



## SAPPI SOUTHERN AFRICA LIMITED

(Incorporated in the Republic of South Africa with limited liability under registration number 1951/003180/06)

### ZAR5,000,000,000 Domestic Medium Term Note Programme

On 22 June 2011, Sappi Southern Africa Limited (the **Issuer**) established a ZAR5,000,000,000 Domestic Medium Term Note Programme (the **Programme**) pursuant to a programme memorandum dated 22 June 2011 (the **Previous Programme Memorandum**). This amended and restated programme memorandum (the **Programme Memorandum**) will apply to all Notes (as defined herein) issued under the Programme and will in respect of such Notes, supersede and replace the Previous Programme Memorandum in its entirety.

Under this Programme the Issuer may from time to time issue notes (the **Notes**), which expression shall include Senior Notes and Subordinated Notes (each as defined herein) denominated in any currency agreed by the Issuer and the relevant Dealer(s) (as defined herein) and further subject to all Applicable Laws and, in the case of Notes listed on the Interest Rate Market of the JSE (as defined herein) or such other Financial Exchange(s) (as defined herein) as may be determined by the Issuer and the relevant authority, the debt listings requirements of the JSE Limited (the **JSE**) or such other Financial Exchange(s), that are subject to the terms and conditions (the **Terms and Conditions**) contained in this Programme Memorandum. Any other terms and conditions not contained in the Terms and Conditions that are applicable to any Notes, replacing or modifying the Terms and Conditions, will be set forth in a pricing supplement (the **Applicable Pricing Supplement**).

Capitalised terms used in this Programme Memorandum are defined in the section of this Programme Memorandum headed "**Terms and Conditions of the Notes**", unless separately defined, and/or in relation to a Tranche of Notes, in the Applicable Pricing Supplement.

As at the Programme Date (as defined herein), the Programme Amount is ZAR5,000,000,000. This Programme Memorandum will apply to the Notes issued under the Programme in an aggregate outstanding Nominal Amount which will not exceed ZAR5,000,000,000 (or its equivalent in any other currencies) (including Notes issued under the Programme pursuant to the Previous Programme Memorandum) unless such amount is increased by the Issuer pursuant to the section of this Programme Memorandum headed "**General Description of the Programme**".

The Notes may comprise, without limitation, Fixed Rate Notes, Floating Rate Notes, Mixed Rate Notes, Zero Coupon Notes and/or such combination of the foregoing Notes and/or such other type of Notes as may be determined by the Issuer and the relevant Dealer(s) and specified in the Applicable Pricing Supplement. Notes will be issued in individual Tranches which, together with other Tranches, may form a Series of Notes. A Tranche of Notes will be issued on, and subject to, the Terms and Conditions, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement.

This Programme Memorandum has been approved by the JSE. A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to all Applicable Laws. Unlisted Notes may also be issued under the Programme. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market of the JSE in accordance with the rules of the BESA Guarantee Fund Trust. The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Unlisted Notes are not regulated by the JSE. A copy of the Applicable Pricing Supplement relating to a Tranche of Notes which is to be listed on the Interest Rate Market of the JSE will be delivered to the JSE and the CSD, before the Issue Date, and the Notes in that Tranche may be traded by or through members of the JSE from the date specified in the Applicable Pricing Supplement, in accordance with the Applicable Procedures. The settlement of trades on the JSE will take place in accordance with the electronic settlement procedures of the JSE and the CSD for all trades done through the JSE. The placement of a Tranche of unlisted Notes may (at the sole discretion of the Issuer) be reported through the JSE reporting system, in which event the settlement of trades in such Notes will take place in accordance with the electronic settlement procedures of the JSE and the CSD for all trades done through the JSE. The settlement and redemption procedures for a Tranche of Notes listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

The Notes may be issued on a continuing basis and be placed by one or more of the Dealer(s) specified under the section headed "**Summary of the Programme**" and any additional Dealer(s) appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this Programme Memorandum to the "**relevant Dealer**" shall, in the case of Notes being (or intended to be) placed by more than one Dealer, be to all Dealers agreeing to place such Notes.

As at the Programme Date, the Issuer is rated. The Programme is not rated but may, after the Programme Date, be rated by a Rating Agency on a national or international scale basis. A Tranche of Notes may also, on or before the Issue Date, be rated by a Rating Agency on a national or international scale basis. Unrated Tranches of Notes may also be issued. The Rating assigned to the Issuer and/or the Programme and/or the Notes, as the case may be, as well as the Rating Agency(ies) which assigned such Rating(s), will be specified in the Applicable Pricing Supplement.

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*Arranger and JSE Debt Sponsor*

**Nedbank Capital, a division of Nedbank Limited**

*Dealers*

**Nedbank Capital, a division of Nedbank Limited**

**Rand Merchant Bank, a division of FirstRand Bank Limited**

**Investec Bank Limited, acting through its Corporate and Institutional Banking division**

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Amended and Restated Programme Memorandum dated 13 September 2013.

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## GENERAL

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*Capitalised terms used in this section headed "General" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

The Issuer accepts full responsibility for the information contained in this Programme Memorandum, and all documents incorporated by reference (see the section of this Programme Memorandum headed "*Documents Incorporated by Reference*"), except as otherwise stated therein. To the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this Programme Memorandum is in accordance with the facts and does not omit any fact which would make any statement false or misleading and all reasonable enquiries to ascertain such facts have been made. This Programme Memorandum contains all information required by law and the debt listings requirements of the JSE.

The JSE takes no responsibility for the contents of this Programme Memorandum, any Applicable Pricing Supplements, or the annual reports of the Issuer (as amended or restated from time to time), makes no representation as to the accuracy or completeness of any of the foregoing documents and expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of this Programme Memorandum, any Applicable Pricing Supplements, or the annual reports of the Issuer (as amended or restated from time to time).

The Issuer, having made all reasonable enquiries, confirms that this Programme Memorandum contains or incorporates all information which is material in the context of the issue and the offering of Notes, that the information contained or incorporated in this Programme Memorandum is true and accurate in all material respects and is not misleading, that the opinions and the intentions expressed in this Programme Memorandum are honestly held and that there are no other facts, the omission of which would make this Programme Memorandum or any of such information or expression of any such opinions or intentions misleading in any material respect.

This Programme Memorandum is to be read and construed with any amendment or supplement thereto and in conjunction with any other documents which are deemed to be incorporated herein by reference (see the section of this Programme Memorandum headed "*Documents Incorporated by Reference*") and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the Applicable Pricing Supplement. This Programme Memorandum shall be read and construed on the basis that such documents are incorporated into and form part of this Programme Memorandum.

The Arranger, the Dealers, the JSE Debt Sponsor or any of their respective Subsidiaries or Holding Companies or a Subsidiary of their Holding Company (**Affiliates**), other professional advisers named herein and the JSE have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Arranger, the Dealers, the JSE Debt Sponsor nor any of their Affiliates or other professional advisers as to the accuracy or completeness of the information contained in this Programme Memorandum or any other information provided by the Issuer. The Arranger, the Dealers, the JSE Debt Sponsor and other professional advisers do not accept any liability in relation to the information contained in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme.

No Person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Programme Memorandum or any other document entered into in relation to the Programme or any other information supplied by the Issuer in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger, the Dealers, the JSE Debt Sponsor or other professional advisers.

Neither this Programme Memorandum nor any other information supplied in connection with the Programme is intended to provide a basis for any credit or other evaluation, or should be considered as a recommendation by the Issuer, the Arranger, the Dealers, the JSE Debt Sponsor and other professional advisers that any recipient of this Programme Memorandum or any other information supplied in connection with the Programme should subscribe for, or purchase, any Notes.

Each Person contemplating the subscription for, or purchase of, any Notes should determine for itself the relevance of the information contained in this Programme Memorandum and should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and its subscription for, or purchase of, Notes should be based upon any such investigation as it deems necessary. Neither this Programme Memorandum nor any Applicable Pricing Supplement nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, or any Dealers to any Person to subscribe for or to purchase any Notes.

Neither the delivery of this Programme Memorandum nor any Applicable Pricing Supplement nor the offering, sale or delivery of any Note shall at any time imply that the information contained herein is correct at any time subsequent to the date hereof, or that any other financial statements or other information supplied in connection with the Programme is correct at any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers, the JSE Debt Sponsor and other professional advisers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, *inter alia*, the most recent financial statements, if any, of the Issuer, when deciding whether or not to subscribe for, or purchase, any Notes.

Neither this Programme Memorandum nor any Applicable Pricing Supplement constitutes an offer to sell or the solicitation of an offer to buy or an invitation to subscribe for or purchase any Notes. The distribution of this Programme Memorandum and any Applicable Pricing Supplement and the issue, sale or offer of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Programme Memorandum or any Applicable Pricing Supplement or any Notes come are required by the Issuer, the Arranger, the Dealers, the JSE Debt Sponsor and other professional advisers to inform themselves about, and observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Programme Memorandum or any Applicable Pricing Supplement and other offering material relating to the Notes, see the section headed "*Subscription and Sale*".

None of the Issuer, the Arranger, the Dealers, the JSE Debt Sponsor nor other professional advisers represents that this Programme Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers, the JSE Debt Sponsor or other professional advisers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Programme Memorandum nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any Applicable Laws and regulations. The Dealers have represented that all offers and sales by it will be made on the same terms.

**The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the Securities Act). Notes may not be offered, sold or delivered within the United States or to U.S. Persons except in accordance with Regulation S under the Securities Act.**

In connection with the issue and distribution of any Tranche of Notes under the Programme, the relevant Dealer(s), if any, that is specified in the Applicable Pricing Supplement as the Stabilising Manager (or any Person acting for the Stabilising Manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the debt listings requirements of the JSE and approved by the JSE, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all Applicable Laws, regulations and rules.

The price/yield and amount of a Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

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## DOCUMENTS INCORPORATED BY REFERENCE

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*Capitalised terms used in this section headed "Documents Incorporated by Reference" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

The following documents shall be deemed to be incorporated in, and to form part of, this Programme Memorandum:

- (a) all amendments and supplements to this Programme Memorandum prepared by the Issuer from time to time;
- (b) as at the Programme Date, the published audited annual financial statements, and notes thereto, of the Issuer for the three financial years ended September 2010, 2011 and 2012 and in respect of any issue of Notes after the Programme Date, the published audited annual financial statements, and notes thereto, of the Issuer in respect of further financial years, as and when such published audited financial statements become available;
- (c) as at the Programme Date, the published annual report (incorporating the Issuer's integrated audited annual financial statements, together with reports and the notes thereto) of the Issuer and attached to or intended to be read with such financial statements of the Issuer for the three financial years ended September 2010, 2011 and 2012 and in respect of any issue of Notes after the Programme Date, the published annual report of the Issuer in respect of further financial years, as and when such published annual report becomes available;
- (d) the unaudited interim financial statements of the Issuer, together with such statements, reports and notes attached to or intended to be read with such unaudited interim financial statements, for the period ended March 2011, 2012 and 2013 and in respect of any issue of Notes after the Programme Date, the unaudited interim financial statements, and notes thereto, in respect of further financial years, as and when such interim financial statements become available;
- (e) each Applicable Pricing Supplement relating to any Tranche of Notes issued under the Programme; and
- (f) all information pertaining to the Issuer which is relevant to the Programme and/or this Programme Memorandum which will be electronically submitted through the Securities Exchange News Service (**SENS**) or similar service established by the JSE, to SENS subscribers, if required,

save that any statement contained in this Programme Memorandum or in any of the documents incorporated by reference in and forming part of this Programme Memorandum shall be deemed to be modified or superseded for the purpose of this Programme Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will, for as long as any Note remains Outstanding, provide at its registered office as set out at the end of this Programme Memorandum, without charge, to any Person, upon request of such Person, a copy of all of the documents which are incorporated herein by reference, unless such documents have been modified or superseded, in which case the modified or superseding documentation will be provided, including the most recently obtained beneficial disclosure report made available by the Participant to the CSD. Requests for such documents should be directed to the Issuer at its registered office as set out at the end of this Programme Memorandum. In addition, this Programme Memorandum and the constitutive documents of the Issuer will be available at the registered office of the Issuer as set out at the end of this Programme Memorandum.

