bankruptcy restructuring options.

Under the Italian Bankruptcy Law, bankruptcy must be declared by a court, based on the insolvency (*insolvenza*) of a company upon a petition filed by the company itself, the public prosecutor and/or one or more creditors. Insolvency occurs when a debtor is no longer able to regularly meet its obligations as they come due. This must be a permanent, rather than a temporary, status of insolvency in order for a court to hold that a company is insolvent.

The following debt restructuring and bankruptcy alternatives are available under Italian law for companies in a situation of "financial distress" (*i.e.* facing financial crisis which does not yet amount to insolvency) and for insolvent companies.

Restructuring outside of a judicial process (concordati stragiudiziali)

Restructuring generally takes place through a formal judicial process because it is more favorable for the debtor and because informal arrangements put in place as a result of an out-of-court restructuring are vulnerable to being reviewed by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions. However, in cases where a company is solvent, but facing financial difficulties, it may be possible to enter into an out-of-court arrangement with its creditors, which may safeguard the existence of the company.

Out-of-court reorganization plans (Piani di risanamento) pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law

Out-of-court debt restructuring agreements are based on restructuring plans (*piani di risanamento attestati*) prepared by companies in order to restructure their indebtedness and to ensure the recovery of their financial condition. An independent expert appointed by the debtor must verify the feasibility of the restructuring plan and the truthfulness of the business and accounting data provided by the company. The expert must possess certain specific professional requisites and qualifications and meet the requirements set forth by Article 2399 of the Italian Civil Code and may be subject to liability in case of misrepresentation or false certification.

The terms and conditions of these plans are freely negotiable, provided that they are finalized at restructuring the debtor's indebtedness and rebalancing its capital structure. Unlike in-court pre-bankruptcy agreement proceedings and debt restructuring agreements, out-of-court reorganization plans do not offer the debtor any protection against enforcement proceedings and/or precautionary actions of third-party creditors. The Italian Bankruptcy Law provides that, should these plans fail and the debtor be declared bankrupt, the payments and/or acts carried out for the implementation of the reorganization plan, subject to certain conditions: (i) are not subject to claw-back action; and (ii) are exempted from potential application of certain criminal sanctions (pursuant to Article 217-*bis* of the Italian Bankruptcy Law). Neither ratification by the court nor publication in the Companies' Register are needed (although publication in the Companies' Register is possible upon a debtor's request and would allow certain tax benefits) and, therefore, the risk of bad publicity or disvalue judgments are lower than in case of an in-court pre-bankruptcy agreement or a debt restructuring agreement.

Debt restructuring agreements with creditors pursuant to Article 182-bis of the Italian Bankruptcy Law (Accordi di ristrutturazione dei debiti)

The debtor may negotiate with creditors holding at least 60% of the total amount of claims or debt restructuring agreements, subject to court's approval. An independent expert appointed by the debtor must assess the truthfulness of the business and accounting data provided by the company and declare that the agreement is feasible and that it ensures that the non-participating creditors can be fully satisfied within the following terms: (a) 120 days from the date of approval of the agreement by the court, in the case of debts which are due and payable to the non-participating creditors as of the date of the approval (*omologazione*) of the debt restructuring agreement by the court; and (b) 120 days from the date on which the relevant debts fall due, in the case of debts which are not yet due and payable to the non-participating creditors as at the date of the approval (*omologazione*) of the debt restructuring agreement by the court. Only a debtor who is insolvent or in a situation of "financial distress" can initiate this process and request the court's approval (*omologazione*) of the debt restructuring agreement entered into with its creditors.

The agreement is published in the companies' register and is effective as of the day of its publication. Starting from the date of such publication and for 60 days thereafter, creditors cannot start or continue any conservative or enforcement actions against the assets of the debtor and cannot obtain any security interest (unless agreed) in relation to pre-existing receivables.

The Italian Bankruptcy Law does not expressly provide for any indications concerning the contents of the debt restructuring agreement. The plan can therefore provide, among others, either for the prosecution of the business by the debtor or by a third party, or the sale of the business to a third party, and may contain refinancing agreements, moratoria, write-offs and/or postponements of claims. The debt restructuring agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. The 60-days moratorium can also be requested by the debtor while negotiations with creditors are pending (*i.e.*, prior to the above-mentioned publication of the agreement), subject to certain conditions. Such moratorium request must be published in the companies' register and becomes effective as of the date of publication. The court, having verified the completeness of the documentation, sets the date for a hearing within 30 days of the publication and orders the company to supply the relevant documentation in relation to the moratorium to the creditors. At such hearing, the court assesses whether the conditions for granting the moratorium are in place and, in such case, orders that no conservative or enforcement action may be started or continued, nor can security interests (unless agreed) be acquired over the assets of the debtor, and sets a deadline (not exceeding 60 days) within which a debt restructuring agreement and the assessment by the expert must be deposited. The court's order may be challenged within 15 days of its publication. Within the same time frame, an application for the *concordato preventivo* (as described below) may be filed, without prejudice to the effect of the moratorium. Creditors and other interested parties may oppose the agreement within 30 days from the publication of the agreement in the Companies' Register. After having settled the oppositions (if any) the court will validate the agreement by issuing a decree, which can be appealed within 15 days of its publication in the Companies' Register.

The Decree 83/2015, as amended by Law 132/2015, introduced certain new provisions easing the requirements with respect to financial creditors with respect to the debt restructuring agreements.

Pursuant to the new Article 182-*septies* of the Italian Bankruptcy Law, introduced by the Decree 83/2015, as amended by Law 132/2015, debtors whose financial indebtedness is at least 50% of their total indebtedness are entitled to enter into debt restructuring agreements obtaining the approval of financial creditors representing at least 75% of the aggregate financial claims of the relevant category and ask the court to declare such agreement binding on the dissenting financial creditors belonging to the same category (so called "cram down"), subject to certain conditions being met, including that treatment of dissenting creditors is not worse than under any other available alternative. If the abovementioned conditions are met, then the remaining 25% of non-participating financial creditors belonging to the same class of creditors are crammed down; however, crammed down creditors can challenge the deal and refuse to be forced into it, on the basis of the lack of homogeneity of the classes of creditors. Similarly, a standstill agreement (*convenzione di moratoria*) entered into between a debtor and financial creditors representing 75% of that debtor's aggregate financial indebtedness would also bind the non-participating financial creditors, provided that an independent expert certifies the homogeneity of the classes and subject to certain conditions being met. The purpose is to prevent banks with modest credits from blocking restructuring operations involving more exposed bank creditors, resulting in the failure of the overall restructuring and the opening of a procedure. Financial creditors who did not participate in the agreement may challenge it within 30 days of receipt of the application.

Such debt restructuring agreements and standstill agreements will not affect the rights of non-financial creditors (*e.g.*, trade creditors) who cannot be crammed down and must be paid within 120 days if not participating to a scheme.

Pursuant to Article 182-*quater* of the Italian Bankruptcy Law, financing granted to the debtor pursuant to the approved debt restructuring agreement (or a court-supervised Pre-Bankruptcy Composition with Creditors) enjoys priority status in cases of subsequent bankruptcy (such status also applies to financing granted by shareholders, but only up to 80 percent of such financing). Financing granted "in view of" (*i.e.*, before) presentation of a petition for a debt restructuring agreement or a court-supervised Pre-Bankruptcy Composition with Creditors may be granted such priority status provided that it is envisaged by the relevant plan or agreement and that such priority is expressly provided for by the court at the time of approval of the plan or sanctioning (*omologazione*) of the agreement.

Moreover, pursuant to the new Article 182-*quinquies* of the Italian Bankruptcy Law, the Court, pending the sanctioning (*omologazione*) of the debt restructuring agreement pursuant to Article 182-*bis*, Paragraph 1, of the Italian Bankruptcy Law or after the filing of the moratorium application pursuant to Article 182-*bis*, Paragraph 6, of the Italian Bankruptcy Law or a petition pursuant to Article 161, Paragraph 6, of the Italian Bankruptcy Law (in relation to the court supervised pre-bankruptcy arrangement with creditors procedure described below) may authorize the debtor to: (i) incur new pre-deductible indebtedness subject to authorization by the court and if an expert certifies that such financing is functional to the overall restructuring process, (ii) secure such indebtedness via in rem securities ("*garanzie reali*"), provided that the expert appointed by the debtor, having verified the overall financial needs of the company until the sanctioning (*omologazione*), declares the aim of the new financial indebtedness results in a better satisfaction of the creditors; and (iii) pay debts deriving from the supply of services or goods, already payable and due, provided that the expert declares that such payment is essential for the keeping of the company's activities and to ensure the best satisfaction for all creditors. In addition, according to the provisions of the Decree 83/2015, as amended by Law 132/2015, the aforementioned authorization may be given also before the filing of the additional documentation required pursuant to Article 161, Paragraph 6 of the Italian Bankruptcy Law.

The provision of Article 182-quinques of the Italian Bankruptcy Law applies to both debt restructuring agreement and to the court-supervised pre-bankruptcy compositions with creditors (*concordato preventivo*) outlined below.

Furthermore, according to the Article 1 of the Decree 83/2015, as amended by Law 132/2015, pending the sanctioning (*omologazione*) of the debt restructuring agreement pursuant to Article 182-bis, Paragraph 1 of the Italian Bankruptcy Law or after the filing of the moratorium application pursuant to Article 182-bis, Paragraph 6 of the Italian Bankruptcy Law and also in absence of the plan pursuant to Article 161, Paragraph 2, letter (e) of the Italian Bankruptcy Law, the court may also authorize the debtor to incur in new super senior (so-called *prededucible*) indebtedness, aimed at supporting urgent financial needs related to the company's business. The company, while filing such request of authorization, is required to specify (i) the purpose of the financing; (ii) that it is unable to otherwise obtain the required funds and (iii) that the absence of such financing will entail an imminent and irreparable prejudice to the company.

Court-supervised pre-bankruptcy composition with creditors (concordato preventivo)

A company which is insolvent or in a situation of "financial distress" has the option to make a composition proposal to its creditors, under court supervision, in order to compose its overall indebtedness and/or reorganize its business, thereby avoiding a declaration of insolvency and the initiation of bankruptcy proceedings. Such composition proposal can be made by a commercial enterprise which exceeds any of the following thresholds: (i) has had assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million for each of the three preceding fiscal years, (ii) gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the three preceding fiscal years, and (iii) has total indebtedness in excess of €0.5 million. Only the debtor company can initially file a petition with the court for a *concordato preventivo* (together with, among others, a restructuring plan and an independent expert report assessing the feasibility of the composition proposal and the truthfulness of the business and accounting data provided by the company). The petition for *concordato preventivo* is then published by the debtor in the company's register. From the date of such publication to the date on which the court sanctions the *concordato preventivo*, all enforcement and interim relief actions by the creditors (whose debt became due before the sanctioning of the *concordato preventivo* by the court) are stayed. During this time, all enforcement precautionary actions and interim measures sought by creditors whose title arose beforehand are stayed. Pre-existing creditors cannot obtain security interests (unless authorized by the court) and mortgages registered within the 90 days preceding the date on which the petition for the *concordato preventivo* is published in the company's register are ineffective against such pre-existing creditors.

The composition proposal filed in connection with the petition may provide for: (i) the restructuring and payment of debts and the satisfaction of creditors' claims (provided that, in any case, it will ensure payment of at least 20% of the unsecured receivables, except for the case of composition with creditors with continuity of the going concern (*concordato con continuità aziendale*) pursuant to Article 186-bis of the Italian Bankruptcy Law), including through extraordinary transactions, such as the granting to creditors and to their subsidiaries or affiliated companies of shares, bonds (including bonds convertible into shares), or other financial instruments and debt securities); (ii) the transfer to a receiver (*assuntore*) of the operations of the debtor company making the composition proposal; (iii) the division of creditors into classes and (iv) different treatment of creditors belonging to different classes. The composition proposal may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

The filing of the petition for the *concordato preventivo* may be preceded by the filing of a preliminary petition for a *concordato preventivo* (so-called *concordato in bianco*, pursuant to Article 161, paragraph 6, of the Italian Bankruptcy Law, as amended by Italian Law Decree No. 69/2013 as converted into Italian Law No. 98/2013 ("Law Decree 69/2013")). The debtor company may file such petition along with (i) its financial statements from the latest three financial years; and (ii) the list of creditors with the reference to the amount of their respective receivables, reserving the right to submit the underlying plan, the proposal and all relevant documentation within a period assigned by the court between 60 and 120 days from the date of the filing of the preliminary petition, subject to only one possible further extension of up to 60 days, where there are reasonable grounds for such extension. In advance of such deadline, the debtor may also file a petition for the approval of a debt restructuring agreement (pursuant to Article 182-*bis* of the Italian Bankruptcy Law). If the court accepts such preliminary petition, it may: (i) appoint a judicial commissioner (*commissario giudiziale*) to overview the company, who, in the event that the debtor has carried out one of the activities under Article 173 of the Italian Bankruptcy Law (*e.g.*, concealment of part of assets, omission to report one or more claims, declaration of non-existent liabilities or commission of other fraudulent acts), will report it to the court, which, upon further verification, may reject the petition at court for a *concordato preventivo*; and (ii) set forth reporting and information duties of the company during the abovementioned period.

The debtor company cannot file such pre-application where it had already done so in the previous two years without the admission to the *concordato preventivo* having followed. The decree setting the term for the presentation of the documentation contains also the periodical information requirements (also relating to the financial management of the company and to the activities carried out for the purposes of the filing of the application and the restructuring plan) that the company has to fulfill, at least on a monthly basis, until the lapse of the term established by the court. The debtor company will file, on a monthly basis, the company's financial position, which is published the following day in the company's register. Noncompliance with these requirements results in the application for the composition with creditors being declared inadmissible and, upon request of the creditors or the public prosecutor and provided that the relevant requirements are verified, in the adjudication of the distressed company into bankruptcy. If the activities carried out by the debtor company appear to be clearly inappropriate to the preparation of the application and the restructuring plan, the court may, ex officio, after hearing the debtor and—if appointed—the judicial commissioner, reduce the time for the filing of additional documents.

Following the filing of the preliminary petition and until the decree of admission to the composition with creditors, the distressed company may: (i) carry out acts pertaining to its ordinary activity; and (ii) seek the court's authorization to carry out acts pertaining to its non-recurring activity, to the extent they are urgent.

Claims arising from acts lawfully carried out by the distressed company and new super senior indebtedness authorized by the court, pending the sanctioning (*omologazione*) of the debt restructuring agreement pursuant to Article 182-*bis*, Paragraph 1 of the Italian Bankruptcy Law or after the filing of the moratorium application pursuant to Article 182-*bis*, Paragraph 6 of the Italian Bankruptcy Law and also in absence of the plan pursuant to Article 161, Paragraph 2, letter (e) of the Italian Bankruptcy Law, aimed at supporting urgent financial needs related to the company's business as recently introduced by Article 1 of the Decree 83/2015, as amended by Law 132/2015, are treated as super-senior (so called *pre-deducibili*) pursuant to Article 111 of the Italian Bankruptcy Law and the related acts, payments, guarantees and security interests granted are exempted from the claw-back action provided under Article 67 of the Italian Bankruptcy Law. Italian Law No. 9/2014 specified that the super-seniority of the claims—which arise out of loans granted with a view to allowing the filing of the preliminary petition for the composition with creditors (*domanda di pre-concordato*)—is granted, pursuant to Article 111 of the Italian Bankruptcy Law, conditional upon the proposal, the plan and all other required documents being filed within the term set by the court and the company being admitted to the *concordato preventivo* within the same proceeding opened with the filing of the preliminary petition.

The composition proposal may propose that (i) the debtor's company's business continues to be run by the debtor's company as a going concern; or (ii) the business is transferred to one or more companies and any assets which are no longer necessary to run the business are liquidated (*concordato con continuità aziendale*). In these cases, the petition for the *concordato preventivo* should fully describe the costs and revenue that are expected as a consequence of the continuation of the business as a going concern, as well as the financial resources and support which will be necessary. The report of the independent expert will also certify that the continuation of the business is conducive to the satisfaction of creditors' claims to a greater extent than if such composition proposal was not implemented.

Furthermore, the going concern-based arrangements with creditors can provide for, among others, the winding-up of those assets that are not functional to the business allowed. The composition agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

If the court determines that the composition proposal is admissible, it appoints a judge (*giudice delegato*) to supervise the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditors' meeting. During the implementation of the proposal, the company generally continues to be managed by its board of directors, but is supervised by the appointed judicial officers and judge (who will authorize all transactions that exceed the ordinary course of business).

The *concordato preventivo* is voted on at a creditors' meeting and must be approved with the favourable vote of: (a) the creditors representing the majority of the receivables admitted to vote and, in the event that the plan provides for more classes of creditors, also (b) the majority of the classes. The Composition with Creditors is approved only if the required majorities of creditors expressly voted in favour of the proposal. Law 132/2015 abrogated the implied consent rule under which those creditors who, being entitled to vote, did not do so and those who did not express their dissent within 20 days of the closure of the minutes of the creditors' meeting are deemed as consenting to the composition with creditors. Under the current regime, creditors who did not exercise their voting rights in the creditors' meeting can do so (even via e-mail) within 20 days of the closure of the minutes of the creditors' meeting and, after such term, creditors who have did not exercise their voting right will be deemed not to approve the *concordato preventivo* proposal. Secured creditors are not entitled to vote on the proposal of the *concordato preventivo* unless and, to the extent, they waive their security, or the *concordato preventivo* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. The court may also approve the *concordato preventivo* (notwithstanding the circumstance that one or more classes objected to it) if: (i) the majority of classes has approved it; and (ii) the court deems that the interests of the dissenting creditors would be adequately safeguarded through it compared to other solutions. If an objection to the implementation of the *concordato preventivo* is filed by 20% of the creditors or, in case there are different classes of creditors, by a creditor belonging to a dissenting class, entitled to vote, the court may nevertheless sanction the *concordato preventivo* if it deems that the relevant creditors' claims are likely to be satisfied to a greater extent as a result of the *concordato preventivo* than would otherwise be the case.

Article 163 paragraph 4, introduced by Decree 83/2015, as amended by Law 132/2015, provides for the possibility for creditors (except for individuals or entities controlled, controlling or under common control of the debtor) holding at least 10% of the aggregate claims against a debtor to present an alternative plan (*proposta concorrente*) to the debtor's plan in a pre-bankruptcy agreement proceedings (*concordato preventivo*) subject to certain conditions being met, including, in particular, that the proposal of the debtor does not ensure the recovery of at least: (i) 40% of the unsecured claims (*crediti chirografari*) in case of pre-bankruptcy agreement proposal with liquidation purpose (*concordato liquidatorio*), or (ii) 30% of the unsecured claims (*crediti chirografari*) in case of pre-bankruptcy agreement proposals based on the continuation of the going concern (*concordato con continuità aziendale*).

In addition, in order to strengthen the position of the unsecured creditors, Law 132/2015 sets forth that a prebankruptcy agreement proposal with a liquidation purpose (*concordato liquidatorio*) (*i.e.*, a pre-bankruptcy agreement proposal aiming at transferring all the assets to the creditors and having such assets sold in their interest by the judicial commissioner) must ensure that the unsecured creditors are paid in a percentage of at least 20% of their claims. This provision does not apply to pre-bankruptcy agreement proposals based on the continuation of the going concern (*concordato con continuità aziendale*).

To the extent the alternative plan is approved by the creditors and ratified (*omologato*), the court may grant special powers to the judicial commissioner to implement the plan if the debtor does not cooperate, including by taking all corporate actions required.

In addition, Article 163-bis of the Italian Bankruptcy Law, introduced by the Decree 83/2015, as amended by Law 132/2015, provides that, if a plan in pre-bankruptcy composition with creditors (*concordato preventivo*), pursuant to Article 161, Paragraph 2, letter (e) of the Italian Bankruptcy Law, includes an offer for the sale of the debtor's assets or of a going concern of the debtor to an identified third party, the judicial commissioner may request to the court the opening of a competitive bidding process to the extent that it would be in the best interest of the creditors. After the approval by the creditors' meeting, the court (having settled possible objections raised by the dissenting creditors, if any) confirms the *concordato preventivo* proposal by issuing a confirmation order.

Pursuant to article 169-bis of the Italian Bankruptcy Law, the debtor may request the competent court to be authorized to terminate outstanding agreements (*contratti ancora ineseguiti o non compiutamente eseguiti*), except for certain agreements which are excluded from the scope of the above provision (*e.g.*, employment agreements (*rapporti di lavoro subordinato*), residential real estate preliminary sale agreements (*contratti preliminari di vendita aventi ad oggetto immobili ad uso abitativo*) and real estate lease agreements (*contratti di locazione di immobili*)). The request may be filed with the competent court at the time of the filing of the application for the *concordato preventivo* or to the judge (*giudice delegato*), if the application is made after admission to the procedure. Upon the debtor's request, the pending agreements can also be suspended for a period of time not exceeding 60 days, renewable just once. In such circumstances, the other party has the right to receive an indemnification equivalent to the damages suffered for the non-fulfilment of the agreement. Such indemnification would be paid prior to and outside of the admission to the pre-bankruptcy composition.

If the creditors' meeting does not approve the *concordato preventivo*, the court may, upon request of the public prosecutor or a creditor, and having decided that the appropriate conditions apply, declare the company bankrupt.

Bankruptcy proceedings (fallimento)

A request to declare a debtor bankrupt and to commence bankruptcy proceedings (*fallimento*) for the judicial liquidation of its assets can be filed when a debtor is insolvent by the debtor, any of its creditors and, in certain cases, the public prosecutor. Insolvency, as defined under Italian Bankruptcy Law, occurs when a debtor is no longer able to regularly meet its obligations with ordinary means as they come due. Bankruptcy is declared by the competent bankruptcy court. The Italian Bankruptcy Law is applicable only to commercial enterprises (*imprenditori commerciali*) if any of the following thresholds are met: the company (i) has had assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million for each of the three preceding fiscal years; (ii) has had gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the three preceding fiscal years; and (iii) has total indebtedness in excess of €0.5 million.

Upon the commencement of bankruptcy proceedings, amongst other things:

- subject to certain exceptions, all actions of creditors, actions are stayed and creditors must file claims within a defined period.
- under certain circumstances, secured creditors may execute against the secured property as soon as their claims are admitted as preferred claims. Secured claims are paid out of the proceeds of liquidation of the secured assets, together with the applicable interest and subject to any relevant expenses. Any outstanding balance will be considered unsecured and rank *pari passu* with all of the bankrupt's other unsecured debt. Secured creditors may sell the secured asset only with the court authorization. After hearing the bankruptcy receiver (*curatore fallimentare*) and the creditor's committee, the court decides whether to authorize the sale, and sets forth the relevant timing in his or her decision;
- the administration of the debtor and the management of its assets are transferred to the bankruptcy receiver (*curatore fallimentare*);
- continuation of business may be authorized by the court if an interruption would cause greater damage to the company, but only if the continuation of the company's business does not cause damage to creditors; and
- any act (including payments) made by the debtor after the commencement of the proceedings, other than those made through the receiver, become ineffective against creditors.

Although the general rule is that the bankruptcy receiver is allowed to terminate contracts where some or all of the obligations have not been performed, certain contracts are subject to specific rules expressly provided for by Italian Bankruptcy Law.

Bankruptcy proceedings are carried out and supervised by a court-appointed bankruptcy receiver, a deputy judge (*giudice delegato*) and a creditors' committee. The bankruptcy receiver is not a representative of the creditors and is responsible for the liquidation of the assets of the debtor to the satisfaction of creditors. The proceeds from the liquidation are distributed in accordance with statutory priority rights. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real estate. In this respect, Law 132/2015 amended the relevant provision of the Italian Bankruptcy Law which sets forth the requirements applicable to the liquidation procedure and as a consequence the timing for the liquidation of a debtor is shortened. The Italian Bankruptcy Law provides for a priority of payment to certain preferential creditors, including administrative costs associated with the bankruptcy proceeding and costs related to the receiver's running of the company, Italian tax and national social security contributions and employee arrears of wages or salary. Such priority of payment is provided under mandatory provisions of law (as a consequence, it is untested and it is unlikely that priority of payments such as those commonly provided in intercreditor contractual arrangements would be recognized by an Italian bankruptcy estate to the extent they are inconsistent with the priorities provided by law). Unsecured creditors are satisfied after payment of preferential and secure creditors, out of available funds and assets (if any) as below indicated.

- <u>Bankruptcy composition with creditors (*concordato fallimentare*).</u>

  Bankruptcy proceedings can terminate prior to liquidation through a bankruptcy composition proposal with creditors. The relevant petition can be filed by one or more creditors, third parties or the receiver starting from the declaration of bankruptcy, whereas the debtor or its subsidiaries are admitted to file such a proposal only after one year following such declaration but before the lapse of two years from the decree giving effectiveness to the bankruptcy's estate. The petition may provide for the division of creditors into classes (thereby proposing different treatments among the classes) and the satisfaction of creditors' claims in any manner. The petition may provide that secured claims are paid only in part. The *concordato* *fallimentare* proposal must be approved by the creditors' committee and the creditors holding the majority (by value) of claims (and, if classes are formed, by a majority (by value) of the claims in a majority of the classes). Final court confirmation is also required. Secured creditors are not entitled to vote on the proposal of *concordato fallimentare*, unless and to the extent they waive their security or the *concordato fallimentare* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal.

- Statutory priorities.

The statutory priority assigned to creditors under the Italian Bankruptcy Law may be different from the priorities in the United States, the United Kingdom and certain other EU jurisdictions. Under Italian law, the highest priority claims (after the costs of the proceedings are paid) are the claims of preferential creditors, including the claims of the Italian tax authorities and social security administrators, and claims for employee wages. The remaining priority of claims are, in order of priority, those related to secured creditors (*creditori privilegiati*; a preference in payment in most circumstances, but not exclusively, provided for by law), mortgages (*creditori ipotecari*), pledges (*creditori pignoratizi*) and, lastly, unsecured creditors (*creditori chirografari*). Under Italian law, the proceeds from the sale of the bankrupt's estate are distributed according to legal rules of priority. Neither the debtor nor the court can deviate from these priority rules by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles (as a consequence it must be noted that priority of payments such as those commonly provided in intercreditor contractual arrangements may not be enforceable against an Italian bankruptcy estate to the extent they are inconsistent with the priorities provided by law). The law creates a hierarchy of claims that must be adhered to when distributing the proceeds derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset.

In particular, Article 111 of the Italian Bankruptcy Law establishes that proceeds of liquidation shall be allocated according to the following order: (i) for payments of "pre-deductible" claims (*i.e.*, claims originated in the insolvency proceeding, such as costs related to the procedure); (ii) for payment of claims which are privileged, such as claims of secured creditors; and (iii) for the payment of unsecured creditors' claims.

- Avoidance powers in insolvency.

Similar to other jurisdictions, there are so-called "claw-back" or avoidance provisions under Italian law that may give rise, *inter alia*, to the revocation of payments or to the granting of guarantees or security interests made by the debtor prior to the declaration of bankruptcy. The key avoidance provisions address transactions made below market value, preferential transactions and transactions made with a view to defraud creditors. Claw-back rules under Italian law are normally considered to be particularly favourable to the receiver in bankruptcy compared to the rules applicable in other jurisdictions.

In bankruptcy proceedings, depending on the circumstances, the Italian Bankruptcy Law provides for a claw-back period of up to either one year or six months in (noting that in the context of extraordinary administration procedures—See below—in relation to certain transactions, the claw-back period, can be extended to five and three years respectively) and a two-year ineffectiveness period for certain other transactions.

The Italian Bankruptcy Law distinguishes between acts or transactions which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner

(a) Acts ineffective by operation of law

(i) Under Article 64 of the Italian Bankruptcy Law, subject to certain limited exception, all transactions entered into for no consideration are ineffective *vis-à-vis* creditors if entered into by the bankrupt entity in the two-year period prior to the insolvency declaration. Any asset subject to a transaction which is ineffective pursuant to Article 64 of the Italian Bankruptcy Law becomes part of the bankruptcy estate by operation of law upon registration (*trascrizione*) of the declaration of bankruptcy, without need to wait the ineffectiveness of the transaction is sanctioned by a court. Any interested person may challenge the registration before the delegated judge for violation of law; and

(ii) under Article 65 of the Italian Bankruptcy Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are deemed ineffective *vis-à-vis* creditors if made by the bankrupt entity within the two-year period prior to the insolvency declaration.

(b) *Acts that could be declared ineffective at the request of the bankruptcy receiver/court commissioner*

(i) The following acts and transactions, if done or made during the period specified below, may be clawed back (*revocati*) vis-à-vis the bankruptcy as provided for by Article 67 of the above referenced Italian Royal Decree and be declared ineffective, unless the non-insolvent party proves that it had no actual or constructive knowledge of the debtor's insolvency at the time the transaction was entered into:

(I) onerous transactions entered into in the year before the insolvency declaration, when the value of the debt or the obligations undertaken by the bankrupt entity exceeds 25% of the value of the consideration received by and/or promised to the debtor;

(II) payments of debts, due and payable, which were not made by the debtor, in cash or by other customary means of payment in the year prior to the insolvency declaration;

(III) pledges and mortgages granted by the bankrupt entity in the year prior to the insolvency declaration in order to secure pre-existing debts which have not yet fallen due at the time the new security was granted; and

(IV) pledges and mortgages granted by the bankrupt entity in the six months prior to the insolvency declaration in order to secure pre-existing debts which had already fallen due at the time the new security was granted.

(ii) The following acts and transactions, if made during the vulnerability period or such other period specified below, may be clawed back (*revocati*) and declared ineffective if the bankruptcy receiver proves that the non-insolvent party knew that the bankrupt entity was insolvent:

(I) payments of debts that are immediately due and payable and any onerous transactions entered into or made within six months prior to the insolvency declaration; and

(II) granting of security interest for debts incurred in the six months prior to the insolvency declaration.

(iii) The following transactions are exempt from claw-back actions:

(I) payments for goods or services made in the ordinary course of business according to market practice;

(II) a remittance on a bank account; *provided* that it does not materially and permanently reduce the bankrupt entity's debt towards the bank;

(III) the sale, including an agreement for sale registered pursuant to Article 2645-*bis* of the Italian Civil Code, currently in force, made for a fair value and concerning a residential property that is intended as the main residence of the purchaser or the purchaser's family (within three degrees of kinship) or a non-residential property that is intended as the main seat of the enterprise of the purchaser; *provided* that, as at the date of the insolvency declaration, the activity is actually exercised therein or the investments for the commencement of such activity have been carried out therein;

(IV) transactions entered into, payments made and guarantees granted by the debtor pursuant to a plan (*piano attestato*) under Article 67 of the Italian Bankruptcy Law;

(V) a transaction entered into, payment made or guarantee granted in the context of "*concordato preventivo*" or an "*accordo di ristrutturazione dei debiti*";

(VI) remuneration payments to the bankrupt entity's employees and consultants concerning work carried out by them; and

(VII) payments of a debt that is immediately due, payable and made on the due date, with respect to services necessary for access to *concordato preventivo* procedures.

In addition, in certain cases, the bankruptcy receiver can request that certain transactions of the bankrupt entity be declared ineffective within the ordinary claw-back period of five years (*revocatoria ordinaria*) provided for by the Italian Civil Code. Under Article 2901 of the Italian Civil Code, a creditor may demand that transactions whereby the bankrupt entity disposed of its assets prejudicially to such creditor's rights be declared ineffective with respect to such creditor, provided that the bankrupt entity was aware of such prejudice (or, if the transaction was entered into prior to the date on which the claim was originated, that such transaction was fraudulently entered into by the bankruptcy entity for the purpose of prejudicing the bankrupt entity) and that, in the case of a transaction entered into for consideration with a third person, the third person was aware of such prejudice (and, if the transaction was entered into prior to the date on which the claim was originated, such third person participated in the fraudulent design). Law 132/2015 also introduced new Article 2929-*bis* to the Italian Civil Code, providing for a "simplified" claw-back action for the creditor with respect to certain types of transactions put in place by the debtor with the aim to subtract (registered) assets from the attachment by its creditors.

In particular, the creditor can now start enforcement proceedings over the relevant assets without previously obtaining a Court decision clawing back/nullifying the relevant (fraudulent) transaction, to the extent that such transaction had been carried out without consideration (*e.g.*, gratuitous transfers, or creation of shield instruments such as trusts or the so called *fondo patrimoniale* ("family trust")). In case of gratuitous transfers, the enforcement action also can be carried out by the creditor against the third party purchaser.

Extraordinary administration for large insolvent companies (amministrazione straordinaria delle grandi imprese in stato di insolvenza)

The extraordinary administration procedure is available under Italian law for large industrial and commercial enterprises; this procedure is commonly referred to as the "*Prodi-bis* procedure". To be eligible, companies must be insolvent, although able to demonstrate serious recovery prospects have employed at least 200 employees in the previous year preceding the commencement of the procedure, and have debts equal to at least two-thirds of its assets as shown in its financial statements and two-thirds of its income deriving from sales and services during its last financial year.

The procedure may be commenced by petition of the creditors, the debtor, a court or the public prosecutor. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to an extraordinary administration proceeding. Extraordinary administration procedures involve two main phases—an administrative phase and a judicial phase.

In the administrative phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and appoints up to three judicial receivers (*commissiario giudiziale*) to investigate whether there are serious prospects for recovery via a business sale or reorganization. The judicial receiver submits a report to the court (within 30 days) together with an opinion from the Italian Productive Activities Minister (the "Ministry"). The court has 30 days to decide whether to admit the company to the procedure or place it into bankruptcy.

In addition, the extraordinary commissioner draws up a report every six month on the financial condition and interim management of the company and sends it to the Ministry.

If the company is admitted to the extraordinary administration procedure, the judicial phase begins and the extraordinary commissioner(s) appointed by the Ministry prepare a restructuring plan. The plan can provide either for the sale of the business as a going concern within one year (unless extended by the Ministry) (the "Disposal Plan") or a reorganization leading to the company's economic and financial recovery within two years (unless extended by the Ministry) (the "Recovery Plan"). It may also include a composition with creditors (*concordato*). The plan must be approved by the Ministry.

The procedure ends upon successful completion of either a Disposal Plan or a Recovery Plan; however, should either plan fail, the company will be declared bankrupt.

Industrial restructuring of large insolvent companies (ristrutturazione industriale di grandi imprese in stato di insolvenza)

Introduced in 2003 pursuant to Italian Law Decree No. 347 of December 23, 2003, as converted into Italian Law No. 39 of 2004 and subsequently amended, this procedure is also known as the "Marzano procedure". It is complementary to the *Prodi-bis* procedure and, except as otherwise provided, the same provisions apply. The Marzano procedure is intended to work faster than the *Prodi-bis* procedure. For example, although a company must be insolvent, the application to the Ministry can be made before the court commences the administrative phase.

The Marzano procedure only applies to large insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure is commenced and at least €300 million of debt. The decision whether to open a Marzano procedure is taken by the Ministry following the debtor's request (who must also file an application for the declaration of insolvency). The Ministry assesses whether the relevant requirements are met and then appoints the extraordinary commissioner(s) who will manage the company. The court also decides on the company's insolvency.

The extraordinary commissioner(s) has/have 180 days (or 270 days if the Ministry so agrees) to submit a Disposal Plan or Recovery Plan. The restructuring through the Disposal Plan or the Recovery Plan must be completed within, respectively, one year (extendable to two years) and two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and open bankruptcy proceedings.

Compulsory administrative winding-up (liquidazione coatta amministrativa)

A compulsory administrative winding-up (*liquidazione coatta amministrativa*) is only available for certain companies, including, *inter alia*, public interest entities such as state-controlled companies, insurance companies, credit institutions and other financial institutions, none of which can be wound up pursuant to bankruptcy proceedings. It is irrelevant whether these companies belong to the public or the private sector. A compulsory administrative winding-up is special insolvency proceedings in that the entity is liquidated not by the bankruptcy court but by the relevant administrative authority that oversees the industry in which the entity is active. The procedure may be triggered not only by the insolvency of the relevant entity, but also by other grounds expressly provided for by the relevant legal provisions (*e.g.*, in respect of Italian banks, serious irregularities concerning the management of the bank or serious violations of the applicable legal, administrative or statutory provisions).

The effect of this procedure is that the entity loses control over its assets and a liquidator (*commissario liquidatore*) is appointed to wind up the company. The liquidator's actions are monitored by a steering committee (*comitato di sorveglianza*). The powers assigned to the designated judge and the bankruptcy court under the other insolvency proceedings are assumed by the relevant administrative authority under this procedure. The effect of the forced administrative winding-up on creditors is largely the same as under bankruptcy proceedings and includes, for example, a ban on enforcement measures. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to a compulsory administrative winding-up.

Interim financing

The Decree 83/2015, as amended by Law 132/2015, introduced the possibility for debtors to also obtain authorization to receive urgent interim financing and to continue to use existing trade receivables credit lines (*linee di credito autoliquidanti*) necessary for their business needs before a court's approval of a Pre-Bankruptcy Composition with Creditors (*concordato preventivo*) or the entry into a debt restructuring agreement (*accordo di ristrutturazione dei debiti*) with priority status (*prededucibilità*) in case of subsequent bankruptcy without the expert certification and through an accelerated review process by the relevant court, upon, among others, the relevant debtor's declaration that interim finance is urgently needed and the debtor's inability to access such finance would cause imminent and irreparable damage. The court must decide on the request within 10 days of the filing of the application after consultation with the judicial commissioner and, if deemed necessary, the principal creditors.

Before the entry into force of the Decree 83/2015, debtors could be granted financing with priority status (*prededucibilità*) before a court's approval of a Pre-Bankruptcy Composition with Creditors (*concordato preventivo*) or the entry into a debt restructuring agreement (*accordo di ristrutturazione dei debiti*) if: (i) an expert certified that such financing is functional to the overall restructuring process; or (ii) such financing is provided for by the plan or the agreement, provided in each case that the court approved such priority status.

Hardening period/claw-back and fraudulent transfer

In a bankruptcy proceeding, the Italian Bankruptcy Law provides for a claw-back period of up to one year (six-months in certain circumstances). In addition, in certain cases, the bankruptcy receiver can request that certain transactions of the debtor are declared ineffective within the Italian Civil Code ordinary claw-back period of five years pursuant to Article 2901 of the Italian Civil Code ("*revocatoria ordinaria*").