This Programme Memorandum, any amendments and/or supplements thereto, the Applicable Pricing Supplements relating to any issue of listed Notes and the audited annual financial statements of the Issuer are also available on the Issuer's website, <http://www.sappi.com>. In addition, this Programme Memorandum, any amendments and/or supplements thereto and the Applicable Pricing Supplements relating to any issue of listed Notes will be filed with the JSE which will publish such documents on its website at <http://www.jse.co.za>. This Programme Memorandum does not constitute an offer or invitation by or on behalf of the Issuer, the Arranger and the Dealers or their Affiliates, the JSE Debt Sponsor or other professional advisors to any Person in any jurisdiction to subscribe for or purchase any Notes.

The Issuer will, for so long as any Note remains outstanding and listed on the Interest Rate Market of the JSE, publish a new Programme Memorandum or a supplement to this Programme Memorandum, as the case may be, if:

- (a) a change in the condition (financial or trading position) of the Issuer has occurred which is material in the context of the Notes so listed and the Issuer's payment obligations thereunder; or
- (b) an event has occurred which affects any matter contained in this Programme Memorandum, the disclosure of which would reasonably be required by Noteholders and/or potential investors in the Notes; or
- (c) any of the information contained in this Programme Memorandum becomes outdated in a material respect; or
- (d) this Programme Memorandum no longer contains all the materially correct information required by the Applicable Procedures,

provided that, in the circumstances set out in paragraphs (c) and (d) above, no new Programme Memorandum or supplement to this Programme Memorandum, as the case may be, is required in respect of the Issuer's audited annual financial statements if such audited annual financial statements are incorporated by reference into this Programme Memorandum and such audited annual financial statements are published, as required by the Companies Act, and submitted to the JSE within 6 (six) months after the financial year end of the Issuer.

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## GENERAL DESCRIPTION OF THE PROGRAMME

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*Capitalised terms used in this section headed “General Description of the Programme” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

The Issuer may from time to time issue one or more Tranches of Notes under the Programme, pursuant to this Programme Memorandum, provided that the aggregate outstanding Nominal Amount of all of the Notes issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memorandum) from time to time does not exceed the Programme Amount.

A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to Applicable Laws. Unlisted Notes may also be issued under the Programme. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange. If the Issuer issues a Tranche of unlisted Notes or a Tranche of Notes is listed on any Financial Exchange other than (or in addition to) the JSE, the Issuer will, by no later than the last Day of the month of issue of that Tranche of Notes, inform the JSE in writing of the aggregate Nominal Amount and the Maturity Date (if any) of that Tranche of Notes.

This Programme Memorandum and any supplement will only be valid for the issue of Notes in an aggregate Nominal Amount which, when added to the aggregate Nominal Amount then outstanding of all the Notes previously or simultaneously issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memorandum), does not exceed ZAR5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the South African Rand equivalent of the aggregate Nominal Amount of the Notes issued under the Programme from time to time, the South African Rand equivalent of the Notes denominated in another Specified Currency (as specified in the Applicable Pricing Supplement) shall be determined as of the date of agreement to issue such Notes (the **Agreement Date**) on the basis of the spot rate for the sale of the South African Rand against the purchase of such Specified Currency in the South African foreign exchange market quoted by any leading bank selected by the Issuer on the Agreement Date (the **Conversion Rate**) and in respect of:

- (a) Zero Coupon Notes and other Notes, the Conversion Rate shall be applied to the net subscription proceeds received by the Issuer for the relevant issue; and
- (b) Partly-Paid Notes and Index-Linked Notes, the Conversion Rate shall be applied to the Nominal Amount regardless of the amount paid up on such Notes.

From time to time the Issuer may wish to increase the Programme Amount. Subject to the Applicable Procedures, all Applicable Laws and the Programme Agreement (as defined in the section headed “Subscription and Sale”), the Issuer may, without the consent of Noteholders, increase the Programme Amount by delivering a notice thereof to the Noteholders in accordance with Condition 18 (*Notices*) of the Terms and Conditions, and to the Arranger, the Dealers, the JSE and the CSD. Upon such notice being given to the Noteholders and the conditions set out in the Programme Agreement to exercise this right having been met, all references in this Programme Memorandum (and each agreement, deed or document relating to the Programme and/or this Programme Memorandum) to the Programme Amount will be, and will be deemed to be, references to the increased Programme Amount set out in such notice.

As at the Programme Date, the Issuer is rated. The Programme is not rated but may, after the Programme Date, be rated by a Rating Agency on a national or international scale basis. A Tranche of Notes may also, on or before the Issue Date, be rated by a Rating Agency on a national or international scale basis. Unrated Tranches of Notes may also be issued. The Rating assigned to the Issuer and/or the Programme and/or the Notes, as the case may be, as well as the Rating Agency(ies) which assigned such Rating(s), will be specified in the Applicable Pricing Supplement. A Rating is not a recommendation to subscribe for, buy, sell or hold any Notes. A Rating of the Issuer and/or the Programme and/or a Rating of a Tranche of Notes may be subject to revision, suspension or withdrawal at any time by the Rating Agency.

This Programme Memorandum will only apply to Notes issued under the Programme on or after the Programme Date. A summary of the Programme and the Terms and Conditions appears below.

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## SUMMARY OF THE PROGRAMME

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*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Programme Memorandum and, in relation to the Terms and Conditions of any particular Tranche of Notes, the Applicable Pricing Supplement. Words and expressions defined in the Terms and Conditions shall have the same meanings in this summary.*

### PARTIES

<b>Issuer</b>	Sappi Southern Africa Limited (registration number 1951/003180/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa.
<b>Arranger</b>	Nedbank Capital, a division of Nedbank Limited (registration number 1951/000009/06), a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa ( <b>Nedbank Capital</b> ).
<b>Dealers</b>	Nedbank Capital, Rand Merchant Bank and Investec, and any additional Dealers appointed by the Issuer from time to time, which appointment may be for a specific issue or on an ongoing basis.
<b>Transfer Agent</b>	Nedbank Capital, or such other entity appointed by the Issuer as Transfer Agent, in which event that other entity will act as Transfer Agent, as specified in the Applicable Pricing Supplement.
<b>Paying Agent</b>	Nedbank Investor Services, a division of Nedbank Limited (registration number 1951/000009/06), a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa, or such other entity appointed by the Issuer as Paying Agent, in which event that other entity will act as Paying Agent, as specified in the Applicable Pricing Supplement.
<b>Calculation Agent</b>	Nedbank Capital, or such other entity appointed by the Issuer as Calculation Agent, in which event that other entity will act as Calculation Agent, as specified in the Applicable Pricing Supplement.
<b>JSE Debt Sponsor</b>	Nedbank Capital, or such other entity appointed by the Issuer from time to time.
<b>CSD</b>	Strate Limited (registration number 1998/022242/06), a public company with limited liability incorporated in accordance with the company laws of South Africa and registered as a central securities depository in terms of the Financial Markets Act or such additional, alternative or successor central securities depository as may be agreed between the Issuer and the relevant Dealer(s).
<b>JSE</b>	the JSE Limited (registration number 2005/022939/06), a licensed financial exchange in terms of the Financial Markets Act or any exchange which operates as a successor exchange to the JSE.

### GENERAL

<b>Blocked Rands</b>	Blocked Rands may be used to subscribe for, or purchase, Notes, subject to the Exchange Control Regulations.
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<b>Clearing and Settlement</b>	Each Tranche of Notes which is held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. The CSD acts as the approved electronic clearing house, and carries on the role of matching, clearing and facilitation of settlement of all transactions carried out on the JSE. Each Tranche of Notes which is held in the CSD will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the CSD (see the section of this Programme Memorandum headed " <i>Settlement, Clearing and Transfers of Notes</i> ").
<b>Cross-Default</b>	The terms of the Notes will contain a cross-default provision relating to Indebtedness for money borrowed having an aggregate outstanding amount of at least ZAR100,000,000 (or its equivalent in any currency or currencies), or any guarantee of or indemnity in respect of any such Indebtedness as further described in Condition 16.1.1.4 ( <i>Cross Default</i> ).
<b>Denomination</b>	Notes will be issued in such denominations as may be agreed by the Issuer and the relevant Dealer(s) and as indicated in the Applicable Pricing Supplement, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank or regulator or any laws or regulations applicable to the Notes.
<b>Description of Programme</b>	Sappi Southern Africa Limited ZAR5,000,000,000 Domestic Medium Term Note Programme.
<b>Distribution</b>	Notes may be distributed by way of private placement, auction or bookbuild or any other means permitted under South African law, and in each case on a syndicated or non-syndicated basis as may be determined by the Issuer and the relevant Dealer(s) and reflected in the Applicable Pricing Supplement.
<b>Form of Notes</b>	Each Tranche of Notes which is listed on the Interest Rate Market of the JSE and each Tranche of unlisted Notes will be issued in uncertificated form, and will be held in the CSD. The holder of a Beneficial Interest may exchange such Beneficial Interest for Notes in certificated form represented by an Individual Certificate (see the section of this Programme Memorandum headed " <i>Form of the Notes</i> ").
<b>Governing Law</b>	The Notes will be governed by and construed in accordance with the laws of South Africa in force from time to time.
<b>Interest</b>	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked, and the method of calculating interest may vary between the Issue Date and the Maturity Date.
<b>Interest Period(s)/Interest Payment Date(s)</b>	The Interest Rate, Interest Payment Date(s) and Interest Period(s), if any, applicable to a Tranche of Notes will be specified in the Applicable Pricing Supplement.
<b>Issue and Transfer Taxes</b>	As at the Programme Date, no securities transfer tax or any similar tax is payable in respect of the issue, transfer or

redemption of the Notes (see the section of this Programme Memorandum headed “*South African Taxation*”). Any future transfer duties and/or taxes that may be introduced in respect of (or may be applicable to) the transfer of Notes will be for the account of Noteholders.

**Issue Price**

Notes may be issued on a fully paid or a partly paid basis and at their Nominal Amount or at a discount or premium to their Nominal Amount as specified in the Applicable Pricing Supplement.

**Listing**

This Programme has been approved by the JSE. Notes issued under the Programme may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer and the Dealers, subject to all Applicable Laws. Unlisted Notes may also be issued under the Programme. Unlisted Notes are not regulated by the JSE. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange(s).

**Maturities of Notes**

Such maturity(ies) as specified in the Applicable Pricing Supplement. The Notes are not subject to any minimum or maximum maturity.

**Negative Pledge**

The Senior Notes will have the benefit of a negative pledge as described in Condition 7 (*Negative Pledge*) of the Terms and Conditions.

**Notes**

Notes may comprise:

**Fixed Rate Notes**

Fixed Rate interest will be payable in arrears on such date or dates as may be agreed between the Issuer and the relevant Dealer(s), as indicated in the Applicable Pricing Supplement and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).

**Floating Rate Notes**

Floating Rate Notes will bear interest calculated at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quoting service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as indicated in the Applicable Pricing Supplement.

The Margin (if any) relating to such Floating Rate Notes will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Notes, as indicated in the Applicable Pricing Supplement.

Floating Rate Notes may also have a

maximum Interest Rate, a minimum Interest Rate or both, as indicated in the Applicable Pricing Supplement.

The Interest Period for Floating Rate Notes may be 1 (one), 2 (two), 3 (three), 6 (six) or 12 (twelve) months or such other period as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Zero Coupon Notes**

Zero Coupon Notes will be issued at their Nominal Amount or at a discount to it and will not bear interest (except in the case of late payment as specified).

**Index-Linked Notes**

Payments (whether in respect of interest on Indexed Interest Notes or in respect of principal on Indexed Redemption Amount Notes and whether at maturity or otherwise) will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Dual Currency Notes**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Mixed Rate Notes**

Mixed Rate Notes will bear interest over respective periods at the rates applicable for any combination of Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes, Index-Linked Notes or Dual Currency Notes, each as specified in the Applicable Pricing Supplement.

**Instalment Notes**

The Applicable Pricing Supplement will set out the dates on which, and the amounts in which, Instalment Notes may be redeemed.

**Partly Paid Notes**

The Issue Price will be payable in two or more instalments as set out in the Applicable Pricing Supplement.

**Exchangeable Notes**

Exchangeable Notes may be redeemed by the Issuer in cash or by the delivery of securities, as specified in the Applicable Pricing Supplement.

**Other Notes**

Terms applicable to any other type of Notes that are approved by the JSE, or its successor, or such other or further exchange or exchanges as may be selected by the Issuer in relation to an

issue of listed Notes, or as agreed between the Issuer and the relevant Dealer(s) in respect of unlisted Notes, will be set out in the Applicable Pricing Supplement.

## **Noteholders**

The holders of Notes which are recorded as the registered Noteholders of those Notes in the Register. The CSD's Nominee will be named in the Register as the registered Noteholder of each Tranche of Notes which is held in the CSD. Each holder of Notes which is represented by an Individual Certificate will be named in the Register as the registered Noteholder of such Notes.

## **Rating**

As at the Programme Date, the Issuer is rated. The Programme is not rated but may, after the Programme Date, be rated by a Rating Agency on a national or international scale basis. A Tranche of Notes may also, on or before the Issue Date, be rated by a Rating Agency on a national or international scale basis. Unrated Tranches of Notes may also be issued. The Rating assigned to the Issuer and/or the Programme and/or the Notes, as the case may be, as well as the Rating Agency(ies) which assigned such Rating(s), will be specified in the Applicable Pricing Supplement.

A Rating is not a recommendation to subscribe for, buy, sell or hold Notes and may be subject to revision, suspension or withdrawal at any time by the Rating Agency. Any adverse change in the Rating of the Issuer and/or the Programme and/or a Tranche of Notes, as the case may be, could adversely affect the trading price of all or any of the Notes.

## **Redemption**

A Tranche of Notes will, subject to the Applicable Pricing Supplement, be redeemed on the Maturity Date, as set out in Condition 10.1 (*Redemption at Maturity*).

If so specified in the Applicable Pricing Supplement, the Issuer may redeem the Notes of any Tranche at any time prior to the Maturity Date following the occurrence of a change in law and/or for tax reasons, as set out in Condition 10.2 (*Redemption for Tax Reasons*), or unless otherwise set out in the Applicable Pricing Supplement.

If "*Early Redemption at the Option of the Issuer*" is specified as applicable in the Applicable Pricing Supplement or pursuant to Condition 10.3 (*Redemption at the Option of the Issuer*), the Issuer may, having given not less than 30 (thirty) Days nor more than 60 (sixty) Days irrevocable notice (or such other period of notice as may be specified in the Applicable Pricing Supplement) to the Noteholders in accordance with Condition 18 (*Notices*), redeem the Tranche of Notes on any Optional Redemption Date(s), or unless otherwise set out in the Applicable Pricing Supplement.

If "*Redemption at the Option of Senior Noteholders*" is specified as applicable in the Applicable Pricing Supplement, the Senior Noteholders of any Tranche of Senior Notes may, having given not less than 30 (thirty) Days nor more than 60 (sixty) Days notice (or such other period of notice as may be specified in the Applicable Pricing Supplement), require the Issuer to redeem Senior Notes on any Optional Redemption Date in the manner specified in Condition 10.4 (*Redemption at the Option of the*

Senior Noteholders) and the Applicable Pricing Supplement.

If “*Early Redemption in the event of a Change of Control*” is specified as being applicable in the Applicable Pricing Supplement and (i) a Change of Control occurs (as defined below); and (ii) within the Change of Control Period (as defined below), (A) a Rating Downgrade (as defined below) occurs in relation to the Issuer and/or the Programme and/or any Tranche of Notes, as the case may be; or (B) if, the Issuer and/or the Programme and/or any Tranche of Notes are not so rated, a Negative Rating Event (as defined below) in respect of that Change of Control occurs, (in either case, a **Change of Control Event**) (C) and the Noteholders resolve by way of an Extraordinary Resolution to have their Notes redeemed by the Issuer, then each Noteholder in that Class of Noteholders shall have the option to require the Issuer to redeem each Note in that Tranche of Notes held by that Noteholder at its Early Redemption Amount together with accrued interest (if any) within 15 (fifteen) Days after the delivery by that Noteholder of a Change of Control Redemption Notice (as defined below), or unless otherwise set out in the Applicable Pricing Supplement.

If “*Redemption in the event of a failure to maintain JSE Listing or Rating*” is specified as applicable in the Applicable Pricing Supplement, the Noteholders of any Tranche of Notes may, after having been notified by the Issuer in accordance with Condition 18 (*Notices*), require the Issuer to redeem Notes on any Optional Redemption Date in the manner specified in Condition 10.6 (*Redemption in the event of a failure to maintain JSE Listing or Rating*) and the Applicable Pricing Supplement.

## **Selling Restrictions**

The distribution of this Programme Memorandum and/or any Applicable Pricing Supplement and any offering or sale of or subscription for a Tranche of Notes may be restricted by law in certain jurisdictions, and is restricted by law in the United States of America, the United Kingdom, the European Economic Area and South Africa (see the section of this Programme Memorandum headed “*Subscription and Sale*”). Any other or additional restrictions which are applicable to the placing of a Tranche of Notes will be set out in the Applicable Pricing Supplement. Persons who come into possession of this Programme Memorandum and/or any Applicable Pricing Supplement must inform themselves about and observe all applicable selling restrictions.

## **Size of the Programme**

As at the Programme Date, the Programme Amount is ZAR5,000,000,000. This Programme Memorandum will only apply to Notes issued under the Programme in an aggregate outstanding Nominal Amount which does not exceed the Programme Amount. The Issuer may increase the Programme Amount in the manner set out in the section of this Programme Memorandum headed “*General Description of the Programme*”. The Programme Amount at the time of the issue of any Tranche of Notes will be set out in the Applicable Pricing Supplement.

## **Specified Currency**

South African Rand or, subject to all Applicable Laws and, in the case of Notes listed on the Interest Rate Market of

the JSE and the debt listings requirements of the JSE, such other currency as is specified in the Applicable Pricing Supplement.

#### **Status of Senior Notes**

Unless otherwise set out in the Applicable Pricing Supplement, the Senior Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves (subject to Condition 7 (*Negative Pledge*) and, save for certain debts required to be preferred by law), equally with all other present or future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

#### **Status and Characteristics relating to Subordinated Notes**

The Subordinated Notes constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured and subordinated obligations of the Issuer.

Subject to Applicable Law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up or is subject to business rescue proceedings, then and in any such event the claims of the Persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness of the Issuer, to the extent that, in any such event, and provided as aforesaid, no amount shall be eligible for setting-off or shall be payable to any or all of the Persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, liquidation, winding-up or business rescue proceedings (other than Subordinated Indebtedness) has been paid or discharged in full.

#### **Stabilisation**

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer(s), if any, that is specified in the Applicable Pricing Supplement as the Stabilising Manager (or any Person acting for the Stabilising Manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the debt listings requirements of the JSE and approved by the JSE, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all Applicable Laws, regulations and rules.

#### **Taxation**

A summary of the applicable tax legislation in respect of the Notes, as at the Programme Date, is set out in the section of this Programme Memorandum headed "*South African Taxation*". The summary does not constitute tax advice. Potential investors in the Notes should, before making an investment in the Notes, consult their own professional advisers as to the potential tax consequences of, and their tax positions in respect of, an investment in the Notes.

**Terms and Conditions**

The terms and conditions of the Notes are set out in the section of this Programme Memorandum headed "*Terms and Conditions of the Notes*". The Applicable Pricing Supplements may specify other terms and conditions (which may replace, modify or supplement the Terms and Conditions) in relation to specific terms and conditions of the Notes of any Tranche of Notes issued.

**Use of Proceeds**

The Issuer will use the issue proceeds of the Notes for its general corporate purposes, or as may otherwise be described in the Applicable Pricing Supplement.

**Withholding Taxes**

As at the Programme Date, all payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of taxes levied in South Africa. In the event that withholding tax or such other deduction is required by law, then the Issuer will, subject to certain exceptions as provided in Condition 11 (*Taxation*), pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction.

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## FORM OF THE NOTES

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*Capitalised terms used in this section headed “Form of the Notes” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

### **Notes issued in certificated form**

All certificated Notes will be represented by a single Individual Certificate in registered form. Notes represented by Individual Certificates will be registered in the Register in the name of the individual Noteholders of such Notes.

Subject to the Applicable Laws, title to Notes represented by Individual Certificates will be freely transferable and will pass upon registration of transfer in accordance with Condition 14.2 (*Transfer of Notes represented by Individual Certificates*) of the Terms and Conditions.

The Issuer shall regard the Register as the conclusive record of title to the Notes represented by Individual Certificates.

Payments of all amounts due and payable in respect of Notes represented by Individual Certificates will be made in accordance with Condition 9 (*Payments*) of the Terms and Conditions to the Person reflected as the registered Noteholder of such Notes in the Register at 17h00 (South African time) on the Last Day to Register, and the payment obligations of the Issuer will be discharged by proper payment to or to the order of such registered holder in respect of each amount so paid.

### **Notes issued in uncertificated form**

A Tranche of Notes which is listed on the Interest Rate Market of the JSE may, subject to Applicable Laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act.

Notes issued in uncertificated form will not be represented by any certificate or written instrument. A Tranche of Notes issued in uncertificated form will be held by the CSD, and the CSD's Nominee will be named in the Register as the registered Noteholder of that Tranche of Notes.

### **Beneficial Interests in Notes held in the CSD**

A Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may also be held in the CSD. While a Tranche of Notes is held in the CSD, the CSD's Nominee will be named in the Register as the sole Noteholder of the Notes in that Tranche.

The CSD will hold each Tranche of Notes subject to the Financial Markets Act and the Applicable Procedures. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.

The CSD maintains central securities accounts only for Participants. As at the Programme Date, the Participants are Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited, The Standard Bank of South Africa Limited, Citibank N.A. South Africa Branch, Standard Chartered Bank, Johannesburg Branch and the South African Reserve Bank. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.

The Participants are in turn required to maintain securities accounts for their clients. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such Participants for such clients. The clients of Participants may include the holders of Beneficial Interests in the Notes or their custodians. The clients of Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants. Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme, (Clearstream Luxembourg) (**Clearstream**) may hold Notes through their Participant.