Under Italian law, in the event that the relevant guarantor enters into insolvency proceedings, the guarantee created under the documents entered into could be subject to potential challenges by an insolvency administrator or by other creditors of such guarantor under the rules of avoidance or claw-back of Italian Bankruptcy Law and the relevant law on the non-insolvency avoidance or claw-back of transactions by the debtor made during a certain legally specified period (the "suspect period"). The avoidance may relate to (i) transactions made by the debtor within a suspect period of one year prior to the declaration of the insolvency at below market value (*i.e.*, to the extent the asset or obligation given or undertaken exceeds by one quarter the value of the consideration received by the debtor), or involving unusual means of payment (*e.g.*, payment in kind) or new guarantee or security granted with respect to pre-existing debts not yet due at the time the guarantee or the security is entered into after the creation of the secured obligations, unless the non-insolvent creditor proves that it had no knowledge of the debtor's insolvency at the time the transaction was entered into; (ii) guarantee or security granted within six months prior to the declaration of insolvency with respect to pre-existing debts due and payable, unless the non-insolvent creditor proves that it had no knowledge of the debtor's insolvency at the time the transaction was entered into; and (iii) payments of due and payable obligations, transactions at arm's length, guarantee or security taken simultaneously to the creation of the secured obligations during the suspect period of six months prior to the declaration of the insolvency, if the bankruptcy receiver proves that the creditor was aware of the insolvency of the debtor. The transactions potentially subject to avoidance also include those contemplated by a guarantee. If they are challenged successfully, the rights granted under a guarantee may become unenforceable and any amounts received must be refunded to the insolvent estate. To the extent that the grant of any Guarantee is voided, holders of the Notes could lose the benefit of the Guarantee and may not be able to recover any amounts under the related Guarantee.

It should be noted that: (i) under Article 64 of the Italian Bankruptcy Law, subject to certain limited exceptions, all transactions carried out by the insolvent debtor for no consideration are ineffective vis-à-vis creditors if entered into by the debtor in the two-year period prior to the insolvency declaration; and (ii) under Article 65 of the Italian Bankruptcy Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are ineffective vis-à-vis creditors, if made by the bankrupt entity in the two-year period prior to insolvency.

In addition, as noted above, the E.U. Insolvency Regulation contains conflicts of law rules which replace the various national rules of private international law in relation to insolvency proceedings within the European Union.

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 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.

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 SA/NV, Luxembourg Branch 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 Notes have been accepted for clearance and settlement 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 XS1961852248 and XS1961852750, respectively. The Common Code numbers for the Notes sold pursuant to Rule 144A and the Notes sold pursuant to Regulation S are 196185224 and 196185275, 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 the banking business) and providing services to the companies of the Sappi Group. The Issuer has €72,700 of issued capital comprising 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.

The issuance of the Notes by the Issuer has been authorized by resolutions of each of the shareholder, the managing directors and the advisory board of the Issuer, dated March 5, 2019.

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 financial statements of the Issuer and its subsidiaries as of and for the year ended September 2018, as well as the notes thereto (including, but not limited to, note 18 on share capital, note 22 on interest-bearing borrowings and note 22 on other non-current liabilities).

8. Except as disclosed in this Offering Memorandum, there has been no material adverse change in the financial position and prospects of the Issuer and the Parent Guarantor since September 30, 2018 (being the last day of the period in respect of which the Parent Guarantor published its latest annual audited consolidated financial statements).

9. 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 Sappi North America, Inc. at 255 State Street, Boston, MA 02109, United States.

Sappi North America, Inc. (formerly known as S.D. Warren Company) is a corporation incorporated under the laws of Pennsylvania under registration number 878041. 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 Colombia Holding GmbH is a German limited liability company registered in the commercial register of Hildesheim under registration number HRB 204849. Its registered office is at Mühlenmasch 1, D-31061 Alfeld (Leine), Germany.

Sappi Maastricht Real Estate B.V. (formerly known as 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 Maastricht B.V. (formerly known as Sappi Maastricht II B.V.) is a Dutch private company with limited liability registered with the chamber of commerce under registration number 69706271. 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 limited liability company 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 Unit 1709, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.

Sappi Italy Operations S.p.A. is joint-stock company incorporated under the laws of Italy registered with the companies register (*Registro delle Imprese*) of Padova under the fiscal code and registration no. 02019440284. Its registered office is at Via Roma 67, Carmignano di Brenta (PD), Italy.

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.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sappi Limited

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sappi Limited and its subsidiaries (the Group) set out on pages 9 to 91, which comprise the Group balance sheet as at September 2018, and the Group income statement and the Group statement of comprehensive income, the group statement of changes in equity and the Group statement of cash flows for the year then ended, and notes to the Group Financial Statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2018, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Valuation of plantations	
Refer to note 2.3.4 for the accounting policies applied and note 11 to the Group Financial Statements. Plantations are valued in terms of IAS 41 *Agriculture* and are stated at fair value less cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 *Fair Value Measurement.* The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurement and assumptions having the most significant impact on the fair value of the plantations include: • Estimated prices less cost of delivery; • Volume and growth estimations; • Cost assumptions; and • Discount rate. Given the complexity and the significant amount of estimation and judgement involved in the determination of fair value of the plantations, this matter was considered a key audit matter.	Our audit procedures related to the valuation of plantations included, amongst others: • Critically evaluating the fair value methodology against the criteria in IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*, measurements and key assumptions applied by management in determining the fair value of the plantations. This was performed by our valuation specialists, that formed part of the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations; • Challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations; and • Assessing the reasonableness of the Group's fair value estimates, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations. We considered the adequacy and appropriateness of the Group's disclosures on the valuation of plantations.
Taxation	

The key audit matter	How the matter was addressed in our audit
Refer to note 2.3.3 for the accounting policies applied and notes 6 and 12 to the Group Financial Statements. The Group has operations in a number of geographical locations and as such is subject to examination by tax authorities in the jurisdictions in which they operate, giving rise to complexity in the accounting for the Group's taxation. As detailed in note 12, the existence of historical unused tax losses, particularly in the European tax jurisdictions, requires significant judgement to be applied in determining how much of these tax losses should be recognised as deferred tax assets. The recognition is based on forecasts of future taxable profits, the reversal of taxable temporary differences and the application of existing tax laws in each jurisdiction. Given the complexity and judgement involved in the accounting for income and deferred taxation, taxation has been identified as a key audit matter.	We involved our tax specialists, with local and international tax knowledge, who formed part of the audit team. Our audit procedures included an assessment of the Group's taxation assets and liabilities with particular consideration given to the judgements applied by management in accounting for uncertain tax positions and the recognition and measurement of deferred tax assets. This more specifically included: • Evaluating the basis of accounting for recognising deferred tax assets based on our knowledge of the tax environment in which the Group operates and work performed on the forecasts of future taxable profits and the reversal of taxable temporary differences; • Considering the application of the relevant accounting standards in respect of recognising deferred tax assets for entities with a history of unused tax losses; and • Evaluating the Group's assessment of its exposure to tax risks and accounting for related uncertain tax positions. We also reviewed correspondence with tax authorities in this regard to support the Group's assessments made. We considered the adequacy and appropriateness of the Group's taxation disclosures, including the recognised and unrecognised deferred tax assets in the consolidated financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Group Company Secretary's certificate, the Audit and Risk Committee Report and the Directors' Report as required by the Companies Act of South Africa and the Directors' approval and the Annual Integrated Report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and, therefore, are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for two years.

KPMG Inc.
Registered Auditor

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

07 December 2018

SAPPI

GROUP INCOME STATEMENT
for the year ended September 2018

	Note	2018	2017
		(US$ million)	
Revenue		**5,806**	5,296
Cost of sales	4	**4,928**	4,429
Gross profit		**878**	867
Selling, general and administrative expenses	4	**396**	334
Other operating (income) expenses		**(4)**	14
Share of profit from equity accounted investees		**(3)**	(7)
Operating profit	4	**489**	526
Net finance costs	5	**68**	80
Finance costs		**92**	107
Finance income		**(18)**	(15)
Net foreign exchange gains		**(6)**	(12)
Profit before taxation		**421**	446
Taxation charge	6	**98**	108
Profit for the year		**323**	338
Basic earnings per share (US cents)	7	**60**	63
Weighted average number of ordinary shares in issue (millions)		**538.1**	533.9
Diluted earnings per share (US cents)	7	**59**	62
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**550.0**	547.4

SAPPI

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2018

	Note	2018	2017
		(US$ million)	
Profit for the year		**323**	338
Other comprehensive income (loss), net of tax	19	**(57)**	78
Item that will not be reclassified subsequently to profit or loss		**—**	68
Actuarial gains (losses) on post-employment benefit funds		**28**	101
Deferred tax on above items and changes in tax rates		**(28)**	(33)
Items that may be reclassified subsequently to profit or loss		**(57)**	10
Exchange differences on translation to presentation currency		**(61)**	(1)
Gains (losses) on hedging reserves		**8**	10
Fair value adjustments on available-for-sale financial instruments		**(1)**	—
Tax effect on above items		**(3)**	1
Total comprehensive income for the year		**266**	416

SAPPI

GROUP BALANCE SHEET

as at September 2018

	Note	2018	2017
		(US$ million)	
Assets			
Non-current assets		**3,766**	3,378
Property, plant and equipment	10	**3,010**	2,681
Plantations	11	**466**	458
Deferred tax assets	12	**106**	123
Goodwill and intangible assets	13	**63**	39
Equity accounted investees	14	**33**	26
Other non-current assets	15	**88**	51
Current assets		**1,904**	1,869
Inventories	16	**741**	636
Trade and other receivables	17	**767**	668
Derivative financial instruments	30	**21**	3
Taxation receivable		**12**	12
Cash and cash equivalents		**363**	550
Total assets		**5,670**	5,247
Equity and liabilities			
Shareholders' equity		**1,947**	1,747
Ordinary share capital and share premium	18	**858**	894
Non-distributable reserves	20	**133**	123
Foreign currency translation reserve		**(180)**	(158)
Hedging reserves		**(28)**	(34)
Retained earnings		**1,164**	922
Non-current liabilities		**2,550**	2,457
Interest-bearing borrowings	21	**1,818**	1,739
Deferred tax liabilities	12	**335**	295
Defined benefit liabilities	28	**329**	344
Other non-current liabilities	22	**68**	79
Current liabilities		**1,173**	1,043
Interest-bearing borrowings	21	**97**	133
Overdrafts		**16**	—
Trade and other payables		**1,009**	858
Provisions	23	**6**	10
Derivative financial instruments	30	**6**	5
Taxation payable		**39**	37
Total equity and liabilities		**5,670**	5,247

SAPPI

GROUP STATEMENT OF CASH FLOWS

for the year ended September 2018

	Note	2018	2017
		(US$ million)	
Cash retained from operating activities		**410**	481
Cash generated from operations	24.1	**709**	748
—Decrease (increase) in working capital	24.2	**(79)**	(27)
Cash generated from operating activities		**630**	721
—Finance costs paid	24.3	**(84)**	(96)
—Finance income received		**18**	15
—Taxation paid	24.4	**(73)**	(100)
—Dividends paid		**(81)**	(59)
Cash utilised in investing activities		**(664)**	(373)
Investment to maintain operations		**(167)**	(140)
Investment to expand operations		**(374)**	(217)
Proceeds on disposal of other non-current assets	24.5	**11**	4
Investment in equity accounted investees		**(10)**	(5)
Dividends received from equity accounted investees		**6**	7
Decrease (increase) in other non-current assets		**2**	(11)
Acquisition of subsidiary	9	**(132)**	(11)
Cash effects of financing activities		**68**	(279)
Proceeds from interest-bearing borrowings		**137**	186
Repayment of interest-bearing borrowings		**(69)**	(465)
Net movement in cash and cash equivalents		**(186)**	(171)
Cash and cash equivalents at beginning of year		**550**	703
Translation effects		**(1)**	18
Cash and cash equivalents at end of year		**363**	550

SAPPI

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2018

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves[(1)]	Retained earnings	Total equity
					(US$ million)				
Balance—September 2016	530.6	39	840	879	114	(147)	(43)	575	**1,378**
Share-based payments	—	—	—	—	9	—	—	—	**9**
Transfers of vested share options	4.4	1	4	5	(2)	—	—	—	**3**
Dividend paid—11 US cents per share	—	—	—	—	—	—	—	(59)	**(59)**
Translation of parent company's ordinary share capital and share premium	—	—	10	10	—	(10)	—	—	**—**
Profit for the year	—	—	—	—	—	—	—	338	**338**
Other comprehensive (loss) income	—	—	—	—	2	(1)	9	68	**78**
Balance—September 2017	535.0	40	854	894	123	(158)	(34)	922	**1,747**
Share-based payments	—	—	—	—	11	—	—	—	**11**
Transfers of vested share options and other	4.3	—	1	1	3	—	—	—	**4**
Translation of parent company's ordinary share capital and share premium	—	(2)	(35)	(37)	—	37	—	—	**—**
Dividend paid—15 US cents per share	—	—	—	—	—	—	—	(81)	**(81)**
Profit for the year	—	—	—	—	—	—	—	323	**323**
Other comprehensive (loss) income	—	—	—	—	(4)	(59)	6	—	**(57)**
Balance—September 2018	539.3	38	820	858	133	(180)	(28)	1,164	**1,947**
Note				*18*	*20*				

(1) Includes available-for-sale financial assets amounting to US$ Nil (2017: US$1 million).

1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'Company') as at and for the year ended September 2018 comprise the Company and its subsidiaries (together referred to as the 'group' and individually as 'group entities' or 'group entity') as well as the Group's interests in associates and joint ventures.

The consolidated financial statements (the 'Group Annual Financial Statements') have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB),
- the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee,
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council,
- the Listings Requirements of the JSE Limited, and
- the requirements of the Companies Act 2008 of South Africa.

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.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

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 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, GT Pearce CA(SA).

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:

- 02 October 2017 to 30 September 2018 (52 weeks)
- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)

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.

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 standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

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.

2.1 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,
- property, plant and equipment is accounted for using the cost model, 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.

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 (Rand). 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, intangible assets 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 at each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2018	2017
Period-end rate		
US$1 = ZAR	**14,147**	13,556
EUR1 = US$	**1,161**	1,181
Annual average rate		
US$1 = ZAR	**13,052**	13,381
EUR1 = US$	**1,190**	1,106

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, 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 financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

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.

(ii) Associates and joint ventures (equity accounted investees)

The financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. 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 of disposal) 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 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, *i.e.* 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) Finance income and finance costs

Finance income and finance costs are recognised in profit or loss using the effective interest 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, customer relationships and customer technology

Brands, customer relationships and customer technology acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years.

(iv) Other intangible assets

Other intangible assets comprise license fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between three and 20 years.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, 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.

2.2.7 Leases

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 at the end of the lease period is uncertain, 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.

2.2.8 Segment reporting

The group's reportable segments, which have been determined in accordance with 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.

2.2.9 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.

2.2.10 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.

2.2.11 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 the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 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.

2.2.13 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 produce products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.14 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 to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

(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, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate, and dividend payout rates.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.2.15 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 30 and 31 for details of the hedging relationships as well as the impact of the hedge on the pretax profit or loss for the period.

2.2.16 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pretax 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 judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

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 for the nature of provisions recorded.

2.2.17 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.

2.2.18 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.3 Critical accounting policies and key sources of estimation uncertainty

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required.

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 of disposal.

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.

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 property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss 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 property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and 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 and equipment..	straight-line	3 to 30 years

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.

(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 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 Plantations

Plantations are stated at fair value less 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 profit or loss 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 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 discount rate.

- ***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 five 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 five 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).

2.3.5 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.

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 recognises 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.

2.4 Adoption of accounting standards in the current year

The group adopted the following standards, interpretations, amendments and improvements to standards in the current fiscal year, all of which had no material impact on the group's reported results or financial position:

- IAS 12 *Income Taxes*—Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 7 *Statement of Cash Flows*—Disclosure Initiative—clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, and
- Annual Improvements 2014 – 2016 Cycle.

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 which have not yet been adopted by the group. These are listed below together with their effective dates*.

- IFRS 9 *Financial Instruments*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—Effective October 2018. Management has implemented and concluded a project to assess the revised classification and measurement impact of this standard IFRS 9 has set out a new classification and measurement approach for financial assets that reflect the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income (FVOCI). Based on management's assessment, the new classification will not have a significant impact compared to the current accounting for financial assets in terms of IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The group will apply the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. Based on management's assessment, application of the ECL model will not result in a material impact compared to the current accounting for in terms of IAS 39. With respect to hedging, on transition a new class of non-distributable equity reserve will be created called Cost of hedging reserve. This reserve will be used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9, which is not material at transition.

The overall impact on retained earnings on transition to IFRS 9 is expected to be immaterial. Additional disclosures will be required for financial instruments in terms of IFRS 9.

- IFRS 15 *Revenue from Contracts with Customers*—provides a single, principles-based five-step model to be applied to all contracts with customers—Effective October 2018. Management has reviewed the significant customer contracts to determine the recognition, measurement and disclosure impact of the new standard. Adoption of IFRS 15 is not expected to have a material impact on the recognition and measurement of revenue when compared to the current application of IAS 18.

* Effective date refers to annual period beginning on or after said date.

Under IAS 18, Sappi derives revenue from contracts with customers from one revenue stream being the sale of 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.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. Management's assessment indicates that this will not result in a material change in timing of revenue recognition with revenue being recognised at a point in time, with no deferral of revenue. As a result, the impact on retained earnings on transition to IFRS 15 is expected to be immaterial. Additional disclosures will be required for revenue in terms of IFRS 15.

The group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (ie October 2018). As a result, the group will not apply the requirements of IFRS 15 to the comparative periods presented.

- IFRS 16 *Leases*—Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases*—Effective October 2019.

Management is currently reviewing the operating lease contracts in place to determine the impact of this standard. The following standards are not expected to have a material impact:

- IFRS 2—*Classification and Measurement of Share-based Payment Transactions*—Effective October 2018.
- IFRIC 22—*Foreign Currency Transactions and Advance Consideration*—Effective October 2018.
- IFRIC 23—*Uncertainty over Income Tax Treatments*—Effective October 2019.
- IAS 19—*Plan Amendment, Curtailment or Settlement*—Effective October 2019.
- IAS 28—*Long-term Interests in Associates and Joint Ventures*—Effective October 2019.

• Annual Improvements 2015—2017 Cycle—Amendments to IFRS 1 and IAS 28—Effective October 2019.

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa (and which have remained unchanged from the prior year) 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 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 paper 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. The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit excluding special items.

	North America		Europe		Southern Africa		Unallocated and eliminations[3]		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
					(US$ million)					
Income statement										
Total sales	**1,485**	1,408	**3,094**	2,683	**1,404**	1,372	**—**	—	**5,983**	5,463
Intersegmental sales	**(53)**	(48)	**(124)**	(119)	**—**	—	**—**	—	**(177)**	(167)
External sales[1]	**1,432**	1,360	**2,970**	2,564	**1,404**	1,372	**—**	—	**5,806**	5,296
Operating profit (loss) excluding special items	**49**	47	**163**	140	**270**	337	**(2)**	2	**480**	526
Special items—gains (losses)[2]	**(2)**	—	**3**	(4)	**25**	10	**(17)**	(6)	**9**	—
Segment operating profit (loss)	**47**	47	**166**	136	**295**	347	**(19)**	(4)	**489**	526
EBITDA excluding special items[2]	**126**	126	**299**	262	**337**	396	**—**	1	**762**	785
Share of profit of equity investments	**—**	—	**—**	—	**4**	6	**(1)**	1	**3**	7
Depreciation and amortisation	**(77)**	(79)	**(136)**	(122)	**(67)**	(59)	**(2)**	1	**(282)**	(259)
Net asset (impairments) reversals	**—**	—	**—**	(1)	**3**	(3)	**—**	—	**3**	(4)
Profit (loss) on disposal and written off assets	**—**	—	**—**	(1)	**4**	(1)	**—**	—	**4**	(2)
Fellings	**—**	—	**—**	—	**(66)**	(63)	**—**	—	**(66)**	(63)
Plantation fair value adjustment	**—**	—	**—**	—	**96**	79	**—**	—	**96**	79
Restructuring provisions (raised) released and closure costs	**—**	—	**—**	—	**—**	—	**(1)**	(1)	**(1)**	(1)
Other non-cash items	**(4)**	(16)	**(7)**	(15)	**(2)**	6	**(3)**	—	**(16)**	(25)
Balance sheet										
Capital expenditures	**196**	132	**121**	131	**261**	105	**1**	2	**579**	370
Segment assets[2]	**1,137**	1,026	**1,574**	1,373	**1,392**	1,263	**38**	2	**4,141**	3,664
Property, plant and equipment	**960**	841	**1,112**	1,042	**930**	789	**8**	9	**3,010**	2,681

Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America		Europe		Southern Africa		Unallocated and eliminations[3]		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
					(US$ million)					
	North America		Europe		Southern Africa		Unallocated and eliminations[3]		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
					US$ million					
Operating profit excluding special items	**49**	47	**163**	140	**270**	337	**(2)**	2	**480**	526
Special items—gains (losses)[2]	**(2)**	—	**3**	(4)	**25**	10	**(17)**	(6)	**9**	—
Segment operating profit (loss)	**47**	47	**166**	136	**295**	347	**(19)**	(4)	**489**	526

[1] Sales of products are allocated to where the product is manufactured.

[2] Refer to the definitions below.

[3] Primarily includes the group's treasury operations and its self-insurance captive.

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

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

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

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. 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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
					(US$ million)					
EBITDA excluding special items[2]	**126**	126	**299**	262	**337**	396	**—**	1	**762**	785
Depreciation and amortisation	**(77)**	(79)	**(136)**	(122)	**(67)**	(59)	**(2)**	1	**(282)**	(259)
Operating profit excluding special items	**49**	47	**163**	140	**270**	337	**(2)**	2	**480**	526
Special items – gains (losses)[2]	**(2)**	—	**3**	(4)	**25**	10	**(17)**	(6)	**9**	—
Segment operating profit (loss)	**47**	47	**166**	136	**295**	347	**(19)**	(4)	**489**	526
Net finance costs									**(68)**	(80)
Profit before taxation									**421**	446

Reconciliation of segment assets to total assets:

	Group 2018	2017
	(US$ million)	
Segment assets[2]	**4,141**	3,664
Deferred tax assets	**106**	123
Cash and cash equivalents	**363**	550
Trade and other payables	**1,009**	858

	Group 2018	2017
	(US$ million)	
Provisions	**6**	10
Derivative financial instruments (included in current liabilities)	**6**	5
Taxation payable	**39**	37
Total assets	**5,670**	5,247

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which is shown below. The group has however changed the financial information by major product category, as reviewed by the chief operating decision maker during the quarter ended December 2017. Accordingly the group has restated the financial information presented by major product category for the prior year.

	Group 2018	2017
	(US$ million)	
Sales		
Dissolving wood pulp	**1,043**	1,059
Specialities and packaging papers	**1,087**	833
Printing and writing papers	**3,600**	3,339
Forestry	**76**	65
Total	**5,806**	5,296
Operating profit excluding special items		
Dissolving wood pulp	251	334
Specialities and packaging papers	78	76
Printing and writing papers	153	114
Unallocated and eliminations[(3)]	(2	2
Total	**480**	526
EBITDA excluding special items		
Dissolving wood pulp	306	386
Specialities and packaging papers	138	117
Printing and writing papers	318	281
Unallocated and eliminations[(3)]	—	1
Total	**762**	785

(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to the definitions below.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

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

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

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

4. Operating profit

Operating profit has been arrived at after charging (crediting):

	2018		2017	
	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	**3,030**	**—**	2,705	—
Wood (includes growth and felling adjustments)[(1)]	**666**	**—**	603	—
Energy	**411**	**—**	372	—
Chemicals	**851**	**—**	787	—
Pulp	**1,001**	**—**	753	—
Other variable costs	**101**	**—**	190	—
Plantation price fair value changes	**(27)**	**—**	(21)	—
Employment costs	**858**	**185**	769	160
Depreciation	**261**	**12**	247	8
Delivery charges	**490**	**—**	441	—
Maintenance	**236**	**—**	213	—
Other overheads	**80**	**—**	75	—
Marketing and selling expenses	**—**	**85**	—	81
Administrative and general expenses	**—**	**114**	—	85
	4,928	**396**	4,429	334

	2018	2017
	(US$ million)	
Silviculture costs (included within cost of sales)	**65**	58
Leasing charges for premises	**14**	13
Leasing charges for plant and equipment	**15**	14
Remuneration paid other than to employees of the company in respect of	**24**	27
Technical services	**9**	11
Administration services	**15**	16
Auditor's remuneration	**4**	4
Tax planning and advice	**1**	1
Research and development costs	**42**	29
Amortisation	**9**	4
Cost on derecognition of loans and receivables[(2)]	**15**	11
Net asset impairment of assets and investments	**(3)**	4
Restructuring provisions and closure costs raised (reversed)	**1**	1
(Profit) loss on sale/scrapping of assets	**(4)**	2
Post-retirement plan settlements and amendments	**(11)**	—
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	1
Employment costs consist of	**1,043**	929
Wages and salaries	**952**	838
Defined contribution plan expense	**39**	36
Defined benefit pension plan expense	**10**	21
Other defined benefit plan expense	**3**	2
Share-based payment expense	**11**	9
Other	**28**	23

(1) Changes in plantation volumes
Fellings ... **66** 63

	2018	2017
	(US$ million)	
Growth	**(69)**	(58)

(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

	2018	2017
	(US$ million)	
Interest and other finance costs on liabilities carried at amortised cost	**89**	100
Interest on redeemable bonds and other loans	**89**	100
Net interest on employee benefit liabilities	**5**	7
Interest capitalised to property, plant and equipment[1]	**(2)**	—
Finance costs	**92**	107
Finance income received on assets carried at amortised cost	**(18)**	(15)
Interest income on bank accounts	**(14)**	(12)
Interest income on other loans and investments	**(4)**	(3)
Net foreign exchange gains	**(6)**	(12)
	68	80

(1) Borrowing costs incurred on the conversion project at the Somerset Mill in North America were capitalised at a rate of 2.65%.

6. Taxation charge

	2018	2017
	(US$ million)	
Current taxation		
Current year	**70**	99
Prior year	**2**	(5)
Other company taxes	**2**	1
Deferred taxation		
Current year	**14**	12
Prior year	**(3)**	1
Attributable to tax rate changes	**13**	—
	98	108
Reconciliation of the tax rate		
Profit before taxation	**421**	446
Profit-making regions	**421**	447
Loss-making regions	**—**	(1)
Taxation at the average statutory tax rate	**113**	125
Profit-making regions at 27% (2017: 28%)	**113**	125
Non taxable income[1]	**(18)**	(26)
Non-deductible expenditure[2]	**21**	29
Effect of tax rate changes[3]	**13**	—
No tax relief on losses	**5**	3
No tax charge on profits	**(10)**	(4)
Derecognition of deferred tax assets	**17**	—
Recognition of deferred tax assets	**(44)**	(16)
Prior year adjustments	**(1)**	(4)
Other taxes	**2**	1
Taxation charge	**98**	108
Effective tax rate for the year	**23%**	24%

In addition to income taxation charges to profit or loss, a taxation charge of US$28 million (2017: US$33 million charge) has been recognised directly in other comprehensive income (refer to note 12).

(1) This includes income in foreign jurisdictions, notional interest deductions and dividends received.

(2) This includes mainly provisions for uncertain tax positions and non-deductible interest.

(3) The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.

7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2018			2017		
	Profit US$ million	Shares million	Earnings per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**323**	**538.1**	**60**	338	533.9	63
Share options and performance shares under Sappi Limited Share Trust	**—**	**11.9**		—	13.5	
Diluted EPS calculation	**323**	**550.0**	**59**	338	547.4	62

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR87.95 (2017: ZAR85.47). In the current and prior financial year, all share options that could potentially dilute EPS in the future are included in the calculation above.

Headline earnings per share[1]

Headline earnings per share is based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
			(US$ million)			
Attributable earnings to ordinary shareholders	**421**	**98**	**323**	446	108	338
Impairments of assets and investments	**—**	**—**	**—**	6	—	6
Profit on disposal and written off assets	**(4)**	**1**	**(3)**	2	(1)	1
Asset impairment reversals	**(3)**	**—**	**(3)**	(2)	—	(2)
Headline earnings	**414**	**97**	**317**	454	107	343
Weighted average number of ordinary shares in issue (millions)			**538.1**			533.9
Headline earnings per share (US cents)			**59**			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**550.0**			547.4
Diluted headline earnings per share (US cents)			**58**			63

(1) Headline earnings—As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in October 2015, 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.

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2018			2017		
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
			(US$ million)			
Attributable earnings to ordinary shareholders	**421**	**98**	**323**	446	108	338
Special items	**(9)**	**(7)**	**(2)**	—	(2)	2
Tax special items	**—**	**(3)**	**3**	—	—	—
Earnings excluding special items	**412**	**88**	**324**	446	106	340
Weighted average number of ordinary shares in issue (millions)			**538.1**			533.9
EPS excluding special items (US cents)			**60**			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**550.0**			547.4
Diluted EPS excluding special items (US cents)			**59**			62

8. Dividends

The directors have resolved to declare a gross dividend (number 88) of 17 US cents per share on 14 November 2018, payable in ZAR at an exchange rate (US$1 = ZAR) of 14.43176, being ZAR245.33992 cents per share, for the year ended September 2018 out of income, in respect of Sappi ordinary shares in issue on the record date. Holders of Sappi "A" ordinary unlisted shares in issue on the record date shall be entitled to receive 8.5 US cents per share being 50% of the ordinary dividend declared.

9. Acquisition of subsidiary

9a. On 28 February 2018, Sappi acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 million). The transaction includes all brands and know-how, the Carmignano and Condino mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition was financed from internal resources. The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth and further acquisitions.

The fair values of assets acquired and liabilities assumed as at 28 February 2018 were as follows:

	EURO'm	**US$m**
Property, plant and equipment	**81**	98
Intangible assets	**32**	39
Inventories	**25**	31
Trade receivables	**28**	36
Prepayments and other assets	**2**	3
Cash and cash equivalents	**6**	7
Trade payables	**(23)**	(29)
Pension liabilities	**(4)**	(5)
Provisions	**(1)**	(2)
Other payables and accruals	**(9)**	(11)
Deferred tax liabilities	**(15)**	(18)
Non-current interest-bearing borrowings	**(5)**	(7)
Current interest-bearing borrowings	**(5)**	(6)
Net asset value acquired	**112**	136
Goodwill	**2**	3
Purchase consideration	**114**	139
Less: Cash and cash equivalents acquired	**(6)**	(7)

	EURO'm	US$m
Net cash outflow on acquisition	**108**	132

CPG earned revenues of €118 million and profit after tax of €4 million since acquisition.

9b. In the prior year the group acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of US$23 million (GBP18 million) of which US$12 million (GBP10 million) was a contingent consideration and US$11 million was paid in cash. The net assets acquired included tangible net assets of US$7 million, goodwill of US$3 million and identified intangible assets of US$13 million. US$6 million of the contingent consideration was released through profit or loss in 2018.

10. Property, plant and equipment

	2018	2017
	(US$ million)	
Land and buildings[(1)]		
At cost	**1,403**	1,385
Accumulated depreciation and impairments	**(863)**	(860)
	540	525
Plant and equipment[(2)]		
At cost	**7,674**	7,296
Accumulated depreciation and impairments	**(5,204)**	(5,140)
	2,470	2,156
Aggregate cost	**9,077**	8,681
Aggregate accumulated depreciation and impairments	**(6,067)**	(6,000)
Aggregate book value[(3)]	**3,010**	2,681

The movement of property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Total
		(US$ million)	
Net book value at September 2016	517	1,984	**2,501**
Additions	20	350	**370**
Acquisition	5	5	**10**
Disposals	(1)	(5)	**(6)**
Depreciation	(29)	(226)	**(255)**
Translation differences	13	48	**61**
Net book value at September 2017	525	2,156	**2,681**
Additions	22	557	**579**
Acquisition[(4)]	38	60	**98**
Finance costs capitalised	—	2	**2**
Disposals	(2)	(6)	**(8)**
Depreciation	(32)	(241)	**(273)**
Translation differences	(11)	(58)	**(69)**
Net book value at September 2018	540	2,470	**3,010**

(1) Details of land and buildings are available at the registered offices of the respective companies that 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) Includes an amount of US$285 million (2017: US$298 million) relates to assets under construction.

(4) Acquisition relates to the Cham Paper Group Holding AG (CPG) acquisition on 28 February 2018

11. Plantations

	2018	2017
	(US$ million)	
Fair value of plantations at beginning of year	**458**	441
Gains arising from growth	**69**	58
Fire, flood, storms and related events	**—**	(5)
In-field inventory	**1**	1
Gain arising from fair value price changes	**27**	21
Harvesting—agriculture produce (fellings)	**(66)**	(63)
Translation differences	**(23)**	5
Fair value of plantations at end of year	**466**	458

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 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 20 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.

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 Forest Stewardship Council™ standards.

Plantations are stated at fair value less 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 11.04% (2017: 9.77%). The group currently values approximately 28 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 16 tons of timber per hectare while immature timber comprise approximately 107,000 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:

	2018	2017
	(US$ million)	
Market price changes		
1% increase in market prices	**2**	2
1% decrease in market prices	**(2)**	(2)
Discount rate (for immature timber)		
1% increase in rate	**(3)**	(3)
1% decrease in rate	**3**	3
Volume assumption		
1% increase in estimate of volume	**4**	4
1% decrease in estimate of volume	**(4)**	(4)
Costs to sell		

	2018	2017
	(US$ million)	
1% increase in costs to sell	**(2)**	(2)
1% decrease in costs to sell	**2**	2
Growth assumptions		
1% increase in rate of growth	**1**	1
1% decrease in rate of growth	**(1)**	(1)

12. Deferred tax

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	(US$ million)			
Other liabilities, accruals and prepayments	**(51)**	**(117)**	(69)	(90)
Inventory	**7**	**2**	10	2
United States of America (USA) tax credits carry forward	**12**	**—**	16	—
Tax loss carry forward	**113**	**12**	127	29
Property, plant and equipment	**(19)**	**(222)**	(64)	(209)
Plantations	**—**	**(14)**	—	(32)
Other non-current assets	**5**	**(2)**	18	2
Other non-current liabilities	**39**	**6**	85	3
	106	**(335)**	123	(295)

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 probable 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.

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.

	2018	2017
	(US$ million)	
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**21**	29
Tax losses	**579**	682
	600	711
Attributable to the following tax jurisdictions:		
Austria	**457**	529
Belgium	**57**	115
Finland	**39**	40
The Netherlands	**47**	27
	600	711
Expiry between one and five years	**54**	70
Expiry after five years	**24**	24
Indefinite life	**522**	617
	600	711

	2018	2017
	(US$ million)	
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**711**	748

	2018	2017
	(US$ million)	
No tax relief on losses	**2**	1
No tax charge on profits	**(46)**	(60)
Derecognition of deferred tax assets	**17**	—
Recognition of deferred tax assets	**(44)**	(16)
Prior year adjustments	**(10)**	4
Rate adjustments	**(20)**	—
Movement in foreign exchange rates	**(10)**	34
Balance at end of year	**600**	711
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**123**	152
Deferred tax liabilities	**(295)**	(272)
	(172)	(120)
Deferred tax charge for the year	**(24)**	(13)
Other liabilities, accruals and prepayments	**(12)**	(28)
Inventory	**(3)**	1
USA tax credits carry forward	**(4)**	(3)
Tax loss carry forward	**(27)**	—
Property, plant and equipment	**35**	(58)
Plantations	**17**	17
Other non-current assets	**(22)**	(30)
Other non-current liabilities	**(8)**	88
Amounts recorded directly in other comprehensive income	**(28)**	(33)
Acquisition of subsidiary	**(18)**	(3)
Translation differences	**13**	(3)
Deferred tax balances at end of year	**(229)**	(172)
Deferred tax assets	**106**	123
Deferred tax liabilities	**(335)**	(295)

13. Goodwill and intangible assets

	2018						2017					
	Goodwill	**Brands**	**Customer relationship**	**Customer technology**	**Other[(1)]**	**Total**	**Goodwill**	**Brands**	**Customer relationship**	**Customer technology**	**Other[(1)]**	**Total**
						(US$ million)						
Net carrying amount at beginning of year	**7**	**13**	**7**	**6**	**6**	**39**	3	5	—	—	9	17
Additions	—	—	—	—	—	—	—	—	—	—	2	2
Acquisitions	**3**	—	**27**	**5**	**7**	**42**	3	9	7	6	—	25
Amortisation	—	**(3)**	**(2)**	**(2)**	**(2)**	**(9)**	—	(2)	—	—	(4)	(6)
Utilisation	—	—	—	—	**(4)**	**(4)**	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Disposals	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Translation difference	**(2)**	**(1)**	—	—	**2**	**(5)**	1	1	—	—	1	3
Net carrying amount	**8**	**9**	**32**	**9**	**5**	**63**	7	13	7	6	6	39
Cost (gross carrying amount)	**8**	**31**	**34**	**11**	**10**	**94**	7	32	7	6	7	59
Accumulated amortisation and impairments	—	**(22)**	**(2)**	**(2)**	**(5)**	**(31)**	—	(19)	—	—	(1)	(20)
Net carrying amount	**8**	**9**	**32**	**9**	**5**	**63**	7	13	7	6	6	39

Goodwill increased by US$3 million during the year due to the acquisition of Cham Paper Group Holding AG. Goodwill is attributable to the cash-generating units of specialities of US$4 million (2017: US$3 million) and coated woodfree of US$4 million (2017: US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

(1) Included in other intangible assets is licence fees, trademarks and carbon certificates.

14. Equity accounted investees

	2018	2017
	(US$ million)	
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	**11**	14
Other equity accounted investees	**22**	12
	33	26

Dividends received from joint ventures for the 2018 financial year were US$6 million (2017: US$7 million).

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 lignosulphonate 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 IFRS are used to account for the joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

	2018	2017
	(US$ million)	
Current assets	19	25
Non-current assets	18	19
Current liabilities	(7)	(7)
Non-current liabilities	(7)	(9)
The above assets and liabilities include the following:		
Cash and cash equivalents	**5**	10
Current financial liabilities (excluding trade and other payables, and provisions)	**(7)**	(7)
Non-current financial liabilities (excluding trade and other payables, and provisions)	**(7)**	(9)

	2018	2017
	(US$ million)	
Sales	**49**	49
Depreciation and amortisation	**2**	2
Taxation charge	**2**	4
Profit from continuing operations	**7**	13
Total comprehensive income	**7**	13

Reconciliation of the financial information to the carrying amount of the joint venture:

	2018	2017
	(US$ million)	
Net assets of the joint venture	**23**	28
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**11**	14

Details of other equity accounted investees

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.

Aggregate financial information for joint ventures that are not individually material:

	2018	2017
	(US$ million)	
Profit (loss) from continuing operations	**(1)**	3
Other comprehensive income	**–**	–
Total comprehensive income	**(1)**	3

	2018	2017
	(US$ million)	
Carrying amount of these other equity accounted investees	**22**	12

15. Other non-current assets

	2018	2017
	(US$ million)	
Investment funds	**7**	7
Defined benefit pension plan assets (refer to note 28)	**68**	35
Advances to tree growers	**3**	3
Ngodwana energy loan	**5**	—
Other non-financial assets	**2**	4
Financial assets	**3**	2
	88	51

16. Inventories

	2018	2017
	US$ million	
Raw materials	**173**	134
Work in progress	**65**	56
Finished goods	**355**	311
Consumable stores and spares	**148**	135
	741	636

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$2 million (2017: US$6 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$4,432 million (2017: US$3,995 million).