In relation to each Person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular outstanding Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to



the outstanding Nominal Amount of such Notes standing to the account of any Person shall be *prima facie* proof of such Beneficial Interest. The CSD's Nominee (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that outstanding Nominal Amount of such Notes for all purposes.

Subject to the Applicable Laws, title to Beneficial Interests held by Participants directly through the CSD will be freely transferable and will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Subject to the Applicable Laws, title to Beneficial Interests held by clients of Participants indirectly through such Participants will be freely transferable and will pass on transfer thereof by electronic book entry in the security accounts maintained by such Participants for such clients. Beneficial Interests may be transferred only in accordance with the Applicable Procedures. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

The holder of a Beneficial Interest will only be entitled to exchange such Beneficial Interest for Notes represented by an Individual Certificate in accordance with Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*) of the Terms and Conditions.

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**PRO FORMA APPLICABLE PRICING SUPPLEMENT**

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Set out below is the form of Applicable Pricing Supplement that will be completed for each Tranche of Notes issued under the Programme:

**SAPPI SOUTHERN AFRICA LIMITED**

*(Incorporated in the Republic of South Africa with limited liability under registration number 1951/003180/06)*

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Under its ZAR5,000,000,000 Domestic Medium Term Note Programme**

This Applicable Pricing Supplement must be read in conjunction with the amended and restated Programme Memorandum, dated 13 September 2013, prepared by Sappi Southern Africa Limited in connection with the Sappi Southern Africa Limited ZAR5,000,000,000 Domestic Medium Term Note Programme, as amended and/or supplemented from time to time (the **Programme Memorandum**).

Any capitalised terms not defined in this Applicable Pricing Supplement shall have the meanings ascribed to them in the section of the Programme Memorandum headed "*Terms and Conditions of the Notes*".

This document constitutes the Applicable Pricing Supplement relating to the issue of Notes described herein. The Notes described herein are issued on and subject to the Terms and Conditions as amended and/or supplemented by the Terms and Conditions contained in this Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the contents of this Applicable Pricing Supplement and the Programme Memorandum, the provisions of this Applicable Pricing Supplement shall prevail.

**PARTIES**

1.	Issuer	Sappi Southern Africa Limited
2.	Dealer(s)	[       ]
3.	Managers	[       ]
4.	Debt Sponsor	[       ]
5.	Paying Agent	[       ]
	Specified Address	[       ]
6.	Calculation Agent	[       ]
	Specified Address	[       ]
7.	Transfer Agent	[       ]
	Specified Address	[       ]

**PROVISIONS RELATING TO THE NOTES**

8.	Status of Notes	[Senior/Subordinated] [Secured/Unsecured]
9.	Series Number	[       ]
10.	Tranche Number	[       ]
11.	Aggregate Nominal Amount:	
	(a) Series	[       ]

	(b) Tranche	[ ]
12.	Interest	[Interest-bearing/Non-interest-bearing]
13.	Interest Payment Basis	[[Fixed Rate/Floating Rate/Zero Coupon/Index-Linked/Dual Currency/Partly Paid /Instalment] Notes/other]
14.	Automatic/Optional Conversion from one Interest/Redemption/Payment Basis to another	[Insert details including date for conversion]
15.	Form of Notes	The Notes in this Tranche are [Listed/Unlisted] Notes, issued in uncertificated form and held by the CSD
16.	Issue Date	[ ]
17.	Nominal Amount per Note	[ ]
18.	Specified Denomination	[ ]
19.	Specified Currency	[ ]
20.	Issue Price	[ ]
21.	Interest Commencement Date	[ ]
22.	Maturity Date	[ ]
23.	Applicable Business Day Convention	[Floating Rate Business Day / Following Business Day / Modified Following Business Day / Preceding Business Day / other convention – insert details]
24.	Final Redemption Amount	[ ]
25.	Last Day to Register	[ ]
26.	Books Closed Period(s)	The Register will be closed from [...] to [...] and from [...] to [...] (all dates inclusive) in each year until the Maturity Date
27.	Default Rate	[ ]

#### **FIXED RATE NOTES**

28.	(a) Fixed Rate of Interest	[ ] percent. per annum [payable [annually/semi-annually/quarterly] in arrear]
	(b) Fixed Interest Payment Date(s)	[ ] in each year up to and including the Maturity Date/other
	(c) Fixed Coupon Amount(s)	[ ] per [ ] in Nominal Amount
	(d) Initial Broken Amount	[ ]
	(e) Final Broken Amount	[ ]
	(f) Interest Rate Determination Date(s)	[ ] in each year
	(g) Day Count Fraction	[ ]
	(h) Any other terms relating to the particular method of calculating interest	[ ]

#### **FLOATING RATE NOTES**

29.	(a) Floating Interest Payment Date(s)	[ ]
-----	---------------------------------------	-----

- (b) Interest Period(s) [ ]
- (c) Definition of Business Day (if different from that set out in Condition 1) (*Interpretation*) [ ]
- (d) Minimum Rate of Interest [ ] percent per annum
- (e) Maximum Rate of Interest [ ] percent per annum
- (f) Other terms relating to the method of calculating interest (e.g.: Day Count Fraction, rounding up provision) [ ]
30. Manner in which the Rate of Interest is to be determined [ISDA Determination / Screen Rate Determination/other – insert details]
31. Margin [(...) basis points to be added to/subtracted from the relevant ISDA Rate / Reference Rate]
32. If ISDA Determination
- (a) Floating Rate [ ]
- (b) Floating Rate Option [ ]
- (c) Designated Maturity [ ]
- (d) Reset Date(s) [ ]
- (e) ISDA Definitions to apply [ ]
33. If Screen Rate Determination:
- (a) Reference Rate (including relevant period by reference to which the Rate of Interest is to be calculated) [ ]
- (b) Interest Rate Determination Date(s) [ ]
- (c) Relevant Screen Page and Reference Code [ ]
34. If Rate of Interest to be calculated otherwise than by ISDA Determination or Screen Rate Determination, insert basis for determining Rate of Interest/Margin/ Fallback provisions [ ]
35. Calculation Agent responsible for calculating amount of principal and interest [ ]

#### **ZERO COUPON NOTES**

36. (a) Implied Yield [ ]
- (b) Reference Price Percent[NACA] [NACM] [NACQ] [NACS] [other method of compounding]
- (c) Any other formula or basis for determining amount(s) payable [ ]

**PARTLY PAID NOTES**

37. (a) Amount of each payment comprising the Issue Price [       ]
- (b) Dates upon which each payment is to be made by Noteholder [       ]
- (c) Consequences (if any) of failure to make any such payment by Noteholder [       ]
- (d) Interest Rate to accrue on the first and subsequent instalments after the due date for payment of such instalments [       ] percent per annum

**INSTALMENT NOTES**

38. Instalment Dates [       ]
39. Instalment Amounts (expressed as a percentage of the aggregate Nominal Amount of the Notes) [       ]

**MIXED RATE NOTES**

40. Period(s) during which the Interest Rate for the Mixed Rate Notes will be (as applicable) that for:
- (a) Fixed Rate Notes [       ]
- (b) Floating Rate Notes [       ]
- (c) Index-Linked Notes [       ]
- (d) Dual Currency Notes [       ]
- (e) Other Notes [       ]
41. The Interest Rate and other pertinent details are set out under the headings relating to the applicable forms of Notes

**INDEX-LINKED NOTES**

42. (a) Type of Index-Linked Notes [Indexed Interest Notes / Indexed Redemption Amount Notes]
- (b) Index/Formula by reference to which Interest Rate / Interest Amount is to be determined [       ]
- (c) Manner in which the Interest Rate / Interest Amount is to be determined [       ]
- (d) Interest Period(s) [       ]
- (e) Interest Payment Date(s) [       ]

- |     |  |                             |
|-----|--|-----------------------------|
| (f) | Provisions where calculation by reference to Index and/or Formula is impossible or impracticable             | [       ]                   |
| (g) | Definition of Business Day (if different from that set out in Condition 1 ( <i>Interpretation</i> ))         | [       ]                   |
| (h) | Minimum Rate of Interest   | [       ] percent per annum |
| (i) | Maximum Rate of Interest   | [       ] percent per annum |
| (j) | Other terms relating to the method of calculating interest (e.g.: Day Count Fraction, rounding up provision) | [       ]                   |

#### **DUAL CURRENCY NOTES**

- |     |     |   |   |          |
|-----|-----|---|---|----------|
| 43. | (a) | Type of Dual Currency Notes   | [Dual Currency Interest/Dual Redemption Amount] Notes | Currency |
|     | (b) | Rate of Exchange/method of calculating Rate of Exchange   | [       ]   |          |
|     | (c) | Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable | [       ]   |          |
|     | (d) | Person at whose option Specified Currency(ies) is/are payable   | [       ]   |          |

#### **EXCHANGEABLE NOTES**

- |     |     |   |           |
|-----|-----|---|-----------|
| 44. | (a) | Mandatory Exchange applicable?          | [Yes/No]  |
|     | (b) | Noteholders' Exchange Right applicable? | [Yes/No]  |
|     | (c) | Exchange Securities                     | [       ] |
|     | (d) | Manner of determining Exchange Price    | [       ] |
|     | (e) | Exchange Period                         | [       ] |
|     | (f) | Other                                   | [       ] |

#### **OTHER NOTES**

- |     |   |           |
|-----|---|-----------|
| 45. | If the Notes are not Partly Paid Notes, Instalment Notes, Fixed Rate Notes, Floating Rate Notes, Mixed Rate Notes, Zero Coupon Notes, Index-Linked Notes, Dual Currency Notes or Exchangeable Notes or if the Notes are a combination of any of the foregoing, set out the relevant description and any additional Terms and Conditions relating to such Notes. | [       ] |
|-----|---|-----------|

## PROVISIONS REGARDING REDEMPTION/MATURITY

- |     |   |          |
|-----|---|----------|
| 46. | Redemption at the option of the Issuer:   | [Yes/No] |
|     | If yes:   |          |
|     | (a) Optional Redemption Date(s)   | [      ] |
|     | (b) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s)  | [      ] |
|     | (c) Minimum period of notice (if different from Condition 10.3 ( <i>Redemption at the Option of the Issuer</i> ))   | [      ] |
|     | (d) If redeemable in part:  | [      ] |
|     | Minimum Redemption Amount(s)  | [      ] |
|     | Higher Redemption Amount(s)   | [      ] |
|     | (e) Other terms applicable on Redemption  |          |
| 47. | Redemption at the option of the Senior Noteholders:   | [Yes/No] |
|     | if yes:   |          |
|     | (a) Optional Redemption Date(s)   | [      ] |
|     | (b) Optional Redemption Amount(s)   | [      ] |
|     | (c) Minimum period of notice (if different from Condition 10.4 ( <i>Redemption at the Option of the Senior Noteholders</i> ))   | [      ] |
|     | (d) If redeemable in part:  |          |
|     | Minimum Redemption Amount(s)  | [      ] |
|     | Higher Redemption Amount(s)   | [      ] |
|     | (e) Other terms applicable on Redemption  | [      ] |
|     | (f) Attach <i>pro forma</i> put notice(s)   |          |
| 48. | Redemption in the event of a Change of Control at the election of Noteholders pursuant to Condition 10.5 ( <i>Redemption in the event of a Change of Control</i> ) or any other terms applicable to a Change of Control | [Yes/No] |
| 49. | Redemption in the event of a failure to maintain JSE Listing or Rating at the election of Noteholders   | [Yes/No] |

pursuant to Condition 10.6  
(*Redemption in the event of a failure to maintain JSE Listing or Rating*)

50. Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default (if required). [Yes/No]

If no:

- (a) Amount payable; or [ ]  
(b) Method of calculation of amount payable [ ]

## GENERAL

51. Financial Exchange [ ]  
52. Additional selling restrictions [ ]  
53. ISIN No. [ ]  
54. Stock Code [ ]  
55. Stabilising manager [ ]  
56. Provisions relating to stabilisation [ ]  
57. Method of distribution [Auction/Bookbuild/Private Placement]  
58. Credit Rating assigned to the [ ]/[issue date and renewal date of rating to be specified]  
[Issuer]/[Programme]/[Notes]  
59. Applicable Rating Agency [ ]  
60. Governing law (if the laws of South Africa are not applicable) [ ]  
61. Other provisions [Other Events of Default in addition to the Events of Default referred to in Condition 16 (Events of Default)]  
[Other covenants, provisions]

## DISCLOSURE REQUIREMENTS IN TERMS OF PARAGRAPH 3(5) OF THE COMMERCIAL PAPER REGULATIONS IN RELATION TO THIS ISSUE OF NOTES

62. Paragraph 3(5)(a)

The “ultimate borrower” (as defined in the Commercial Paper Regulations) is the [Issuer].