17. Trade and other receivables

–	2018	2017
	(US$ million)	
Trade receivable, gross	**649**	581
Allowance for credit losses	**(15)**	(10)
Trade accounts receivable, net	**634**	571
Prepayments and other receivables	**133**	97
	767	668

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade and other receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary. No significant risk has been identified within the trade receivables not past due but not impaired. Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.4% (2017: 12.3%) of turnover.

17.1 Reconciliation of the allowance for credit losses

	2018	2017
	(US$ million)	
Balance at beginning of year	**10**	14
Raised during the year	**16**	8
Released during the year	**(7)**	(8)
Utilised during the year	**(3)**	(5)
Translation differences	**(1)**	1
Balance at end of year	**15**	10

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2018

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	**10**	**—**	**10**
Between 7 and 30 days overdue	**15**	**—**	**15**
Between 30 and 60 days overdue	**3**	**—**	**3**
More than 60 days overdue	**4**	**15**	**19**
	32	**15**	**47**

September 2017

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	21	1	22
Between 7 and 30 days overdue	11	—	11
Between 30 and 60 days overdue	3	—	3
More than 60 days overdue	1	9	10
	36	10	46

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any allowance for credit losses is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$ Nil million (2017: 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.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2020. This programme has a limit of US$383 million (€330 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$438 million (2017: US$432 million) have been pledged as collateral for amounts received as funding under the programme of US$376 million (2017: US$364 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 FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

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, the group 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 2018 amounted to US$71 million (2017: US$72 million).

Details of the securitisation programme at the end of the 2018 and 2017 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2018				
Rand Merchant Bank Limited	ZAR	ZAR1,004 million	Unlimited	Linked to 3-month JIBAR
2017				
Rand Merchant Bank Limited	ZAR	ZAR980 million	Unlimited	Linked to 3-month JIBAR

(1) 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 Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico), Citibank (São Paulo) and Citibank (New York) by utilising the customers' credit facilities with the discounting bank. The total charge related to this discounting amounted to US$7 million (2017: US$5 million).

17.4 Concentration of credit risk

A significant portion of the group's sales and trade receivables are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2018 and September 2017.

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$767 million (2017: US$668 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following net trade receivable amounts from single customers:

	2018			2017		
Threshold	**Number of customers**	**US$ million**	**Percentage**	**Number of customers**	**US$ million**	**Percentage**
Greater than US$10 million	**6**	**103**	**16%**	6	109	19%
Between US$5 million and US$10 million	9	63	10%	8	50	9%
Less than US$5 million	**2,497**	**468**	**74%**	2,450	412	72%
	2,512	**634**	**100%**	2,464	571	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

	2018		2017	
	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	**557,202,573**	**39**	557,202,573	41
Fully paid 'A' ordinary shares of ZAR1 each[(1)]	**19,961,476**	**2**	19,961,476	2
Treasury shares[(2)]	**(37,909,932)**	**(3)**	(42,143,854)	(3)
Share premium		**820**		854
	539,254,117	**858**	**535,020,195**	**894**
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**894**		879
Transfers from Sappi Limited Share Incentive Trust		**1**		4
Translation movements		**(37)**		11
Closing balance		**858**		894

(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 Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

(2) Includes 17,948,456 (2017: 22,182,378) ordinary shares as well as 19,961,476 (2017: 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	2018	2017
Ordinary treasury shares:		
Opening balance	**22,182,378**	10,882,622
Issue of treasury shares	**—**	15,756,350
Treasury shares issued to participants	**(4,233,922)**	(4,456,594)
—Scheme shares (refer to note 29)	**(583,804)**	(1,218,849)
—Plan shares (refer to note 29)	**(3,650,118)**	(3,237,745)
Closing balance	17,948,456	22,182,378
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	19,961,476	19,961,476
	37,909,932	42,143,854

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 as 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 2018 and 2017 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 income (loss)

	2018	2017
	(US$ million)	
Item that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on post-employment benefit funds	**—**	68
Gross amount	**28**	101
Tax on above	**(9)**	(33)
Tax rate change[1]	**(19)**	—
Items that may or are being reclassified subsequently to profit or loss		
Exchange gains (losses) on translation to presentation currency	**(61)**	(1)
Translation of foreign operations	**(58)**	(1)
Exchange differences arising on non-distributable reserves	**(4)**	2
Exchange differences arising on hedging reserves	**1**	(2)
Fair value adjustment on available-for-sale financial instruments	**(1)**	—
Gross amount	**(1)**	—
Hedging reserves	**5**	11
Gains (losses) during the year	**(2)**	30
Reclassified to profit or loss	**2**	(19)
Reclassified to property, plant and equipment	**8**	
Tax	**(3)**	1
Other comprehensive income (loss) recorded directly in equity	**(57)**	78
Profit for the year	**323**	338
Total comprehensive income for the year	**266**	416

(1) The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.

20. Non-distributable reserves

	2018				2017			
	Legal reserves[1]	Share-based payment reserve	Other	Total	Legal reserves[1]	Share-based payment reserve	Other	Total
				(US$ million)				
Opening balance	60	61	2	123	58	53	3	114
Transfers of vested share options	—	(1)	—	(1)	—	(2)	—	(2)
Share-based payment expense	—	11	—	11	—	9	—	9
Other movements[2]	—	4	—	4	—	—	—	—
Translation differences	(1)	(3)	—	(4)	2	1	(1)	2
	59	72	2	133	60	61	2	123

(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) Other movements include deferred tax effect on IFRS 2 charges in some regions and other share based payment transactions.

21. Interest-bearing borrowings

	2018	2017
	(US$ million)	
Secured borrowings[1]	**376**	364
Unsecured borrowings	**1,539**	1,508
Total borrowings (refer to note 31)	**1,915**	1,872
Less: Current portion included in current liabilities	**(97)**	(133)
Total non-current interest-bearing borrowings	**1,818**	1,739

The repayment profile of the interest-bearing borrowings is as follows:

	2018	2017
Payable in the year ended September:		
2018		133[2]
2019	**97**	24
2020	**504[2]**	481
2021	**46**	32
2022	**538**	533
2023 (September 2017: Thereafter)	**443**	669
Thereafter	**287**	—
	1,915	1,872

(1) Consists of pledge over securitised trade receivables (refer to note 25 for details of encumbered assets).

(2) Includes securitisation debt.

Set out below are details of the more significant interest-bearing borrowings in the group at September 2018:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€445 million [3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€345 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR745 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€208 million	€208 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]
UniCredit Bank	US$	Variable	US$134 million	US$134 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2018	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€61 million	€61 million[4][2]		June 2021	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	EUR	Fixed	€150 million	€149 million[4][2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]
GroCapital Financial Services.............	ZAR	Variable	ZAR400 million	ZAR400 million		May 2020	No financial covenants

(1) The nature of the rates for the group bonds are explained in note 31.

(2) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

(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.

(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time 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) 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) Financial covenants relate to the Sappi Limited group.

(8) The expiry date reflects the final repayment date of the borrowings. Certain borrowings have separate instalment payments prior to the expiry date which is reflected in the repayment profile of the borrowings.

The majority of the non-Southern African long-term debt is guaranteed by Sappi Limited.

The analysis of the currency per debt is:	Local currency million	US$ million
US Dollar	352	**352**
Euro	1,277	**1,482**
ZAR..........	1,145	**81**
		1,915

A detailed analysis of total interest-bearing borrowings has been disclosed 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 above certain de minimis amounts. Breaches in bank covenants in Sappi Southern Africa, 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 2018 and 2017 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$383 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 Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 DAC (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 2018, a funding reserve, that is reset on a monthly basis, amounted to 13.89% (2017: 14.80%).

The cost of the programme includes a variable component based on Euribor/Libor (floor 0%), a fixed margin and a commitment fee computed on the difference between US$348 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 daily 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	2018	2017
			(US$ million)	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/JIBAR)	**680**	623
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**8**	26
			688	649
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**19**	20
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			39	40
Total unutilised facilities (committed and uncommitted) excluding cash			**727**	689

(1) Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2017: €465 million) and ZAR1,000 million (2017: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €525 million facility matures in February 2023, is subject to financial covenants relating to the Sappi Limited group and is unsecured. 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 Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$4.5 million (2017: US$4.7 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

	2018	2017
	(US$ million)	
Long-term employee benefits	**4**	1
Workmen's compensation	**14**	16
Long service awards	**19**	20
Land restoration obligation	**14**	15
Restructuring provisions	**3**	4
Contingent consideration liability	**7**	11
Other	**7**	12
	68	79

23. Provisions

	2018	2017
	(US$ million)	
Restructuring provisions	**9**	13
Long-term	**3**	4
Short-term	**6**	9
Other provisions	**—**	1
	9	14

Details of restructuring provisions are provided below:

	Severance, retrenchment and related costs
	(US$ million)
Balance at September 2016	23
Increase in provisions	1
Utilised	(7)
Released during the year	(5)
Translation effect	1
Balance at September 2017	13
Increase in provisions	4
Utilised	(5)
Released during the year	(3)
Balance at September 2018	9

Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost savings measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2019 with the long-term provisions expected to be fully utilised by September 2025.

24. Notes to the group statement of cash flows

24.1 Cash generated from operations

	2018	2017
	(US$ million)	
Profit for the year	**323**	338
Adjustment for:		
Depreciation	**273**	255
Fellings	**66**	63
Amortisation	**9**	4
Taxation charge	**98**	108
Net finance costs	**68**	80
Impairments of assets and investments	**(3)**	—
Restructuring provisions and closure costs raised	**1**	1
Fair value adjustment gains and growth on plantations	**(96)**	(79)
Post-employment benefits funding	**(45)**	(43)
Profit (loss) on disposal of assets	**(4)**	2
Share-based payment charges	**13**	10
Other non-cash items	**6**	9
	709	748

24.2 Decrease (increase) in working capital

(Increase) decrease in inventories	**(92)**	(19)
Decrease (increase) in receivables	**(87)**	(4)
(Decrease) increase in payables	**100**	(4)
	(79)	(27)

24.3 Finance costs paid

Interest and other finance costs on liabilities carried at amortised cost	**(92)**	(107)
Net foreign exchange gains	**6**	12
Transfers to financing activities and non-cash items	**2**	(1)
	(84)	(96)

24.4 Taxation paid

Net amounts payable at beginning of year	**(25)**	(31)
Taxation charge to profit or loss	**(74)**	(95)
Translation and other	**(1)**	1
Less: Net amounts payable at end of year	**27**	25
	(73)	(100)

24.5 Proceeds on disposal of property, plant and equipment

Book value of non-current assets disposed of	**8**	6
Gain (loss) on disposal	**3**	(2)
	11	4

24.6 Reconciliation of liabilities arising from financing activities

	2017	Cash flows	Transfers between long-term and short-term	Acquisition	Foreign exchange movements	Other changes	2018
				(US$ million)			
Long-term borrowings	1,739	124	(25)	7	(30)	3	**1,818**
Short-term borrowings(1)	133	(56)	25	6	5	—	**113**
Total	1,872	68	—	13	(25)	3	**1,931**

(1) Includes overdraft.

25. Encumbered assets

	2018	2017
	(US$ million)	
The carrying value of trade receivables 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:		
Trade receivables	**438**	432

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$383 million (EUR330 million), of which US$376 million (EUR324 million) was utilised at financial year-end (refer to notes 17 and 21).

26. Commitments

	2018	2017
	(US$ million)	
Capital commitments		
Contracted but not provided	**293**	253
Approved but not contracted	**381**	219
	674	472

Future forecast cash flows of capital commitments in the year ended:

2018	**—**	435
2019	**432**	26
2020	**208**	3
2021	**24**	—
2022	**2**	—
2023 (2017: Thereafter)	**—**	8
Thereafter	**8**	—
	674	472

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:

2017

2018	**—**	22
2019	**26**	14
2020	**18**	11
2021	**14**	8
2022	**8**	5

2023 (2017: Thereafter)	**6**	17
Thereafter	**19**	—
	91	77

The group enters into a number of leases, mainly relating to property, plant and equipment and vehicles. Leased terms range between three to 10 years and may be renegotiated on expiry.

27. Contingent liabilities

Contingent liabilities mainly relate to environmental and 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.

28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
			(US$ million)			
Post-employment plan costs recognised in profit and loss	**39**	36	**11**	24	**7**	6
Employer contributions paid during the financial year			**37**	36	**3**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities			**232**	238	**97**	106
Net pension assets (refer to note 15)[1]			**(68)**	(35)	**—**	—
Net balance sheet liabilities			**164**	203	**97**	106
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(203)**	(303)	**(106)**	(108)
Acquisitions			**(5)**	—	**—**	—
Net pension/healthcare subsidy costs for the year			**(11)**	(24)	**(7)**	(6)
Employer contributions			**37**	36	**3**	3
Net actuarial gains for the year			**16**	96	**12**	5
Translation differences			**2**	(8)	**1**	—
Net pension/healthcare liabilities at end of year			**(164)**	(203)	**(97)**	(106)

(1) Defined benefit plans in South Africa, United Kingdom and certain defined benefit plans in North America.

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 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$39 million (2017: US$36 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$41 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, top-ups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local taxpayers, 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 normally paid with 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 in employee costs reported in note 4 and are excluded from the figures reported in this note.

Defined benefit pension/lump sum 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, Austrian and Italian 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 (*i.e.* 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 Euro benefits and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). 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, the Netherlands
Frozen benefit	United Kingdom, North America (salaried plan), Italy
Fixed EUR-value	Germany, Austria
Nominal USD-value (periodically revalued)	North America (works plans)
Old age accounts with minimum guarantees	Switzerland

Plans remain open to new hires except for plans in North America, South Africa, 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 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 with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation 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 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- Europe including United Kingdom (UK)[1]: Asset mix based on 42% equity and real estate instruments, 38% debt instruments, 20% multi-asset and other instruments.
- North America: Asset mix based on 23% equity instruments, 60% debt instruments, 17% multi-asset and other instruments.

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- Inflation: The risk that future inflation indices (including medical aid inflation) is higher than expected and uncontrolled,
- Future changes in legislation: The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group
- Future changes in the tax environment: The risk that changes in the tax legislation governing employee benefits may increase the liability for the group

(1) Weighted average of plans in this region.

- Longevity: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- Administration: Administration of this liability poses a burden to the group.

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.

Funding policy

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 for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$33 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 on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in South Africa is partially funded with assets held in a local cell-captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$6 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

	2018	2017
	(US$ million)	
Jubilee (long service award) in continental Europe in other non-current liabilities	**19**	20
Early retirement (temporary pension) benefit in Belgium	**4**	1
ATZ (early retirement—temporary salary supplement) obligations in Germany and Austria	**10**	11
Workmen's compensation benefit obligations in North America	**14**	16

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017
	(US$ million)			
Components of defined benefit cost recognised in profit or loss				
Current service cost	**18**	19	**3**	2
Past service credit	**(9)**	—	**—**	—
Interest on net defined benefit	**1**	3	**4**	4
Fund administration costs	**2**	2	**—**	—
Non-routine settlement gain	**(1)**	—	**—**	—
Net amount recognised in profit or loss	**11**	24	**7**	6
Charge attributed to operating cost	**10**	21	**3**	2
Charge attributed to finance cost	**1**	3	**4**	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	**(6)**	7	**8**	2
Actuarial gains (losses) arising from changes in demographic assumptions	**5**	27	**(2)**	(1)
Actuarial gains (losses) arising from changes in financial assumptions	**50**	63	**7**	4
Return on plan assets (excluding amounts included in interest income)	**(33)**	(1)	**(1)**	—
Gain (loss) recognised in other comprehensive income	**16**	96	**12**	5

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017
	(US$ million)			
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,334**	1,409	**114**	116
Current service cost	**18**	19	**3**	2
Past service credit	**(9)**	—	**—**	—
Interest expense	**46**	45	**5**	5
Plan participants' contributions	**2**	2	**—**	—
Remeasurements	**(49)**	(97)	**(13)**	(5)
Membership experience changes	**6**	(7)	**(8)**	(2)
Demographic assumption changes	**(5)**	(27)	**2**	1
Financial assumption changes	**(50)**	(63)	**(7)**	(4)
Acquisition[(1)]	**78**	13	**—**	—
Non-routine plan settlements	**(1)**	—	**—**	—
Benefits paid	**(77)**	(77)	**(4)**	(4)

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	**2017**	**2018**	**2017**
	(US$ million)			
Translation difference	**(15)**	20	**(1)**	—
Defined benefit obligation at end of year	**1,327**	1,334	**104**	114
—Present value of wholly unfunded obligation	**176**	177	**77**	88
—Present value of wholly or partially funded obligation	**1,151**	1,157	**27**	26
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,131**	1,106	**8**	8
Interest income	**45**	42	**1**	1
Employer contributions	**37**	36	**3**	3
Plan participants' contributions	**2**	2	**—**	—
Remeasurements				
Return (loss) on plan assets net of interest income	**(33)**	(1)	**(1)**	—
Acquisitions[1]	**73**	13	**—**	—
Benefits paid	**(77)**	(77)	**(4)**	(4)
Fund administration costs	**(2)**	(2)	**—**	—
Translation difference	**(13)**	12	**—**	—
Fair value of plan assets at end of year	**1,163**	1,131	**7**	8
Net balance sheet defined benefit liability	**164**	203	**97**	106

(1) Acquisitions: Refers to assets and liabilities acquired with Cham Paper Group.

The major categories of plan assets at fair value are presented as follows:

	Funded pension plans		Funded subsidy plans	
	2018	**2017**	**2018**	**2017**
	(US$ million)			
Investments quoted in active markets				
—Equity and high yield investments	**232**	399	**—**	—
—Investment grade debt instruments	**215**	201	**—**	—
—Property investment funds	**16**	14	**—**	—
Unquoted investments				
—Equity and high yield investments[1]	**680**	501	**6**	7
Cash	**20**	16	**1**	1
	1,163	1,131	**7**	8

(1) Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.

Total investment return on plan assets	**12**	41	**—**	1

As at financial year-end, there were no investments in the group's own quoted equity instruments.

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.

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:

	2018			2017		
	North America	**Europe (incl UK)**	**Southern Africa**	**North America**	**Europe (incl UK)**	**Southern Africa**
Discount rate—pension (%)	**4,02**	**1,70**	**9,69**	3,53	1,90	9,28
Discount rate—post-employment healthcare subsidy (%)	**3,93**	**n/a**	**10,00**	3,35	n/a	9,75
Future salary increase rate—pension (%)	**—**	**1,00**	**7,09**	—	1,00	7,28
Cost of living adjustment for pensions in payment (%)[(1)]	**—**	**1,80**	**4,87**	—	2,00	5,03
Healthcare cost trend rate (%)[(2)]	**8.00->4.50**	**n/a**	**7,75**	8.20->4.50	n/a	8,25
Sample rate average life expectancy from retirement (years)[(3)]						
—For current beneficiaries	**25,40**	**24,40**	**19,20**	25,60	23,90	19,20
—For future retiring beneficiaries	**27,10**	**26,20**	**20,20**	27,30	25,70	20,20

(1) Weighted average for plans granting cost of living adjustment whether fixed or variable.

(2) North America: Initial rate –> long-term rate trend over nine years (2017: 10 years).

(3) Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.

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, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$149 million (increase by US$182 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$20 million (decrease by US$16 million).
- If the post-retirement pension increase (cost of living adjustment) rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$38 million (decrease by US$32 million).
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$35 million (decrease by US$35 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 recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

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 (including UK)	12 years	n/a
Southern Africa	9 years	15 years

Regional split of results

	2018			2017		
	North America	**Europe (incl UK)**	**Southern Africa**	**North America**	**Europe (incl UK)**	**Southern Africa**
			(US$ million)			
Defined benefit obligation (pension)	**(665)**	**(547)**	**(115)**	(710)	(496)	(128)
Defined benefit obligation (healthcare)	**(77)**	**n/a**	**(27)**	(88)	n/a	(26)
Fair value of plan assets (pension)	**675**	**355**	**133**	696	290	145
Fair value of plan assets (healthcare)	**—**	**n/a**	**7**	—	n/a	8
Net defined benefit liability	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	**(102)**	**(206)**	**(1)**	(188)	(230)	7
Defined benefit cost recognised in profit or loss (pension)	**(9)**	**2**	**(4)**	(12)	(8)	(4)
Defined benefit cost recognised in profit or loss (healthcare)	**(4)**	**n/a**	**(3)**	(5)	n/a	(1)
Balance sheet take-on of Cham acquisition plans		**(5)**			—	
Net gain (loss) recognised in OCI (pension)	**18**	**(2)**	**—**	80	23	(7)
Net gain (loss) recognised in OCI (healthcare)	**12**	**n/a**	**—**	6	n/a	(1)
Company contributions paid during the year	**18**	**17**	**5**	17	17	5
Translation differences	**—**	**2**	**1**	—	(8)	—
Net defined benefit liability at end of year	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)

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 (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares.

The Sappi Limited Share Incentive Trust (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.

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 (the Plan)

Under the rules of the Plan, participants 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. 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.

Movements in share options and performance shares for the financial years ended September 2018 and September 2017 are as follows:

	Performance shares[1]	**Share options**	**Weighted average share option exercise price (ZAR)**	**Total shares**
Outstanding at September 2016	14,031,774	2,825,679	30,23	**16,857,453**
—Offered	3,021,770	—	—	**3,021,770**
—Paid for/vested	(3,237,745)	(1,218,849)	31,48	**(4,456,594)**
—Returned, lapsed and forfeited	(331,044)	(181,041)	34,88	**(512,085)**
Outstanding at September 2017	13,484,755	1,425,789	28,99	**14,910,544**
—Offered	2,755,650	—	—	**2,755,650**
—Paid for/vested	(3,650,118)	(583,804)	31,63	**(4,233,922)**
—Returned, lapsed and forfeited	(280,117)	(126,350)	32,95	**(406,467)**
Outstanding at September 2018	12,310,170	715,635	26,67	**13,025,805**
Exercisable at September 2016	—	2,825,679	30,23	
Exercisable at September 2017	—	1,425,789	28,99	
Exercisable at September 2018	—	715,635	26,67	

(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 vest.

The following table sets out the number of share options and performance shares outstanding:

	2018	2017	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
09 December 2009	**—**	272,550	Time	Vested	09 December 2017	33,85
03 December 2010	**214,200**	462,825	Time	Vested	03 December 2018	35,20
02 December 2011	**501,435**	690,414	Time	Vested	02 December 2019	22,90
Performance shares:						
13 December 2013	**—**	3,658,024	Performance	13 December 2017	n/a	Rnil
04 December 2014	**3,130,645**	3,190,630	Performance	04 December 2018	n/a	Rnil
07 December 2015	**3,548,110**	3,644,447	Performance	07 December 2019	n/a	Rnil
09 December 2016	**2,889,604**	2,991,654	Performance	09 December 2020	n/a	Rnil
04 December 2017	**2,741,811**	—	Performance	04 December 2021	n/a	Rnil
	13,025,805	14,910,544				

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Plan:

	Issue 43	Issue 43
Date of grant	04 December 2017	04 December 2017
Type of award	Performance	Performance
Share price at grant date	ZAR95.64	ZAR95.64
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	61%	61%
Number of shares offered	1,377,825	1,377,825
Volatility	31%	n/a
Risk-free discount rate	2.148% (US yield)	n/a
Expected dividend yield	2.2%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR68.40	ZAR58.44

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 36 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.

Broad-based Black Economic Empowerment

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (BBBEE) transaction (the 'BBBEE transaction') that enabled Sappi to meet its BBBEE targets in respect of BBBEE 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 BBBEE legislation, formalised the country's approach in this regard. Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BBBEE transaction (the 'Plantation BBBEE transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BBBEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE 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 BBBEE transaction and to implement the BBBEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BBBEE 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 below for more detail), and
- Communities surrounding the South African mill operations and plantations (10%).

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:

- The value created through the Plantation BBBEE 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 'BBBEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE 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 BBBEE legislation in general.

The number of ordinary shares allocated to the strategic partners and Sappi employees who were participants of the Plantation BBBEE 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	643,227
	3,047,762
Employees (through the ESOP Trust)	1,280,597
Total	**4,328,359**

The number of 'A' ordinary shares allocated to the BBBEE 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$1 million (2017: US$1 million) during the 2018 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	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR72.18

Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
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 ESOP Trust and MSOP Trust 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	2018	2017
		(US$ million)	
Current assets			
Pulp swaps	Raw materials	**4**	1
Forward exchange contracts	Various	**17**	2
		21	3
Current liabilities			
Forward exchange contracts	Various	**2**	3
FX zero cost collar	Highly probable forecast sales	**4**	2
		6	5

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, trade receivables, certain investments, trade payables, 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 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 coordinated on a group basis, whilst commodity price risk is managed regionally within the overall commodity group policy.

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 principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value 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 2018 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 30 September 2018. The information is presented in US Dollar, which is the group's reporting currency.

		Expected maturity date					2018 Carrying value	2018 Fair[(4)] value	2017 Carrying value	2017 Fair value
	2019	**2020**	**2021**	**2022**	**2023**	**2024+**				
					(US$ equivalent in millions)					
US Dollar										
Fixed rate debt......	—	—	—	—	—	218	**218**	**223**	218	237
Average interest rate (%)	—	—	—	—	—	7.60	**7.60**		7.61	
Variable rate debt[(1)]	—	134	—	—	—	—	**134**	**134**	127	127
Average interest rate (%)	—	4.46	—	—	—	—	**4.46**		3.49	
Euro										
Fixed rate debt......	28	46	46	538	443	69	**1,170**	**1,249**	1,100	1,214
Average interest rate (%)	1.21	1.67	1.68	3.36	3.88	2.24	**3.30**		3.36	
Variable rate debt[(2)]	69	243	—	—	—	—	**312**	**313**	306	306
Average interest rate (%)	0.33	1.38	—	—	—	—	**1.15**		1.51	
Rand										
Fixed rate debt......	—	53	—	—	—	—	**53**	**55**	121	127
Average interest rate (%)	—	8.06	—	—	—	—	**8.06**		7.83	
Variable rate debt[(3)]	—	28	—	—	—	—	**28**	**30**		

	2019	2020	2021	2022	2023	2024+	2018 Carrying value	2018 Fair[4] value	2017 Carrying value	2017 Fair value
	Expected maturity date									
	(US$ equivalent in millions)									
Average interest rate (%)	—	9.46	—	—	—	—	**9.46**			
Total										
Fixed rate debt	28	99	46	538	443	287	**1,441**	**1,527**	1,439	1,578
Average interest rate (%)	1.21	5.07	1.68	3.36	3.88	6.32	**4.13**		4.38	
Variable rate debt	69	405	—	—	—	—	**474**	**477**	433	433
Average interest rate (%)	0.33	2.96	—	—	—	—	**2.57**		2.09	
Fixed and variable	**97**	**504**	**46**	**538**	**443**	**287**	**1,915**	**2,004**	**1,872**	**2,011**
Current portion							**97**	**98**	133	135
Long-term portion							**1,818**	**1,906**	1,739	1,876
Total interest-bearing borrowings (refer to note 21)							**1,915**	**2,004**	1,872	2,011

(1) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(2) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(3) The ZAR floating interest rates are based on the Johannesburg Inter-bank Agreed Rate (JIBAR).

(4) The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread for Sappi. The fair value hierarchy that these instruments would fall into are level 2 instruments.

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 0.88% and 9.46% (depending on currency). At September 2018, 75.20% of Sappi's borrowings were at fixed rates of interest and 24.80% 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

Depending on the market conditions, Sappi uses interest rate derivatives 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. As per September 2018 there are no remaining interest rate hedges.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss arising from:

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 its current rating, an additional margin would be added to the contractual funding rate.

	Notional	Impact on profit or loss of downgrade below current credit rating
	(US$ million)	
Securitisation—Elektra N°29 DAC (only if double notch downgrade below BB-) .	376	1.39
Commitment fee on unused revolving credit facility	609	0.53
Interest on utilised bank syndicated loans	245	0.62
	1,230	2.54
Impact calculated on total portfolio amounts to	0.21%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50 bps to the interest rates.

	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50 bps interest
		(US$ million)		
Total debt	1,915	1,440	475	2
Ratio fixed/floating to total debt..................................		75.20%	24.80%	

The floating rate debt represents 24.80% 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$2.375 million.

Currency risk

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. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from 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 exposures arise from 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 2018 and 2017 financial years disclose 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 2018							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**88**	**10**	—	10	—	—	—
Current assets							
Trade receivables	**634**	**634**	272	285	8	32	37
Prepayments and other receivables	**133**	**36**	8	13	14	—	1
Derivative financial instruments	**21**	**21**	8	—	13	—	—
Cash and cash equivalents	**363**	**363**	218	41	74	1	29
		1,064	506	349	109	33	67
Non-current liabilities							
Interest-bearing borrowings	**1,818**	**1,818**	352	1,385	81	—	—
Other non-current liabilities	**68**	**8**	1	—	—	7	—
Current liabilities							
Interest-bearing borrowings	**97**	**97**	—	97	—	—	—
Overdrafts	**16**	**16**	—	16	—	—	—
Derivative financial instruments	**6**	**6**	—	—	6	—	—
Trade payables	**637**	**637**	187	268	179	2	1
Other payables and accruals	**372**	**163**	31	77	54	—	1
		2,745	571	1,843	320	9	2
Foreign exchange gap		**(1,681)**	(65)	(1,494)	(211)	24	65

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
				(US$ million)			
September 2017							
Classes of financial instruments							
Non-current assets							
Other non-current assets	51	9	—	9	—	—	—
Current assets							
Trade receivables	571	571	262	240	8	29	32
Prepayments and other receivables	97	32	11	12	8	—	1
Derivative financial instruments	3	3	(100)	18	81	—	4
Cash and cash equivalents	550	550	268	47	215	—	20
		1,165	441	326	312	29	57
Non-current liabilities							
Interest-bearing borrowings	1,739	1,739	345	1,309	85	—	—
Other non-current liabilities	79	1	1	—	—	—	—
Current liabilities							
Interest-bearing borrowings	133	133	—	96	37	—	—
Derivative financial instruments	5	5	1	—	2	2	—
Trade payables	502	502	168	217	115	1	1
Other payables and accruals	356	157	33	81	42	—	1
		2,537	548	1,703	281	3	2
Foreign exchange gap		(1,372)	(107)	(1,377)	31	26	55

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2018		2017	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
		(US$ million)			
Foreign currency					
Bought:	US Dollar	**4**	**—**	3	—
	Euro	**83**	**—**	93	(1)
	Rand	**93**	**4**	118	—
Sold:	US Dollar	**(130)**	**4**	(97)	(2)
	Euro	**(36)**	**—**	(11)	—
	Rand	**(160)**	**7**	(39)	1
		(146)	**15**	67	(2)

Foreign currency forward exchange contracts continued

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2018 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 31 August 2020.

As at September 2018, there was an open exposure of US$12 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	Exposure	+10%	–10%
	(US$ million)		
AUD	4.7	0.4	(0.5)
CHF	(1.6)	(0.1)	0.2
EUR	(6.8)	(0.6)	0.8
GBP	3.8	0.3	(0.4)
USD	(3.2)	(0.3)	0.4
ZAR...	(9.0)	(0.8)	1.0
Other currencies	(0.1)	(0.0)	0.0
Total..	(12.2)	(1.1)	1.4

Based on the exposure at the end of September 2018, 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$1.1 million or a gain of US$1.4 million respectively.

During 2018, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$301 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a net gain of US$1.8 million (net of US$3.5 million positive forward points and US$1.7 negative spot-to-spot movement). We also contracted zero cost foreign exchange collars for a total nominal value of US$220 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2018 the impact on profit or loss of the marking to market relating to the time value of the collar amounted to a loss of US$4.1 million.

Cash flow hedges

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 Rand, any change in the foreign currency exchange rate between the US Dollar and the Rand would result in a different Rand 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 and zero cost foreign exchange collars which were designated as hedging instruments. Only the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument.

The hedging instruments are 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 2018 financial year, the hedges were highly effective. A realised loss of US$5.2 million relating to the realised spot-to-spot movements of non-deliverable forward exchange contracts was transferred from OCI to revenue in profit or loss and at the financial year-end, a positive amount of US$2.4 million was deferred in equity. A realised gain of US$3.5 million relating to the settled zero cost foreign exchange collars was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative intrinsic value in the amount of US$0.65 million was deferred to equity.

Mill expansion and maintenance capital expenditure projects

Sappi Southern Africa (SSA) has approved several capex projects requiring the acquisition of property, plant and equipment for the maintenance and expansion of its South African mills Saiccor and Ngodwana. An important part of the equipment was ordered in foreign currency, predominantly in EUR and in USD which created a foreign exchange exposure as SSA is a ZAR functional entity. To cover these foreign exchange exposures either as highly probable forecast transactions or as firm commitments, SSA entered into forward foreign exchange contracts (FECs) which were designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, have been designated as hedging instruments.

The hedging instruments are 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 2018 financial year, most of the hedges were highly effective, some ineffective hedges were terminated prospectively and the related positive foreign exchange result of US$2.9 million was transferred from other comprehensive income to profit or loss into the foreign exchange result.

A realised foreign exchange loss of US$1.1 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US$8.3 million was deferred in equity.

Net investment hedges

The hedge of the net investment designated in February 2010 has been de-designated in March 2016. At the moment of the de-designation the life-to-date negative foreign exchange differences amounting to EUR36.9 million (US$41.5 million), will remain in equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge 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.

During 2017 several de- and re-designations took place in line with the evolving net USD exposure linked to the net investment. As at September 2018 the hedged notional amount at amortised cost amounted to US$103 million.

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/Rand 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 2018 financial year, the hedge was 100% effective.

	2018		2017	
	Hedged notional	**Foreign exchange result deferred in OCI**	**Hedged notional**	**Foreign exchange result deferred in OCI**
		(US$ million)		
Bond 2032	**103**	**(1)**	102	0.2
Previous designations	**—**	**(34)**	—	(34)
	103	**(35)**	102	(34)
Net investment value of North America	**815**		798	

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.

During 2018, pulp swaps, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 100,500 tons of pulp.

Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions. As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap, future and pulp zero rated options whereby the variable price was swapped for an annual fixed price.

A realised gain of US$12.2 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp contracts (swaps and zero-cost options) outstanding at September 2018 are detailed below:

		2018		2017	
	Base currency	**Contract amount (notional amount)**	**Fair value (unfavourable) favourable**	**Contract amount (notional amount)**	**Fair value (unfavourable) favourable**
			(US$ million)		
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	**16**	**2**	—	—
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	**13**	**2**	4	1

	Base currency	2018 Contract amount (notional amount)	2018 Fair value (unfavourable) favourable	2017 Contract amount (notional amount)	2017 Fair value (unfavourable) favourable
			(US$ million)		
		29	**4**	4	1

(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.

Liquidity risk management

The following tables for the 2018 and 2017 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 2018								
Non-current assets								
Other non-current assets	**10**	**10**	—	—	9	—	1	10
Current assets								
Trade receivables	**634**	**634**	634	—	—	—	—	634
Prepayments and other receivables	**36**	**36**	36	—	—	—	—	36
Derivative financial instruments	**21**	**21**	21	—	—	—	—	21
Cash and cash equivalents	**363**	**363**	363	—	—	—	—	363
			1,054	—	9	—	1	1,064
Non-current liabilities								
Interest-bearing borrowings	**1,818**	**1,906**	93	9	478	1,181	441	2,202
Other non-current liabilities	**8**	**8**	—	—	8	—	—	8
Current liabilities								
Interest-bearing borrowings	**98**	**98**	98		—	—	—	98
Overdrafts	**16**	**16**	—	16	—	—	—	16
Derivative financial instruments	**6**	**6**	6	—	—	—	—	6
Trade payables	**637**	**637**	637	—	—	—	—	637
Other payables and accruals	**163**	**163**	163	—	—	—	—	163

	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)					
			997	25	486	1,181	441	3,130
Liquidity surplus (gap)			57	(25)	(477)	(1,181)	(440)	(2,066)

The liquidity gaps will be funded by cash generated from operations and existing unutilised facilities as well as refinancing of borrowings when due.

	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 2017								
Non-current assets								
Other non-current assets	**9**	**9**	—	1	3	5	1	10
Current assets								
Trade receivables	**571**	**571**	571	—	—	—	—	571
Prepayments and other receivables	**32**	**32**	31	1	—	—	—	32
Derivative financial instruments	**3**	**3**	1	2	—	—	—	3
Cash and cash equivalents	**550**	**550**	550	—	—	—	—	550
			1,153	4	3	5	1	1,166
Non-current liabilities								
Interest-bearing borrowings	**1,739**	**1,871**	27	28	62	1,248	922	2,287
Other non-current liabilities	**1**	**1**	—	—	1	—	—	1
Current liabilities								
Interest-bearing borrowings	**133**	**133**	72	61	—	—	—	133
Derivative financial instruments	**5**	**5**	5	—	—	—	—	5
Trade payables	**502**	**502**	502	—	—	—	—	502
Other payables and accruals	**157**	**157**	157	—	—	—	—	157
			763	89	63	1,248	922	3,085
Liquidity surplus (gap)			390	(85)	(60)	(1,243)	(921)	(1,919)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2018 and 2017 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

	Total	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1– 2 years	2 – 5 years	>5 years
		(US$ million)				
September 2018						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	**17**	17	—	—	—	—
– receiving leg	**220**	220	—	—	—	—
– paying leg	**(203)**	(203)	—	—	—	—
Commodity price risk	**4**	4	—	—	—	—
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	**6**	6	—	—	—	—

		Maturity analysis				
		Undiscounted cash flows				
	Total	0 – 6 months	6 – 12 months	1– 2 years	2 – 5 years	>5 years
		(US$ million)				
– receiving leg	**(51)**	(51)	—	—	—	—
– paying leg	**57**	57	—	—	—	—

		Maturity analysis				
		Undiscounted cash flows				
	Total	0 – 6 months	6 – 12 months	1– 2 years	2 – 5 years	>5 years
		(US$ million)				
September 2017						
Assets						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	—	—	—	—	—	—
– receiving leg	5	3	2	—	—	—
– paying leg	(5)	(3)	(2)	—	—	—
Foreign exchange risk						
IRCS and FX forward contracts	2	1	1	—	—	—
– receiving leg	150	161	(11)	—	—	—
– paying leg	(148)	(160)	12	—	—	—
Commodity price risk	1	1	—	—	—	—
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	5	5	—	—	—	—
– receiving leg	134	134	—	—	—	—
– paying leg	(129)	(129)	—	—	—	—

Fair values

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, trade receivables, certain investments, bank overdraft, trade payables and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, 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 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.

	Total balance	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
	(US$ million)							
September 2018								
Non-current assets								
Other non-current assets	**88**	78	10	—	3	—	7	10
	88	78	10	—	3	—	7	10
Current assets								
Trade receivables ..	**634**	—	634	—	634	—	—	634
Prepayments and other receivables	**133**	97	36	—	36	—	—	36
Derivative financial instruments........	**21**	—	21	21	—	—	—	21
Cash and cash equivalents	**363**	—	363	—	363	—	—	363
	1,151	97	1,054	21	1,033	—	—	1,054

	Total balance	As determined by IAS 39		Categories in accordance with IAS 39		
		Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
	(US$ million)					
September 2018						
Non-current liabilities						
Interest-bearing borrowings............................	**1,818**	—	1,818	—	1,818	1,906
Other non-current liabilities............................	**68**	60	8	7	1	8
	1,886	60	1,826	7	1,819	1,914
Current liabilities						
Interest-bearing borrowings............................	**97**	—	97	—	97	98
Overdrafts	**16**	—	16	—	16	16
Derivative financial instruments......................	**6**	—	6	6	—	6
Trade payables	**637**	—	637	—	637	637
Other payables and accruals..........................	**372**	209	163	—	163	163
	1,128	209	919	6	913	920

	Total balance	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
	(US$ million)							
September 2017								
Non-current assets								
Other non-current assets	51	42	9	—	2	—	7	9
	51	42	9	—	2	—	7	9

	Total balance	As determined by IAS 39: Total out of scope	Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Fair value
	(US$ million)							
Current assets								
Trade receivables ..	571	—	571	—	571	—	—	571
Prepayments and other receivables	97	65	32	—	32	—	—	32
Derivative financial instruments	3	—	3	3	—	—	—	3
Cash and cash equivalents	550	—	550	—	550	—	—	550
	1,221	65	1,156	3	1,153	—	—	1,156

	Total balance	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)					
September 2017						
Non-current liabilities						
Interest-bearing borrowings	1,739	—	1,739	—	1,739	1,871
Other non-current liabilities	79	78	1	—	1	1
	1,818	78	1,740	—	1,740	1,872
Current liabilities						
Interest-bearing borrowings	133	—	133	—	133	133
Derivative financial instruments	5	—	5	5	—	5
Trade payables	502	—	502	—	502	502
Other payables and accruals	356	199	157	—	157	157
	996	199	797	5	792	797

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2018 Total fair value	2018 Fair value hierarchy Level 1	2018 Level 2	2018 Level 3	2017 Total fair value	2017 Fair value hierarchy Level 1	2017 Level 2	2017 Level 3
	(US$ million)							
Non-current assets								
Other non-current assets ...	**10**	**7**	**3**	**—**	7	7	—	—
	10	**7**	**3**	**—**	7	7	—	—
Current assets								
Derivative financial instruments	**21**	**—**	**21**	**—**	3	—	3	—
	21	**—**	**21**	**—**	3	—	3	—
Non-current liabilities								
Contingent consideration liability	**7**	**—**	**—**	**7**	11	—	—	11
	7	**—**	**—**	**7**	11	—	—	11
Current liabilities								

	2018				2017			
	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)							
Contingent consideration liability	**—**	**—**	**—**	**—**	2	—	—	2
Derivative financial instruments	**6**	**—**	**6**	**—**	5	—	5	—
	6	**—**	**6**	**—**	7	—	5	2

(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.

Overall, 71% of the group's total trade receivables, both on- and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 17.

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		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	(US$ million)							
—proNARO GmbH	**—**	—	**118.0**	117.3	**—**	—	**—**	—
—Umkomaas Lignin (Pty) Ltd	**5.2**	5.2	**—**	—	**0.6**	0.7	**—**	—
—Papierholz Austria GmbH	**—**	—	**91.5**	82.9	**—**	—	**—**	5.0
—The Boldt Company (Boldt)	**—**	—	**88.0**	8.0	**—**	—	**25.7**	—
	5.2	5.2	**297.5**	208.2	**0.6**	0.7	**25.7**	5.0

The related-party arrangement with Boldt ended August 2018. There are ongoing disputes over amounts billed and arbitration has been requested by Boldt.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash or, in the case of Boldt, may be adjusted by the arbitration panel or a negotiated settlement. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US$10 million (2017: US$8.5 million). The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited share schemes are disclosed in notes 34 to 36.

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 2018, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81,263,256	15.1

33. Events after balance sheet date

The directors declared a gross dividend of 17 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR14.43176 being ZAR245.33992 cents per share on 14 November 2018. See note 8 for further details.

Other than the non-adjusting event as described above, there have been no subsequent events that occurred between financial year-end and the date of authorisation for issue of these financial statements that require disclosure or adjustment to the Group Annual Financial Statements.

34. 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 translated into US Dollar, 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 Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Human Resources and Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2018			
	Board fees	Committee fees	Travel allowance	Total
	(US$)			
D Konar[(1)]	**13,686**	**14,344**	**—**	**28,030**
KR Osar	**74,140**	**34,100**	**18,000**	**126,240**
JD McKenzie	**50,394**	**20,511**	**7,200**	**78,105**

	2018			
	Board fees	**Committee fees**	**Travel allowance**	**Total**
	(US$)			
ANR Rudd	**419,684**	**—**	**10,800**	**430,484**
NP Mageza	**34,729**	**37,569**	**7,200**	**79,498**
R Thummer[2]	**24,700**	**7,478**	**7,000**	**39,178**
MV Moosa	**34,729**	**24,834**	**7,200**	**66,763**
MA Fallon	**66,335**	**67,223**	**10,800**	**144,358**
RJ DeKoch[3]	**65,806**	**21,357**	**14,400**	**101,563**
RJAM Renders	**78,937**	**67,022**	**10,800**	**156,759**
B Mehlomakulu[4]	**31,565**	**10,255**	**7,200**	**49,020**
	894,705	**304,693**	**100,600**	**1,299,998**

(1) Retired from the board in January 2018.

(2) Retired from the board in December 2017.

(3) Retired from the board in August 2018.

(4) Appointed to the board in March 2017.

	2017			
	Board fees	**Committee fees**	**Travel allowance**	**Total**
	(US$)			
D Konar	35,200	43,811	7,000	86,011
B Radebe[5]	15,156	3,969	—	19,125
KR Osar	79,360	41,800	10,500	131,660
JD McKenzie	49,751	19,053	7,000	75,804
ANR Rudd	395,427	—	14,000	409,427
NP Mageza	35,200	24,750	7,000	66,950
R Thummer	78,745	27,781	14,000	120,526
MV Moosa	35,200	18,305	7,000	60,505
MA Fallon	67,177	62,446	14,000	143,623
GPF Beurskens[5]	27,384	22,570	—	49,954
RJ DeKoch	79,360	23,920	7,000	110,280
RJAM Renders	78,745	53,070	14,000	145,815
B Mehlomakulu	20,043	5,557	7,000	32,600
	996,748	347,032	108,500	1,452,280

(5) Retired from the board in February 2017.

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.

	2018					
	Salary	**Performance-related remuneration**	**Sums paid by way of expense allowance**	**Contributions paid under pension and medical aid schemes**	**Share based payment benefit**	**Total**
	(US$)					
SR Binnie[1]	**558,318**	**525,830**	**14,907**	**85,129**	**701,472**	**1,885,656**
GT Pearce[2]	**322,878**	**303,971**	**8,473**	**63,461**	**292,857**	**991,640**
	881,196	**829,801**	**23,380**	**148,590**	**994,329**	**2,877,296**

	2017					
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
			(US$)			
SR Binnie	464,563	440,139	12,944	76,580	561,595	1,555,821
GT Pearce	302,683	283,986	8,295	61,090	212,657	868,711
	767,246	724,125	21,239	137,670	774,252	2,424,532

(1) SR Binnie received a 5.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 20% higher in 2018 than in 2017.

(2) GT Pearce received a 5.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 7% higher in 2018 than in 2017.

The remuneration figures shown above are affected by the translation into US Dollar.

Prescribed officers

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.

	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
			(US$)			
B Wiersum	**779,507**	**511,203**	**2,976**	**261,304**	**353,023**	**1,908,013**
M Gardner	**548,690**	**442,734**	**—**	**56,125**	**353,023**	**1,400,572**
A Thiel	**336,541**	**230,261**	**9,435**	**61,199**	**384,436**	**1,021,872**
A Rossi	**84,049**	**43,391**	**2,460**	**—**	**—**	**129,900**
M van Hoven	**173,061**	**123,824**	**4,994**	**47,087**	**279,116**	**628,082**
G Bowles	**250,935**	**183,597**	**7,534**	**104,581**	**297,682**	**844,329**
F Marupen	**188,705**	**134,788**	**5,250**	**50,189**	**196,818**	**575,750**
M Mansoor	**205,370**	**152,653**	**115,083**	**73,390**	**66,188**	**612,684**
Total – 2018	**2,566,858**	**1,822,451**	**147,732**	**653,875**	**1,930,286**	**7,121,202**
B Wiersum	713,361	522,618	2,764	233,429	275,892	1,748,064
M Gardner	534,626	276,294	—	54,754	275,892	1,141,566
A Thiel	315,836	224,665	9,237	59,159	360,039	968,936
A Rossi	325,362	162,220	9,682	—	—	497,264
M van Hoven	161,408	115,370	4,888	44,891	220,367	546,924
G Bowles	204,802	160,033	6,254	87,767	235,990	694,846
F Marupen	176,898	125,925	5,140	48,381	125,608	481,952
M Mansoor	—	—	—	—	—	—
Total – 2017	2,432,293	1,587,125	37,965	528,381	1,493,788	6,079,552

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months 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 12 months' gross remuneration and benefits-in-kind.

35. 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.

	2018		2017	
Director	Direct interests Beneficial	Indirect interests Beneficial	Direct interests Beneficial	Indirect interests Beneficial
Non-executive directors				
MV Moosa	**—**	**576,542**	—	576,542
MA Fallon	**5,000**	**—**	5,000	—
Executive directors				
SR Binnie	**217,522**	**—**	97,522	—
GT Pearce	**67,067**	**—**	49,412	—
Prescribed officers	**1,006,800**	**—**	842,295	—
B Wiersum	**352,929**	**—**	275,429	—
M Gardner	**124,164**	**—**	84,164	—
A Thiel	**361,664**	**—**	267,902	—
A Rossi	**—**	**—**	125,831	—
M van Hoven	**107,618**	**—**	56,289	—
G Bowles	**26,040**	**—**	26,040	—
F Marupan	**9,385**	**—**	6,640	—
M Mansoor	**25,000**	**—**	—	—
	1,296,389	**576,542**	994,229	576,542

Subsequent to year-end and as per our SENS announcements to the date of this report, the directors and prescribed officers have acquired a net 739,721 Sappi shares.

36. 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

	SR Binnie		GT Pearce		Total 2018	Total 2017
	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		837,000		283,000	**1,120,000**	1,018,000
'A' ordinary shares		—		—	**—**	—
Performance shares 38		—		—	**—**	135,000
Performance shares 39		310,000		33,000	**343,000**	343,000
Performance shares 40		175,000		85,000	**260,000**	260,000
Performance shares 41		190,000		90,000	**280,000**	280,000
Performance shares 42		162,000		75,000	**237,000**	—
Offered and accepted during the year						
Performance shares 42						237,000
Performance shares 43		137,000		63,000	**200,000**	—
Vested during the year						
Number of shares		(310,000)		(33,000)	**(343,000)**	(135,000)

	SR Binnie		GT Pearce		Total 2018	Total 2017
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Appointment during the year						
Number of shares		—		—	**—**	—
Outstanding at end of year						
Number of shares		664,000		313,000	**977,000**	1,120,000
'A' ordinary shares		—		—	**—**	—
Performance shares 39		—		—	**—**	343,000
Performance shares 40		175,000		85,000	**260,000**	260,000
Performance shares 41		190,000		90,000	**280,000**	280,000
Performance shares 42		162,000		75,000	**237,000**	237,000
Performance shares 43		137,000		63,000	**200,000**	—

	B Wiersum		M Gardner		A Thiel	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		405,000		405,000		605,000
'A' ordinary shares		—		—		—
Performance shares 38		—		—		—
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000
Performance shares 42		90,000		90,000		90,000
Offered and accepted during the year						
Performance shares 42						
Performance shares 43		76,000		76,000		76,000
Vested during the year						
Number of shares		(110,000)		(110,000)		(310,000)
Appointment during the year						
Number of shares		—		—		—
Outstanding at end of year						
Number of shares		371,000		371,000		371,000
'A' ordinary shares		—		—		—
Performance shares 39		—		—		—
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000
Performance shares 42		90,000		90,000		90,000
Performance shares 43		76,000		76,000		76,000

	A Rossi		M v Hoven		G Bowles	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		—		325,000		350,000
'A' ordinary shares		—		—		—
Performance shares 38		—		—		—
Performance shares 39		—		90,000		100,000
Performance shares 40		—		80,000		85,000
Performance shares 41		—		85,000		90,000
Performance shares 42		—		70,000		75,000

	A Rossi		M v Hoven		G Bowles	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Offered and accepted during the year						
Performance shares 42						
Performance shares 43		—		59,000		63,000
Vested during the year						
Number of shares		—		(90,000)		(100,000)
Appointment during the year						
Number of shares		—		—		—
Outstanding at end of year						
Number of shares		—		294,000		313,000
'A' ordinary shares		—		—		—
Performance shares 39		—		—		—
Performance shares 40		—		80,000		85,000
Performance shares 41		—		85,000		90,000
Performance shares 42		—		70,000		75,000
Performance shares 43		—		59,000		63,000

Prescribed officers

	F Marupen		M Mansoor		Total 2018	Total 2017
	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		148,213		—	**2,238,213**	2,261,713
'A' ordinary shares		18,213		—	**18,213**	18,213
Performance shares 38		—		—	**—**	498,500
Performance shares 39		—		—	**720,000**	720,000
Performance shares 40		—		—	**465,000**	465,000
Performance shares 41		70,000		—	**560,000**	560,000
Performance shares 42		60,000		—	**475,000**	—
Offered and accepted during the year						
Performance shares 42						475,000
Performance shares 43		51,000		—	**401,000**	
Vested during the year						
Number of shares		—		—	**(720,000)**	(498,500)
Appointment during the year						
Number of shares		—		79,100	**79,100**	—
Outstanding at end of year						
Number of shares		199,213		79,100	**1,998,313**	2,238,213
'A' ordinary shares		18,213		—	**18,213**	18,213
Performance shares 39		—		—	**—**	720,000
Performance shares 40		—		11,000	**476,000**	465,000
Performance shares 41		70,000		15,000	**575,000**	560,000
Performance shares 42		60,000		15,100	**490,100**	475,000
Performance shares 43		51,000		38,000	**439,000**	—

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved. Plan share issue 39 vested at R96.99.

The 'A' ordinary shares are issued for Nil and vesting conditions are described in note 28. The total IFRS 2 charge in respect of key management personnel amounted to US$2.9 million (2017: US$2.3 million).

Vesting dates

Performance shares 40	04 December 2018
Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
Performance shares 43	04 December 2021
'A' ordinary shares	28 August 2019

37. Investments

Set out below are the significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2018	Effective holding (%) 2017
Elektra Purchase No 29 Limited	Ireland	Securitisation of receivables	**—**	—
Rockwell Solutions Limited	Scotland	Manufacture of paper	**100**	100
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, 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 Italy Operations SpA[(1)]	Italy	Manufacture of paper	**100**	—
Sappi International Holdings (Pty) Ltd	South Africa	Treasury	**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 Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
Sappi North America Inc[(2)]	United States of America	Manufacture of paper and paper pulp	**100**	100

(1) Acquired during the year. Refer note 9a.

(2) Renamed from SD Warren Company during the year.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sappi Limited

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sappi Limited (the group) set out on pages 9 to 88, which comprise the group balance sheet as at September 2017, and the group income statement and the group statement of comprehensive income, the group statement of changes in equity and the group statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2017, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit

Valuation of post-employment benefit obligations

The key audit matter	How the matter was addressed in our audit
Refer to note 2.3.6 for the accounting policies applied and note 28 in the consolidated financial statements. The group operates several principal defined pension and/or retirement lump sum plans in all regions which have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Accounting for post-employment benefit obligations, particularly defined benefit plans, is inherently complex and requires significant actuarial assumptions to be applied and involves estimation uncertainty. Benefits are formula-driven comprising a variety of earnings definitions, as indicated in note 28. The valuation of the defined benefit obligations requires the application of the following key assumptions: • Discount rates • Salary increases • Cost of living adjustments • Healthcare cost trends, and • Average life expectancy of employees.	Our audit procedures related to the defined pension and/or retirement lump sum plans included, among others: • Obtaining actuarial reports and using our actuarial specialists in the respective regions, that formed part of the audit team, to determine the reasonableness of the key assumptions applied within the valuations based on their industry knowledge and experience • Assessing the competence, independence and integrity of the group's actuarial specialists • Critically assessing the appropriateness of the accounting treatment adopted in respect of net assets recognised by understanding the relevant scheme rules and local regulations and applying the relevant accounting standards and interpretations, and
In the case of net assets, recognised assets are limited to the present value of any future refunds from the plan or reductions in future contributions to the plan, considered in the context of the relevant scheme rules and local regulations. Due to the complexity, significant actuarial assumptions and estimation uncertainty involved in the recognition, measurement and disclosure of the defined benefit pension and/or retirement lump sum plans, this was considered a key audit matter.	• Assessing the appropriateness of the disclosures in the consolidated financial statements.

Valuation of plantations

The key audit matter	How the matter was addressed in our audit

Refer to note 2.3.5 for the accounting policies applied and note 11 in the consolidated financial statements.

Plantations are stated at fair value less estimated cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 *Fair Value Measurements.*

The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurements and assumptions having the most significant impact on the fair value of the plantations include:

- Market prices
- Discount rates
- Volumes, and
- Growth.

Given the complexity and estimation involved in the determination of fair value of the plantations, this matter was considered a key audit matter.

Our audit procedures related to the valuation of plantations included, among others:

- Critically evaluating the fair value methodology, measurements and key assumptions applied by management in determining the fair value of the plantations. This was performed by our valuation specialists, that formed part of the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations
- Challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations, and
- Assessing the reasonableness of the group's fair value calculation, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations.

Valuation of deferred tax assets

Refer to note 2.3.3(ii) for the accounting policies applied and note 12 in the consolidated financial statements.

As detailed in note 12, the existence of historical unused tax losses, particularly in the European tax jurisdictions, requires judgement to be applied in determining how much of these tax losses should be recognised as deferred tax assets. The recognition is based on forecasts of future taxable profits which involves estimating if and when the losses will be utilised.

Given the quantum of both the recognised and unrecognised deferred tax assets and the inherent uncertainty involved in forecasting future taxable profits, this has been identified as a key audit matter.

Our audit procedures related to the valuation of deferred tax assets included, among others:

- Challenging the reasonableness of the key assumptions applied by management in the recognition of deferred tax assets relating to tax losses by:
  - — critically assessing the utilisation of the losses
  - — reviewing the forecast future taxable profits considering approved budgets, and
  - — considering management's historical accuracy in forecasting taxable profits
- Considering the application of the relevant accounting standards in respect of recognising deferred tax assets for entities with a history of tax losses
- Challenging the judgements applied by management in not recognising deferred tax assets in relation to unused tax losses by considering the nature of the underlying operations of the entities, the taxable profits or losses achieved in recent years along with the forecast future taxable profits, and
- Assessing the adequacy and appropriateness of the group's disclosures in respect of recognised and unrecognised deferred tax assets in the consolidated financial statements.

Other matter

The financial statements for Sappi Limited for the year ended September 2016 were audited by another auditor who expressed an unmodified opinion on those statements dated 09 December 2016.

Other information

The directors are responsible for the other information. The other information comprises the Group Company Secretary's certificate, the Audit Committee Report and the Directors' Report as required by the Companies Act of South Africa and the directors' approval and the Annual Integrated Report, which we obtained prior to the date of this report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit 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
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the group to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation, and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and, therefore, are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 04 December 2015, we report that KPMG Inc. was appointed as the auditor of Sappi Limited in the current year.

KPMG Inc
Registered Auditor

Per Peter MacDonald
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

07 December 2017

SAPPI

GROUP INCOME STATEMENT

for the year ended September 2017

	Note	2017	2016
		(US$ million)	
Revenue		**5,296**	5,141
Cost of sales	4	**4,429**	4,270
Gross profit		**867**	871
Selling, general and administrative expenses	4	**334**	336
Other operating (income) expenses		**14**	—
Share of profit from equity-accounted investees		**(7)**	(9)
Operating profit	4	**526**	544
Net finance costs	5	**80**	121
Finance costs		**107**	140
Finance income		**(15)**	(16)
Net foreign exchange gains		**(12)**	(2)
Net fair value (gain) loss on financial instruments		**—**	(1)
Profit before taxation		**446**	423
Taxation charge	6	**108**	104
Profit for the year		**338**	319
Basic earnings per share (US cents)	7	**63**	60
Weighted average number of ordinary shares in issue (millions)		**533.9**	529.4
Diluted earnings per share (US cents)	7	**62**	59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**547.4**	540.3

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GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2017

	Note	2017	2016
		(US$ million)	
Profit for the year		**338**	319
Other comprehensive income (loss), net of tax	19	**78**	30
Item that will not be reclassified subsequently to profit or loss		**68**	(12)
Actuarial gains (losses) on post-employment benefit funds		**101**	(20)
Deferred tax on above item		**(33)**	8
Items that may be reclassified subsequently to profit or loss		**10**	42
Exchange differences on translation to presentation currency		**(1)**	38
Movement in hedging reserves		**10**	4
Deferred tax on above items		**1**	—
Total comprehensive income (loss) for the year		**416**	349

SAPPI

GROUP BALANCE SHEET

as at September 2017

	Note	2017	2016
		(US$ million)	
Assets			
Non-current assets		**3,378**	3,171
Property, plant and equipment	10	**2,681**	2,501
Plantations	11	**458**	441
Deferred tax assets	12	**123**	152
Goodwill and intangible assets	13	**39**	17
Equity accounted investees	14	**26**	20
Other non-current assets	15	**51**	39
Derivative financial instruments	30	**—**	1
Current assets		**1,869**	2,006
Inventories	16	**636**	606
Trade and other receivables	17	**668**	642
Derivative financial instruments	30	**3**	44
Taxation receivable		**12**	11
Cash and cash equivalents		**550**	703
Total assets		**5,247**	5,177
Equity and liabilities			
Shareholders' equity		**1,747**	1,378
Ordinary share capital and share premium	18	**894**	879
Non-distributable reserves	20	**123**	114
Foreign currency translation reserve		**(158)**	(147)
Hedging reserves		**(34)**	(43)
Retained earnings		**922**	575
Non-current liabilities		**2,457**	2,325
Interest-bearing borrowings	21	**1,739**	1,535
Deferred tax liabilities	12	**295**	272
Other non-current liabilities	22	**423**	518
Current liabilities		**1,043**	1,474
Interest-bearing borrowings	21	**133**	576
Trade and other payables		**858**	839
Provisions	23	**10**	15
Derivative financial instruments	30	**5**	2
Taxation payable		**37**	42
Total equity and liabilities		**5,247**	5,177

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GROUP STATEMENT OF CASH FLOWS

for the year ended September 2017

	Note	2017	2016
		(US$ million)	
Cash retained from operating activities		**481**	550
Cash generated from operations	24.1	**748**	693
—Increase (decrease) in working capital	24.2	**(27)**	4
Cash generated from operating activities		**721**	697
—Finance costs paid	24.3	**(96)**	(107)
—Finance income received		**15**	16
—Taxation paid	24.4	**(100)**	(56)
—Dividends paid		**(59)**	—
Cash utilised in investing activities		**(373)**	(191)
Investment to maintain operations		**(140)**	(155)
Investment to expand operations		**(217)**	(86)
Proceeds on disposal of assets held for sale		**—**	39
Proceeds on disposal of other non-current assets	24.5	**4**	5
Other (increase) decrease in non-current assets		**(9)**	6
Acquisitions	9	**(11)**	—
Cash effects of financing activities		**(279)**	(130)
Proceeds from interest-bearing borrowings		**186**	389
Repayment of interest-bearing borrowings		**(465)**	(499)
Cash costs attributable to refinancing transactions		**—**	(20)
Net movement in cash and cash equivalents		**(171)**	229
Cash and cash equivalents at beginning of year		**703**	456
Translation effects		**18**	18
Cash and cash equivalents at end of year		**550**	703

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GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2017

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	Total equity
					(US$ million)				
Balance—September 2015	526.4	38	813	851	113	(170)	(47)	268	**1,015**
Share-based payments	—	—	—	—	7	—	—	—	**7**
Transfers of vested share options	4.2	—	14	14	(7)	—	—	—	**7**
Translation of parent company's ordinary share capital and share premium	—	1	13	14	—	(14)	—	—	**—**
Total comprehensive (loss) income	—	—	—	—	1	37	4	307	**349**
Balance—September 2016	530.6	39	840	879	114	(147)	(43)	575	**1,378**

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	Total equity
					(US$ million)				
Share-based payments	—	—	—	—	9	—	—	—	**9**
Transfers of vested share options	4.4	1	4	5	(2)	—	—	—	**3**
Translation of parent company's ordinary share capital and share premium	—	—	10	10	—	(10)	—	—	**—**
Dividend paid—11 US cents per share	—	—	—	—	—	—	—	(59)	**(59)**
Total comprehensive income	—	—	—	—	2	(1)	9	406	**416**
Balance—September 2017	535.0	40	854	894	123	(158)	(34)	922	**1,747**
Note				*18*	*20*				

1. Basis of preparation

The consolidated financial statements (the Group Annual Financial Statements) have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- The SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council
- The Listings Requirements of the JSE Limited, and
- The requirements of the Companies Act of South Africa.

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.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

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 standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

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
- Property, plant and equipment is accounted for using the cost model, 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 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, 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:

- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)
- 29 September 2014 to 27 September 2015 (52 weeks).

(ii) Underlying concepts

The Group Annual Financial Statements are prepared on the going concern basis.

Assets, liabilities, 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 Dollar, which is the group's presentation currency.

The functional currency of the parent company is Rand (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.

2.2 Summary of accounting policies (Continued)

The group used the following exchange rates for financial reporting purposes:

	2017	2016
Period-end rate		
US$1 = ZAR	**13.556**	13.714
€1 = US$	**1.181**	1.123
Annual average rate		
US$1 = ZAR	**13.381**	14.788
€1 = US$	**1.106**	1.111

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, 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 financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

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.

(ii) Associates and joint ventures (equity accounted investees)

The financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. 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 financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

2.2 Summary of accounting policies (Continued)

(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.

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 Summary of accounting policies (Continued)

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

Brands acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years.

(iv) Other intangible assets

Other intangible assets comprise customer relationships, know-how and licence fees which are amortised on a straight-line basis over their useful lives between 10 and 20 years.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, 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.

2.2.7 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 at the end of the lease period is uncertain, 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.

2.2 Summary of accounting policies (Continued)

(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 Segment reporting

The group's reportable segments, which have been determined in accordance with 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.

2.2.9 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.

2.2.10 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.

2.2.11 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 the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 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 Summary of accounting policies (Continued)

2.2.13 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.

2.2.14 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.

(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, which are necessary in determining the grant date fair value, include the volatility of the group’s share price, employee turnover rate, and dividend payout rates.

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

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, for intangible assets other than goodwill, whether an impairment reversal is required.

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 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.

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 property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss 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 property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and 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 and equipment...	Straight-line	3 to 30 years

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.

(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 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 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.

- **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 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 five 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 eight 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.

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 recognises 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 which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. 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 of the amount of the obligation can be made.

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 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 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 group has not adopted any new or revised standards, interpretations, amendments and improvements to standards in the current fiscal year.

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 which have not yet been adopted by the group. The impact of these standards is still being evaluated by the group.

- IFRS 9 *Financial Instruments*—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—September 2019. Management has implemented a project to assess the revised classification and measurement impact of this standard and the effect of the expected credit loss method.
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture—Effective date deferred indefinitely.
- IFRS 15 *Revenue from Contracts with Customers*—provides a single, principles-based five-step model to be applied to all contracts with customers—September 2019. Management is currently reviewing the significant customer contracts to determine the impact of this standard.
- IFRS 16 *Leases*—Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases*—September 2020. Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.
- IAS 7 *Statement of Cash Flows*—Disclosure Initiative—clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities—September 2018.
- IAS 12—*Income Taxes*—Recognition of Deferred Tax Assets for Unrealised Losses—September 2018.
- IFRIC 22—*Foreign Currency Transactions and Advance Consideration*—September 2019.
- IFRIC 23—*Uncertainty over Income Tax Treatments*—September 2020.
- IFRS 17—*Insurance Contracts*—Supersedes IFRS 4—September 2022.
- IAS 40—*Investment Property*—Transfers of Investment Property—September 2019.
- Annual Improvements 2014—2016 Cycle—September 2018.

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. 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 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 paper 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.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit excluding special items.

	North America		Europe		Southern Africa		Unallocated and eliminations[3]		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	(US$ million)									
Income statement										
External sales[1]	**1,360**	1,367	**2,564**	2,582	**1,372**	1,192	**–**	–	**5,296**	5,141
Operating profit excluding special items	**47**	49	**140**	131	**337**	305	**2**	2	**526**	487
Special items—gains (losses)[2]	**–**	6	**(4)**	(6)	**10**	62	**(6)**	(5)	**–**	57
Segment operating profit (loss)	**47**	55	**136**	125	**347**	367	**(4)**	(3)	**526**	544
EBITDA excluding special items[2]	**126**	124	**262**	261	**396**	352	**1**	2	**785**	739
Share of profit of equity investments	**–**	–	**–**	1	**6**	8	**1**	–	**7**	9
Depreciation and amortisation	**(79)**	(75)	**(122)**	(130)	**(59)**	(47)	**1**	–	**(259)**	(252)
Net asset impairments	**–**	–	**(1)**	(2)	**(3)**	–	**–**	–	**(4)**	(2)
Profit (loss) on disposal and written off assets	**–**	–	**(1)**	1	**(1)**	14	**–**	–	**(2)**	15
Fellings	**–**	–	**–**	–	**(63)**	(56)	**–**	–	**(63)**	(56)
Plantation fair value adjustment	**–**	–	**–**	–	**79**	120	**–**	–	**79**	120
Restructuring provisions (raised) released and closure costs	**–**	–	**–**	(3)	**–**	(1)	**(1)**	–	**(1)**	(4)
Employee benefit liability settlement	**–**	8	**–**	–	**–**	–	**–**	–	**–**	8
Other non-cash items	**(16)**	(14)	**(15)**	(10)	**6**	(22)	**–**	6	**(25)**	(40)
Balance sheet										
Capital expenditures	**132**	44	**131**	90	**105**	90	**2**	5	**370**	229
Segment assets[2]	**1,026**	967	**1,373**	1,256	**1,263**	1,182	**2**	19	**3,664**	3,424
Property, plant and equipment	**841**	788	**1,042**	968	**789**	738	**9**	7	**2,681**	2,501

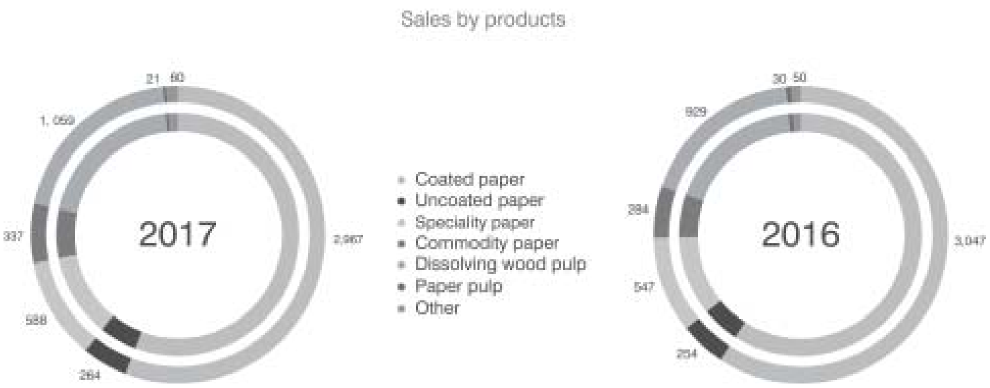
Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America		Europe		Southern Africa		Unallocated and eliminations(3)		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	(US$ million)									
Operating profit excluding special items	**47**	49	**140**	131	**337**	305	**2**	2	**526**	487
Special items—gains (losses)[2]	**–**	6	**(4)**	(6)	**10**	62	**(6)**	(5)	**–**	57
Segment operating profit (loss)	**47**	55	**136**	125	**347**	367	**(4)**	(3)	**526**	544

(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to the Glossary in the Annual Integrated Report for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.



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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
					(US$ million)					
EBITDA excluding special items(2)	**126**	124	**262**	261	**396**	352	**1**	2	**785**	739
Depreciation and amortisation	**(79)**	(75)	**(122)**	(130)	**(59)**	(47)	**1**	—	**(259)**	(252)
Operating profit excluding special items	**47**	49	**140**	131	**337**	305	**2**	2	**526**	487
Special items – gains (losses)(2)	**—**	6	**(4)**	(6)	**10**	62	**(6)**	(5)	**—**	57
Segment operating profit (loss)	**47**	55	**136**	125	**347**	367	**(4)**	(3)	**526**	544
					Net finance costs				**(80)**	(121)
					Profit before taxation				**446**	423

Reconciliation of segment assets to total assets:

	Group	
	2017	**2016**
	(US$ million)	
Segment assets(2)	**3,664**	3,424
Deferred tax assets	**123**	152
Cash and cash equivalents	**550**	703
Trade and other payables	**858**	839
Provisions	**10**	15
Derivative financial instruments (included in current liabilities)	**5**	2
Taxation payable	**37**	42
Total assets	**5,247**	5,177

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which comprises:

	Group	
	2017	**2016**
	(US$ million)	
Sales		
Specialised cellulose	**1,059**	929
Paper	**4,172**	4,156
Forestry	**65**	56
Total	**5,296**	5,141
Operating profit excluding special items		
Specialised cellulose	**334**	294
Paper	**190**	191

	Group 2017	Group 2016
	(US$ million)	
Unallocated and eliminations[3]	**2**	2
Total	**526**	487
EBITDA excluding special items		
Specialised cellulose	**386**	339
Paper	**398**	398
Unallocated and eliminations[3]	**1**	2
Total	**785**	739

(2) Refer to the Glossary in the Annual Integrated Report for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

4. Operating profit

Operating profit has been arrived at after charging (crediting):

	2017		2016	
	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	**2,705**	**—**	2,630	—
Wood (includes growth and felling adjustments)[1]	**603**	**—**	624	—
Energy	**372**	**—**	355	—
Chemicals	**787**	**—**	726	—
Pulp	**753**	**—**	740	—
Other variable costs	**190**	**—**	185	—
Plantation price fair value adjustment	**(21)**	**—**	(64)	—
Employment costs	**769**	**160**	739	155
Depreciation	**247**	**8**	241	9
Delivery charges	**441**	**—**	431	—
Maintenance	**213**	**—**	201	—
Other overheads	**75**	**—**	92	—
Marketing and selling expenses	**—**	**81**	—	74
Administrative and general expenses	**—**	**85**	—	98
	4,429	**334**	4,270	336

	2017	2016
	(US$ million)	
Silviculture costs (included within cost of sales)	**58**	46
Leasing charges for premises	**13**	14
Leasing charges for plant and equipment	**14**	14
Remuneration paid other than to employees of the company in respect of	**27**	25
Technical services	**11**	12
Administration services	**16**	13
Auditor's remuneration	**4**	5
Tax planning and advice	**1**	—
Research and development costs	**29**	26
Amortisation	**4**	2
Cost on derecognition of loans and receivables[2]	**11**	8
Net asset impairment of assets and investments	**4**	2

	2017	2016
	(US$ million)	
Restructuring provisions and closure costs raised (reversed)	**1**	4
(Profit) loss on assets held for sale and written off assets	**2**	(15)
Post-retirement plan settlements and amendments	**—**	(8)
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	1
Employment costs consist of	**929**	894
Wages and salaries	**838**	814
Defined contribution plan expense	**36**	34
Defined benefit pension plan expense	**21**	12
Other defined benefit plan expense	**2**	3
Share-based payment expense	**9**	6
Other	**23**	25

		2017	2016
(1)	Changes in plantation volumes		
	Fellings	**63**	56
	Growth	**(58)**	(56)

(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

	2017	2016
	(US$ million)	
Interest and other finance costs on liabilities carried at amortised cost	**100**	129
Interest on overdrafts	**—**	1
Interest on redeemable bonds and other loans	**100**	111
Premium and costs on early redemption of redeemable bonds and other loans	**—**	12
Accelerated amortisation on early settlement of redeemable bonds and other loans	**—**	5
Net interest on employee benefit liabilities	**7**	11
Finance income received on assets carried at amortised cost	**(15)**	(16)
Interest income on bank accounts	**(12)**	(15)
Interest income on other loans and investments	**(3)**	(1)
Net foreign exchange gains	**(12)**	(2)
Net fair value loss (gain) on financial instruments	**—**	(1)
Hedge ineffectiveness	**—**	(1)
	80	121

6. Taxation charge

	2017	2016
	(US$ million)	
Current taxation		
Current year	**99**	63
Prior year overprovision	**(5)**	(2)
Other company taxes	**1**	3
Deferred taxation		
Current year	**12**	44
Prior year underprovision	**1**	(4)
Attributable to tax rate changes	**—**	—
	108	104
Reconciliation of the tax rate		
Profit before taxation	**446**	423
Profit-making regions	**447**	423

	2017	2016
	(US$ million)	
Loss-making regions	**(1)**	—
Taxation at the average statutory tax rate	**125**	119
Profit-making regions at 28% (2016: 28%)	**125**	119
Exempt income	**(26)**	(17)
Non-deductible expenditure	**29**	17
No tax relief on losses	**3**	—
No tax charge on profits	**(4)**	(12)
Recognition of deferred tax assets	**(16)**	—
Prior year adjustments	**(4)**	(6)
Other taxes	**1**	3
Taxation charge	**108**	104
Effective tax rate for the year	**24%**	25%

In addition to income taxation charges to profit or loss, a taxation charge of US$33 million (2016: US$8 million relief) has been recognised directly in other comprehensive income (refer to note 12).

7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2017			2016		
	Profit US$ million	Shares million	Earnings per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**338**	**533.9**	**63**	319	529.4	60
Share options and performance shares under Sappi Limited Share Trust	**—**	**13.5**		—	10.9	
Diluted EPS calculation	**338**	**547.4**	**62**	319	540.3	59

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR85.47 (2016: ZAR64.88). In the current and prior financial year, all share options that could potentially dilute EPS in the future are included in the calculation above.