63. Paragraph 3(5)(b)

The Issuer is a going concern and can in all circumstances be reasonably expected to meet its commitments under the Notes.

64. Paragraph 3(5)(c)

The auditor of the Issuer is [insert].

65. Paragraph 3(5)(d)

As at the date of this issue:

- (i) the Issuer has [not issued]/[issued ZAR●,000,000,000] Commercial Paper (as defined in the Commercial Paper Regulations); and  
(ii) the Issuer estimates that it may issue [ZAR●,000,000,000] of Commercial Paper during the current financial year, ending [date].

66. Paragraph 3(5)(e)



All information that may reasonably be necessary to enable the investor to ascertain the nature of the financial and commercial risk of its investment in the Notes is contained in the Programme Memorandum and the Applicable Pricing Supplement.

67. Paragraph 3(5)(f)

There has been no material adverse change in the Issuer's financial position since the date of its last audited financial statements.

68. Paragraph 3(5)(g)

The Notes issued will be **[listed/unlisted]**.

69. Paragraph 3(5)(h)

The funds to be raised through the issue of the Notes are to be used by the Issuer for its **[general corporate purposes/funding of its business operations/other]**.

70. Paragraph 3(5)(i)

The obligations of the Issuer in respect of the Notes are unsecured.

71. Paragraph 3(5)(j)

**[Insert]**, the statutory auditors of the Issuer, have confirmed that [their review did not reveal anything which indicates / nothing has come to their attention to indicate] that this issue of Notes issued under the Programme will not comply in all respects with the relevant provisions of the Commercial Paper Regulations.

**Responsibility:**

The Applicant Issuer certifies that to the best of its knowledge and belief there are no facts which have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and this Applicable Pricing Supplement contains all information required by law and the debt listings requirements of the JSE. The Applicant Issuer accepts full responsibility for the accuracy of the information contained in this Applicable Pricing Supplement, except as otherwise stated therein.

Application **[is hereby]/[will not be]** made to list this issue of Notes **[on • • • • •]**.

**SIGNED** at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20●●

For and on behalf of  
**SAPPI SOUTHERN AFRICA LIMITED**

\_\_\_\_\_  
Name:  
Capacity: Director  
Who warrants her/his authority hereto

\_\_\_\_\_  
Name:  
Capacity: Director  
Who warrants her/his authority hereto

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## TERMS AND CONDITIONS OF THE NOTES

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*The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each Note. Each Tranche of Notes will be issued on, and subject to, the Terms and Conditions below, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement.*

Before the Issuer issues any Tranche of listed Notes, the Issuer shall complete, sign and deliver to the JSE or such other or further Financial Exchange(s) and the CSD a pricing supplement based on the *pro forma* Applicable Pricing Supplement included in the Programme Memorandum setting out details of such Notes. The Issuer may determine that particular Notes will not be listed on the Interest Rate Market of the JSE or such other Financial Exchanges and, in that case, no Applicable Pricing Supplement will be delivered to JSE or such other or further Financial Exchange(s).

If there is any conflict or inconsistency between provisions set out in the Applicable Pricing Supplement and the provisions set out in these Terms and Conditions of the Notes, then the provisions in the Applicable Pricing Supplement will prevail.

Words and expressions used in the Applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated. Any reference to legislation or a statute shall be to such legislation or statute as amended, varied or re-enacted from time to time.

### 1. INTERPRETATION

In these Terms and Conditions, unless inconsistent with the context or separately defined in the Applicable Pricing Supplement, the following expressions shall have the following meanings:

<b>Affiliate</b>	in relation to any Person, a Subsidiary of that Person or a Holding Company of that Person or any other Subsidiary of that Holding Company;
<b>Applicable Laws</b>	in relation to any Person, all and any statutes and subordinate legislation and common law, regulations, ordinances and by-laws, directives, codes of practice, circulars, guidance notices, judgments and decisions of any competent authority, or any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation and other similar provisions, from time to time, compliance with which is mandatory for that Person;
<b>Applicable Pricing Supplement</b>	in relation to a Tranche of Notes, the pricing supplement completed and signed by the Issuer in relation to that Tranche of Notes, setting out the additional and/or other terms and conditions as are applicable to that Tranche of Notes, based upon the <i>pro forma</i> pricing supplement which is set out in the section of the Programme Memorandum headed " <i>Pro Forma Applicable Pricing Supplement</i> ";
<b>Applicable Procedures</b>	the rules and operating procedures for the time being of the CSD, the Participants and the debt listings requirements of the JSE and/or any other Financial Exchange;
<b>Banks Act</b>	the Banks Act, 1990;
<b>Beneficial Interest</b>	in relation to a Tranche of Notes which is held in the CSD, the beneficial interest as co-owner of an undivided share of all of the Notes in that Tranche, as contemplated in section 37(1) of the Financial Markets Act, the nominal value of which beneficial interest, in relation to any number of Notes in that Tranche, is determined by reference to the proportion that the aggregate outstanding Nominal Amount of such number of Notes bears to the aggregate outstanding Nominal Amount of all of the Notes in that Tranche, as provided in section 37(3) of the Financial Markets Act;
<b>BESA Guarantee Fund Trust</b>	the JSE as a separate guarantee fund, in terms of sections 8(1)(h) and 17(2)(w) of the Financial Markets Act or any successor fund;

<b>Books Closed Period</b>	in relation to a Tranche of Notes, the period, as specified in the Applicable Pricing Supplement, commencing after the Last Day to Register, during which transfers of the Notes will not be registered, or such shorter period as the Issuer may decide in order to determine those Noteholders entitled to receive principal and/or interest;
<b>Business Day</b>	a day (other than a Saturday or Sunday or public holiday within the meaning of the Public Holidays Act, 1994) on which commercial banks settle ZAR payments in Johannesburg, save further that if the Applicable Pricing Supplement so provides, “ <i>Business Day</i> ” shall include a Saturday;
<b>Calculation Agent</b>	Nedbank Capital, unless the Issuer elects to appoint, in relation to a particular Tranche or Series of Notes, another entity as Calculation Agent in respect of that Tranche or Series of Notes, as indicated in the Applicable Pricing Supplement;
<b>Class of Noteholders</b>	the holders of a Series of Notes or, where appropriate, the holders of different Series of Notes;
<b>Commercial Paper Regulations</b>	the commercial paper regulations of 14 December 1994 issued pursuant to paragraph (cc) of the definition of “ <i>the business of a bank</i> ” in the Banks Act, set out in Government Notice 2172 and published in Government Gazette 16167 of 14 December 1994;
<b>Companies Act</b>	the Companies Act, 2008;
<b>CSD</b>	Strate Limited (registration number 1998/022242/06), a public company with limited liability incorporated in accordance with the company laws of South Africa and registered as a central securities depository in terms of the Financial Markets Act or its nominee, licensed as a central securities depository in terms of the Financial Markets Act or any successor depository, or any additional or alternate depository approved by the Issuer;
<b>CSD’s Nominee</b>	a Wholly Owned Subsidiary of the CSD approved by the Registrar of Securities Services in terms of the Financial Markets Act, and any reference to “ <i>CSD’s Nominee</i> ” shall, whenever the context permits, be deemed to include any successor nominee operating in terms of the Financial Markets Act;
<b>Day</b>	a Gregorian calendar day unless qualified by the word “ <i>Business</i> ”;
<b>Day Count Fraction</b>	<p>in relation to a Tranche of Notes (where applicable) and the calculation of an amount for any period of time (the <b>Calculation Period</b>), the Day count fraction specified as such in the Terms and Conditions or the Applicable Pricing Supplement and:</p> <p>(a) if <b>Actual/365</b> or <b>Act/365</b> is so specified, means the actual number of Days in the Interest Period in respect of which payment is being made divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of Days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of Days in that portion of the Interest Period falling in a non-leap year divided by 365);</p> <p>(b) if <b>Actual/Actual (ICMA)</b> is so specified, means:</p> <ol style="list-style-type: none"> <li>where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of Days in the Calculation Period divided by the product of (1) the actual number of Days in such Regular Period and (2) the number of Regular Periods in any year; and</li> </ol>

2. where the calculation Period is longer than one Regular Period, the sum of:
  - a. the actual number of Days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of Days in such Regular Period and (2) the number of Regular Periods in any year; and
  - b. the actual number of Days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of Days in such Regular Period and (2) the number of Regular Periods normally ending in any year;
- (c) if **Actual/Actual** or **Actual/Actual (ISDA)** is so specified, means the actual number of Days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of Days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of Days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (d) if **Actual/365 (Fixed)** is so specified, means the actual number of Days in the Calculation Period divided by 365;
- (e) if **Actual/360** is so specified, means the actual number of Days in the Calculation Period divided by 360;
- (f) if **30/360**, **360/360** or **Bond Basis** is so specified, means the number of Days in the Calculation period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first Day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the first Day immediately following the last Day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first Day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the first Day immediately following the last Day included in the Calculation Period falls;

**D<sub>1</sub>** is the first Day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

**D<sub>2</sub>** is the Day, expressed as a number, immediately following the last Day included in the Calculation Period unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (g) if **30E/360** or **Eurobond Basis** is so specified, means the number of Days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first Day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the Day immediately following the last Day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first Day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the Day immediately following the last Day included in the Calculation Period falls;

**D<sub>1</sub>** is the first Day, expressed as a number, of the Calculation Period unless such number would be 31, in which case D<sub>1</sub> will be 30; and

**D<sub>2</sub>** is the Day, expressed as a number, immediately following the last Day included in the Calculation Period unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (h) if **30E/360 (ISDA)** is so specified, means the number of Days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first Day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the Day immediately following the last Day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first Day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the Day immediately following the last Day included in the Calculation Period falls;

**D<sub>1</sub>** is the first Day, expressed as a number, of the Calculation Period unless (i) that Day is the last Day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

**D<sub>2</sub>** is the Day, expressed as a number, immediately following the last Day included in the Calculation Period unless (i) that Day is the last Day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30;

#### Dealers

Nedbank Capital, RMB and Investec and/or any other entity appointed as a Dealer by the Issuer, which appointment may be for a specific issue or on an on-going basis, subject to the Issuer's right to terminate the appointment of any such Dealer(s), as indicated in the Applicable Pricing Supplement;