Headline earnings per share[1]

Headline earnings per share are based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
			(US$ million)			
Attributable earnings to ordinary shareholders	**446**	**108**	**338**	423	104	319
Impairments of assets and investments	**6**	**—**	**6**	2	—	2
Profit on disposal of assets held for sale, businesses and other assets	**2**	**(1)**	**1**	(15)	(3)	(12)
Asset impairment reversals	**(2)**	**—**	**(2)**	—	—	—
Headline earnings	**454**	**107**	**343**	410	101	309
Weighted average number of ordinary shares in issue (millions)			**533.9**			529.4
Headline earnings per share (US cents)			**64**			58

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
	(US$ million)					
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**547.4**			540.3
Diluted headline earnings per share (US cents)			**63**			57

(1) Headline earnings—as defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, 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.

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
	(US$ million)					
Attributable earnings to ordinary shareholders	**446**	**108**	**338**	423	104	319
Special items	**—**	**(2)**	**2**	(57)	(18)	(39)
Refinancing costs	**—**	**—**	**—**	23	—	23
Earnings excluding special items	**446**	**106**	**340**	389	86	303
Weighted average number of ordinary shares in issue (millions)			**533.9**			529.4
EPS excluding special items (US cents)			**64**			57
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**547.4**			540.3
Diluted EPS excluding special items (US cents)			**62**			56

8. Dividends

The directors have resolved to declare a gross dividend (number 87) of 15 US cents per share, payable in Rand at an exchange rate (US$1 = ZAR) of 14.37037, being ZAR215.55555 cents per share, for the year ended September 2017 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi 'A' ordinary unlisted shares in issue on the record date shall be entitled to receive 7.5 US cents per share being 50% of the ordinary dividend declared.

9. Cash paid on acquisition

On 03 July 2017 Sappi acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of US$23 million (GBP18 million) of which US$12 million (GBP10 million) is a contingent consideration and US$11 million was paid in cash. The net assets acquired include tangible net assets of US$7 million, goodwill of US$3 million and identified intangible assets of US$13 million.

10. Property, plant and equipment

	2017	2016
	(US$ million)	
Land and buildings[1]		
At cost	**1,385**	1,317
Accumulated depreciation and impairments	**(860)**	(800)
	525	517
Plant and equipment[2]		
At cost	**6,864**	6,401
Accumulated depreciation and impairments	**(4,709)**	(4,419)
	2,155	1,982
Capitalised leased assets		

	2017	2016
	(US$ million)	
At cost	**432**	412
Accumulated depreciation and impairments	**(431)**	(410)
	1	2
Aggregate cost	**8,681**	8,130
Aggregate accumulated depreciation and impairments	**(6,000)**	(5,629)
Aggregate book value[3]	**2,681**	2,501

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 2015	510	1,996	2	**2,508**
Additions	10	218	1	**229**
Disposals	—	(2)	—	**(2)**
Depreciation	(28)	(221)	(1)	**(250)**
Transfers to assets held for sale	22	(22)	—	**—**
Translation differences	3	13	—	**16**
Net book value at September 2016	517	1,982	2	**2,501**
Additions	20	350	—	**370**
Acquisition	5	5	—	**10**
Disposals	(1)	(5)	—	**(6)**
Depreciation	(29)	(225)	(1)	**(255)**
Translation differences	13	48	—	**61**
Net book value at September 2017	525	2,155	1	**2,681**

(1) Details of land and buildings are available at the registered offices of the respective companies that 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) An amount of US$298 million (2016: US$124 million) relates to assets under construction.

Refer to note 25 for details of encumbrances.

11. Plantations

	2017	2016
	(US$ million)	
Fair value of plantations at beginning of year	**441**	383
Gains arising from growth	**58**	56
Fire, flood, storms and related events	**(5)**	(13)
In-field inventory	**1**	(1)
Gain arising from fair value price changes	**21**	64
Harvesting—agriculture produce (fellings)	**(63)**	(56)
Disposals	**—**	(1)
Translation differences	**5**	9
Fair value of plantations at end of year	**458**	441

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 20 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.

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 Forest Stewardship Council® standards.

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* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 9.77%. The group currently values approximately 28 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprise approximately 101,000 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:

	2017	2016
	(US$ million)	
Market price changes		
1% increase in market prices	**2**	2
1% decrease in market prices	**(2)**	(2)
Discount rate (for immature timber)		
1% increase in rate	**(3)**	(2)
1% decrease in rate	**3**	2
Volume assumption		
1% increase in estimate of volume	**4**	4
1% decrease in estimate of volume	**(4)**	(4)
Costs to sell		
1% increase in costs to sell	**(2)**	(2)
1% decrease in costs to sell	**2**	2
Growth assumptions		
1% increase in rate of growth	**1**	1
1% decrease in rate of growth	**(1)**	(1)

12. Deferred tax

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
	(US$ million)			
Other liabilities, accruals and prepayments	**(69)**	**(90)**	(63)	(63)
Inventory	**10**	**2**	10	2
United States of America (USA) tax credits carry forward	**16**	**—**	20	—
Tax loss carry forward	**127**	**29**	119	30
Property, plant and equipment	**(64)**	**(209)**	(5)	(207)
Plantations	**—**	**(32)**	—	(48)
Other non-current assets	**18**	**2**	40	2
Other non-current liabilities	**85**	**3**	31	12
	123	**(295)**	152	(272)

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.

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.

	2017	2016
	(US$ million)	
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**29**	36
Tax losses	**682**	712
	711	748
Attributable to the following tax jurisdictions:		
Austria	**529**	552
Belgium	**115**	115
Finland	**40**	38
The Netherlands	**27**	43
	711	748
Expiry between one and five years	**70**	86
Expiry after five years	**24**	24
Indefinite life	**617**	638
	711	748
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**748**	836
No tax relief on losses	**1**	—
No tax charge on profits	**(60)**	(31)
Recognition of deferred tax assets	**(16)**	—
Expired	**—**	(59)
Prior year adjustments	**4**	—
Movement in foreign exchange rates	**34**	2
Balance at end of year	**711**	748
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**152**	162
Deferred tax liabilities	**(272)**	(245)
	(120)	(83)
Deferred tax charge for the year	**(13)**	(40)
Other liabilities, accruals and prepayments	**(28)**	(38)
Inventory	**1**	—
USA tax credits	**(3)**	—
Tax loss carry forward	**—**	(53)
Property, plant and equipment	**(58)**	11
Plantations	**17**	18

	2017	2016
	(US$ million)	
Other non-current assets	**(30)**	(27)
Other non-current liabilities	**88**	49
Amounts recorded directly in other comprehensive income	**(33)**	8
Acquisition of subsidiary	**(3)**	—
Translation differences	**(3)**	(5)
Deferred tax balances at end of year	**(172)**	(120)
Deferred tax assets	**123**	152
Deferred tax liabilities	**(295)**	(272)

13. Goodwill and intangible assets

	2017				2016			
	Goodwill	Brands	Other	Total	Goodwill	Brands	Other	Total
				(US$ million)				
Net carrying amount at beginning of year	**3**	**5**	**9**	**17**	4	7	8	19
Additions	**—**	**—**	**2**	**2**	—	—	4	4
Acquisitions	**3**	**9**	**13**	**25**	—	—	—	—
Amortisation	**—**	**(2)**	**(4)**	**(6)**	—	(2)	—	(2)
Impairment	**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Disposals	**—**	**—**	**(1)**	**(1)**	—	—	—	—
Translation difference	**1**	**1**	**1**	**3**	(1)	—	(1)	(2)
Net carrying amount	**7**	**13**	**19**	**39**	3	5	9	17
Cost (gross carrying amount)	**7**	**32**	**20**	**59**	3	20	12	35
Accumulated amortisation and impairments	**—**	**(19)**	**(1)**	**(20)**	—	(15)	(3)	(18)
Net carrying amount	**7**	**13**	**19**	**39**	3	5	9	17

Goodwill was increased by US$3 million during the year related to the acquisition of Rockwell Solutions Limited. Goodwill is attributable to the cash-generating units of specialities (US$3 million) and coated woodfree (US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

14. Equity accounted investees

	2017	2016
	(US$ million)	
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Pty Limited	**14**	14
Other equity accounted investees	**12**	6
	26	20

Dividends received from joint ventures for the 2017 financial year were US$7 million (2016: US$7 million).

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 lignosulphonate 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 IFRS are used to account for the joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

	2017	2016
	(US$ million)	
Current assets	**25**	21
Non-current assets	**19**	14
Current liabilities	**(7)**	(6)
Non-current liabilities	**(9)**	(1)
The above assets and liabilities include the following:		
Cash and cash equivalents	**10**	6
Current financial liabilities (excluding trade and other payables, and provisions)	**(7)**	(6)
Non-current financial liabilities (excluding trade and other payables, and provisions)	**(9)**	(1)

	2017	2016
	(US$ million)	
Sales	**49**	56
Depreciation and amortisation	**2**	1
Taxation charge	**4**	7
Profit from continuing operations	**13**	16
Total comprehensive income	**13**	16

Reconciliation of the financial information to the carrying amount of the joint venture:

	2017	2016
	(US$ million)	
Net assets of the joint venture	**28**	28
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	14

Details of other equity accounted investees

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.

Aggregate financial information for joint ventures that are not individually material:

	2017	2016
	(US$ million)	
Profit from continuing operations	**3**	1
Total comprehensive income	**3**	1

	2017	2016
	(US$ million)	
Carrying amount of these other equity accounted investees	**12**	6

15. Other non-current assets

	2017	2016
	(US$ million)	
Investment funds	**7**	7
Defined benefit pension plan assets (refer to note 28)	**35**	23
Advances to tree growers	**3**	3
Other financial assets	**4**	4
Other	**2**	2
	51	39

16. Inventories

	2017	2016
	(US$ million)	
Raw materials	**134**	134
Work in progress	**56**	56
Finished goods	**311**	281
Consumable stores and spares	**135**	135
	636	606

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$6 million (2016: US$8 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$3,995 million (2016: US$3,896 million)

17. Trade and other receivables

	2017	2016
	(US$ million)	
Trade accounts receivable, gross	**581**	531
Allowance for credit losses	**(10)**	(14)
Trade accounts receivable, net	**571**	517
Prepayments and other receivables	**97**	125
	668	642

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. No significant risk has been identified within the trade accounts receivables not past due but not impaired. Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.3% (2016: 12.1%) of turnover.

17.1 Reconciliation of the allowance for credit losses

	2017	2016
	(US$ million)	
Balance at beginning of year	**14**	11
Raised during the year	**8**	8
Released during the year	**(8)**	(1)
Utilised during the year	**(5)**	(4)
Translation differences	**1**	—
Balance at end of year	**10**	14

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2017

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	**21**	**1**	**22**
Between 7 and 30 days overdue	**11**	**—**	**11**
Between 30 and 60 days overdue	**3**	**—**	**3**
More than 60 days overdue	**1**	**9**	**10**
	36	**10**	**46**

September 2016

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	7	—	7
Between 7 and 30 days overdue	7	—	7
Between 30 and 60 days overdue	2	1	3
More than 60 days overdue	2	12	14
	18	13	31

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any allowance for credit losses is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2016: 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.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2020. This programme has a limit of US$390 million (€330 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$432 million (2016: US$392 million) have been pledged as collateral for amounts received as funding under the programme of US$364 million (2016: US$314 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 Rand receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

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 2017 amounted to US$72 million (2016: US$91 million).

Details of the securitisation programme at the end of the 2017 and 2016 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2017				
Rand Merchant Bank Limited	**ZAR**	**ZAR980 million**	**Unlimited**	**Linked to 3-month JIBAR**
2016				
Rand Merchant Bank Limited	ZAR	ZAR1,249 million	Unlimited	Linked to 3-month JIBAR

(1) The securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Linked to 3-month JIBAR

At the end of each financial month and on a non-recourse basis, the group sells certain letters of credit to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico), Citibank (São Paulo) and Citibank (New York) by utilising the customers' credit facilities with the discounting bank.

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 and trade receivables during the years ended September 2017 and September 2016. 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$668 million (2016: US$642 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following net trade receivable amounts from single customers:

Threshold	2017 Number of customers	2017 US$ million	2017 Percentage	2016 Number of customers	2016 US$ million	2016 Percentage
Greater than US$10 million	**6**	**109**	**19**	5	96	19
Between US$5 million and US$10 million	**8**	**50**	**9**	8	49	9
Less than US$5 million	**2,450**	**412**	**72**	2,315	372	72
	2,464	**571**	**100**	2,328	517	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

	2017 Number of shares	2017 US$ million	2016 Number of shares	2016 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	**557,202,573**	**41**	541,446,223	40
Fully paid 'A' ordinary shares of ZAR1 each(1)	**19,961,476**	**2**	19,961,476	1
Treasury shares(2)	**(42,143,854)**	**(3)**	(30,844,098)	(2)
Share premium		**854**		840
	535,020,195	**894**	530,563,601	879
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**879**		851
Transfers from Sappi Limited Share Incentive Trust		**4**		14
Translation movements		**11**		14
Closing balance		**894**		879

(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 Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

(2) Includes 22,182,378 (2016: 10,882,622) ordinary shares as well as 19,961,476 (2016: 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 2017	Number of shares 2016
Ordinary treasury shares:		
Opening balance	**10,882,622**	15,041,212
Issue of treasury shares	**15,756,350**	—
Treasury shares issued to participants	**(4,456,594)**	(4,158,590)
Scheme shares (Refer to note 29)	**(1,218,849)**	(3,396,445)

	Number of shares	
	2017	**2016**
Plan shares (Refer to note 29)	**(3,237,745)**	(762,145)
Closing balance	**22,182,378**	10,882,622
'A' ordinary treasury shares:		
'A' ordinary shares issued to the BBBEE trusts	**19,961,476**	19,961,476
	42,143,854	30,844,098

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 as 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 2017 and 2016 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 to the objectives, policies or processes during the current period.

19. Other comprehensive income (loss)

	2017	2016
	(US$ million)	
Item that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on post-employment benefit funds	**68**	(12)
Gross amount	**101**	(20)
Tax	**(33)**	8
Items that may be or are reclassified subsequently to profit or loss		

	2017	2016
	(US$ million)	
Exchange differences on translation to presentation currency	**(1)**	38
Translation of foreign operations	**(1)**	37
Exchange differences arising on non-distributable reserves	**2**	1
Exchange differences arising on hedging reserves	**(2)**	—
Tax	**—**	—
Hedging reserves	**11**	4
Movements during the year	**30**	4
Reclassified to profit or loss	**(19)**	—
Reclassified to property, plant and equipment	**(1)**	—
Tax	**1**	—
Other comprehensive income (loss) recorded directly in equity	**78**	30
Profit for the year	**338**	319
Total comprehensive income (loss) for the year	**416**	349

20. Non-distributable reserves

	2017				2016			
	Legal reserves(1)	Share-based payment reserve	Other	Total	Legal reserves(1)	Share-based payment reserve	Other	Total
	(US$ million)							
Opening balance	58	53	3	114	58	52	3	113
Transfers of vested share options	—	(2)	—	(2)	—	(7)	—	(7)
Share-based payment expense	—	9	—	9	—	7	—	7
Translation differences	2	1	(1)	2	—	1	—	1
	60	61	2	123	58	53	3	114

(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

	2017	2016
	(US$ million)	
Securitisation debt(1)	**364**	314
Unsecured borrowings	**1,508**	1,797
Total borrowings (Refer to note 31)	**1,872**	2,111
Less: Current portion included in current liabilities	**(133)**	(576)
Total non-current interest-bearing borrowings	**1,739**	1,535
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2017		576
2018	**133**	350
2019	**24**	—
2020	**481**	83

	2017	2016
	(US$ million)	
2021	**32**	—
2022 (September 2016: Thereafter)	**533**	1,102
Thereafter	**669**	
	1,872	2,111

(1) Pledged over trade receivables (Refer to note 25 for details of encumbered assets).

Capitalised lease liabilities

As at financial year-end, the group had no material capitalised finance lease liabilities.

Set out below are details of the more significant interest-bearing borrowings in the group at September 2017:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€444 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€344 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	USD	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed[7]	ZAR500 million	ZAR500 million	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€200 million	€200 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[8]
UniCredit Bank	USD	Variable	US$127 million	US$127 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[8]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2017	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€82 million	€81 million[2][4]		June 2021	EBITDA to net interest and net debt to EBITDA[8]
Österreichische Kontrollbank	EUR	Fixed	€59 million	€58 million[2][4]		March 2024	EBITDA to net interest and net debt to EBITDA[8]
GroCapital Financial Services	ZAR	Fixed[7]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

(1) The nature of the rates for the group bonds are explained in note 31. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

(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.

(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time 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 on the present values of remaining payments at a rate based on 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) 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) Rand variable interest rates have been swapped into fixed Rand interest rates. These swaps are subject to hedge accounting.

(8) Financial covenants relate to the Sappi Limited group.

	Local currency million	US$ million
The analysis of the currency per debt is:		
USD	345	**345**
EUR	1,190	**1,406**
ZAR	1,644	**121**
		1,872

A detailed analysis of total interest-bearing borrowings has been disclosed 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 above certain de minimis amounts. 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 2017 and 2016 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$390 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 Papier Holding GmbH on behalf of Sappi 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 2017, a funding reserve, that is reset on a monthly basis, amounted to 14.80% (2016: 19.75%).

The cost of the programme includes a variable component based on EURIBOR/LIBOR (floor 0%), a fixed margin and a commitment fee computed on the difference between US$354 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 daily basis. The group Treasury Committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets is included in the determination of the headroom available.

	Currency	Interest rate	2017	2016
			(US$ million)	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[(1)]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**623**	595
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**26**	56

	Currency	Interest rate	2017	2016
			(US$ million)	
			649	651
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**20**	20
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			40	40
Total unutilised facilities (committed and uncommitted) excluding cash			**689**	691

(1) Two syndicated loans with a consortium of banks with revolving facilities available of €465 million (2016: €465 million) and ZAR1,000 million (2016: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €465 million facility matures in April 2020, is subject to financial covenants relating to the Sappi Limited group and is unsecured. 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 Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$4.7 million (2016: US$4.7 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

	2017	2016
	(US$ million)	
Defined benefit pension plan liabilities (Refer to note 28)	**238**	326
Other defined benefit plan liabilities (Refer to note 28)	**106**	108
Long-term employee benefits	**1**	1
Workmen's compensation	**16**	20
Long-service awards	**20**	21
Land restoration obligation	**15**	13
Restructuring provisions	**4**	9
Deferred income	**1**	1
Other	**22**	19
	423	518

23. Provisions

	2017	2016
	(US$ million)	
Restructuring provisions	**13**	23
Long-term (refer to note 22)	**4**	9
Short-term	**9**	14
Other provisions	**1**	1
	14	24

Details of restructuring provisions are provided below:

	Severance, retrenchment and related costs
	(US$ million)
Balance at September 2015	26
Increase in provisions	6
Utilised	(8)
Released during the year	(2)
Other movements	1

	Severance, retrenchment and related costs
	(US$ million)
Balance at September 2016	23
Increase in provisions	1
Utilised	(7)
Released during the year	(5)
Translation effect	1
Balance at September 2017	**13**

Sappi Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost-saving measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2017 with the long-term provisions expected to be fully utilised by September 2025.

24. Notes to the group statement of cash flows

24.1 Cash generated from operations

	2017	2016
	(US$ million)	
Profit for the year	338	319
Adjustment for:		
Depreciation	255	250
Fellings	63	56
Amortisation	4	2
Taxation charge	108	104
Net finance costs	80	121
Restructuring provisions and closure costs raised (reversed)	1	4
Fair value adjustment gains and growth on plantations	(79)	(120)
Post-employment benefits funding	(43)	(51)
Non-cash post-retirement plan settlements and amendments	—	(8)
Profit (loss) on disposal of assets and businesses	2	(15)
Other non-cash items	19	31
	748	693

24.2 Decrease (increase) in working capital

(Increase) decrease in inventories	(19)	(2)
Decrease (increase) in receivables	(4)	9
(Decrease) increase in payables	(4)	(3)
	(27)	4

24.3 Finance costs paid

Interest and other finance costs on liabilities carried at amortised cost	(107)	(123)
Premium and costs on early redemption of redeemable bonds and other loans	—	(17)
Net foreign exchange gains	12	2
Net fair value gain (loss) on financial instruments	—	1
Transfers to financing activities and non-cash items	(1)	30

	(96)	(107)

24.4 Taxation paid

Net amounts payable at beginning of year	(31)	(20)
Taxation charge to profit or loss	(95)	(64)
Translation and other	1	(3)
Less: Net amounts payable at end of year	25	31
	(100)	(56)

24.5 Proceeds on disposal of other non-current assets

Book value of non-current assets disposed of	6	3
Gain (loss) on disposal	(2)	2
	4	5

25. Encumbered assets

	2017	2016
	(US$ million)	
The book value of trade receivables 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:		
Trade receivables	**432**	392

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$390 million (€330 million), of which, US$364 million (€308 million) was utilised at financial year-end (refer to notes 17 and 21).

26. Commitments

	2017	2016
	(US$ million)	
Capital commitments		
Contracted but not provided	**253**	42
Approved but not contracted	**219**	71
	472	113
Future forecast cash flows of capital commitments at September:		
2017		90
2018	**435**	15
2019	**26**	4
2020	**3**	4
Thereafter	**8**	—
	472	113

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:

2017		20
2018	**22**	13
2019	**14**	7
2020	**11**	4
2021	**8**	2

2022 (2016: Thereafter)	**5**	4
Thereafter	**17**	
	77	50

27. Contingent liabilities

	2017	2016
	(US$ million)	
Guarantees and suretyships	**—**	10
Other contingent liabilities	**19**	11
	19	21

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

As at September 2017, there are no outstanding guarantees issued by Sappi. For September 2016, the bills of exchange where Sappi guaranteed third-party funding of payments to Sappi for certain German accounts receivable were included under guarantees and suretyships.

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 2017 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	
	2017	2016	**2017**	2016	**2017**	2016
			(US$ million)			
Post-employment plan costs (credits) recognised in profit or loss	**36**	34	**24**	10	**6**	7
Employer contributions paid during the financial year			**36**	38	**3**	8
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to note 22)			**238**	326	**106**	108
Net pension assets (refer to note 15)[(1)]			**(35)**	(23)	**—**	—
Net balance sheet liabilities			**203**	303	**106**	108
Development in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(303)**	(315)	**(108)**	(107)
Net pension/healthcare subsidy costs for the year			**(24)**	(18)	**(6)**	(7)
Settlement gains for the year			**—**	8	**—**	—
Employer contributions			**36**	38	**3**	8
Net actuarial gains for the year			**96**	(17)	**5**	(3)
Translation differences			**(8)**	1	**—**	1
Net pension/healthcare liabilities at end of year			**(203)**	(303)	**(106)**	(108)

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2017	2016	**2017**	2016	**2017**	2016
			(US$ million)			

(1) Defined benefit plans in South Africa and United Kingdom.

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 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$36 million (2016: US$34 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$35 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, top-ups thereon, and spousal benefits. 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 normally paid with 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 reported elsewhere in the group accounts, and excluded from figures reported in this note.

Defined benefit pension or retirement lump sum 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 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 Euro benefits and certain plans in North America that provide benefits based on years of service and a ‘US$ multiplier’ (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). 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, The Netherlands
Frozen benefit	United Kingdom, North America (Salaried plan)
Fixed EUR value	Germany
Nominal USD value (Periodically revalued)	North America (Works plans)

Plans remain open to new hires except for plans in North America, South Africa, 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 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 with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation 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 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- **Europe including United Kingdom (UK)[(1)]:** Asset mix based on 35% equity and real estate instruments, 47% debt instruments, 18% multi-asset and other instruments.
- **North America:** Asset mix based on 34% equity instruments, 47% debt instruments, 19% multi-asset and other instruments.

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- **Inflation:** The risk that future inflation indices (including medical aid inflation) is higher than expected and uncontrolled
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the group
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- **Administration:** Administration of this liability poses a burden to the group.

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.

Funding policy

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.

(1) Weighted average of plans in this region.

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 for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$33 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 Southern African operations. Employees are generally eligible for benefits upon retirement and on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in Southern Africa is partially funded with assets held in a local cell captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$6 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

	2017	**2016**
	(US$ million)	
Jubilee (long-service award) in continental Europe in other long-term liabilities	**20**	21
Early retirement (temporary pension) benefit in Belgium	**1**	1
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**11**	13
Workmen's compensation benefit obligations in North America	**16**	20

	Defined benefit pension plans		**Post-employment healthcare subsidy**	
	2017	2016	**2017**	2016
	(US$ million)			
Components of defined benefit cost recognised in profit or loss				
Current service cost	**19**	16	**2**	3
Past service credit	**—**	(6)	**—**	—
Interest on net defined benefit	**3**	6	**4**	4
Fund administration costs	**2**	2	**—**	—
Non-routine settlement gain	**—**	(8)	**—**	—
Net amount recognised in profit or loss	**24**	10	**6**	7
Charge attributed to operating cost	**21**	12	**2**	3
Credit attributed to special items**	**—**	(8)	**—**	—
Charge attributed to finance cost	**3**	6	**4**	4
Components of defined benefit cost recognised in other comprehensive income				
Actuarial gains arising from membership experience	**7**	6	**2**	5
Actuarial gains (losses) arising from changes in demographic assumptions	**27**	(2)	**(1)**	(2)
Actuarial gains (losses) arising from changes in financial assumptions	**63**	(145)	**4**	(6)
Return on plan assets (excluding amounts included in interest income)	**(1)**	124	**—**	—
Gain (loss) recognised in other comprehensive income	**96**	(17)	**5**	(3)

** US$55 million to special items in fiscal 2015: This is the sum of the non-routine settlement plus a portion of past service credit.

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2017	2016	**2017**	2016
	(US$ million)			
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,409**	1,365	**116**	118
Current service cost	**19**	16	**2**	3
Past service credit	**—**	(6)	**—**	—
Interest expense	**45**	53	**5**	5
Plan participants' contributions	**2**	1	**—**	—
Remeasurements	**(97)**	141	**(5)**	3
Membership experience changes	**(7)**	(6)	**(2)**	(5)
Demographic assumption changes	**(27)**	2	**1**	2
Financial assumption changes	**(63)**	145	**(4)**	6
Acquisition of liabilities[(1)]	**13**	—	**—**	—
Non-routine plan settlements	**—**	(46)	**—**	(7)
Benefits paid	**(77)**	(80)	**(4)**	(5)
Translation difference	**20**	(35)	**—**	(1)
Defined benefit obligation at end of year	**1,334**	1,409	**114**	116
—Present value of wholly unfunded obligation	**177**	157	**88**	92
—Present value of wholly or partially funded obligation	**1,157**	1,252	**26**	24
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,106**	1,050	**8**	11
Interest income	**42**	47	**1**	1
Employer contributions	**36**	38	**3**	8
Plan participants' contributions	**2**	1	**—**	—
Remeasurements				
Return (loss) on plan assets net of interest income	**(1)**	124	**—**	—
Acquisition of liabilities[(1)]	**13**	—	**—**	—
Non-routine plan settlements	**—**	(38)	**—**	(7)
Benefits paid	**(77)**	(80)	**(4)**	(5)
Fund administration costs	**(2)**	(2)	**—**	—
Translation difference	**12**	(34)	**—**	—
Fair value of plan assets at end of year	**1,131**	1,106	**8**	8
Net balance sheet defined benefit liability	**203**	303	**106**	108

(1) Acquisition of liabilities: Refers to minimum investment return obligations for contribution plans in Belgium. Insignificant effect on balance sheet.

The major categories of plan assets at fair value are presented as follows:

	Funded pension plans		Funded subsidy plans	
	2017	2016	**2017**	2016
	(US$ million)			
Investments quoted in active markets				
—Equity and high yield investments	**399**	409	**—**	—
—Investment grade debt instruments	**201**	207	**—**	—
—Property investment funds	**14**	15	**—**	—
Unquoted investments				
—Equity and high yield investments[(1)]	**501**	445	**7**	7
Cash	**16**	30	**1**	1
	1,131	1,106	**8**	8

	Funded pension plans		Funded subsidy plans	
	2017	2016	**2017**	2016
		(US$ million)		
Total investment return on plan assets	**41**	171	**1**	1

(1) Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.

As at financial year-end, there were no investments in the group's own quoted equity instruments.

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.

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:

	2017			2016		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Discount rate—pension (%)	**3.53**	**1.90**	**9.28**	3.24	1.60	9.40
Discount rate—post-employment healthcare subsidy (%)	**3.35**	**n/a**	**9.75**	3.01	n/a	9.50
Future salary increase rate—pension (%)	**—**	**1.00**	**7.28**	—	0.90	8.50
Cost of living adjustment for pensions in payment (%)[1]	**—**	**2.00**	**5.03**	—	2.00	6.00
Healthcare cost trend rate (%)[2]	**8.20 –>4.50**	**n/a**	**8.25**	7.80 –>5.00	n/a	8.50
Sample rate average life expectancy from retirement (years)[3]						
—For current beneficiaries	**25.60**	**23.90**	**19.20**	26.00	23.80	19.20
—For future retiring beneficiaries	**27.30**	**25.70**	**20.20**	28.00	25.70	20.20

(1) Weighted average for plans granting cost of living adjustment whether fixed or variable.

(2) North America: Initial rate – > long-term rate trend over 10 years (2016: Nine years).

(3) Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.

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$168 million (increase by US$207 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$19 million (decrease by US$16 million)
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$49 million (decrease by US$49 million)
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$37 million (decrease by US$35 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 recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

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	12 years	9 years
Europe (Including UK)	12 years	n/a
Southern Africa	18 years	16 years

Regional split of results

	2017			2016		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
	(US$ million)					
Defined benefit obligation (pension)	**(710)**	**(496)**	**(128)**	(763)	(510)	(136)
Defined benefit obligation (healthcare)	**(88)**	**n/a**	**(26)**	(92)	n/a	(24)
Fair value of plan assets (pension)	**696**	**290**	**145**	667	280	159
Fair value of plan assets (healthcare)	**—**	**n/a**	**8**	—	n/a	8
Net defined benefit liability	**(102)**	**(206)**	**(1)**	(188)	(230)	7
Development of the regional balance sheets						
Net defined benefit liability at beginning of year	**(188)**	**(230)**	**7**	(196)	(234)	8
Defined benefit cost recognised in profit or loss (pension)	**(12)**	**(8)**	**(4)**	(4)	(3)	(3)
Defined benefit cost recognised in profit or loss (healthcare)	**(5)**	**n/a**	**(1)**	(5)	n/a	(2)
Net gain (loss) recognised in other comprehensive income (pension)	**80**	**23**	**(7)**	(4)	(8)	(5)
Net gain (loss) recognised in other comprehensive income (healthcare)	**6**	**n/a**	**(1)**	(3)	n/a	—
Company contributions paid during the year	**17**	**17**	**5**	24	14	8
Translation differences	**—**	**(8)**	**—**	—	1	1
Net defined benefit liability at end of year	**(102)**	**(206)**	**(1)**	(188)	(230)	7

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 (the Scheme) and the Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (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.

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 (the Plan)

Under the rules of the Plan, participants 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. 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.

Movements in share options and performance shares for the financial years ended September 2017 and September 2016 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2015	12,014,143	6,433,248	34.77	**18,447,391**
—Offered	3,765,350	—	—	**3,765,350**
—Paid for/vested	(762,145)	(3,396,445)	37.93	**(4,158,590)**
—Returned, lapsed and forfeited	(985,574)	(211,124)	48.90	**(1,196,698)**
Outstanding at September 2016	14,031,774	2,825,679	30.23	**16,857,453**
—Offered	3,021,770	—	—	**3,021,770**
—Paid for/vested	(3,237,745)	(1,218,849)	31.48	**(4,456,594)**
—Returned, lapsed and forfeited	(331,044)	(181,041)	34.88	**(512,085)**

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2017	13,484,755	1,425,789	28.99	**14,910,544**
Exercisable at September 2015	—	5,785,544	36.10	
Exercisable at September 2016	—	2,825,679	30.23	
Exercisable at September 2017	—	1,425,789	28.99	

(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 vest.

The following table sets out the number of share options and performance shares outstanding:

	2017	2016	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
22 December 2008	**—**	347,140	Time	Vested	22 December 2016	35.50
09 December 2009	**272,550**	629,540	Time	Vested	09 December 2017	33.85
03 December 2010	**462,825**	768,450	Time	Vested	03 December 2018	35.20
02 December 2011	**690,414**	1,080,549	Time	Vested	02 December 2019	22.90
Performance shares:						
07 December 2012	**—**	3,226,303	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,658,024**	3,750,723	Performance	13 December 2017	n/a	n/a
04 December 2014	**3,190,630**	3,307,105	Performance	04 December 2018	n/a	n/a
07 December 2015	**3,644,447**	3,747,643	Performance	07 December 2019	n/a	n/a
09 December 2016	**2,991,654**	—	Performance	09 December 2020	n/a	n/a
	14,910,544	16,857,453				

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Plan:

	Issue 42	Issue 42
Date of grant	09 December 2016	09 December 2016
Type of award	Performance	Performance
Share price at grant date	ZAR86.23	ZAR86.23
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	80%	80%
Number of shares offered	1,505,950	1,505,950
Volatility	33%	n/a
Risk-free discount rate	1.7% (US yield)	n/a
Expected dividend yield	2.1%	2.1%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR65.09	ZAR68.98

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.

Broad-based Black Economic Empowerment

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (BBBEE) transaction (the BBBEE transaction) that enabled Sappi to meet its BBBEE targets in respect of BBBEE 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 BBBEE legislation, formalised the country's approach in this regard. Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BBBEE transaction (the Plantation BBBEE transaction) that included a consortium of investors and certain categories of Sappi's Southern African employees. However, the Plantation BBBEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE 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 BBBEE transaction and to implement the BBBEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BBBEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

- Sappi's Southern African employees (62.5%)
- Southern African black managers (15%)
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the Southern African mill operations and plantations (10%).

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:

- The value created through the Plantation BBBEE 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 Southern Africa (the Sappi Foundation Trust, and together with the ESOP Trust and the MSOP Trust, the BBBEE trusts). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE 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 Southern African business under the Forestry Charter and BBBEE legislation in general.

The number of ordinary shares allocated to the strategic partners and Sappi employees who were participants of the Plantation BBBEE 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	643,227
	3,047,762
Employees (Through the ESOP Trust)	1,280,597
Total	**4,328,359**

The number of 'A' ordinary shares allocated to the BBBEE 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$1 million (2016: US$1 million) during the 2017 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	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
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 ESOP Trust and MSOP Trust 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	2017	2016
		(US$ million)	
Non-current assets			
Interest rate swap	Unsecured ZAR500 million bond due April 2018	—	1
		—	1
Current assets			
Pulp swaps	Raw materials	1	—
Interest rate currency swap	Public bond due July 2017[1]	—	38
Forward exchange contracts	Various	2	6
		3	44
Current liabilities			
Pulp swaps	Raw materials	—	1
Forward exchange contracts	Various	3	1

Hedging instrument	Hedged item	2017	2016
		(US$ million)	
FX zero cost collar	Highly probable forecast sales	2	—
		5	2

(1) This cash flow hedging instrument was settled upon the redemption of the 2017 public bond.

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
- Commodity price risk

(b) Liquidity risk

(c) Credit risk.

Sappi's group treasury is 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 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 principle amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value 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

2017 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 1 October 2017. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
	2018	2019	2020	2021	2022	2023+				
							(US$ equivalent in millions)			
US Dollar										
Fixed rate debt......	—	—	—	—	—	218	**218**	**237**	617	643
Average interest rate (%)	—	—	—	—	—	7.61	**7.61**		7.72	
Variable rate debt[1]	—	—	127	—	—	—	**127**	**127**	109	109
Average interest rate (%)	—	—	3.49	—	—	—	**3.49**		2.71	
Euro										
Fixed rate debt......	27	24	33	32	533	451	**1,100**	**1,214**	884	971
Average interest rate (%)	0.02	1.26	1.49	1.51	3.90	3.64	**3.36**		3.71	
Variable rate debt[2]	69	—	237	—	—	—	**306**	**306**	382	383
Average interest rate (%)	0.50	—	1.81	—	—	—	**1.51**		1.76	
Rand										
Fixed rate debt[3] ...	37	—	84	—	—	—	**121**	**127**	119	125
Average interest rate (%)	7.46	—	7.99	—	—	—	**7.83**		7.83	
Total										
Fixed rate debt......	64	24	117	32	533	669	**1,439**	**1,578**	1,620	1,739
Average interest rate (%)	4.27	1.26	6.18	1.51	3.40	5.11	**4.38**		5.54	
Variable rate debt .	69	—	364	—	—	—	**433**	**433**	491	492
Average interest rate (%)	0.50	—	2.40	—	—	—	**2.09**		1.97	
Fixed and variable............	**133**	**24**	**481**	**32**	**533**	**669**	**1,872**	**2,011**	**2,111**	**2,231**
Current portion......							**133**	**135**	576	600
Long-term portion .							**1,739**	**1,876**	1,535	1,631
Total interest-bearing borrowings (refer to note 21)							**1,872**	**2,011**	2,111	2,231

(1) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(2) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(3) Rand floating rates of ZAR900 million debt have been swapped into Rand 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 1.26% and 7.99% (depending on currency). At September 2017, after giving effect to interest rate swaps, 76.86% of Sappi's borrowings were at fixed rates of interest and 23.14% 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 (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 (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 (IRCS)

In July 2012, Sappi entered into fixed for fixed IRCS which were designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The US$400 million senior notes due 2017 and the corresponding IRCS were repaid in April 2017 (the US$300 million senior secured notes due 2019 with corresponding swaps had already been redeemed in 2015). There are no remaining IRCS as at September 2017.

Interest rate swaps floating to fixed

In April and May 2013, Sappi issued 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. In April 2016, ZAR255 million floating rate debt and the corresponding swaps came to maturity and the debt was repaid.

At September 2017, the remaining hedges were highly effective and the swaps had in total a net positive fair value of US$0.4 million which was deferred to equity.

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 2017						
Cash flow hedges						
IRS	**Rand variable (JIBAR) to Rand 7.46% fixed**	**April 2018**	**ZAR500 million**	**—**	**—**	**—**
IRS	**Rand variable (JIBAR) to Rand 7.85% fixed**	**May 2018**	**ZAR400 million**	**—**	**—**	**—**
				—	**—**	**—**
September 2016						
Cash flow hedges						
IRCS	US Dollar 7.75% into Euro 7.56%	July 2017	US$400 million	38	(3)	41
IRS	Rand variable (JIBAR) to Rand 7.46% fixed	April 2018	ZAR500 million	1	1	—
IRS	Rand variable (JIBAR) to Rand 7.85% fixed	May 2018	ZAR400 million	—	1	—
				39	(1)	41

(1) This refers to the carrying value.