#### Default Rate

in relation to a Tranche of Notes, the default rate specified as such in the Applicable Pricing Supplement;

<b>Dual Currency Notes</b>	Notes which pay interest in a base currency and the principal in a non-base currency or <i>vice versa</i> , as indicated in the Applicable Pricing Supplement;
<b>Early Redemption Amount</b>	in relation to a Tranche of Notes, the amount, as set out in Condition 10.7 ( <i>Early Redemption Amounts</i> ), at which the Notes will be redeemed by the Issuer, pursuant to the provisions of Conditions 10.2 ( <i>Redemption for Tax Reasons</i> ), 10.3 ( <i>Redemption at the Option of the Issuer</i> ), 10.4 ( <i>Redemption at the Option of the Senior Noteholders</i> ), 10.5 ( <i>Redemption in the event of a Change of Control</i> ) and/or Condition 16 ( <i>Events of Default</i> );
<b>Encumbrances</b>	any mortgage, pledge, hypothecation, assignment, cession <i>in securitatem debiti</i> , deposit by way of security or any other agreement or arrangement (whether conditional or not and whether relating to existing or to future assets), having the effect of providing a security interest to a creditor or any agreement or arrangement to give any form of a secured claim to a creditor but excluding statutory preferences, any security interest arising by operation of law and for the avoidance of doubt, any guarantee;
<b>Event of Default</b>	in relation to a Series of Notes, any of the events described in Condition 16 ( <i>Events of Default</i> );
<b>Exchangeable Notes</b>	Notes which may be redeemed by the Issuer in the manner indicated in the Applicable Pricing Supplement by the delivery to the Noteholders of cash or of so many of the Exchange Securities as is determined in accordance with the Applicable Pricing Supplement;
<b>Exchange Control Regulations</b>	the Exchange Control Regulations, 1961, promulgated pursuant to the Currency and Exchanges Act, 1933;
<b>Exchange Period</b>	in relation to a Tranche of Exchangeable Notes, in respect of Exchangeable Notes to which the Noteholders' Exchange Right applies (as indicated in the Applicable Pricing Supplement), the period indicated in the Applicable Pricing Supplement during which such right may be exercised;
<b>Exchange Price</b>	in relation to a Tranche of Exchangeable Notes, the amount determined in accordance with the manner described in the Applicable Pricing Supplement, according to which the number of Exchange Securities which may be delivered in redemption of an Exchangeable Note will be determined;
<b>Exchange Securities</b>	in relation to a Tranche of Exchangeable Notes, the securities indicated in the Applicable Pricing Supplement which may be delivered by the Issuer in redemption of the Exchangeable Notes to the value of the Exchange Price;
<b>Extraordinary Resolution</b>	a resolution passed at a meeting (duly convened) of the Noteholders or a Class of Noteholders, as the case may be, by a majority consisting of not less than 66.67% (sixty-six point sixty-seven percent) of the Persons voting at such meeting upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 66.67% (sixty-six point sixty-seven percent) of the votes given on such poll;
<b>Final Broken Amount</b>	in relation to a Tranche of Fixed Rate Notes, the final broken amount specified as such in the Applicable Pricing Supplement;
<b>Final Redemption Amount</b>	in relation to a Tranche of Notes, the amount of principal specified in the Applicable Pricing Supplement payable in respect of such Tranche of Notes upon the Maturity Date;
<b>Financial Exchange</b>	the JSE and/or such other or additional financial exchange(s) as may

	be determined by the Issuer and the relevant Dealer(s), subject to Applicable Laws, and upon which the Notes are listed as specified in the Applicable Pricing Supplement;
<b>Financial Markets Act</b>	the Financial Markets Act, 2012;
<b>Fixed Coupon Amount</b>	in relation to a Tranche of Fixed Rate Notes (where applicable), the amount(s) specified as such in the Applicable Pricing Supplement;
<b>Fixed Interest Payment Date</b>	in relation to a Tranche of Fixed Rate Notes, the date(s) specified as such in the Applicable Pricing Supplement;
<b>Fixed Interest Period</b>	in relation to a Tranche of Fixed Rate Notes, the period from (and including) a Fixed Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Fixed Interest Payment Date or as otherwise set out in the Applicable Pricing Supplement;
<b>Fixed Rate Notes</b>	Notes which will bear interest at the Fixed Rate of Interest, as indicated in the Applicable Pricing Supplement;
<b>Fixed Rate of Interest</b>	in relation to a Tranche of Fixed Rate Notes, the fixed rate of interest specified as such in the Applicable Pricing Supplement;
<b>Floating Rate Notes</b>	Notes which will bear interest at a Floating Rate Interest as indicated in the Applicable Pricing Supplement and more fully described in Condition 8.2 ( <i>Floating Rate Notes and Indexed Interest Notes</i> );
<b>Floating Rate</b>	in relation to a Tranche of Floating Rate Notes, the floating rate of interest specified as such in the Applicable Pricing Supplement;
<b>Higher Redemption Amount</b>	in relation to a Tranche of Notes, the higher redemption amount specified as such in the Applicable Pricing Supplement;
<b>Holding Company</b>	in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;
<b>ICMA</b>	International Capital Market Association;
<b>IFRS</b>	the International Financial Reporting Standards issued by the International Accounting Standards Board ( <b>IASB</b> ) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);
<b>Implied Yield</b>	in relation to a Tranche of Zero Coupon Notes, the yield accruing on the Issue Price of such Notes, as specified in the Applicable Pricing Supplement;
<b>Income Tax Act</b>	Income Tax Act, 1962;
<b>Indebtedness</b>	in respect of the Issuer, or any Subsidiary, any indebtedness in respect of monies borrowed from any third party lender and (without double counting) guarantees (other than those given in the ordinary course of business) given, whether present or future, actual or contingent;
<b>Indexed Interest Notes</b>	Notes in respect of which the Interest Amount is calculated by reference to an index and/or a formula as indicated in the Applicable Pricing Supplement;
<b>Index-Linked Notes</b>	Indexed Interest Notes and/or an Indexed Redemption Amount Notes, as applicable and as indicated in the Applicable Pricing Supplement;
<b>Indexed Redemption Amount Notes</b>	Notes in respect of which the Final Redemption Amount is calculated by reference to an index and/or a formula as may be indicated in the Applicable Pricing Supplement;

<b>Individual Certificate</b>	a Note in the definitive registered form of a single certificate and being a certificate exchanged for Beneficial Interest in accordance with Condition 12 ( <i>Exchange of Beneficial Interests and Replacement of Individual Certificates</i> ) and any further certificate issued in consequence of a transfer thereof;
<b>Initial Broken Amount</b>	in relation to a Tranche of Fixed Rate Notes, the initial broken amount specified as such in the Applicable Pricing Supplement;
<b>Instalment Amount</b>	in relation to a Tranche of Instalment Notes, the amount expressed (in the Applicable Pricing Supplement) as a percentage of the Nominal Amount of an Instalment Note, being an instalment of principal (other than the final instalment) on an Instalment Note;
<b>Instalment Notes</b>	Notes issued on the same date but redeemed in Instalment Amounts by the Issuer on an amortised basis on different Instalment Dates, as specified in the Applicable Pricing Supplement;
<b>Instalment Dates</b>	in relation to a Tranche of Instalment Notes, the dates specified as such in the Applicable Pricing Supplement;
<b>Interest Amount</b>	in relation to a Tranche of Notes, the amount of interest payable in respect of each Nominal Amount of Fixed Rate Notes, Floating Rate Notes and Indexed Interest Notes, as determined by the Calculation Agent in accordance with Condition 8 ( <i>Interest</i> );
<b>Interest Commencement Date</b>	in relation to a Tranche of Floating Rate Notes (where applicable) the first date from which interest on the Notes, other than Zero Coupon Notes, will accrue, as specified in the Applicable Pricing Supplement;
<b>Interest Rate Determination Date</b>	in relation to a Tranche of Fixed Rate Notes, or Floating Rate Notes, as the case may be, the interest rate determination date specified as such in the Applicable Pricing Supplement;
<b>Interest Payment Date</b>	in relation to a Tranche of Notes, the Interest Payment Date(s) specified in the Applicable Pricing Supplement or, if no express Interest Payment Date(s) is/are specified in the Applicable Pricing Supplement, the last Day of the Interest Period commencing on the preceding Interest Payment Date, or, in the case of the first Interest Payment Date, commencing on the Interest Commencement Date;
<b>Interest Period</b>	in relation to a Tranche of Notes, each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;
<b>Interest Rate and Rate of Interest</b>	in relation to a Tranche of Notes, the rate or rates of interest applicable to Notes other than Zero Coupon Notes as indicated in the Applicable Pricing Supplement;
<b>Interest Rate Market of the JSE</b>	the separate platform or sub-market of the JSE designated as the " <i>Interest Rate Market</i> ", or such other platform or submarket designated by the JSE from time to time, and on which Notes (and other debt securities) may be listed;
<b>Investec</b>	Investec Bank Limited, acting through its Corporate and Institutional Banking division (registration number 1969/0047631/06), a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa;
<b>ISDA</b>	the International Swaps and Derivatives Association Inc.;
<b>ISDA Definitions</b>	the 2006 ISDA Definitions published by ISDA (as amended, supplemented, revised or republished from time to time) as specified in the Applicable Pricing Supplement;
<b>Issue Date</b>	in relation to a Tranche of Notes, the date specified as such in the Applicable Pricing Supplement;



<b>Issue Price</b>	in relation to a Tranche of Notes, the price specified as such in the Applicable Pricing Supplement;
<b>Issuer</b>	Sappi Southern Africa Limited (registration number 1951/003180/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa;
<b>JSE</b>	the JSE Limited (registration number 2005/022939/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa and a licensed financial exchange in terms of the Financial Markets Act or any exchange which operates as a successor exchange to the JSE;
<b>Last Day to Register</b>	with respect to a particular Tranche of Notes (as specified in the Applicable Pricing Supplement), the last date or dates preceding a Payment Day on which the Transfer Agent will accept Transfer Forms and record the transfer of Notes in the Register for that particular Tranche of Notes and whereafter the Register is closed for further transfers or entries until the Payment Day;
<b>Mandatory Exchange</b>	in relation to a Tranche of Exchangeable Notes, the mandatory exchange specified as such in the Applicable Pricing Supplement;
<b>Margin</b>	in relation to a Tranche of Notes (where applicable), the margin specified as such in the Applicable Pricing Supplement;
<b>Material Group Company</b>	<p>(a) the Issuer; and</p> <p>(b) any company of which the Issuer is a member and which:</p> <ul style="list-style-type: none"> <li>(i) represents more than 15% (fifteen percent) of the assets of the Issuer or more than 15% (fifteen percent) of the EBITDA of the Issuer as published in the Issuer's latest audited financial statements; or</li> <li>(ii) is a Wholly Owned Subsidiary of the Issuer;</li> </ul>
<b>Material Indebtedness</b>	any Indebtedness amounting in aggregate to an amount which equals or exceeds ZAR100,000,000 (or its equivalent in other currencies at the time of the occurrence of an Event of Default);
<b>Maturity Date</b>	in relation to a Tranche of Notes, the date specified as such in the Applicable Pricing Supplement;
<b>Minimum Redemption Amount</b>	in relation to a Tranche of Notes, the minimum redemption amount specified as such in the Applicable Pricing Supplement;
<b>Mixed Rate Notes</b>	Notes which will bear interest over respective periods at differing Interest Rates applicable to any combination of Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or Index-Linked Notes, each as indicated in the Applicable Pricing Supplement and as more fully described in Condition 8.4 ( <i>Mixed Rate Notes</i> );
<b>NACA</b>	nominal annual compounded annually;
<b>NACM</b>	nominal annual compounded monthly;
<b>NACQ</b>	nominal annual compounded quarterly;
<b>NACS</b>	nominal annual compounded semi-annually;
<b>Nedbank Capital</b>	Nedbank Capital, a division of Nedbank Limited (registration number 1951/000009/06) a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa;
<b>Nedbank Investor Services</b>	Nedbank Investor Services, a division of Nedbank Limited (registration number 1951/000009/06) a public company with limited

	liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa;
<b>Nominal Amount</b>	in relation to any Note, the total amount, excluding interest and any adjustments on account of any formula, owing by the Issuer under the Note;
<b>Noteholders</b>	the registered holders of the Notes as recorded in the Register;
<b>Noteholders' Exchange Right</b>	in relation to a Tranche of Exchangeable Notes, if indicated as applicable in the Applicable Pricing Supplement, the right of Noteholders of Exchangeable Notes to elect to receive delivery of the Exchange Securities in lieu of cash from the Issuer upon redemption of such Notes;
<b>Notes</b>	secured or unsecured registered notes issued or to be issued by the Issuer under the Programme, pursuant to this Programme Memorandum;
<b>Outstanding</b>	<p>in relation to the Notes, all the Notes issued under the Programme other than:</p> <ul style="list-style-type: none"> <li>(a) those which have been redeemed in full;</li> <li>(b) those in respect of which the date for redemption in accordance with the Terms and Conditions has occurred and the redemption monies wherefore (including all interest (if any) accrued thereon to the date for such redemption and any interest (if any) payable under the Terms and Conditions after such date) remain available for payment against presentation of Individual Certificates (if any);</li> <li>(c) those which have been purchased and cancelled as provided in Condition 10 (<i>Redemption and Purchase</i>);</li> <li>(d) those which have become prescribed under Condition 15 (<i>Prescription</i>);</li> <li>(e) those represented by mutilated or defaced Individual Certificates which have been surrendered in exchange for replacement Individual Certificates pursuant to Condition 12 (<i>Exchange of Beneficial Interests and Replacement of Individual Certificates</i>); or</li> <li>(f) (for the purpose only of determining how many Notes are Outstanding and without prejudice to their status for any other purpose) those Notes represented by Individual Certificates alleged to have been lost, stolen or destroyed and in respect of which replacement Individual Certificates have been issued pursuant to Condition 12 (<i>Exchange of Beneficial Interests and Replacement of Individual Certificates</i>),</li> </ul> <p>provided that for each of the following purposes:</p> <ul style="list-style-type: none"> <li>(i) the right to attend and vote at any meeting of the Noteholders; and</li> <li>(ii) the determination of how many and which Notes are for the time being Outstanding for the purposes of Conditions 19 (<i>Amendment of these Conditions</i>) and 20 (<i>Meetings of Noteholders</i>),</li> </ul> <p>all Notes (if any) which are for the time being held by the Issuer (subject to any Applicable Law) or by any Person for the benefit of the Issuer and not cancelled shall (unless and until ceasing to be so held), be deemed not to be Outstanding;</p>
<b>Optional</b>	in relation to a Tranche of Notes, the optional redemption amount

<b>Redemption Amount</b>	specified as such in the Applicable Pricing Supplement;
<b>Participant</b>	a Person accepted by the CSD as a participant in terms of section 31 of the Financial Markets Act, and who is approved by the JSE, in terms of the debt listings requirements of the JSE, as a Settlement Agent to perform electronic settlement of funds and scrip;
<b>Partly Paid Notes</b>	Notes which are issued with the Issue Price partly paid and which Issue Price is paid up fully by the Noteholder in instalments as indicated in the Applicable Pricing Supplement;
<b>Paying Agent</b>	Nedbank Investor Services, unless the Issuer elects to appoint another entity as Paying Agent, in which event that other entity shall act as a Paying Agent in respect of that Tranche or Series of Notes, as indicated in the Applicable Pricing Supplement;
<b>Payment Day</b>	any day which is a Business Day and upon which a payment is due by the Issuer in respect of the Notes;
<b>Permitted Encumbrance</b>	<p>(a) any Encumbrance existing as at the date of the Applicable Pricing Supplement; or</p> <p>(b) any Encumbrance with regard to receivables of the Issuer or a Material Group Company or if such Encumbrance is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the Indebtedness secured by such Encumbrance is limited to the value of such receivables (on or about the date of creation of such Encumbrance); or</p> <p>(c) any Encumbrance with respect to inter-company Indebtedness incurred between the Issuer and any Subsidiary or between any Subsidiaries; or</p> <p>(d) any Encumbrance created over any asset acquired, developed or constructed, provided that the Indebtedness so secured shall not exceed the <i>bona fide</i> arms' length market value (on or about the date of the creation of such Encumbrance) of such asset or the cost of that acquisition, development or construction (including all interest and other finance charges, adjustments due to changes in circumstances and other charges reasonably incidental to such cost, whether contingent or otherwise) and where such market value or cost both apply, the higher of the two; or</p> <p>(e) any Encumbrance over deposit accounts securing a loan equal to the amounts standing to the credit of such deposit accounts, including any cash management system; or</p> <p>(f) any Encumbrance created in the ordinary course of business, which includes, stock-in-trade, inventories, accounts receivable or deposit accounts; or</p> <p>(g) any Encumbrance subsisting over any asset of any Subsidiary of the Issuer prior to the date of such entity becoming a Subsidiary of the Issuer and not created in contemplation of such entity becoming a Subsidiary of the Issuer and any substitute Encumbrance created over that asset (but in any such case the amount of the Indebtedness secured by such Encumbrance, may not be increased, save in the ordinary course of business as set out in sub-clauses (a) to (f) above; or</p> <p>(h) in addition to any Encumbrance referred to in (a) to (g) above, any Encumbrance securing in aggregate an amount which is equal to or less than ZAR100,000,000;</p>

<b>Person</b>	shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;
<b>Previous Programme Memorandum</b>	the programme memorandum dated 22 June 2011 issued by the Issuer in relation to the Programme;
<b>Programme</b>	Sappi Southern Africa Limited ZAR5,000,000,000 Domestic Medium Term Note Programme under which the Issuer may from time to time issue Notes;
<b>Programme Amount</b>	the maximum aggregate outstanding Nominal Amount of all of the Notes that may be issued under the Programme at any one point in time, being ZAR5,000,000,000 or such increased amount as is determined by the Issuer from time to time, subject to the Applicable Procedures, Applicable Laws and the Programme Agreement, as set out in the section of this Programme Memorandum headed " <i>General Description of the Programme</i> ";
<b>Programme Date</b>	the date of this Programme Memorandum being 13 September 2013;
<b>Rating</b>	in relation to the Issuer and/or the Programme and/or a Tranche of Notes (where applicable), as the case may be, the rating of the Issuer and/or the Programme and/or the Tranche of Notes, as the case may be, granted by the Rating Agency, specified in the Applicable Pricing Supplement;
<b>Rating Agency</b>	Global Credit Rating Co. Proprietary Limited ( <b>GCR</b> ), Standard & Poor's Ratings Services ( <b>S&amp;P</b> ), Moody's Investors Service Limited ( <b>Moody's</b> ) or Fitch Southern Africa Proprietary Limited ( <b>Fitch</b> ), as the case may be, and their successors or any other rating agency of equivalent international standing specified from time to time by the Issuer in the Applicable Pricing Supplement (if applicable) and/or notified to Noteholders pursuant to Condition 18 ( <i>Notices</i> );
<b>Redemption Date</b>	in relation to a Tranche of Notes, the date upon which the Notes are redeemed by the Issuer, in accordance with Condition 10 ( <i>Redemption and Purchase</i> );
<b>Reference Banks</b>	four leading banks in the South African inter-bank market selected by the Calculation Agent;
<b>Reference Rate</b>	in relation to a Tranche of Floating Rate Notes (where applicable), the rate specified as such in the Applicable Pricing Supplement;
<b>Reference Price</b>	in relation to a Tranche of Zero Coupon Notes (where applicable), the price specified as such in the Applicable Pricing Supplement;
<b>Register</b>	the register of Noteholders maintained by the Transfer Agent in terms of Condition 13 ( <i>Register</i> ), including any Uncertificated Securities Register, as the case may be;
<b>Regular Period</b>	<p>(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;</p> <p>(b) in the case Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "<b>Regular Date</b>" means the Day and the month (but not the year) on which any Interest Payment Date falls; and</p>

	(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “ <b>Regular Date</b> ” means the Day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;
<b>Relevant Date</b>	in respect of any payment relating to the Notes, the date on which such payment first becomes due, except that, in relation to monies payable to the CSD in accordance with these Terms and Conditions, it means the first date on which (i) the full amount of such monies have been received by the CSD, (ii) such monies are available for payment to the holders of Beneficial Interests and (iii) notice to that effect has been duly given to such holders in accordance with the Applicable Procedures;
<b>Relevant Screen Page</b>	in relation to a Tranche of Floating Rate Notes (where applicable), the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the Applicable Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;
<b>Representative</b>	a Person duly authorised to act on behalf of a Noteholder, the Transfer Agent or the Paying Agent, as the case may be, who may be regarded by the Issuer (acting in good faith) as being duly authorised based upon the tacit or express representation thereof by such Representative, in the absence of express notice to the contrary from such Noteholder, the Transfer Agent and the Paying Agent;
<b>RMB</b>	Rand Merchant Bank, a division of FirstRand Bank Limited (registration number 1929/001225/06) a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa;
<b>Sappi Group</b>	the Issuer and each Subsidiary of the Issuer from time to time whose financial results are consolidated with the financial results of the Issuer in accordance with IFRS;
<b>Senior Noteholders</b>	the Noteholders of Senior Notes;
<b>Senior Notes</b>	Notes issued with the status and characteristics set out in Condition 5 ( <i>Status of Senior Notes</i> ), as indicated in the Applicable Pricing Supplement;
<b>Series</b>	a Tranche of Notes together with any further Tranche or Tranches of Notes which are: <ul style="list-style-type: none"> <li>(a) expressed to be consolidated and form a single series; and</li> <li>(b) identical in all respects (including as to Listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;</li> </ul>
<b>Settlement Agent</b>	a Participant, approved by the JSE in terms of the Applicable Procedures to perform electronic settlement of both funds and scrip on behalf of market participants;
<b>Specified Currency</b>	in relation to each Note in a Tranche of Notes, subject to all Applicable Laws, the currency specified in the Applicable Pricing