The total fair values of the IRCS and IRS 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 arising from:

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 its current rating, an additional margin would be added to the contractual funding rate.

	Notional	Impact on profit or loss of downgrade below current credit rating
	(US$ million)	
Securitisation—Elektra N° 29 Limited	364	1.35
Commitment fee on unused revolving credit facility	549	0.66
Interest on utilised bank syndicated loans	70	0.17
Commitment fee on unused bank syndicated loans	108	0.09
	1,091	2.27
Impact calculated on total portfolio amounts to	0.21%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50bps to the interest rates.

	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50bps interest
		(US$ million)		
Total debt	1,872	1,439	433	2
Ratio fixed/floating to total debt		76.86%	23.14%	

The floating rate debt represents 23.14% of total debt. If interest rates were to increase (decrease) by 50bps, the finance cost on floating rate debt would increase (decrease) by US$2.17 million.

Currency risk

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. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from 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 exposures arise from 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 2017 and 2016 financial years disclose 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 2017							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**51**	**9**	—	9	—	—	—
Current assets							
Trade receivables	**571**	**571**	262	240	8	29	32
Prepayments and other receivables	**97**	**32**	11	12	8	—	1
Derivative financial instruments	**3**	**3**	(100)	18	81	—	4
Cash and cash equivalents	**550**	**550**	268	47	215	—	20
		1,165	441	326	312	29	57
Non-current liabilities							

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
			(US$ million)				
Interest-bearing borrowings	**1,739**	**1,739**	345	1,309	85	—	—
Other non-current liabilities	**423**	**1**	1	—	—	—	—
Current liabilities							
Interest-bearing borrowings	**133**	**133**	—	96	37	—	—
Derivative financial instruments	**5**	**5**	1	—	2	2	—
Trade payables	**502**	**502**	168	217	115	1	1
Other payables and accruals	**356**	**157**	33	81	42	—	1
		2,357	548	1,703	281	3	2
Foreign exchange gap		**(1,372)**	(107)	(1,377)	31	26	55

	Total	Total in scope	USD	EUR	ZAR	GBP	Other
			(US$ million)				
September 2016							
Classes of financial instruments							
Non-current assets							
Other non-current assets	39	10	—	10	—	—	—
Derivative financial instruments	1	1	—	—	1	—	—
Current assets							
Trade receivables	517	517	224	226	11	29	27
Prepayments and other receivables	125	39	9	17	13	—	—
Derivative financial instruments	44	44	(420)	421	42	1	—
Cash and cash equivalents	703	703	309	94	279	1	20
		1,314	122	768	346	31	47
Non-current liabilities							
Interest-bearing borrowings	1,535	1,535	327	1,088	120	—	—
Other non-current liabilities	518	1	1	—	—	—	—
Current liabilities							
Interest-bearing borrowings	576	576	398	178	—	—	—
Derivative financial instruments	2	2	(15)	1	16	—	—
Trade payables	455	455	161	162	130	—	2
Other payables and accruals	384	164	25	99	39	—	1
		2,733	897	1,528	305	—	3
Foreign exchange gap		(1,419)	(775)	(760)	41	31	44

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2017		2016	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
		(US$ million)			
Foreign currency					
Bought:	USD	**3**	**3**	5	—
	EUR	**93**	**92**	72	1
	ZAR	**118**	**118**	49	2
Sold:	USD	**(97)**	**(99)**	(95)	3
	EUR	**(11)**	**(11)**	—	—
	ZAR	**(39)**	**(38)**	(23)	(1)
		67	**65**	8	5

	2017		2016	
	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
		(US$ million)		

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2017 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 April 2020.

As at September 2017, 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	4.7	0.4	(0.5)
CHF	5.1	0.5	(0.6)
EUR	(6.8)	(0.6)	0.8
GBP	2.6	0.2	(0.3)
USD	(2.0)	(0.2)	0.2
ZAR	(26.8)	(2.4)	3.0
Other currencies	0.5	0.0	(0.1)
Total	(22.7)	(2.1)	2.5

Based on the exposure at the end of September 2017, 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 2017, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$421 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a gain of US$26 million (including positive forward points of US$7 million). We also contracted zero cost foreign exchange collars for a total notional value of US$150 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2017 the impact of the marking to market relating to the time value of the collar amounted to an unrealised loss of US$1.5 million.

Cash flow hedges

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 Rand, any change in the foreign currency exchange rate between the US Dollar and the Rand would result in a different Rand 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 and zero cost foreign exchange collars which were designated as hedging instruments. Only the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument.

The hedging instruments are 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 2017 financial year, the hedges were highly effective. A net realised gain of US$18.8 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative amount of US$0.1 million was deferred in equity.

As per September 2017 the zero cost FX collars did not have any intrinsic value as the year-end FX rate was inside the range of the strike levels.

Net investment hedges

The hedge of the net investment designated in February 2010, has been de-designated in March 2016. At the moment of the de-designation the life-to-date negative foreign exchange differences amounting to €36.9 million (US$41.5 million), will remain in equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge 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.

During 2017 several de-designations and re-designations took place in line with the evolving net US Dollar exposure linked to the net investment. As at September 2017 the hedged notional amount at amortised cost amounted to US$102 million.

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/Rand 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 2017 financial year, the hedge was 100% effective.

	2017		**2016**	
	Hedged notional	**Foreign exchange result deferred in OCI**	**Hedged notional**	**Foreign exchange result deferred in OCI**
	(US$ million)			
Bond 2032	**102**	**0.2**	49	(1)
Previous designations	**—**	**(34)**	—	(41)
	102	**(34)**	49	(42)
Net investment value of North America	**798**		733	

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.

During 2017, pulp swaps in Europe were contracted for a limited volume of pulp (30,000 tons). Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions.

As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap whereby the variable price was swapped for an annual fixed price. A realised gain of US$1.6 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp swap contracts outstanding at September 2017 are detailed below:

		2017		2016	
	Base currency	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
			(US$ million)		
Bleached Hardwood Kraft Pulp (BHKP) Bought:	EUR	—	—	6	(1)
Bleached Hardwood Kraft Pulp (BHKP) Bought:	USD	**4**	**1**		
		4	**1**	6	(1)

(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.

Liquidity risk management

The following tables for the 2017 and 2016 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 2017								
Non-current assets								
Other non-current assets	**9**	**9**	—	1	3	5	1	10
Current assets								
Trade receivables	**571**	**571**	571	—	—	—	—	571
Prepayments and other receivables	**32**	**32**	31	1	—	—	—	32
Derivative financial instruments	**3**	**3**	1	2	—	—	—	3
Cash and cash equivalents	**550**	**550**	550	—	—	—	—	550
			1,153	4	3	5	1	1,166
Non-current liabilities								
Interest-bearing borrowings	**1,739**	**1,871**	27	28	62	1,248	922	2,287
Other non-current liabilities	**1**	**1**	—	—	1	—	—	1
Current liabilities								
Interest-bearing borrowings	**133**	**133**	72	61	—	—	—	133
Derivative financial instruments	**5**	**5**	5	—	—	—	—	5
Trade payables	**502**	**502**	502	—	—	—	—	502
Other payables and accruals	**157**	**157**	157	—	—	—	—	157

	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)					
			763	89	63	1,248	922	3,085
Liquidity surplus (gap)			390	(85)	(60)	(1,243)	(921)	(1,919)

	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 2016								
Non-current assets								
Other non-current assets	10	10	2	2	—	5	1	10
Derivative financial instruments	1	1	—	—	1	—	—	1
Current assets								
Trade receivables	517	517	517	—	—	—	—	517
Prepayments and other receivables	39	39	38	1	—	—	—	39
Derivative financial instruments	44	44	8	42	—	—	—	50
Cash and cash equivalents	703	703	703	—	—	—	—	703
			1,268	45	1	5	1	1,320
Non-current liabilities								
Interest-bearing borrowings	1,535	1,632	16	30	393	247	1,351	2,037
Other non-current liabilities	1	1	—	—	1	—	—	1
Current liabilities								
Interest-bearing borrowings	576	576	105	508	—	—	—	613
Derivative financial instruments	2	2	2	—	—	—	—	2
Trade payables	455	455	455	—	—	—	—	455
Other payables and accruals	164	164	165	—	—	—	—	165
			743	538	394	247	1,351	3,273
Liquidity surplus (gap)			525	(493)	(393)	(242)	(1,350)	(1,953)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2017 and 2016 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis — Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
					(US$ million)				
September 2017									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**—**	**—**	**—**	**—**	—	—	—	—	—
receiving leg	**5**	**—**	**5**	**—**	3	2	—	—	—
paying leg	**(5)**	**—**	**(5)**	**—**	(3)	(2)	—	—	—
Foreign exchange risk									
IRCS and FX forward contracts	**2**	**—**	**—**	**2**	1	1	—	—	—
receiving leg	**150**	**—**	**—**	**150**	161	(11)	—	—	—

	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis — Undiscounted cash flows — 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
				(US$ million)					
paying leg	**(148)**	**—**	**—**	**(148)**	(160)	12	—	—	—
Commodity price risk	**1**	**—**	**—**	**1**	1	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	**5**	**—**	**—**	**5**	5	—	—	—	—
receiving leg	**134**	**—**	**—**	**134**	134	—	—	—	—
paying leg	**(129)**	**—**	**—**	**(129)**	(129)	—	—	—	—

	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis — Undiscounted cash flows — 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
				(US$ million)					
September 2016									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	1	—	1	—	—	1	1	1	—
receiving leg	10	—	10	—	3	3	6	5	—
paying leg	(9)	—	(9)	—	(3)	(2)	(5)	(4)	—
Foreign exchange risk									
IRCS and FX forward contracts	44	—	38	6	7	47	—	—	—
receiving leg	344	—	421	(77)	(62)	297	—	—	—
paying leg	(300)	—	(383)	83	69	(250)	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	1	—	—	1	1	—	—	—	—
receiving leg	39	—	—	39	41	52	—	—	—
paying leg	(38)	—	—	(38)	(40)	(52)	—	—	—
Commodity price risk	1	—	—	1	1	—	—	—	—

Fair values

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, 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 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.

The contingent consideration is based on a multiple of targeted future earnings of which a 92% weighted average outcome has been projected.

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 2017								
Non-current assets								
Other non-current assets	**51**	42	9	—	2	—	7	9
	51	42	9	—	2	—	7	9
Current assets								
Trade receivables	**571**	—	571	—	571	—	—	571
Prepayments and other receivables	**97**	65	32	—	32	—	—	32
Derivative financial instruments	**3**	—	3	3	—	—	—	3
Cash and cash equivalents	**550**	—	550	—	550	—	—	550
	1,221	65	1,156	3	1,153	—	—	1,156

	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	Other financial liabilities	Fair value
	(US$ million)					
September 2017						
Non-current liabilities						
Interest-bearing borrowings	**1,739**	—	1,739	—	1,739	1,871
Other non-current liabilities	**423**	422	1	—	1	1
	2,162	422	1,740	—	1,740	1,872

	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	Other financial liabilities	Fair value
	(US$ million)					
Current liabilities						
Interest-bearing borrowings	**133**	—	133	—	133	133
Derivative financial instruments	**5**	—	5	5	—	5
Trade payables	**502**	—	502	—	502	502
Other payables and accruals	**356**	199	157	—	157	157
	996	199	797	5	792	797

	Total balance	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
	(US$ million)							
September 2016								
Non-current assets								
Other non-current assets	39	29	10	—	3	—	7	10
Derivative financial instruments	1	—	1	1	—	—	—	1
	40	29	11	1	3	—	7	11
Current assets								
Trade receivables	517	—	517	—	517	—	—	517
Prepayments and other receivables	125	86	39	—	39	—	—	39
Derivative financial instruments	44	—	44	44	—	—	—	44
Cash and cash equivalents	703	—	703	—	703	—	—	703
	1,389	86	1,303	44	1,259	—	—	1,303

	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	Other financial liabilities	Fair value
	(US$ million)					
September 2016						
Non-current liabilities						
Interest-bearing borrowings	1,535	—	1,535	—	1,535	1,632
Other non-current liabilities	518	517	1	—	—	1
	2,053	517	1,536	—	1,535	1,633
Current liabilities						
Interest-bearing borrowings	576	—	576	—	576	576
Derivative financial instruments	2	—	2	2	—	2
Trade payables	455	—	455	—	455	455
Other payables and accruals	384	220	164	—	164	164
	1,417	220	1,197	2	1,195	1,197

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2017				2016			
	Total fair value	Fair value hierarchy			Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	(US$ million)							
Non-current assets								
Other non-current assets	**7**	**7**	**—**	**—**	7	7	—	—
Derivative financial instruments	**—**	**—**	**—**	**—**	1	—	1	—
	7	**7**	**—**	**—**	8	7	1	—
Current assets								
Derivative financial instruments	**3**	**—**	**3**	**—**	44	—	44	—
	3	**—**	**3**	**—**	44	—	44	—
Non-current liabilities								
Interest-bearing borrowings								
Derivative financial instruments	**—**	**—**	**—**	**—**	—	—	—	—
Contingent consideration liability	**11**	**—**	**—**	**11**	—	—	—	—
	11	**—**	**—**	**11**	—	—	—	—
Current liabilities								
Contingent consideration liability	**2**	**—**	**—**	**2**	—	—	—	—
Derivative financial instruments	**5**	**—**	**5**	**—**	2	—	2	—
	7	**—**	**5**	**2**	2	—	2	—

(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.

Overall, 70% of the group's total trade receivables, both on and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 17.

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
				(US$ million)				
—proNARO GmbH	**—**	—	**117.3**	125.8	**—**	—	**—**	1.2
—Umkomaas Lignin Proprietary Limited	**5.2**	4.8	**—**	0.1	**0.7**	0.5	**—**	—
—Papierholz Austria GmbH	**—**	—	**82.9**	82.5	**—**	—	**5.0**	4.8
—The Boldt Company	**—**	—	**8.0**	—	**—**	—	**—**	—
	5.2	4.8	**208.2**	208.4	**0.7**	0.5	**5.0**	6.0

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.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US$8.5 million (2016: US$7.7 million). The details of key management personnel, including emoluments, interests in contracts and participation in the Sappi Limited share schemes are disclosed in notes 34 to 36.

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[(1)]	% of shares in issue
1–5,000	5,566	81.5	3,093,227	0.6
5,001–10,000	223	3.3	1,678,002	0.3
10,001–50,000	446	6.5	11,258,624	2.1
50,001–100,000	190	2.8	13,865,237	2.6
100,001–1,000,000	324	4.7	103,771,633	19.4
Over 1,000,000	83	1.2	401,353,472	75.0
	6,832	100.0	535,020,195	100.0

(1) The number of shares excludes 22,182,378 treasury shares held by the group.

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.3
Sappi Limited directors and prescribed officers	0.3
Associates of group directors	—
Trustees of the company's share and retirement funding schemes	—
Share owners who, by virtue of any agreement, have the right to nominate board members	—
Share owners interested in 10% or more of the issued shares	—
Public (the number of public shareholders as at September 2017 was 6,821)	99.7

Type of shareholder	% of shares in issue
	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 2017, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	82,034,389	15.3

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 2017, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Public Investment Corporation	74,737,258	14.0
Prudential Investment Managers	51,813,987	9.7
BlackRock Inc	32,311,957	6.0
Old Mutual Plc	28,814,593	5.4
STANLIB Asset Management	27,225,483	5.1

33. Events after balance sheet date

The directors declared a gross dividend of 15 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR14.37037 being ZAR215.55555 cents per share on 16 November 2017. See note 8 for further details.

On 05 December 2017, Sappi agreed to acquire the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF146.5 million (approximately US$149 million). The transaction includes all brands and know-how, the Carmignano and Condino Mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition will be financed from internal resources. We are working to obtain approval from the relevant competition authorities and trust that we can announce completion during the first calendar quarter 2018.

Other than the non-adjusting events as described above, there have been no reportable events that occurred between financial year-end and the date of authorisation for issue of these financial statements.

34. 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 translated into US Dollar, 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 Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar 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.

	2017			
	Board fees	Committee fees	Travel allowance	Total
	(US$)			
D Konar	**35,200**	**43,811**	**7,000**	**86,011**
B Radebe(1)	**15,156**	**3,969**	**—**	**19,125**
KR Osar	**79,360**	**41,800**	**10,500**	**131,660**
JD McKenzie	**49,751**	**19,053**	**7,000**	**75,804**
ANR Rudd	**395,427**	**—**	**14,000**	**409,427**
NP Mageza	**35,200**	**24,750**	**7,000**	**66,950**
R Thummer(2)	**78,745**	**27,781**	**14,000**	**120,526**
MV Moosa	**35,200**	**18,305**	**7,000**	**60,505**
MA Fallon	**67,177**	**62,446**	**14,000**	**143,623**
GPF Beurskens(1)	**27,384**	**22,570**	**—**	**49,954**
RJ DeKoch	**79,360**	**23,920**	**7,000**	**110,280**
RJAM Renders	**78,745**	**53,070**	**14,000**	**145,815**
B Mehlomakulu(3)	**20,043**	**5,557**	**7,000**	**32,600**
	996,748	**347,032**	**108,500**	**1,452,280**

(1) Retired from the board at the end of February 2017.

(2) Will retire from the board at the end of December 2017.

(3) Appointed to the board on 01 March 2017.

	2016			
	Board fees	Committee fees	Travel allowance	Total
	(US$)			
D Konar	25,031	47,228	10,200	82,459
B Radebe	25,031	8,132	3,400	36,563
KR Osar	64,840	65,640	17,000	147,480
JD McKenzie	32,277	19,387	10,200	61,864
DC Cronje(4)	71,480	—	—	71,480
ANR Rudd	286,549	26,495	6,800	319,844
NP Mageza	25,031	21,128	10,200	56,359
R Thummer	65,603	27,722	6,800	100,125
MV Moosa	25,031	12,504	10,200	47,735
MA Fallon	61,973	64,373	6,800	133,146
GPF Beurskens	65,603	67,761	3,400	136,764
RJ DeKoch	64,840	23,455	13,600	101,895
RJAM Renders	65,603	16,047	6,800	88,450
	878,892	399,872	105,400	1,384,164

(4) Retired as independent Chairman of the board at the end of February 2016.

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.

	2017				
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
SR Binnie[(1)]	**464,563**	**440,139**	**12,944**	**76,580**	**994,226**
GT Pearce[(2)]	**302,683**	**283,986**	**8,295**	**61,090**	**656,054**
	767,246	**724,125**	**21,239**	**137,670**	**1,650,280**

(1) SR Binnie received a 7.0% increase on the South African portion, followed during the year with a further 20.3% (70% of total salary), and a 1% increase on the off-shore portion of his salary, followed during the year with a further 20.3% (30% of total salary).

(2) GT Pearce received a 6.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary).

	2016				
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
SR Binnie	386,767	438,082	12,050	91,638	928,537
GT Pearce	269,960	300,613	8,249	69,630	648,452
	656,727	738,695	20,299	161,268	1,576,989

The remuneration figures shown above are affected by the translation into US Dollar.

Please see the compensation report in the Annual Integrated Report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months 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 12 months' gross remuneration and benefits-in-kind.

Prescribed officers

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.

	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
Prescribed officers remuneration—2017	**2,432,293**	**1,587,125**	**37,965**	**528,381**	**4,585,764**
Prescribed officers remuneration—2016	2,280,020	1,846,458	37,734	517,276	4,681,488

35. 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.

	2017		2016	
Director	Direct interests Beneficial	Indirect interests Beneficial	Direct interests Beneficial	Indirect interests Beneficial
Non-executive directors				
R Thummer	**—**	**—**	7,542	—
MV Moosa	**—**	**576,542**	—	576,542
MA Fallon	**5,000**	**—**	5,000	—
Executive directors				
SR Binnie	**97,522**	**—**	40,022	—
GT Pearce	**49,412**	**—**	30,162	—
Prescribed officers	**842,295**	**—**	562,823	—
	994,229	**576,542**	645,549	576,542

Subsequent to year-end and as per our SENS announcements to the date of this report, the directors and prescribed officers have acquired a net 2,745 Sappi shares.

36. 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

	SR Binnie		GT Pearce		Executive directors		Prescribed officers	
	Allocated price	Number of shares	Allocated price	Number of shares	Total 2017 Number of shares	Total 2016 Number of shares	Total 2017 Number of shares	Total 2016 Number of shares
Outstanding at beginning of year								
Number of shares held		775,000		243,000	**1,018,000**	800,100	**2,261,713**	2,166,464
'A' Ordinary shares ..		—		—	**—**	—	**18,213**	18,213
Share Option 32— R52,57 .		—		—	**—**	6,600	**—**	7,700
Performance shares 337		—		—	**—**	55,500	**—**	457,051

	SR Binnie		GT Pearce		Executive directors		Prescribed officers	
	Allocated price	Number of shares	Allocated price	Number of shares	Total 2017 Number of shares	Total 2016 Number of shares	Total 2017 Number of shares	Total 2016 Number of shares
Performance shares 38		100,000		35,000	**135,000**	135,000	**498,500**	498,500
Performance shares 39		310,000		33,000	**343,000**	343,000	**720,000**	720,000
Performance shares 40		175,000		85,000	**260,000**	260,000	**465,000**	465,000
Performance shares 41		190,000		90,000	**280,000**	—	**560,000**	—
Offered and accepted during the year								
Performance shares 41						280,000		560,000
Performance shares 42		162,000		75,000	**237,000**		**475,000**	
Vested during the year								
Number of shares		(100,000)		(35,000)	**(135,000)**	(34,350)	**(498,500)**	(236,226)
Returned, lapsed and forfeited during the year								
Number of shares		—		—	**—**	(27,750)	**—**	(228,525)
Outstanding at end of year								
Number of shares		837,000		283,000	**1,120,000**	1,018,000	**2,238,213**	2,261,713
'A' Ordinary shares		—		—	**—**	—	**18,213**	18,213
Performance shares 38		—		—	**—**	135,000	**—**	498,500
Performance shares 39		310,000		33,000	**343,000**	343,000	**720,000**	720,000
Performance shares 40		175,000		85,000	**260,000**	260,000	**465,000**	465,000
Performance shares 41		190,000		90,000	**280,000**	280,000	**560,000**	560,000
Performance shares 42		162,000		75,000	**237,000**	—	**475,000**	—

Performance shares are issued for ZARnil and vest after four years subject to performance criteria being achieved. Plan share issue 38 vested at ZAR82.06. The 'A' ordinary shares are issued for Nil and vesting conditions are described in note 28.

The total IFRS 2 charge in respect of key management personnel amounted to US$2.3 million (2016: US$1.5 million).

Vesting dates	
Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019
Performance shares 42	09 December 2020

Vesting dates	
'A' ordinary shares	28 August 2019

37. 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 (%) 2017	2016
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, 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 Holdings Proprietary Limited	South Africa	Treasury	**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 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 review report on interim financial statements

To the shareholders of Sappi Limited

We have reviewed the condensed consolidated financial statements of Sappi Limited, contained in the accompanying interim report, which comprise the condensed group balance sheet as at December 2018, and the condensed group income statement, the condensed group statements of other comprehensive income, changes in equity and cash flows for the quarter ended December 2018 and December 2017 and selected explanatory notes, as set out on pages 172 to 178.

Directors' Responsibility for the Interim Financial Statements

The directors are responsible for the preparation and presentation of these 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 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 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 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 financial statements of Sappi Limited for the quarter ended December 2018 and December 2017 are not prepared, in all material respects, in accordance with 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.

KPMG Inc.

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director
6 February 2019

CONDENSED GROUP INCOME STATEMENT

	Note	Quarter ended Dec 2018 Reviewed	Quarter ended Dec 2017 Reviewed
		US$ million	
Sales		**1,418**	1,330
Cost of sales		**1,196**	1,121
Gross profit		**222**	209
Selling, general and administrative expenses		**100**	94
Other operating expenses		**—**	1
Share of profit from equity investments		**(1)**	(2)
Operating profit	3	**123**	116
Net finance costs		**17**	15
Net interest expense		**19**	16
Net foreign exchange gain		**(2)**	(1)
Profit before taxation		**106**	101
Taxation[(1)]		**25**	38
Profit for the period		**81**	63
Basic earnings per share (US cents)	4	**15**	12
Weighted average number of shares in issue (millions)		**539.9**	535.8
Diluted earnings per share (US cents)	4	**15**	11
Weighted average number of shares on fully diluted basis (millions)		**549.7**	549.0

CONDENSED GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

	Quarter ended	
	Dec 2018 Reviewed	**Dec 2017 Reviewed**
	US$ million	
Profit for the period	**81**	63
Other comprehensive income, net of tax		
Items that will not be reclassified subsequently to profit or loss	**—**	(19)
Actuarial gains (losses) on post-employment benefit funds	**—**	—
Tax rate change[1]	**—**	(19)
Items that may be reclassified subsequently to profit or loss	**(22)**	106
Exchange differences on translation of foreign operations	**(19)**	97
Movements in hedging reserves	**(4)**	12
Tax effect of above items	**1**	(3)
Total comprehensive income for the period	**59**	150

(1) *During the quarter ended December 2017, there were tax rate changes relating primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018, resulting in a US$19 million taxation charge recorded through the income statement and US$19 million through other comprehensive income.*

CONDENSED GROUP BALANCE SHEET

	Note	Dec 2018 Reviewed	Sept 2018 Reviewed
		US$ million	
ASSETS			
Non-current assets		**3,753**	3,766
Property, plant and equipment		**3,006**	3,010
Plantations	5	**459**	466
Deferred tax assets		**97**	106
Goodwill and intangible assets		**62**	63
Equity-accounted investees		**32**	33
Other non-current assets		**97**	88
Current assets		**1,903**	1,904
Inventories		**828**	741
Trade and other receivables		**707**	767
Derivative financial assets		**9**	21
Taxation receivable		**9**	12
Cash and cash equivalents		**350**	363
Total assets		**5,656**	5,670
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shareholders' interest		**1,915**	1,947
Non-current liabilities		**2,506**	2,550
Interest-bearing borrowings		**1,778**	1,818
Deferred tax liabilities		**336**	335
Other non-current liabilities		**392**	397
Current liabilities		**1,235**	1,173
Interest-bearing borrowings		**116**	97
Overdrafts		**13**	16
Trade and other payables		**954**	1,009
Provisions		**6**	6
Derivative financial liabilities		**5**	6
Taxation payable		**49**	39
Shareholders for dividend		**92**	—
Total equity and liabilities		**5,656**	5,670
Number of shares in issue at balance sheet date (millions)		**542.6**	539.3

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Quarter ended	
	Dec 2018 Reviewed	**Dec 2017 Reviewed**
	US$ million	
Profit for the period	**81**	63
Adjustment for:		
Depreciation, fellings and amortisation	**86**	80
Taxation	**25**	38
Net finance costs	**17**	15
Defined post-employment benefits paid	**(10)**	(10)
Plantation fair value adjustments	**(20)**	(32)
Other non-cash items	**18**	8
Cash generated from operations	**197**	162
Movement in working capital	**(87)**	(83)
Net finance costs paid	**(5)**	(6)
Taxation (paid) refund	**(3)**	6
Cash generated from operating activities	**102**	79
Cash utilised in investing activities	**(109)**	(93)
Capital expenditure	**(106)**	(88)
Other non-current asset movements	**(3)**	(5)
Net cash (utilised) generated	**(7)**	(14)
Cash effects of financing activities	**2**	58
Proceeds from interest-bearing borrowings	**6**	58
Repayment of interest-bearing borrowings	**(4)**	—
Net movement in cash and cash equivalents	**(5)**	44
Cash and cash equivalents at beginning of period	**363**	550
Translation effects	**(8)**	24
Cash and cash equivalents at end of period	**350**	618

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
Balance—beginning of period	**1,947**	1,747
Total comprehensive income for the period	**59**	150
Shareholders for dividend	**(92)**	(81)
Transfers of vested share options	**—**	2
Share-based payment reserve	**1**	3
Balance—end of period	**1,915**	1,821
Comprising		
Ordinary share capital and premium	**841**	981
Non-distributable reserves	**131**	136
Foreign currency translation reserves	**(181)**	(157)
Hedging reserves	**(33)**	(24)
Retained earnings	**1,157**	885
Total equity	**1,915**	1,821

NOTES TO THE CONDENSED GROUP RESULTS

1. Basis of preparation

The condensed consolidated interim financial statements for the quarter ended 30 December 2018 are prepared in accordance with the International Financial Reporting Standards, 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 as issued by the IASB and are consistent with those applied in the previous annual financial statements except those new standards adopted and set out below under “Adoption of accounting standards in the current year”.

The preparation of these condensed consolidated interim financial statements was supervised by the Chief Financial Officer, G T Pearce, CA(SA) and were authorised for issue on 6 February 2019.

The condensed consolidated interim financial statements for the quarter ended 30 December 2018 have been reviewed in accordance with the International Standard on Review Engagements 2410 by the group’s auditor, KPMG Inc. Its 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.

Adoption of accounting standards in the current year

The group has 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 15 *Revenue from Contracts with Customers*

Revenue is derived principally from the sale of goods to customers and is measured at the fair value of the amount received or receivable after the deduction of trade and settlement discounts, rebates and customer returns. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer’s warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded onto the relevant carrier unless the contract of sale specifies different terms.

The adoption of IFRS 15 resulted in the group recognising revenue from shipping activities as a separate performance obligation when control of the goods pass to customers at the point when the goods have been loaded onto the relevant carrier. Given that the group is acting as an agent in these activities, revenue is recognised when the shipping is arranged which is considered to be at the point of loading of the goods resulting in no significant timing differences compared to revenue recognition under IAS 18. The related shipping costs have been set-off against this revenue based on agent accounting principles whereas these were previously included in cost of sales. Refer to note 2 for the quantitative impact of this adjustment. The group elected to adopt IFRS 15 on a cumulative effect method.

IFRS 9 *Financial Instruments*

IFRS 9 sets out a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income. The new classification did not have a significant impact compared to the previous accounting for financial assets under IAS 39. IFRS 9 replaced the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The group applied the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. The application of the ECL model did not result in a material impact compared to the previous accounting under IAS 39. With respect to hedging, a new non-distributable equity reserve was created called ‘cost of hedging reserve’. This reserve is used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9. This resulted in an increase to retained earnings and a decrease to this ‘cost of hedging reserve’ of US$4 million on adoption of IFRS 9.

2. Segment information

	Quarter ended	
	Dec 2018	Dec 2017
	Metric tons (000's)	
Sales volume		
North America	**321**	343
Europe	**809**	822
Southern Africa—Pulp and paper	**396**	383
Forestry	**317**	248
Total	**1,843**	1,796
Which consists of:		
Dissolving wood pulp	**297**	287
Specialities and packaging papers	**252**	198
Printing and writing papers	**977**	1,063
Forestry	**317**	248

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
Sales		
North America	**351**	342
Europe	**732**	673
Southern Africa—Pulp and paper	**329**	299
Forestry	**19**	16
Delivery costs revenue adjustment[2]	**(13)**	—
Total	**1,418**	1,330
Which consists of:		
Dissolving wood pulp	**263**	241
Specialities and packaging papers	**282**	196
Printing and writing papers	**867**	877
Forestry	**19**	16
Delivery costs revenue adjustment[2]	**(13)**	—

[2] Relates to delivery costs netted off against revenue. Refer to note 1, IFRS 15 adoption.

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
Operating profit (loss) excluding special items		
North America	**9**	(1)
Europe	**34**	37
Southern Africa	**85**	69
Unallocated and eliminations[1]	**—**	—
Total	**128**	105
Which consists of:		
Dissolving wood pulp	**77**	62
Specialities and packaging papers	**13**	16
Printing and writing papers	**38**	27
Unallocated and eliminations[1]	**—**	—

Special items—(gains) losses

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
North America	**—**	2
Europe	**4**	2
Southern Africa	**(3)**	(16)
Unallocated and eliminations[(1)]	**4**	1
Total	**5**	(11)
Segment operating profit (loss)		
North America	**9**	(3)
Europe	**30**	35
Southern Africa	**88**	85
Unallocated and eliminations[(1)]	**(4)**	(1)
Total	**123**	116
EBITDA excluding special items		
North America	**29**	18
Europe	**67**	69
Southern Africa	**101**	84
Unallocated and eliminations[(1)]	**—**	1
Total	**197**	172
Which consists of:		
Dissolving wood pulp	**91**	75
Specialities and packaging papers	**30**	27
Printing and writing papers	**76**	69
Unallocated and eliminations[(1)]	**—**	1

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

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
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	**197**	172
Depreciation and amortisation	**(69)**	(67)
Operating profit excluding special items	**128**	105
Special items—gains (losses)	**(5)**	11
Plantation price fair value adjustment	**3**	16
Fire, flood, storm and other events	**(8)**	(5)
Segment operating profit	**123**	116
Net finance costs	**(17)**	(15)
Profit before taxation	**106**	101
Taxation	**(25)**	(38)
Profit for the period	**81**	63
Segment assets		
North America	**1,144**	1,031
Europe	**1,582**	1,414

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
Southern Africa	**1,441**	1,464
Unallocated and eliminations[1]	**(64)**	(75)
Total	**4,103**	3,834
Reconciliation of segment assets to total assets		
Segment assets	**4,103**	3,834
Deferred tax assets	**97**	93
Cash and cash equivalents	**350**	618
Trade and other payables	**954**	828
Provisions	**6**	9
Derivative financial instruments	**5**	7
Taxation payable	**49**	85
Shareholders for dividend	**92**	75
Total assets	**5,656**	5,549

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

3. Operating profit

	Quarter ended	
	Dec 2018 Reviewed	Dec 2017 Reviewed
	US$ million	
Included in operating profit are the following items:		
Depreciation and amortisation	**69**	67
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	**17**	13
Growth	**(17)**	(16)
	—	(3)
Plantation price fair value adjustment	**(3)**	(16)
	(3)	(19)

4. Earnings per share

Basic earnings per share (US cents)	**15**	12
Headline earnings per share (US cents)	**15**	12
EPS excluding special items (US cents)	**16**	14
Weighted average number of shares in issue (millions)	**539.9**	535.8
Diluted earnings per share (US cents)	**15**	11
Diluted headline earnings per share (US cents)	**15**	11
Weighted average number of shares on fully diluted basis (millions)	**549.7**	549.0
Calculation of headline earnings		
Profit for the period	**81**	63
Headline earnings	**81**	63
Calculation of earnings excluding special items		
Profit for the period	**81**	63
Special items after tax	**5**	(8)
Special items	**5**	(11)
Tax effect	**—**	3

Tax special items	—	19
Earnings excluding special items	**86**	74

5. Plantations

Plantations are stated at fair value less 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.

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. Mature timber that is to be felled in more than 12 months from the reporting date is valued using a 12-quarter rolling historical average price. Immature timber is valued using a discounted cash flow method taking into account the growth cycle of a plantation.

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*.

	Dec 2018 Reviewed	Sept 2018 Reviewed
	US$ million	
Fair value of plantations at beginning of year	**466**	458
Gains arising from growth	**17**	69
In-field inventory	**(2)**	1
Gain arising from fair value price changes	**3**	27
Harvesting—agriculture produce (fellings)	**(17)**	(66)
Translation difference	**(8)**	(23)
Fair value of plantations at end of period	**459**	466

6. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments, available-for-sale financial assets and a contingent consideration liability. 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[(1)]	
	Fair value hierarchy	Dec 2018 Reviewed	Sept 2018 Reviewed
		US$ million	
Investment funds[(2)]	Level 1	**7**	7
Derivative financial assets	Level 2	**9**	21
Derivative financial liabilities	Level 2	**5**	6
Contingent consideration liability[(3)]	Level 3	**6**	7

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

(2) Included in other non-current assets.

(3) Included in other non-current liabilities and trade and other payables.

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 movement of the interest rate curves, by the volatility of the applied credit spreads, and by any changes to the credit profile of the involved parties.

The contingent consideration is based on a multiple of targeted future earnings, of which a weighted average outcome has been considered.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

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

7. Capital commitments

	Dec 2018 Reviewed	Sept 2018 Reviewed
Contracted	**259**	293
Approved but not contracted	**403**	381
	662	674

8. Material balance sheet movements

Inventories, trade and other receivables and trade and other payables

The increase in inventories with a decrease in both trade and other receivables and trade and other payables is largely attributable to seasonal working capital movements.

9. Related parties

There has been no material change, by nature or amount, in transactions with related parties since the 2018 financial year-end except for the Boldt Company which is no longer considered a related party.

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

There has been no significant change to managements estimates in respect of new accounting standards, amendments and interpretations to existing standards that have been published which are not yet effective and which have not yet been adopted by the group. Management is in the process of completing their assessment of IFRS 16 *Leases*.

11. Events after the balance sheet date

There have been no reportable events that have occurred between the balance sheet date and the date of authorisation for issue of these financial statements.

SUPPLEMENTAL INFORMATION (this information has not been audited or reviewed)

General definitions

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

Broad-based Black Economic Empowerment (BBBEE) charge—represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in fiscal 2010 in terms of BBBEE legislation in South Africa

Capital employed—shareholders' equity plus net debt

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

EPS excluding special items—earnings per share excluding special items and certain once-off finance and tax items

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

Headline earnings—as defined in circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, 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

Interest cover—last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs

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

Net assets—total assets less total liabilities

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

Net debt—current and non-current interest-bearing borrowings, bank overdrafts less cash and cash equivalents

Net debt to EBITDA excluding special items—net debt divided by the last 12 months EBITDA excluding special items

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

Operating profit—a profit from business operations before deduction of net finance costs and taxes

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

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

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

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

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

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

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

Summary Rand convenience translation

	Quarter ended	
	Dec 2018	Dec 2017
Key figures: (ZAR million)		
Sales	**20,295**	18,117
Operating profit excluding special items[1]	**1,832**	1,430
Special items—(gains) losses[1]	**72**	(150)
EBITDA excluding special items[1]	**2,820**	2,343
Profit for the period	**1,159**	858
Basic earnings per share (SA cents)	**215**	160
Net debt[1]	**22,477**	16,690
Key ratios: (%)		
Operating profit excluding special items to sales	**9.0**	7.9
Operating profit excluding special items to capital employed (ROCE)[1]	**14.7**	14.2
EBITDA excluding special items to sales	**13.9**	12.9

(1) Refer to supplemental information for the definition of the term.

The above financial results have been translated into Rand from US Dollar as follows:

- assets and liabilities at rates of exchange ruling at period end; and
- income, expenditure and cash flow items at average exchange rates.

Exchange rates

	Dec 2018	Sept 2018	Jun 2018	Mar 2018	Dec 2017
Exchange rates:					
Period end rate: US$1 = ZAR	**14.4361**	14.1473	13.7275	11.8385	12.3724
Average rate for the quarter: US$1 = ZAR	**14.3127**	14.0615	12.6312	11.9577	13.6220
Average rate for the year to date: US$1 = ZAR	**14.3127**	13.0518	12.7255	12.7723	13.6220
Period end rate: €1 = US$	**1.1438**	1.1609	1.1685	1.2323	1.1998
Average rate for the quarter: €1 = US$	**1.1409**	1.1626	1.1920	1.2286	1.1778
Average rate for the year to date: €1 = US$	**1.1409**	1.1902	1.1995	1.2032	1.1778

Sappi share price—December 2015 to December 2018
(ZAR)


120
100
80
60
40
20
0
31 Dec 2015
31 Mar 2016
30 Jun 2016
30 Sept 2016
30 Dec 2016
31 Mar 2017
30 Jun 2017
30 Sept 2017
30 Dec 2017
31 Mar 2018
30 Jun 2018
30 Sept 2018
31 Dec 2018

sappi

Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States

South Africa

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Bastion

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP FINANCIAL INFORMATION FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AT SEPTEMBER 2018

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, Sappi North America Inc, 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 Maastricht Real Estate BV, Sappi Ehingen GmbH, Sappi Europe SA, Sappi Stockstadt GmbH, Sappi Colombia Holding 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, the 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.

The condensed consolidating financial information should be read in conjunction with the financial information as of and for the year ended September 2018. 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 2018

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Sales	—	1,517	3,916	2,074	(1,701)	5,806
Cost of sales	—	(1,465)	(3,598)	(1,572)	1,707	(4,928)
Gross profit	—	52	318	502	6	878
Selling, general and administration (expenses) income	(1)	(14)	(145)	(248)	12	(396)
Share of profit from joint ventures	—	—	(1)	3	1	3
Other operating (expenses) income	—	224	19	(8)	(231)	4
Operating profit (loss)	(1)	262	191	249	(212)	489
Income from subsidiaries	1	45	—	(23)	(23)	—
Net finance income (costs)	—	(67)	(12)	8	3	(68)
Profit (loss) before taxation	—	240	179	234	(232)	421
Taxation relief (charge)	(7)	37	(47)	(106)	25	(98)
Profit (loss) for the period	(7)	277	132	128	(207)	323

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP BALANCE SHEET FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AT SEPTEMBER 2018

	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	2,890	3,981	3,117	1,796	(8,018)	3,766
Property, plant and equipment	—	6	1,966	1,038	—	3,010
Plantations	—	—	—	466	—	466
Deferred tax assets	—	32	80	(6)	—	106
Goodwill and intangible assets	—	13	4	62	(16)	63
Equity investments	—	—	25	8	—	33
Other non-current assets	—	9	6	139	(66)	88
Derivative financial instruments	—	—	—	4	(4)	—
Amounts due from group companies	—	247	53	1,098	(1,398)	—
Investments in subsidiairies	2,890	3,674	983	(1,013)	(6,534)	—
Current assets	25	625	4,085	(749)	(2,082)	1,904
Inventories	—	—	499	242	—	741
Amounts due from (to) group companies	25	448	2,853	(1,249)	(2,077)	—
Trade and other receivables	—	167	472	131	(3)	767
Derivative financial instruments	—	—	9	13	(1)	21
Taxation receivable	—	10	3	—	(1)	12
Cash and cash equivalents	—	—	249	114	—	363
Total assets	2,915	4,606	7,202	1,047	(10,100)	5,670
EQUITY AND LIABILITIES						
Shareholders' equity	2,569	1,912	3,469	596	(6,599)	1,947
Non-current liabilities	314	1,449	687	1,509	(1,409)	2,550
Interest-bearing borrowings	(1)	1,355	(1)	463	2	1,818
Amounts due to (from) group companies	314	63	568	456	(1,401)	—
Deferred tax liabilities	1	—	—	341	(7)	335
Other non-current liabilities	—	31	120	249	(3)	397

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Current liabilities	32	1,245	3,046	(1,058)	(2,092)	1,173
Interest-bearing borrowings	—	91	—	6	—	97
Amounts due to (from) group companies	25	1,121	2,440	(1,507)	(2,079)	—
Overdrafts	—	—	—	16	—	16
Derivative financial instruments	—	—	1	6	(1)	6
Trade and other payables	6	33	580	406	(16)	1,009
Taxation payable	1	—	22	12	4	39
Provisions	—	—	3	3	—	6
Liabilities associated with assets held for sale	—	—	—	—	—	—
Total equity and liabilities	2,915	4,606	7,202	1,047	(10,100)	5,670

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 2018

	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	(7)	277	132	128	(207)	323
Adjustments for:						
Depreciation, fellings and amortisation	—	2	196	150	—	348
Taxation	7	(37)	47	106	(25)	98
Net finance costs	—	67	11	(8)	(2)	68
Defined post-employment benefits paid	—	(2)	(35)	(8)	—	(45)
Plantation price fair value adjustments	—	—	—	(96)	—	(96)
Other non-cash items	2	(270)	(12)	66	227	13
Cash generated from (utilised in) operations	2	37	339	338	(7)	709
Movement in working capital	20	27	(87)	(66)	27	(79)
Net finance income received (costs paid)	—	(80)	7	23	(16)	(66)
Taxation (paid) received	(6)	—	(8)	(59)	—	(73)
External dividends paid	(90)	—	—	—	9	(81)
Net inter-company dividends received (paid)	(4)	45	(42)	1	—	—
Cash generated from (utilised in) operating activities	(78)	29	209	237	13	410
Capital expenditure	—	(5)	(277)	(259)	—	(541)
Proceeds on disposal of assets	—	—	—	11	—	11
Other movements	—	—	9	(11)	—	(2)
(Investment in) divestment from subsidiaries	—	(82)	(1)	(47)	(2)	(132)
Cash utilised in investing activities	—	(87)	(269)	(306)	(2)	(664)
Proceeds from interest-bearing borrowings	—	108	—	19	—	127
Repayment of interest-bearing borrowings	—	(24)	—	(45)	—	(69)
(Decrease) increase in other non-current liabilities	—	—	18	(18)	—	—
Equity and capital contributions (paid) received	—	—	—	(4)	4	—
Movement in long-term inter-company loans	81	(26)	(3)	(44)	(8)	—
Share plan charges	(3)	—	(6)	11	(2)	—

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Movement in overdrafts	—	—	—	10	—	10
Cash effect of financing activities	78	58	9	(71)	(6)	68
Net movement in cash and cash equivalents	—	—	(51)	(140)	5	(186)
Cash and cash equivalents at beginning of year	—	—	303	247	—	550
Translation effects	—	—	(3)	7	(5)	(1)
Cash and cash equivalents at end of year	—	—	249	114	—	363

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP FINANCIAL INFORMATION FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AT SEPTEMBER 2017

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, the 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.

The condensed consolidating financial information should be read in conjunction with the financial information as of and for the year ended September 2017. 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 2017

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Sales	—	1,521	4,024	1,444	(1,693)	5,296
Cost of sales	—	(1,469)	(3,633)	(1,006)	1,679	(4,429)
Gross profit	—	52	391	438	(14)	867
Selling, general and administration (expenses) income	(3)	(7)	(227)	(111)	14	(334)
Share of profit from joint ventures	—	—	—	7	—	7
Other operating (expenses) income	—	(12)	(6)	(2)	6	(14)
Operating profit (loss)	(3)	33	158	332	6	526
Income from subsidiaries	1	86	—	3	(90)	—
Net finance income (costs)	—	(75)	(16)	11	—	(80)
Profit (loss) before taxation	(2)	44	142	346	(84)	446

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Taxation relief (charge).............	—	3	(5)	(88)	(18)	(108)
Profit (loss) for the period	(2)	47	137	258	(102)	338

SAPPI LIMITED

UNAUDITED CONDENSED CONSOLIDATING GROUP BALANCE SHEET FOR THE ISSUER, THE PARENT GUARANTOR, THE SUBSIDIARY GUARANTORS AND THE NON-GUARANTOR SUBSIDIARIES AT SEPTEMBER 2017

	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	2,890	3,378	3,122	1,763	(7,775)	3,378
Property, plant and equipment	—	6	1,871	804	—	2,681
Plantations	—	—	—	458	—	458
Deferred tax assets	—	—	123	—	—	123
Goodwill and intangible assets	—	25	8	32	(26)	39
Equity investments	—	—	5	14	7	26
Other non-current assets	—	8	3	111	(71)	51
Derivative financial instruments	—	—	—	—	—	—
Amounts due from group companies	—	173	2	986	(1,161)	—
Investments in subsidiairies	2,890	3,166	1,110	(642)	(6,524)	—
Current assets	24	1,610	4,819	(1,555)	(3,029)	1,869
Inventories	—	—	502	134	—	636
Amounts due from (to) group companies	24	1,434	3,553	(1,994)	(3,017)	—
Trade and other receivables	—	169	451	60	(12)	668
Derivative financial instruments	—	—	1	2	—	3
Taxation receivable	—	7	9	(4)	—	12
Cash and cash equivalents	—	—	303	247	—	550
Total assets	2,914	4,988	7,941	208	(10,804)	5,247
EQUITY AND LIABILITIES						
Shareholders' equity	2,653	1,414	3,526	782	(6,628)	1,747
Non-current liabilities	249	1,383	851	1,148	(1,174)	2,457
Interest-bearing borrowings	—	1,290	—	449	—	1,739
Amounts due to (from) group companies	249	61	484	370	(1,164)	—
Deferred tax liabilities	—	—	—	302	(7)	295
Other non-current liabilities	—	32	367	27	(3)	423

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Current liabilities	12	2,191	3,564	(1,722)	(3,002)	1,043
Interest-bearing borrowings	—	93	—	40	—	133
Amounts due to (from) group companies	6	2,065	2,958	(2,025)	(3,004)	—
Derivative financial instruments	—	—	3	2	—	5
Trade and other payables	6	33	584	233	2	858
Taxation payable	—	—	11	26	—	37
Provisions	—	—	8	2	—	10
Total equity and liabilities	2,914	4,988	7,941	208	(10,804)	5,247

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 2017

	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	(2)	47	137	258	(102)	338
Adjustments for:						
Depreciation, fellings and amortisation	—	1	196	125	—	322
Taxation	—	(3)	5	88	18	108
Net finance costs	—	75	16	(10)	(1)	80
Defined post-employment benefits paid	—	(1)	(38)	(3)	(1)	(43)
Plantation price fair value adjustments	—	—	—	(80)	1	(79)
Other non-cash items	1	(87)	20	(4)	92	22
Cash generated from (utilised in) operations	(1)	32	336	374	7	748
Movement in working capital	1	(124)	9	5	82	(27)
Net finance income received (costs paid)	—	(80)	(29)	20	8	(81)
Taxation (paid) received	—	3	(4)	(99)	—	(100)
Net inter-company dividends received (paid)	(4)	86	(85)	3	—	—
Cash generated from (utilised in) operating activities	(63)	(83)	227	303	97	481
Capital expenditure	—	(2)	(251)	(104)	—	(357)
Proceeds on disposal of assets	—	—	2	1	1	4
Other movements	(1)	—	2	(3)	(7)	(9)
Cash utilised in investing activities	(194)	(2)	(258)	(424)	505	(373)
Proceeds from interest-bearing borrowings	—	153	—	32	1	186
Repayment of interest-bearing borrowings	—	(465)	—	—	—	(465)
(Decrease) increase in other non-current liabilities	—	—	3	(3)	—	—
Equity and capital contributions (paid) received	—	318	—	316	(634)	—
Movement in long-term inter-company loans	262	78	(78)	(294)	32	—

	Parent guarantor (Sappi Limited)	Subsidiary issuer (Sappi Papier Holding GmbH)	Subsidiary guarantors (excluding issuer)	Non-guarantor subsidiaries	Eliminations	Consolidated totals
			US$ million			
Share plan charges................	(3)	—	(7)	10	—	—
Cash effect of financing activities	259	84	(82)	61	(601)	(279)
Net movement in cash and cash equivalents..............	2	(1)	(113)	(60)	1	(171)
Cash and cash equivalents at beginning of year................	—	1	401	302	(1)	703
Translation effects..................	(2)	—	15	5	—	18
Cash and cash equivalents at end of year.........................	—	—	303	247	—	550

Sappi Papier Holding GmbH, Gratkorn, Austria
Report on the Audit of the Consolidated Financial Statements
for the year ended 30 September 2018
26 February 2019

AUDIT REPORT

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

Sappi Papier Holding GmbH,
Gratkorn, Austria,

and its subsidiaries ("the Group"), which comprise the group balance sheet as at 30 September 2018, and the group income statement and the 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 to the group annual financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 September 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the "*Auditor's Responsibilities*" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements to Section 245a UGB (Austrian Commercial Code) and other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement—whether due to fraud or error -and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Graz, 26 February 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Johannes Bauer
Wirtschaftsprüfer
(Austrian Chartered Accountant)

The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

SAPPI PAPIER HOLDING GROUP

GROUP INCOME STATEMENT

for the year ended September 2018

	Note	2018	2017
		€ million	
Sales		**4,421**	4,344
Cost of sales	4	**3,942**	3,893
Gross profit		**479**	451
Selling, general and administrative expenses	5	**277**	248
Share of profit from equity accounted investees		**1**	(1)
Other operating expenses	6	**11**	7
Operating profit	7	**190**	197
Net finance costs		**64**	80
Finance costs		**70**	87
Finance income		**(3)**	(2)
Net foreign exchange loss (gain)		**(3)**	(5)
Net fair value (gain) loss on financial instruments		**—**	—
Profit before tax		**126**	117
Tax charge	9	**15**	8
Profit for the year		**111**	109

SAPPI PAPIER HOLDING GROUP

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2018

	Note	2018	2017
		€ million	
Profit for the year		**111**	109
Other comprehensive (loss) gain, net of tax	19	**14**	32
Items that will not be reclassified subsequently to profit or loss		**—**	67
Actuarial gain (loss) on post-employment benefit funds (refer to note 28)		**23**	99
Deferred tax on above item		**(23)**	(32)
Items that may be reclassified subsequently to profit or loss		**14**	(35)
Exchange differences on translation to presentation currency		**16**	(47)
Movement in hedging reserves		**(2)**	12
Deferred tax on above items		**—**	—
Total comprehensive profit (loss) for the year		**125**	141

SAPPI PAPIER HOLDING GROUP

GROUP BALANCE SHEET

as at September 2018

	Note	2018	2017
		€ million	
ASSETS			
Non-current assets		**2,110**	1,880
Property, plant and equipment	10	**1,789**	1,598
Deferred tax assets	11	**91**	104
Goodwill and intangible assets	12	**159**	143
Equity accounted investees	13	**18**	10
Other non-current assets	14	**53**	25
Current assets		**1,414**	1,279
Inventories	15	**516**	437
Trade and other receivables	16	**629**	550
Tax receivable		**10**	8
Derivative financial instruments	31	**8**	1
Cash and cash equivalents		**251**	283
Total assets		**3,524**	3,159
EQUITY AND LIABILITIES			
Shareholders' equity		**754**	628
Ordinary share capital and share premium	17	**1,197**	1,197
Non-distributable reserves	18	**859**	858
Foreign currency translation reserve		**(165)**	(181)
Hedging reserves		**(31)**	(29)
Accumulated losses		**(1,106)**	(1,217)
Non-current liabilities		**1,865**	1,763
Interest-bearing borrowings	20	**1,496**	1,400
Deferred tax liabilities	11	**44**	21
Other non-current liabilities	21	**325**	342
Current liabilities		**905**	768
Interest-bearing borrowings	20	**85**	83
Overdrafts		**14**	—
Derivative financial instruments	31	**—**	3
Trade and other payables	22	**775**	658
Tax payable		**26**	16
Provisions	23	**5**	8
Total equity and liabilities		**3,524**	3,159

SAPPI PAPIER HOLDING GROUP
GROUP STATEMENT OF CASH FLOWS

for the year ended September 2018

	Note	2018	2017
		€ million	
Cash retained from operating activities		**232**	125
Cash generated from operations	24.1	**345**	356
—Decrease (increase) in working capital	24.2	**(44)**	(151)
Cash generated from operating activities		**301**	205
—Net finance costs paid	24.3	**(62)**	(79)
—Tax (paid) refunded	24.4	**(7)**	(1)
Cash utilised in investing activities		**(358)**	(254)
Investment to maintain operations		**(56)**	(78)
Investment to expand operations		**(189)**	(154)
Proceeds on disposal of non-current assets		**—**	2
Acquisition of subsidiary	25	**(108)**	(10)
Other increase in non-current assets		**(5)**	(14)
Cash effects of financing activities		**90**	35
Proceeds from interest-bearing borrowings		**107**	168
Repayment of interest-bearing borrowings		**(26)**	(421)
Equity & share premium raised / (redeemed)		**—**	288
Bank overdraft		**9**	—
Net movement in cash and cash equivalents		**(36)**	(94)
Cash and cash equivalents at beginning of year		**283**	377
Translation effects		**4**	—
Cash and cash equivalents at end of year		**251**	283

SAPPI PAPIER HOLDING GROUP
GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2018

	Number of ordinary shares	Ordinary share capital	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Accumulated losses	Total Equity
				€ million			
Balance—September 2016	1	1,197	573	(134)	(41)	(1,393)	202
Share-based payments	—	—	(3)	—	—	—	(3)
Capital contribution received	—	—	288	—	—	—	288
Total comprehensive profit	—	—	—	(47)	12	176	141
Balance—September 2017	1	1,197	858	(181)	(29)	(1,217)	628
Transfer from distributable reserves	—	—	—	—	—	—	—
Transfer to retained earnings	—	—	—	—	—	—	—
Share-based payments	—	—	1	—	—	—	1
Capital contribution received	—	—	—	—	—	—	—
Total comprehensive profit	—	—	—	16	(2)	111	125
Balance—September 2018	1	1,197	859	(165)	(31)	(1,106)	754
Note reference			*18*				

SAPPI PAPIER HOLDING GROUP

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended September 2018

1. Basis of preparation

The consolidated financial statements (the 'Group Annual Financial Statements') have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and 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 while non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

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.

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:

- 02 October 2017 to 30 September 2018 (52 weeks)
- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)

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.

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 standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

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.

2.1 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,
- property, plant and equipment is accounted for using the cost model, 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.

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 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:

	2018	2017
Period-end rate	**1.1609**	1.1814
Annual average rate	**1.1902**	1.1055

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, 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 financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

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 financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. 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 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 other comprehensive income 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.

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) Finance income and finance costs

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, customer relationships and customer technology

Brands, customer relationships and customer technology acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is ten years.

(iv) Other intangible assets

Other intangible assets comprise license fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between 3 and 20 years.

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.

2.2.7 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 at the end of the lease period is uncertain, 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 Segment reporting

The group’s reportable segments, which have been determined in accordance with how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprises 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.

2.2.9 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.

2.2.10 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.

2.2.11 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.

2.2.12 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.

2.2.13 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.

2.2.14 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 to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

(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.

2.2.15 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 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 and 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 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.

2.2.16 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 for the nature of provisions recorded.

2.2.17 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.

2.2.18 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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 at each balance sheet date for indications of impairment or whether an impairment reversal is required.

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 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.

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 and equipment..	straight-line	3 to 30 years

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.

(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 11 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 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 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.

2.4 Adoption of accounting standards in the current year

The group adopted the following standards, interpretations, amendments and improvements to standards in the current fiscal year, all of which had no material impact on the group's reported results or financial position:

- IAS 12— Income Taxes—Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 7 Statement of Cash Flows—Disclosure Initiative—clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- Annual Improvements 2014-2016 Cycle

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 which have not yet been adopted by the group. These are listed below together with their effective dates*.

- IFRS 9 Financial Instruments—IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities—October 2018. Management has implemented and concluded a project to assess the revised classification and measurement impact of this standard. IFRS 9 has set out a new classification and measurement approach for financial assets that reflect the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit and loss and fair value through other comprehensive income (FVOCI). Based on management's assessment, the new classification will not have a significant impact compared to the current accounting for financial assets in terms of IAS 39. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the forward looking ‘expected credit loss’ (ECL) model. The group will apply the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. Based on management’s assessment, application of the ECL model will not result in a material impact compared to the current accounting in terms of IAS 39. With respect to hedging, on transition a new class of non-distributable equity reserve will be created called Cost of hedging reserve. This reserve will be used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9, which is not material at transition.

The overall impact on retained earnings on transition to IFRS 9. is expected to be immaterial. Additional disclosures will be required for financial instruments in terms of IFRS 9.

- IFRS 15 Revenue from Contracts with Customers—provides a single, principles based five-step model to be applied to all contracts with customers—October 2018. Management has reviewed the significant customer contracts to determine recognition, measurement and disclosure effects of the new standard.Adoption of IFRS is not expected to have a material impact on the recognition and measurement of revenue when compared to the current application of IAS 18.

Under IAS 18, Sappi derives revenue from contracts with customers from one revenue stream being the sale of goods. For the majority of local and regional sales, transfer occurs at the point of offboarding the shipment 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 on trade and settlement discounts, rebates and customer returns. Shipping and handling costs, such as freight to the group’s customers’ destinations, are included in the cost of sales.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. Management’s assessment indicates that this will not result in a material change in timing of revenue recognition with revenue being recognised at a point in time, with no deferral of revenue. As a result, the impact on retained earnings on transition to IFRS 15 is expected to be immaterial. Additional disclosures will be required for revenue in terms of IFRS 15.

The group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (ie October 2018). As a result, the group will not apply the requirements of IFRS 15 to comparative periods presented.

- IFRS 16 Leases—Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 Leases—October 2019.

* Effective date refers to annual period beginning on or after said date

Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.

The following standards are not expected to have a material impact:

- IFRS 2—Classification and Measurement of Share-based Payment Transactions—October 2018
- IFRIC 22— Foreign Currency Transactions and Advance Consideration- October 2018
- IFRIC 23— Uncertainty over Income Tax Treatments - October 2019
- IAS 19—Plan Amendment, Curtailment or Settlement—October 2019
- IAS 28—Long-term Interests in Associates and Joint Ventures October 2019
- Annual Improvements 2015-2017 Cycle—Amendments to IFRS 1 and IAS 28—October 2019

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. 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 is comprised mostly of the sale of dissolving wood pulp, coated paper 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 paper 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 “unallocated and eliminations”.

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 excluding special items.

	North America		**Europe**		**Unallocated and eliminations[3]**		**Group**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	€ million							
Income Statement								
External sales[1]	**1,296**	1,230	**2,496**	2,319	**629**	795	**4,421**	4,344
Operating profit excluding special items	**36**	43	**130**	129	**48**	43	**214**	215
Special items—gains (losses)[2]	**3**	—	**(4)**	(4)	**(23)**	(14)	**(24)**	(18)
Segment operating profit (loss)	**39**	43	**126**	125	**25**	29	**190**	197
EBITDA excluding special items[2]	**101**	115	**244**	239	**49**	43	**394**	397
Share of profit from joint ventures	**—**	—	**—**	—	**(1)**	1	**(1)**	1
Depreciation and amortisation	**(65)**	(72)	**(114)**	(110)	**(1)**	—	**(180)**	(182)
Impairment of assets and investments	**—**	—	**—**	(1)	**—**	—	**—**	(1)
Impairment of goodwill	**—**	—	**—**	—	**(8)**	(7)	**(8)**	(7)
Profit on sale of businesses and other assets	**—**	—	**—**	—	**—**	—	**—**	—
Restructuring provisions raised and closure costs	**—**	—	**—**	—	**(1)**	(1)	**(1)**	(1)
Employee benefit liability settlement	**—**	—	**—**	—	**—**	—	**—**	—
Other non-cash items	**14**	(14)	**2**	(9)	**6**	19	**22**	(4)
Balance Sheet								
Capital expenditures	**196**	119	**102**	119	**(32)**	2	**266**	240
Segment assets[4]	**1,082**	926	**1,353**	1,174	**(73)**	(13)	**2,362**	2,087
Property, plant and equipment	**827**	712	**958**	879	**4**	7	**1,789**	1,598

Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America		**Europe**		**Unallocated and eliminations[3]**		**Group**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	€ million							
Operating profit excluding special items	**36**	43	**130**	129	**48**	43	**214**	215
Special items—gains (losses)[2]	**3**	—	**(4)**	(4)	**(23)**	(14)	**(24)**	(18)
Segment operating profit (loss)	**39**	43	**126**	125	**25**	29	**190**	197

Reconciliation of EBITDA excluding special items and operating profit excluding special items to profit (loss) before tax:

	North America		**Europe**		**Unallocated and eliminations[3]**		**Group**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	€ million							
EBITDA excluding special items[2]	**101**	115	**244**	239	**49**	43	**394**	397
Depreciation and amortisation	**(65)**	(72)	**(114)**	(110)	**(1)**	—	**(180)**	(182)
Operating profit excluding special items	**36**	43	**130**	129	**48**	43	**214**	215
Special items—gains (losses)[2]	**3**	—	**(4)**	(4)	**(23)**	(14)	**(24)**	(18)
Segment operating profit (loss)	**39**	43	**126**	125	**25**	29	**190**	197

Net finance costs	**(64)**	(80)
Profit (loss) before tax	**126**	117

(1) Sales of products are allocated to where the product is manufactured.
(2) Refer to the management report for a definition of the term.
(3) Primarily includes the group's treasury operations, its self-insurance captive and the margin earned from a related party subsidiary.
(4) Segment assets consist of total assets (excluding deferred tax and cash) less current liabilities (excluding interest-bearing borrowings and overdrafts).

Reconciliation of segment assets to total assets:

	2018	2017
	€ million	
Segment assets[1]	**2,362**	2,087
Deferred tax assets	**91**	104
Cash and cash equivalents	**251**	283
Derivative financial instruments (included in current liabilities)	**—**	3
Trade and other payables	**775**	658
Provisions	**5**	8
Tax payable	**26**	16
Overdraft	**14**	—
	3,524	3,159
Sales by products		
Coated paper	**2,680**	2,675
Uncoated paper	**180**	175
Speciality paper	**640**	503
Commodity paper	**35**	39
Paper pulp, dissolving wood pulp and other	**886**	952
	4,421	4,344

(1) Segment assets consist of total assets (excluding deferred tax and cash) less current liabilities (excluding interest-bearing borrowings and overdrafts).

4. Cost of sales

Included in cost of sales are the following items:

	2018	2017
	€ million	
Raw materials, energy and other direct input costs	**2,698**	2,655
Depreciation	**172**	174
Delivery charges	**345**	331
Other overheads (including employee costs)	**727**	733
	3,942	3,893

5. Selling, general and administrative expenses

	2018	2017
	€ million	
Selling expenses	**118**	110
Administrative expenses	**146**	123
Depreciation	**7**	4
General expenses (income)	**6**	11
	277	248

6. Other operating expenses

Included in other operating expenses are the following:

	2018	2017
	€ million	
Acquisition costs	**2**	0.0
Restructuring provisions and closure costs raised	**1**	1
Net impairment of assets and investments	**—**	1
Goodwill impairments	**8**	7
Fire, flood, storm and related events	**—**	(2)
Profit on sale of businesses and other assets	**—**	—
Employee benefit liability settlement	**—**	—
	11	7

7. Operating profit

Operating profit is arrived at after taking into account the items detailed below:

	2018	2017
	€ million	
Leasing charges for premises	**8**	9
Leasing charges for plant and equipment	**9**	7
Remuneration paid other than to employees of the group in respect of:	**19**	20
—technical services	**6**	6
—administration services	**13**	14
Auditors' remuneration:	**3**	3
—audit and related services	**2**	3
—tax services	**1**	—
Research and development costs	**14**	14
Amortisation	**7**	4

8. Employee costs

	2018	2017
	€ million	
Wages and salaries	**660**	622
Defined contribution plan expense (refer to note 28)	**23**	23
Defined benefit pension plan expense (credit) (refer to note 28)	**4**	13
Post-employment healthcare subsidy costs (refer to note 28)	**2**	2
Share-based payment expense	**5**	4
Other	**14**	13
	708	677
The average number of persons employed:		
—Blue-collar workers	**4,527**	4,411
—White-collar workers	**3,388**	2,968
	7,915	7,379

9. Tax charge

	2018	2017
	€ million	
Current tax:		
—Current year	**19**	4
—Prior year underprovision	**—**	1
—Other company taxes	**(4)**	1
Deferred tax:		
—Current year	**(8)**	3
—Prior year overprovision	**(3)**	(1)
—Attributable to tax rate changes	**11**	—
	15	8

In addition to the tax charge (benefit) to profit or loss, a deferred tax charge of €23 million (2017: €32 million) has been recognised directly in other comprehensive income (refer to note 11).

Our effective tax rate reflects a reduced tax rate in the USA, the federal tax rate in the USA was decreased from 35% in 2017 to 21% in 2018.

Reconciliation of the tax rate

	2018	2017
	€ million	
Profit before tax	**126**	117
Average statutory tax rate for the year	**26%**	28%
Tax at the average statutory tax rate	**33**	33
Net exempt income	**(13)**	(18)
Non-tax deductible expenditure	**17**	7
Effect of tax rate changes	**11**	—
No tax relief on losses	**5**	3
No tax charge on profits	**(8)**	(4)
Derecognition of deferred tax assets	**14**	—
Recognition of deferred tax assets	**(37)**	(14)
Prior year adjustments	**(3)**	—
Other taxes	**(4)**	1
	15	8
Effective tax rate for the year	**12%**	7%

10. Property, plant and equipment

	2018	2017
	€ million	
Land and buildings(1)		
At cost	**1,012**	967
Accumulated depreciation and impairments	**(672)**	(651)
	340	316
Plant and equipment(2)		
At cost	**5,305**	5,026
Accumulated depreciation and impairments	**(3,856)**	(3,745)
	1,449	1,281
Capitalised leased assets(3)		
At cost	**366**	367
Accumulated depreciation and impairments	**(366)**	(366)
	—	1

	2018	2017
	€ million	
Aggregate cost	**6,683**	6,360
Aggregate accumulated depreciation and impairments	**(4,894)**	(4,762)
Aggregate book value[4]	**1,789**	1,598

(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 (2017: €204 million) relates to assets under construction.

The movement on property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	Total
Net book value at September 2016	332	1,235	1	**1,568**
Additions	7	233	—	**240**
Acquisition	5	4	—	**9**
Disposals	(1)	(1)	—	**(2)**
Depreciation	(20)	(158)	—	**(178)**
Translation differences	(7)	(32)	—	**(39)**
Net book value at September 2017	316	1,281	1	**1,598**
Additions	10	256	—	**266**
Acquisition	32	48	—	**80**
Interest capitalised	—	2	—	**2**
Depreciation	(20)	(153)	—	**(173)**
Translation difference	2	14	—	**16**
Net book value at September 2018	340	1,448	1	**1,789**

Refer note 25 for details of encumbrances.

11. Deferred tax

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	€ million			
Other liabilities, accruals and prepayments	**(44)**	**(4)**	(58)	(2)
Inventory	**6**	**2**	9	2
United States of America (USA) tax credits carry forward	**10**	**—**	14	—
Tax loss carry forward	**97**	**10**	105	25
Property, plant and equipment	**(16)**	**(61)**	(55)	(55)
Other non-current assets	**5**	**(1)**	17	—
Other non-current liabilities	**33**	**10**	72	9
	91	**(44)**	104	(21)

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.

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.

	2018	2017
	€ million	
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**18**	24
Tax losses	**499**	576
	517	600
Attributable to the following tax jurisdictions:		
Austria	**394**	448
Belgium	**49**	95
Finland	**34**	34
The Netherlands	**40**	23
	517	600
Expiry between one and five years	**46**	59
Expiry after five years	**20**	20
Indefinite life	**451**	521
	517	600

	2018	2017
	(US$ million)	
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**600**	666
No tax relief on losses	**1**	—
No tax charge on profits	**(35)**	(55)
Derecognition of deferred tax assets	**14**	—
Recognition of deferred tax assets	**(37)**	(14)
Prior year adjustments	**(9)**	3
Rate adjustments	**(17)**	—
	517	600
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**104**	135
Deferred tax liabilities	**(21)**	(12)
	83	123
Deferred tax (charge) benefit for the year	**—**	(2)
Other liabilities, accruals and prepayments	**12**	—
Inventory	**(3)**	1
USA tax credits	**(4)**	(3)
Tax loss carry forward	**(22)**	—
Property, plant and equipment	**41**	(51)
Other non-current assets	**(18)**	(27)
Other non-current liabilities	**(6)**	78
Amounts recorded directly in other comprehensive income	**(23)**	(32)
Acquisition of subsidiaries	**(15)**	(2)
Translation differences	**2**	(4)
Deferred tax balances at end of year	**47**	83
Deferred tax assets	**91**	104
Deferred tax liabilities	**(44)**	(21)

12. Goodwill and intangible assets

	2018						2017					
	Goodwill	Brands	Customer relationship	Customer Technology	Other[1]	Total	Goodwill	Brands	Customer relationship	Customer Technology	Other[1]	Total
	€ million											
Cost (gross carrying amount)	**901**	**27**	**28**	**10**	**10**	**976**	898	27	6	5	6	942
Accumulated amortisation and impairments	**(789)**	**(19)**	**(2)**	**(1)**	**(6)**	**(817)**	(781)	(16)	—	—	(2)	(799)
Net carrying amount	**112**	**8**	**26**	**9**	**4**	**159**	117	11	6	5	4	143

	2018						2017					
	Goodwill	Brands	Customer relationship	Customer Technology	Other[(1)]	Total	Goodwill	Brands	Customer relationship	Customer Technology	Other[(1)]	Total
	€ million											
Net carrying amount at beginning of year	**117**	**11**	**6**	**5**	**4**	**143**	124	4	—	—	8	136
Acquisition	**2**	**—**	**2**	**25**	**5**	**34**	3	9	6	5	2	25
Amortisation	**—**	**(3)**	**(2)**	**(1)**	**(2)**	**(8)**	—	(2)	(0)	(0)	(4)	(6)
Utilisation	**—**	**—**	**—**	**—**	**(3)**	**(3)**						
Impairment	**(8)**	**—**	**—**	**—**	**—**	**(8)**	(7)	—	—	—	(1)	(8)
Translation difference	**1**	**—**	**—**	**—**	**—**	**1**	(3)	—	—	—	(1)	(4)
Net carrying amount	**112**	**8**	**6**	**29**	**4**	**159**	117	11	6	5	4	143

Goodwill was increased by €2 million during the year related to the acquisition of Cham Paper Group Holding AG. Goodwill is attributable to the cash-generating units of specialities of €3 million (2017: €3 million) and coated woodfree of €3 million (2017: €3 million). 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 €8 million (2017: €7 million) by Sappi Trading. The recoverable amounts were calculated on a value in use basis. Sappi Trading used a real pre-tax discount rate of 8.57% (2016: 9.4%). The impairment charges *are recorded in other operating expenses in profit or loss for the year.*

(1) Included in other intangible assets are license fees, trademarks and carbon certificates.

13. Equity accounted investees

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. No dividends were received in the current and prior year.

	2018	2017
	€ million	
Aggregate financial information for joint ventures:		
Profit from continuing operations	**1**	2
Total comprehensive income	**—**	2
Carrying amount of the group's interest in these joint ventures	**18**	10

14. Other non-current assets

	2018	2017
	€ million	
Investment funds	**6**	6
Other financial assets	**3**	3
Defined benefit pension plan assets (refer to note 28)	**43**	15
Other loans	**1**	1
	53	25

15. Inventories

	2018	2017
	€ million	
Raw materials	**121**	88
Work in progress	**52**	44
Finished goods	**239**	214
Consumable stores and spares	**104**	91
	516	437

The amount recognised in profit or loss for the period relating to the write-down of inventories to net realisable value was to €1 million (2017: €3 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 €3,573 million (2017: €3,531 million).

16. Trade and other receivables[1]

	2018	2017
	€ million	
Trade accounts receivable, gross	**555**	489
Allowance for credit losses	**(13)**	(8)
Trade accounts receivable, net	**542**	481
Prepayments and other receivables	**87**	69
	629	550

[1] Includes related parties receivables of €5 million (2017: €4 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. No significant risk has been identified within the trade accounts receivables not past due but not impaired. Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.6% (2017: 11.3%) of turnover.

16.1 Reconciliation of the allowance for credit losses

	2018	2017
	€ million	
Balance at beginning of year	8	12
Raised during the year	13	7
Released during the year	(6)	(7)
Utilised during the year	(2)	(4)
Balance at end of year	13	8

The allowance for credit losses has been determined by reference to specific customer delinquencies.

16.2 Analysis of amounts past due

September 2018

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	**13**	**—**	**13**
Between 30 and 60 days overdue	**3**	**—**	**3**
More than 60 days overdue	**3**	**13**	**16**
	28	**13**	**41**

September 2017

The following provides an analysis of the amounts that are past the due contractual maturity dates:

€ million	Not Impaired	Impaired	Total
Less than 7 days overdue	18	—	18
Between 7 and 30 days overdue	9	—	9
Between 30 and 60 days overdue	3	—	3
More than 60 days overdue	1	8	9
	31	8	39

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any allowance for credit loss is required to be approved in line with the group's limits of authority framework.

The group holds collateral of €1 million (2017: €1 million) against trade receivables past contractual repayment terms.

16.3 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

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2020. This programme has a limit of €330 million. 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 (2017: €366 million) have been pledged as collateral for amounts received as funding under the programme of €323 million (2017: €308 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.

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 Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico), Citibank (São Paulo) and Citibank (New York) by utilising the customers' credit facilities with the discounting bank. The total charge relating to the discounting amounted to €6 million (2017:€4 million).

16.4 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 and trade receivables during the years ended September 2018 and September 2017. 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 €629 million (2017: €550 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:

	2018			2017		
Threshold	**No of customers**	**€ million**	**Percentage**	**No of customers**	**€ million**	**Percentage**
Greater than €9 million ...	**6**	**89**	**16**	6	92	19
Between €4 million and €9 million	**9**	**54**	**10**	8	42	9
Less than €4 million........	**2,418**	**397**	**74**	2,368	342	72
	2,433	**540**	**100**	2,382	476	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 31 for further details on credit risk.

17. Ordinary share capital and share premium

	2018	2017
	€ 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

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 as disclosed in 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 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 2018 and 2017 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.

18. Non-distributable reserves

	2018					2017				
	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	834	(9)	1	858	32	546	(6)	1	573
Share-based payment expense	—	—	5	—	5	—	—	4	—	4
Other movements[3]	—	—	(4)	—	(4)	—	—	(7)	—	(7)
Increase capitalisation	—	—	—	—	—	—	288	—	—	288
	32	834	(8)	1	859	32	834	(9)	1	858

(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 and Sappi International Holdings (Pty) Limited into the SPH group via Sappi Holding, the direct holding company of the SPH group.

(3) Other movements include deferred tax effect on IFRS 2 charges in some regions and other share based payment transactions.

19. Other comprehensive (loss) gain

	2018	2017
	€ million	
Items that will not be reclassified subsequently to profit or loss		
Actuarial losses on post-employment benefit funds	**—**	67
Gross amount (refer to note 29)	**23**	99
Tax on above	**(7)**	(32)
Tax rate change[1]	**(16)**	—
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation to presentation currency	**16**	(47)
Translation of foreign operations	**16**	(47)
Tax	**—**	—
Hedging reserves	**(2)**	12
Gains (losses) during the year	**(2)**	12
Other comprehensive (loss) profit recorded directly in equity	**14**	32
Profit (loss) for the year	**111**	109
Total comprehensive profit (loss) for the year	**125**	141

(1) The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.

20. Interest-bearing borrowings

	2018	2017
	€ million	
Secured borrowings[1]	**324**	308
—Mortgage and pledge over trade receivables and certain assets (refer to note 24 for details of encumbered assets)	**324**	308
—Capitalised lease liabilities (refer to note 24 for details of encumbered assets)	**—**	—
Total secured borrowings	**324**	308
Unsecured borrowings	**1,257**	1,175
Total borrowings (refer to note 32)	**1,581**	1,483
Less: Current portion included in current liabilities	**(85)**	(83)
Total non-current interest-bearing borrowings	**1,496**	1,400

The interest-bearing borrowings repayment profile is as follows: Payable in the year ended September:

2018	**—**	83
2019	**85**	21
2020	**365**[2]	335
2021	**39**	27
2022	**464**	451
2023 (September 2017: Thereafter)	**381**	566
Thereafter	**247**	0.0
	1,581	1,483

(1) Consists of pledge over securitised trade receivables (refer to note 26 for details of encumbered assets).

(2) Includes securitisation debt

Capitalised lease liabilities

As at financial year-end, the group held no outstanding material capitalised finance lease liabilities.

Set out below are details of the more significant interest-bearing borrowings in the group at September 2018:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€445 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€345 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€208 million	€208 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
UniCredit Bank	US$	Variable	US$134 million	US$134 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							
Österreichische Kontr......	EUR	Variable	€58 million	€58 million		December 2018	No financial covenants
Österreichische Kontr......	EUR	Fixed	€61 million	€61 million[4][2]		June 2021	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontr......	EUR	Fixed	€150 million	€150 million[4][2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]

The analysis of the currency per debt (excluding debt attributable to related parties) is:

	Local currency million	€ million
US Dollar	352	**304**
Euro	1,277	**1,277**
		1,581

(1) The nature of the rates for the group bonds are explained in note 32.

(2) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

(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.

(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time 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) 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) Financial covenants relate to the Sappi Limited group.

(8) The expiry date reflects the final repayment date of the borrowings. Certain borrowings have separate instalment payments prior to the expiry date which is reflected in the repayment profile of the borrowings.

A detailed analysis of total interest-bearing borrowings has been disclosed 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 above certain de minimis amounts. 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 2018 and 2017 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.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) entity on behalf of North America, and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 DAC (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 2018, a funding reserve, that is reset on a monthly basis, amounted to 13.89 % (2017: 14.80%).

The cost of the programme includes a variable component based on Euribor/Libor (floor 0%), a fixed margin and a commitment fee computed on the difference between €300 million (US$354 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 16 and 26.

Unutilised facilities

The group monitors its availability of funds on a daily 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.

	Interest rate	Currency	2018	2017
			€ million	
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	Variable (EURIBOR)	EUR	**525**	465
Securitisation facility (if underlying eligible trade receivables would be available)	Variable (cost of funding bank)	EUR	**7**	22
			532	487
Unutilised uncommitted facilities				
Cash management overdraft facility	Variable (EURIBOR)	EUR	**18**	18
			18	18
Total unutilised facilities (committed and uncommitted) excluding cash			**550**	505

(1) A syndicated loan with a consortium of banks of €525 million (2016: €465 million). The facility matures in February 2023, is subject to financial covenants relating to the Sappi Limited group and is unsecured. We have paid a commitment fee of €3,5 million (2016: €3.7 million).

The facility was unused at year end.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 32.

21. Other non-current liabilities

Defined benefit pension plan liabilities (refer to note 28)	**200**	201
Other defined benefit plan liabilities (refer to note 28)	**67**	74
Long service awards	**16**	16
Restructuring provisions (refer to note 23)	**2**	3
Workmens' compensation	**12**	14
Land restoration obligation	**12**	13
Deferred income	**2**	1
Long-term employee benefits	**3**	1
Rockwell Contingent consideration liability	**5**	9
Other	**6**	10
	325	342

22. Trade and other payables

Trade creditors	**394**	308
Other creditors and accruals	**248**	236
Related party trade and other payables	**133**	114
	775	658

Due to the short maturities of trade and other payables, the carrying amount of these trade and other payables approximates its fair value.

23. Provisions

	2018	2017
	€ million	
Restructuring provisions	**7**	11
Long-term (refer to note 21)	**2**	3
Short-term	**5**	8
	7	11

Details of the restructuring provisions are provided below:

	Severance, retrenchment and related costs
Balance at September 2016	21
Increase in provisions	1
Utilised	(6)
Released during the year	(4)
Other movements	(1)
Balance at September 2017	11
Increase in provisions	3
Utilised	(4)
Released during the year	(3)
Translation difference	—
Balance at September 2018	7

Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost savings measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2019 with the long-term provisions expected to be fully utilised by September 2025.

24. Notes to the group statement of cash flows

24.1 Cash generated from operations

	2018	2017
	€ million	
Profit (loss) for the year	**111**	109
Adjustment for:		
—Depreciation	**173**	178
—Amortisation	**7**	4
—Tax charge	**15**	8
—Net finance costs	**64**	80
—Net Impairment of assets and investments	**—**	1
—Impairment of goodwill	**8**	7
—Restructuring provisions and closure costs raised	**1**	1
—Post-employment benefits funding	**(33)**	(35)
—Share plan charge	**(4)**	(7)
—Other non-cash items	**3**	10
	345	356

24.2 Decrease (increase) in working capital

	2018	2017
Decrease (increase) in inventories	**(52)**	(18)
Decrease (increase) in receivables	**(47)**	(10)
(Decrease) increase in payables	**55**	(123)
	(44)	(151)

24.3 Finance costs paid

	2018	2017
Interest and other finance costs on liabilities carried at amortised cost	**(70)**	(71)
Premium and costs on early redemption of redeemable bonds and other loans	**—**	(16)
Net foreign exchange (loss) gain	**3**	5
Net fair value (loss) gain on financial instruments	**—**	—
Transfers to financing activities and non-cash items	**5**	3
	(62)	(79)

24.4 Tax (paid) refunded

	2018	2017
Net amounts payable at beginning of year	**(8)**	(3)
Tax charge to profit or loss	**(15)**	(6)
Net amounts payable at end of year	**16**	8
	(7)	(1)

24.5 Reconciliation of liabilities arising from financing activities

	2017	Cash flows	Transfers between long-term and short-term	Acquisition	Other changes	2018
Long-term borrowings	1,400	105	(21)	5	7	**1,496**
Short-term borrowings[(1)]	83	(15)	21	5	5	**99**
Total	1,483	90	—	10	12	**1,595**

(1) Includes overdraft

25. Acquisition of subsidiary

2018

On 28 February 2018, Sappi acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 million). The transaction includes all brands and know-how, the Carmignano and Condino mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition was financed from internal resources. The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth and further acquisitions

The fair values of assets acquired and liabilities assumed as at 28 February 2018 were as follows:

	EURO'm
Property, plant and equipment	81
Intangible assets	32
Inventories	25
Trade receivables	28
Prepayments and other assets	2
Cash and cash equivalents	6
Trade payables	(23)
Pension liabilities	(4)
Provisions	(1)
Other payables and accruals	(9)
Deferred tax liabilities	(15)
Non-current interest bearing borrowings	(5)
Current interest-bearing borrowings	(5)
Net asset value acquired	112
Goodwill	2
Purchase consideration	114
Less: Cash and cash equivalents acquired	(6)
Net cash outflow on acquisition	108

CPG earned revenues of €118 million and profit after tax of €4 million since acquisition.

2017

On 3 July 2017 Sappi acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of GBP18 million of which GBP10 million was a contingent consideration and €10 million was paid in cash. The net assets acquired include tangible net assets of €6 million, goodwill of €3 million and identified intangible assets of €13 million.

26. Encumbered assets

The carrying value of trade receivables 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:

	2018	2017
	€ million	
Trade receivables	**377**	366
Land and buildings	**9**	—
	386	366

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of €330 million, of which, €324 million was utilised at financial year-end (refer to notes 16 and 20).

27. Commitments

Capital commitments

	2018	2017
	(US$ million)	
Contracted but not provided	**117**	168
Approved but not contracted	**120**	112
	237	280

Future forecasted cash flows of capital commitments at September:

2018	**—**	266
2019	**176**	5
2020	**41**	2
2021	**11**	—
2022	2	—
2023 (2017: Thereafter)	**—**	7
Thereafter	**7**	0
	237	280

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:

2018	**—**	13
2019	**16**	9
2020	**13**	7
2021	**10**	5
2022	**5**	3
2023 (2017: Thereafter)	**4**	6
Thereafter	**10**	0
	58	43

The group enters into a number of leases, mainly relating to property, plant and equipment and vehicles. Lease terms range between 3 to 10 years and may be renegotiated on expiry.

28. Contingent liabilities

Contingent liabilities mainly relate to environmental and 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.

29. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017	2018	2017
			€ million			
Post-retirement plan costs recognised in profit or loss	**23**	23	**6**	17	**4**	4
—Amount attributed to operating costs	23	23	**4**	13	**2**	2
—Amount attributed to special items	—	—	**—**	—	**—**	—
—Amount attributed to finance costs	—	—	**2**	4	**2**	2
Employer contributions paid during the financial year			**27**	29	**3**	3
Pension asset at end of year (note 14)			**43**	15	**—**	—
Pension / benefit liability at end of year (note 21)			**(200)**	(201)	**(67)**	(74)
Net pension liability at end of year			**(157)**	(186)	**(67)**	(74)
Development in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(186)**	(290)	**(74)**	(82)
Net pension/other benefit income (costs) for the year			**(6)**	(17)	**(4)**	(4)
Acquisitions during the year straight to balance sheet			**(4)**	—	**—**	—
Employer contributions			**27**	29	**3**	3
Net actuarial (losses) gains for the year			**13**	93	**10**	6
Translation differences			**(1)**	(1)	**(2)**	3
Net pension/healthcare subsidy liabilities at end of year			**(157)**	(186)	**(67)**	(74)

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 €23 million (September 2017: €23 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 €24 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 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, Austrian and Italy 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, The Netherlands
Frozen benefit	United Kingdom, North America (salaried plan), Italy
Fixed €-value	Germany and Austria
Nominal $-value (periodically revalued)	North America (works plans)
Old Age accounts with minimum guarantees	Switzerland

Plans remain open to new hires except for plans in North America, 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 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 with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

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.

- Europe including United Kingdom (UK)[1]: Asset mix based on 42% equity and real estate instruments, 37% debt instruments, 21% multi-asset and other instruments
- North America: Asset mix based on 23% equity instruments, 60% debt instruments, 17% multi-asset and other instruments

(1) Weighted average of separate plans in this region

Exposure to risks

The risks faced by the company as a result of the defined benefit obligation can be summarised as follows:

Inflation: The risk that future inflation (and healthcare inflation) indices is higher than expected and uncontrolled,

- Future changes in legislation: The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group,
- Future changes in the tax environment: The risk that changes in the tax legislation governing employee benefits may increase the liability for the group,
- Longevity: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- Administration: Administration of this liability poses a burden to the group.

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 reratings on debt instruments in bond markets across the globe.

Funding Policy

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 €24 million.

Post-employment healthcare subsidy

The group sponsors a defined benefit post-employment plan 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, or joining the company prior to a certain date.

Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are €5 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

	2018	2017
Jubilee (long service award) in continental Europe in other long term liabilities	**17**	16
Early retirement (temporary pension) benefit in Belgium	**3**	1
ATZ (early retirement—temporary salary supplement) obligations in Germany and Austria	**9**	9
Workmen's compensation benefit obligations in North America	**12**	14

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	**2017**	**2018**	**2017**
Components of defined benefit cost recognised in profit or loss				
Current service cost	**11**	12	**2**	2
Past service credit	**(8)**	—	**—**	—
Interest on net defined benefit	**2**	4	**2**	2
Fund administration costs	**1**	1	**—**	—
Non-routine settlement gain	**—**	—	**—**	—
Net amount recognised in profit or loss	**6**	17	**4**	4
Charge attributed to operating cost	**4**	13	**2**	2
Charge attributed to finance cost	**2**	4	**2**	2
Components of defined benefit cost recognised in other comprehensive income				
Actuarial (losses) gains arising from membership experience	**(3)**	6	**6**	3
Actuarial gains arising from changes in demographic assumptions	**4**	35	**—**	1
Actuarial gains arising from changes in financial assumptions	**31**	37	**4**	2
Return (losses) on plan assets (excluding amounts included in interest income)	**(19)**	15	**—**	—
Gain / (loss) recognised in other comprehensive income	**13**	93	**10**	6

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	**2017**	**2018**	**2017**
		€ million		
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,021**	1,134	**74**	82
Current service cost	**11**	12	**2**	2
Past service credit	**(8)**	—	**—**	—
Interest expense	**29**	29	**2**	2
Remeasurements	**(32)**	(78)	**(10)**	(6)
—Membership experience changes	**3**	(6)	**(6)**	(3)
—Demographic assumption changes	**(4)**	(35)	**—**	(1)
—Financial assumption changes	**(31)**	(37)	**(4)**	(2)
Non-routine plan settlements	**—**	—	**—**	—
Acquisition[(1)]	**65**	11		
Benefits paid	**(52)**	(53)	**(3)**	(3)
Translation difference	**10**	(34)	**2**	(3)
Defined benefit obligation at end of year	**1,044**	1,021	**67**	74
Present value of wholly unfunded obligation	**152**	150	**74**	74
Present value of wholly or partially funded obligation	**892**	871	**—**	—
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**835**	844	**—**	—
Interest income	**27**	25	**—**	—
Employer contributions	**27**	29	**3**	3
Remeasurements				
—Return on plan assets net of interest income	**(19)**	15	**—**	—
Non-routine plan settlements	**—**	—	**—**	—
Acquisition[(1)]	**61**	11		
Benefits paid	**(52)**	(53)	**(3)**	(3)

	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	**2017**	**2018**	**2017**
	€ million			
Fund administration costs	**(1)**	(1)	**—**	—
Translation difference	**9**	(35)	**—**	—
Fair value of plan assets at end of year	**887**	835	**—**	—
Net balance sheet defined benefit liability	**157**	186	**67**	74

(1) Acquisitions: Refers to assets and liabilities acquired with Cham.

The major categories of plan assets at fair value are presented as follows:

	Funded pension plans	
	2018	**2017**
Investments quoted in active markets		
Equity and high yield investments	**186**	302
Investment grade debt instruments	**98**	94
Property investment funds	**13**	12
Unquoted investments		
Equity and high yield investments[(1)]	**586**	423
Cash	**4**	4
	887	835

(1) Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.

As at financial year-end, there were no investments in the groups own quoted equity instruments.

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:

	2018		2017	
	Europe incl UK	**North America**	**Europe incl UK**	**North America**
Discount rate—pension (%)	**1.70**	**4.02**	1.90	3.53
Discount rate—post-employment healthcare subsidies (%)		**3.93**		3.35
Future salary increases (%)	**1.00**		1.00	
Cost of living adjustment for pensions in payment (%)[(1)]	**1.80**		2.20	
Healthcare cost trend rate (%)[(2)]	**n/a**	**8.00->4.50**		8.20->4.50
Sample rate average life expectancy from retirement (years)[(3)]				
—For current beneficiaries	**24.40**	**25.40**	23.90	23.90
—For future retiring beneficiaries	**26.20**	**27.10**	25.70	27.30

(1) Weighted average for plans granting cost of living adjustment whether fixed or variable.

(2) North America: Initial rate —> long term rate trend over 9 years (2017: 10 years).

(3) Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.

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, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by €113 million (increase by €137 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by €9 million (decrease by €6 million).
- If the expected cost of living adjustment rate (pension increase rate) is 100 basis points higher (lower), the defined benefit obligation would increase by €26 million (decrease by €21 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by €32 million (decrease by €32 million).
- For healthcare subsidy, if the healthcare cost trend rate increases (decreases) by 100 basis points, the defined benefit obligation would increase by €2 million (decrease by €2 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 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)	12 years	

Regional split of results

	2018		2017	
	Europe incl UK	North America	Europe incl UK	North America
	€ million			
Defined benefit obligation (pension plans)	**(470)**	**(573)**	(421)	(600)
Fair value of plan assets (pension plans)	**305**	**581**	246	589
Defined benefit obligation (health-care subsidy)	**n/a**	**(67)**	n/a	(74)
Net defined benefit liability	**(165)**	**(59)**	(175)	(85)
Net defined benefit liability start of year	**(175)**	**(85)**	(204)	(168)
Balance sheet take-on of Cham acquisition plans	**(4)**	**—**	—	—
Net defined benefit cost recognised in profit or loss (pension)	**1**	**(7)**	(7)	(10)
Net defined benefit cost recognised in profit or loss (healthcare)	**n/a**	**(4)**	n/a	(4)
Net (loss) gain recognised in other comprehensive income (Pension)	**(1)**	**14**	21	72

	2018		2017	
	Europe incl UK	**North America**	**Europe incl UK**	**North America**
	€ million			
Net (loss) gain recognised in other comprehensive income (Healthcare)	**n/a**	**10**	n/a	6
Company contributions paid	**14**	**16**	16	16
Translation adjustments	**—**	**(3)**	(1)	3
Net defined benefit liability	**(165)**	**(59)**	(175)	(85)

30. 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 (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares.

The Sappi Limited Share Incentive Trust (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 Johannesburg Stock Exchange 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.

The Sappi Limited Performance Share Incentive Trust (the Plan)

Under the rules of the Plan, participants 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. 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.

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total Shares
Outstanding at September 2016	7,799,465	1,644,508	30.30	9,443,973
Offered	1,690,470	—	—	1,690,470
Paid for/vested	(1,936,854)	(740,449)	31.52	(2,677,303)
Returned, lapsed and forfeited	(222,225)	(105,380)	35.28	(327,605)
Outstanding at September 2017	7,330,856	798,679	28.85	8,129,535
Offered	1,524,950	—	—	1,524,950
Paid for/vested	(1,925,854)	(204,764)	32.04	(2,130,618)
Returned, lapsed and forfeited	(175,974)	(102,450)	32.76	(278,424)
Outstanding at September 2018	6,753,978	491,465	27.04	7,245,443
Exercisable at September 2017	—	798,679	28.85	
Exercisable at September 2018	—	491,465	27.04	

(1) Performance shares are issued for no cash consideration. The value is determined on the day the shares vest.

The above performance and share options have been issued between Rnil and R35.20. The range over which they are exercisable is between September 2018 and December 2021.

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 43	Issue 43
Date of grant	04 December 2017	04 December 2017
Type of award	Performance	Performance
Share price at grant date	ZAR 95.64	ZAR 95.64
Vesting period	4 years	4 years
Vesting conditions	Market-related—relative to peers	Cash flow return on net assets relative
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	61%	61%
Number of shares offered for Sappi Limited Group	1,377,825	1,377,825
Volatility	31%	n/a
Risk-free discount rate	2.148% (US yield)	n/a
Expected dividend yield	2.2%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR 68.40	ZAR 58.44

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

31. Derivative financial instruments

Hedging instrument	Hedged item	2018	2017
		€ million	
Current assets			
Pulp swaps	Raw materials	**4**	1
Forward exchange contracts	Various	**4**	—
		8	1

Hedging instrument	Hedged item	2018	2017
		€ million	
Current liabilities			
Forward exchange contracts	Various	—	3
		—	3

Refer to note 31 for more detail on financial instruments.

32. Financial Instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, trade 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 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 within the overall commodity group policy.

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 principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value 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 2018 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 30 September 2018. The information is presented in Euros, which is the group's reporting currency.

	Expected maturity date						2018		2017	
	2019	2020	2021	2022	2023	2024+	Carrying Value	Fair Value[3]	Carrying Value	Fair Value
							€ equivalent in millions			
US Dollar										
Fixed rate debt.....	—	—	—	—	—	188	**188**	**191**	185	200
Average interest rate (%)..............	—	—	—	—	—	7.60	**7.60**		7.61	
Variable rate debt[1]	—	115	—	—	—	—	**115**	**115**	107	107
Average interest rate (%)..............	—	4.46	—	—	—	—	**4.46**		3.49	
Euro										
Fixed rate debt.....	24	41	40	464	381	59	**1,009**	**1,076**	931	1,028
Average interest rate (%)..............	1.41	1.67	1.68	3.36	3.88	2.24	**3.30**		3.36	
Variable rate debt[2]	61	209	(1)	—	—	—	**269**	**271**	260	260
Average interest rate (%)..............	0.33	1.38	—	—	—	—	**1.15**		1.51	
Total										
Fixed rate debt.....	24	41	40	464	381	247	**1,197**	**1,267**	1,116	1,228
Average interest rate (%)..............	1.21	1.67	1.68	3.36	3.88	6.31	**3.98**		4.06	
Variable rate debt	61	324	(1)	—	—	—	**384**	**386**	367	367
Average interest rate (%)..............	0.33	2.47	—	—	—	—	**2.14**		2.09	
Fixed and variable..........	**85**	**365**	**39**	**464**	**381**	**247**	**1,581**	**1,653**	**1,483**	**1,595**
Current portion.....							**85**	**84**	83	83
Long-term portion							**1,496**	**1,569**	1,400	1,512
Total interest-bearing borrowings (refer note 20)..							**1,581**	**1,653**	1,483	1,595

(1) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(2) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(3) The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread for Sappi. The fair value hierarchy that these instruments would fall into are level 2 instruments.

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 1.38% and 7.60% (depending on currency). At September 2018, 76% of the groups borrowings were at fixed rates of interest and 24% 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.

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. As at September 2018 there are no remaining interest rate hedges.

Sensitivity analyses

The following are sensitivity analyses, in EURO's, of the impact on profit or loss or OCI arising from:

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 current credit rating
	€ million	
Securitisation—Elektra N°29 DAC (only if double notch downgrade below BB-) .	324	1.17
Commitment fee on unused revolving credit facility	525	0.45
Interest on utilised bank syndicated loans	211	0.52
	1,060	2.13
Impact calculated on total portfolio amounts to	0.20%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50 bps to the interest rates.

	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
			€ million	
Total debt	1,581	1,197	384	2
Ratio fixed/floating to total debt		76%	24%	

The floating rate debt represents 24% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by €1.92 million.

Currency risk

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. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders,
- Transaction exposures arise from 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 exposures arise from 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 2018 and 2017 financial years disclose 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 2018							
Non-current assets							
Other non-current assets	**53**	**7**	—	7	—	—	—
Current assets							
Trade receivables	**542**	**542**	234	249	—	28	31
Prepayments and other receivables	**87**	**19**	8	11	—	—	
Derivative financial assets	**8**	**8**	8		—	—	—
Cash and cash equivalents	**251**	**251**	188	35	2	1	25
		827	438	302	2	29	56
Non-current liabilities							
Interest-bearing borrowings	**1,496**	**1,496**	303	1,193	—	—	—
Other non-current liabilities	**325**	**1**	1	—	—	—	—
Current liabilities							
Interest-bearing borrowings	**85**	**85**		85	—	—	—
Overdraft	**14**	**14**	—	14	—	—	—
Trade payables	**527**	**527**	160	232	132	2	1
Other payables and accruals	**248**	**94**	26	67	—	—	1
		2,217	490	1,591	132	2	2
Foreign exchange gap		**(1,390)**	(52)	(1,289)	(130)	27	54

	Total financial instruments	Total in scope	USD	EUR	ZAR	GBP	Other
September 2017							
Non-current assets							
Other non-current assets	25	8	—	8	—	—	—
Current assets							
Trade receivables	481	481	223	207	—	24	27
Prepayments and other receivables	69	17	6	10	—	—	1
Derivative financial assets	1	1	1		—	—	—
Cash and cash equivalents	283	283	226	40	1		16
		790	456	265	1	24	44
Non-current liabilities							
Interest-bearing borrowings	1,400	1,400	292	1,108	—	—	—
Other non-current liabilities	342	1	1	—	—	—	—
Current liabilities							

	Total financial instruments	Total in scope	USD	EUR	ZAR	GBP	Other
Interest-bearing borrowings	83	83		83	—	—	—
Derivative financial instruments	3	3	1		—	2	—
Trade payables	422	422	127	181	112	1	1
Other payables and accruals	236	97	28	69	—	—	—
		2,006	449	1,441	112	3	1
Foreign exchange gap		(1,216)	7	(1,176)	(111)	21	43

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

		2018		2017	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
		€ million			
Foreign currency					
Bought:	US Dollar	**4**	**—**	2	—
	Euro	**71**		79	(1)
Sold:	US Dollar	**(112)**	**4**	(82)	(2)
	Euro	**(31)**		(9)	—
		(68)	**4**	(10)	(3)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2018 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 31 August 2020.

As at September 2018, there was an open exposure of €3.8 million that has since been hedged.

Sensitivity analysis—(loss) gain

Base currency	(€ million)	+10 %	-10%
AUD	4.1	0.4	(0.5)
CHF	(1.4)	(0.1)	0.2
EUR	(4.4)	(0.4)	0.5
GBP	3.3	0.3	(0.4)
USD	(2.0)	(0.2)	0.2
ZAR	(7.7)	(0.7)	0.9
Other currencies	(0.1)	(0.0)	0.0
Total	(8.2)	(0.7)	0.9

Based on the exposure at the end of September 2018, 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 €0.7 million and a gain of €0.9 million respectively.

Cash flow hedges

Net investment hedges

The hedge of the net investment designated in February 2010, has been de-designated in March 2016. At the moment of the de-designation the life-to-date negative foreign exchange differences amounting to EUR36.9 million (US$41.5 million), will remain in equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge 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.

During 2017 several de- and re-designations took place in line with the evolving net USD exposure linked to the net investment. As at September 2018 the hedged notional amount at amortized cost amounted to US$103 million.

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/Rand 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 2018 financial year, the hedge was 100% effective.

	2018		**2017**	
	Hedged notional	**Foreign exchange result deferred in OCI**	**Hedged notional**	**Foreign exchange result deferred in OCI**
	€ million			
Bond 2021	**—**	**—**	—	—
Bond 2032	**89**	**(1)**	86	—
Previous designations	**—**	**(29)**	—	(29)
	89	**(30)**	86	(29)
Net investment value of North America	**702**		675	

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.

During 2018, pulp swaps, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 100,500 tons of pulp. Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions. As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap, future and pulp zero rated options whereby the variable price was swapped for an annual fixed price. A realised gain of €10.3 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp contracts (swaps and zero-cost options) outstanding at September 2018 are detailed below:

		2018		2017	
	Base currency	Contract amount (Notional amount)	Fair value (unfavourable) favourable	Contract amount (Notional amount)	Fair value (unfavourable) favourable
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	**14**	**2**	—	—
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	**11**	**2**	3	1
		25	**4**	3	1

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.

Liquidity risk management

The following tables for the 2018 and 2017 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 2018								
Non-current assets								
Other non-current assets	**7**	**7**	—	—	6	—	1	7
Current assets								
Trade receivables............................	**54** **2**	**54** **2**	54 2	—	—	—	—	542
Prepayments and other receivables	**1** **9**	**1** **9**	1 9	—	—	—	—	19
Derivative financial assets................	**8**	**8**	8	—	—	—	—	8
Cash and cash equivalents..............	**25** **1**	**25** **1**	25 1	—	—	—	—	251
			82 0	—	6	—	1	827
Non-current liabilities								
Interest-bearing borrowings	**1,49** **6**	**1,56** **9**			430	1,017	380	1,827

	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					
Other non-current liabilities	**1**	**1**	—	—	1	—	—	1
Current liabilities								
Interest-bearing borrowings	**85**	**85**	85		—	—	—	85
Overdraft	**14**	**14**		14	—	—	—	14
Trade payables	**527**	**527**	527	—	—	—	—	527
Other payables and accruals	**94**	**94**	94	—	—	—	—	94
			706	14	431	1,017	380	2,548
Liquidity gap/surplus			114	(14)	(425)	(1,017)	(379)	(1,721)

The liquidity gaps will be funded by cash generated from operations and existing unutilised facilities as well as refinancing of borrowings when due.

	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 2017								
Non-current assets								
Other non-current assets	8	8	—	1	2	4	1	8
Current assets								
Trade receivables	481	481	481	—	—	—	—	481
Prepayments and other receivables	17	17	16	1	—	—	—	17
Derivative financial assets	1	1	1	—	—	—	—	1
Cash and cash equivalents	283	283	283	—	—	—	—	283
			781	2	2	4	1	790
Non-current liabilities								
Interest-bearing borrowings	1,400	1,512	23	24	52	985	781	1,865
Other non-current liabilities	1	1	—	—	1	—	—	1
Current liabilities								
Interest-bearing borrowings	83	83	63	20	—	—	—	83
Derivative financial instruments	3	3	3	—	—	—	—	3
Trade payables	422	422	422	—	—	—	—	422
Other payables and accruals	97	97	97	—	—	—	—	97
			608	44	53	985	781	2,471
Liquidity gap (surplus)			173	(42)	(51)	(981)	(780)	(1,681)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2018 and 2017 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

	Total	Fair value hedge	Cash flow hedge	No Hedge Accounting	Maturity analysis—undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years
	€ million								
September 2018									
Assets									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	4	—	—	4	4	—	—	—	—
—receiving leg	**177**	**—**	**—**	**177**	177		—		—
—paying leg	**(173)**	**—**	**—**	**(173)**	(173)		—		—
Commodity price risk	**4**	**—**	**—**	**4**	4	—	—	—	—
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	—	—	—	—	—	—	—	—	—
—receiving leg	**(44)**	**—**	**—**	**(44)**	(44)	—	—	—	—
—paying leg	**44**	**—**	**—**	**44**	44	—	—	—	—

	Total	Fair value hedge	Cash flow hedge	No Hedge Accounting	Maturity analysis—undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years
September 2017									
Assets									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	—	—	—	—	—	—	—	—	—
—receiving leg	60	—	—	60	60	—	—	—	—
—paying leg	(60)	—	—	(60)	(60)	—	—	—	—
Commodity price risk	1	—	—	1	1	—		—	—

					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**
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts ...	3	—	—	3	3	—	—	—	—
—receiving leg	(109)	—	—	(109)	(109)	—	—	—	—
—paying leg ..	112	—	—	112	112	—	—	—	—
Commodity price risk........	1	—	—	1	1	—	—	—	—

Fair values

The group's financial instruments are initially recognized at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

As a result of the implementation of IFRS 13 Fair Value Measurement, 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 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				
	Balance sheet carrying value	Total out of scope	Total in scope	Fair value (FV) through profit or loss	Loans and receivables	Held to maturity	Available - for-sale	Fair value
				€ million				
September 2018								
Classes of financial instruments								
Non-current assets								
Other non-current assets	**53**	46	7	—	1	—	6	7
	53	46	7	—	1	—	6	7
Current assets								
Trade receivables	**542**	—	542	—	542	—	—	542
Prepayments and other receivables	**87**	68	19	—	19	—	—	19
Derivative financial assets	**8**	—	8	8	—	—	—	8
Cash and cash equivalents	**251**	—	251	—	251	—	—	251
	888	68	820	8	812	—	—	820

		As determined by IAS 39		Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	FV profit or loss	Other financial liabilities	Fair value
				€ million		
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**1,496**	—	1,496	—	1,496	1,569
Other non-current liabilities	**325**	324	1	—	1	1
	1,821	324	1,497	—	1,497	1,570
Current liabilities						
Interest-bearing borrowings	**85**	—	85	—	85	85
Overdraft	**14**	—	14	—	14	14
Trade payables	**527**	—	527	—	527	527
Other payables and accruals	**248**	154	94	—	94	94
	874	154	720	—	720	720

	Balance sheet carrying value	As determined by IAS 39		Categories in accordance with IAS 39				
		Total out of scope	Total in scope	FV through profit or loss	Loans and receivables	Held to maturity	Available - for-sale	Fair value
	€ million							
September 2017								
Classes of financial instruments								
Non-current assets								
Other non-current assets	25	17	8	—	2	—	6	8
	25	17	8	—	2	—	6	8
Current assets								
Trade receivables	481	—	481	—	481	—	—	481
Prepayments and other receivables	69	52	17	—	17	—	—	17
Derivative financial instruments	1	—	1	1	—	—	—	1
Cash and cash equivalents	283	—	283	—	283	—	—	283
	834	52	782	1	781	—	—	782

	Total balance	As determined by IAS 39		Categories in accordance with IAS 39		Fair value
		Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	
	€ million					
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	1,400	—	1,400	—	1,400	1,512
Other non-current liabilities	342	341	1	—	1	1
	1,742	341	1,401	—	1,401	1,513
Current liabilities						
Interest-bearing borrowings	83	—	83	—	83	83
Derivative financial instruments	3	—	3	3	—	3
Trade payables	422	—	422	—	422	422
Other payables and accruals	236	139	97	—	97	97
	744	139	605	3	602	605

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.

	2018				2017			
	Total	Fair value hierarchy			Total	Fair value hierarchy		
	fair value	Level 1	Level 2	Level 3	fair value	Level 1	Level 2	Level 3
	€ million							
Classes of financial instruments								
Non-current assets								
Other non-current assets...	7	6	1	—	6	6	—	—
Current assets								
Derivative financial instruments..................	**8**	**—**	**8**	**—**	1	—	1	—
	15	**6**	**9**	**—**	7	6	1	—
Non-current liabilities								
Contingent consideration liability...........................	**6**	**—**	**—**	**6**	9	—	—	9
Current liabilities								
Contingent consideration liability...........................	**—**	**—**	**—**	**—**	2	—	—	2
Derivative financial instruments..................	**—**	**—**	**—**	**—**	3	—	3	—
	6	**—**	**—**	**6**	14	—	3	11

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 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 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 64% of our trade receivables are credit insured.

Quantitative disclosures on credit risk are included in note 16.

33. Related party transactions

Transactions between SPH group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the SPH group and other related parties are disclosed below:

	Income and sales to related parties		Purchases and charges from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	€ million							
Related parties with Sappi Papier Holding								
—Sappi Limited[1]	**—**	—	**10**	9	**—**	—	**1**	1
—Lignin Insurance Company Limited[2]	**—**	—	**—**	—	**—**	—	**—**	1
—Sappi Southern Africa Limited[2]	**18**	21	**747**	807	**4**	4	**134**	114
—Sappi Trading[2]	**—**	—	**—**	—	**—**	—	**1**	1
Joint ventures								
—Papierholz Austria GmbH	**—**	—	**77**	75	**—**	—	**—**	4
—proNARO GmbH	**—**	—	**99**	106	**—**	—	**—**	—
—The Boldt Company[3]	**—**	—	**72**	7	**—**	—	**22**	—
	18	21	**1,005**	1,004	**4**	4	**158**	121

(1) Ultimate holding company of the SPH group

(2) Fellow subsidiary in the Sappi Limited group

(3) The Boldt company ceased to be a related party in August 2018

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. 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 whose 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.

34. Events after balance sheet date

There have been no subsequent events that have occurred between the financial year-end and the date of authorisation for issue of these financial statements that require disclosure or adjustment to the Group Annual Financial Statements.

Annexure A

INVESTMENTS IN SUBSIDIARIES

year ended September 2018

	Type of consolidation	Location of registered office	2018 % Effective group holding	2,017 % 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	**100.0**	100.0
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 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[5]	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	Brasil-São Paulo	**100.0**	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**	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.[3]	Full	Belgium-Lanaken	**—**	—
Sappi Biotech GmbH[4]	Full	Germany-Stockstadt	**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
Rockwell Solutions Limited	Full	Scotland	**100.0**	100.0
Sapin S.A.	Full	Belgium-Harze	**100.0**	100.0
Sappi Alfeld GmbH	Full	Germany-Alfeld	**100.0**	100.0
Sappi Biochemtech B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Biotech Limited	Full	United Kingdom	**100.0**	100.0
Sappi Cloquet LLC	Full	USA-Massachusetts	**100.0**	100.0
Sappi Colombia Holding GmbH	Full	Colombia	**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 S.A.	Full	Belgium-Brussels	**100.0**	100.0
Sappi France S.A.R.L.	Full	France-Paris	**100.0**	100.0
Sappi Hellas Ltd	Full	Greece-Athens	**100.0**	100.0
Sappi Istanbul Kagit ve Ticaret Limited Sirketi	Full	Turkey-Instanbul	**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 Real Estate B.V.	Full	Netherlands-Maastricht	**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 Paper Hong Kong Ltd	Full	Hong Kong-North Point	**100.0**	100.0
Sappi Sales Schweiz AG	Full	Switzerland-Biberist	**100.0**	100.0

	Type of consolidation	Location of registered office	2018 % Effective group holding	2,017 % Effective group holding
Sappi Stockstadt GmbH	Full	Germany-Stockstadt	**100.0**	100.0
Sappi UK Holdings B.V.	Full	Netherlands-Maastricht	**100.0**	100.0
Sappi Warmte/Kracht 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 to at September 2017.

(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) Liquidated during the 2017 year.

(4) Chemische Werke Zell -Wildshausen GmbH to Sappi Biotech GmbH

(5) Acquired during the year. Refer to note 25.

Annexure B

BOARD MEMBERS' REMUNERATION

year ended September 2018

	2018	2017
Advisory Board		
The members of the Advisory Board for the year ended September 2018 were:		
Stephen Binnie		
Glen Pearce		
Werner Huber		
Regina Prehofer		
Total remuneration paid to members:		
Total remuneration paid to members:		
Remuneration paid to current members[3]	**532,891**	512,938
Remuneration paid to earlier members[4]	**222,804**	222,804
	755,695	735,742
Managing Board		
The members of the Managing Board for the year ended September 2018 were:		
Jörg Pässler		
Bernd Koehldorfer		
Berend Wiersum		
Mark Gardner		
William Morrow[1]		
Bernhard Riegler[2]		
Total remuneration paid to members:		
Remuneration paid to current members[3]	**3,418,109**	3,434,733
Remuneration paid to earlier members[4]	**246,858**	247,717
	3,664,967	3,682,450

(1) William Morrow retired from the board on 31 January 2018

(2) Bernhard Riegler joined the board on 01 January 2018

(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.

Note translation effects of expressing foreign earnings to the reporting currency.

The financial statements were approved by the board of directors on the 26 February 2019 and were signed on its behalf by:

Jörg Passler

Bernd Koehldorfer

Berend Wiersum

Mark Gardner

Bernhard Riegler

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