	Supplement;
<b>Specified Denomination</b>	in relation to each Note in a Tranche of Notes, the amount specified as such in the Applicable Pricing Supplement;
<b>Specified Office</b>	the office of the Transfer Agent, the Paying Agent and/or the Calculation Agent as specified in the Applicable Pricing Supplement;
<b>South Africa</b>	the Republic of South Africa;
<b>Subordinated Indebtedness</b>	in the event of the dissolution of the Issuer or if the Issuer is wound up or placed in liquidation or is subject to business rescue proceedings, any indebtedness of the Issuer, including any guarantee by the Issuer, under which the right of payment of the Person(s) entitled thereto is, or is expressed to be, or is required by any present or future agreement of the Issuer to be, subordinated to the rights of all unsubordinated creditors of the Issuer;
<b>Subordinated Notes</b>	Notes issued with the status and characteristics set out in Condition 6 ( <i>Status and Characteristics of Subordinated Notes</i> ), as indicated in the Applicable Pricing Supplement;
<b>Subsidiary</b>	a subsidiary company as defined in section 3(1)(a) of the Companies Act;
<b>Sub-unit</b>	with respect to any currency, the lowest amount of such currency that is available as legal tender in the country of such currency;
<b>Terms and Conditions</b>	the terms and conditions incorporated in this section headed “ <i>Terms and Conditions of the Notes</i> ” and in accordance with which the Notes will be issued;
<b>Tranche</b>	in relation to any particular Series, all Notes which are identical in all respects (including as to Listing);
<b>Transfer Agent</b>	Nedbank Investor Services, unless the Issuer elects to appoint another entity as a Transfer Agent in which event that other entity shall act as a Transfer Agent in respect of that Tranche or Series of Notes, as indicated in the Applicable Pricing Supplement;
<b>Transfer Form</b>	the written form for the transfer of a Note, in the form approved by the Transfer Agent, and signed by the transferor and transferee;
<b>Uncertificated Securities Register</b>	an Uncertificated Securities Register as contemplated in section 1 of the Companies Act;
<b>Wholly Owned Subsidiary</b>	a wholly owned subsidiary as defined in Section 3(1)(b) of the Companies Act;
<b>ZAR</b>	the lawful currency of South Africa, being South African Rand, or any successor currency;
<b>ZAR-JIBAR-SAFEX</b>	the mid-market rate for deposits in ZAR for a period of the Designated Maturity (as indicated in the Applicable Pricing Supplement) that appears on the Reuters Screen SAFEX Page as at 11h00, Johannesburg time on the relevant date; and
<b>Zero Coupon Notes</b>	Notes which will be offered and sold at a discount to their Nominal Amount or at par and will not bear interest other than in the case of late payment, as indicated in the Applicable Pricing Supplement.

## 2. ISSUE

- 2.1. The Issuer may, at any time and from time to time (without the consent of any Noteholder), issue one or more Tranche(s) of Notes pursuant to the Programme, provided that the aggregate Outstanding Nominal Amount of all of the Notes issued under the Programme from time to time (including all Notes issued under the Programme pursuant to the Previous Programme Memorandum) does not exceed the Programme Amount.
- 2.2. Notes will be issued in individual Tranches which, together with other Tranches, may form a Series of Notes. A Tranche of Notes will be issued on, and subject to, the applicable Terms and Conditions of a Tranche of Notes which are the Terms and Conditions, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement relating to that Tranche of Notes.
- 2.3. Each Note, may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index-Linked Note, a Dual Currency Note, a Mixed Rate Note or such combination of any of the foregoing or such other type of Note as may be determined by the Issuer and specified in the relevant Applicable Pricing Supplement.
- 2.4. All payments in relation to the Notes will be made in the Specified Currency. Each Note will be issued in the Specified Denomination.
- 2.5. The Terms and Conditions of a Tranche of Notes are incorporated by reference into the Individual Certificate(s) (if any) representing the Notes in that Tranche. The Applicable Pricing Supplement relating to a Tranche of Notes issued in certificated form will be attached to the Individual Certificate(s) representing the Notes in that Tranche.

## 3. FORM AND DENOMINATION

### 3.1. General

- 3.1.1. A Tranche of Notes may be issued in the form of listed or unlisted Notes, as specified in the Applicable Pricing Supplement.
- 3.1.2. A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or further Financial Exchange(s) as may be determined by the Issuer and the Dealers, subject to any Applicable Laws and Applicable Procedures. Unlisted Notes may also be issued under the Programme. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and if so, the Financial Exchange on which such Tranche of Notes will be listed.

### 3.2. Registered Notes

A Tranche of Notes will be issued in certificated form or in uncertificated form, as contemplated in Condition 3.2.1 (*Notes issued in certificated form*) and Condition 3.2.2 (*Notes issued in uncertificated form*), as specified in the Applicable Pricing Supplement. Each Tranche of Notes which is listed on the Interest Rate Market of the JSE whether issued in certificated form or in uncertificated form, will be held in the CSD, as contemplated in Condition 3.2.1 (*Notes issued in certificated form*) and Condition 3.2.2 (*Notes issued in uncertificated form*), respectively. A Tranche of unlisted Notes may also be held in the CSD, as contemplated in Condition 3.2.3 (*Beneficial Interests in Notes held in the CSD*).

#### 3.2.1. **Notes issued in certificated form**

All Notes issued in certificated form will be represented by Individual Certificates.

#### 3.2.2. **Notes issued in uncertificated form**

A Tranche of Notes which is listed on the Interest Rate Market of the JSE may, subject to Applicable Laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act. Notes issued in uncertificated form will be held in the CSD. Notes issued in uncertificated form will not be represented by any certificate or written instrument. A Note which is represented by an Individual Certificate may be replaced by uncertificated securities in terms of section 33 of the Financial Markets Act.

### 3.2.3. **Beneficial Interests in Notes held in the CSD**

- (i) A Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may also be held in the CSD.
- (ii) The CSD will hold Notes subject to the Financial Markets Act and the Applicable Procedures.
- (iii) All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.
- (iv) A holder of a Beneficial Interest shall only be entitled to exchange such Beneficial Interest for Notes represented by an Individual Certificate in accordance with Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*).

### 3.2.4. **Recourse to the BESA Guarantee Fund Trust**

The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market of the JSE and in accordance with the rules of the BESA Guarantee Fund Trust. Unlisted Notes are not regulated by the JSE.

## 4. **TITLE**

### 4.1. **Notes issued in certificated form**

- 4.1.1. Each holder of Notes represented by an Individual Certificate will be named in the Register as the registered holder of such Notes.
- 4.1.2. Title to Notes represented by an Individual Certificate will pass upon registration of transfer in the Register in accordance with Condition 14.2 (*Transfer of Notes represented by Individual Certificates*).
- 4.1.3. The Issuer, the Transfer Agent and the Paying Agent shall recognise a Noteholder as the sole and absolute owner of the Notes registered in that Noteholder's name in the Register (notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) and shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust, express, implied or constructive, to which any Note may be subject.

### 4.2. **Notes issued in uncertificated form**

The CSD's Nominee will be named in the Register as the registered holder of each Tranche of Notes which is issued in uncertificated form.

### 4.3. **Beneficial Interests in Notes held in the CSD**

- 4.3.1. While a Tranche of Notes is held in the CSD, the CSD's Nominee will be named in the Register as the sole Noteholder of the Notes in that Tranche.
- 4.3.2. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.
- 4.3.3. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such Participants for such clients. The clients of Participants may include the holders of Beneficial Interests or their custodians. The clients of Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants.
- 4.3.4. In relation to each Person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as



the case may be, as to the aggregate Nominal Amount of such Notes standing to the account of such Person shall be *prima facie* proof of such Beneficial Interest. The CSD's Nominee (as the registered holder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

- 4.3.5. Beneficial Interests in Notes may be transferred only in accordance with the Applicable Procedures. Such transfers will not be recorded in the Register and the CSD's Nominee will continue to be reflected in the Register as the registered holder of such Notes, notwithstanding such transfers.
- 4.3.6. Any reference in the Terms and Conditions to the relevant Participant shall, in respect of a Beneficial Interest, be a reference to the Participant appointed to act as such by the holder of such Beneficial Interest.

## **5. STATUS OF SENIOR NOTES**

The Senior Notes are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves and (save for certain debts required to be preferred by law) equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

## **6. STATUS AND CHARACTERISTICS OF SUBORDINATED NOTES**

- 6.1. Subordinated Notes constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and subordinated obligations of the Issuer, save for those which have been accorded preferential rights by law, or as otherwise set out in the Applicable Pricing Supplement.
- 6.2. Subject to Applicable Laws, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound-up or commences business rescue proceedings, the claims of the Persons entitled to payment of amounts due in respect of the Subordinated Notes, shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness, to the extent that, in any such event, and provided as aforesaid, no amount shall be eligible for setting-off or shall be payable to any or all of the Persons entitled to payment of amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency, business rescue or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

## **7. NEGATIVE PLEDGE**

- 7.1. Unless otherwise set out in the Applicable Pricing Supplement, for so long as any Tranche of the Senior Notes remains Outstanding, the Issuer undertakes that they shall not, and shall procure that no other Material Group Company, create or permit the creation of any Encumbrances other than Permitted Encumbrances over any of their present or future business undertakings, assets or revenues to secure any present or future Indebtedness (save for those which have been accorded a preference by law) without at the same time securing all Senior Notes equally and rateably with such Indebtedness or providing such other security or arrangement as may be approved by Extraordinary Resolution of the Senior Noteholders, unless the provision of any such security is waived by an Extraordinary Resolution of the Senior Noteholders.
- 7.2. The Issuer shall be entitled, but not obliged, to form, or procure the formation of, a trust or special purpose company (or more than one), or appoint, or procure the appointment of, an agent or agents to hold any such rights of security for the benefit or on behalf of such Noteholders.

## **8. INTEREST**

### **8.1. Fixed Rate Notes**

- 8.1.1. Each Fixed Rate Note bears interest on its outstanding Nominal Amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date specified in the Applicable Pricing Supplement at the rate(s) per annum equal to the Fixed Rate of Interest so specified, payable in arrears on the Fixed Interest Payment Dates in each year up to and including the Maturity Date.
- 8.1.2. The first payment of interest will be made on the Fixed Interest Payment Date next following the Interest Commencement Date.
- 8.1.3. Except as provided in the Applicable Pricing Supplement, the amount of interest payable per Note on each Fixed Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount, provided that:
  - 8.1.3.1. if an Initial Broken Amount is specified in the Applicable Pricing Supplement, then the first Interest Amount shall equal the Initial Broken Amount specified in the Applicable Pricing Supplement; and
  - 8.1.3.2. if a Final Broken Amount is specified in the Applicable Pricing Supplement, then the final Interest Amount shall equal the Final Broken Amount.
- 8.1.4. If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Fixed Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, as specified in the Applicable Pricing Supplement, and rounding the resultant figure to the nearest Sub-unit of the relevant Specified Currency, half such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

### **8.2. Floating Rate Notes and Indexed Interest Notes**

#### *Interest Payment Dates*

Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding Nominal Amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date specified in the Applicable Pricing Supplement, and such interest will be payable in arrears on the Interest Payment Date(s) in each year specified in the Applicable Pricing Supplement. Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

#### *Rate of Interest*

The Rate of Interest payable from time to time in respect of the Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the Applicable Pricing Supplement.

#### *Minimum and/or Maximum Rate of Interest*

If the Applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the Applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

#### *Determination of Rate of Interest and Calculation of Interest Amount*

The Calculation Agent, in the case of Floating Rate Notes and Indexed Interest Notes will at, or as soon as is practicable after, each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the Interest Amount payable in

respect of each Floating Rate Note and Indexed Interest Note in respect of each Specified Denomination for the relevant Interest Period, and the Calculation Agent shall notify the Issuer of the Rate of Interest for the relevant Interest Period as soon as is practicable after calculating the same. Each Interest Amount shall be calculated by applying the Rate of Interest to the Specified Denomination, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest Sub-unit of the relevant Specified Currency, half a Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

*Interest Determination, Screen Rate Determination including Fallback Provisions*

Where ISDA Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph, **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by such agent as is specified in the Applicable Pricing Supplement under an interest rate swap transaction if that agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the most recent ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the Applicable Pricing Supplement;
- (b) the Designated Maturity is the period specified in the Applicable Pricing Supplement; and
- (c) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on ZAR-JIBAR-SAFEX, the first Day of that Interest Period; or (ii) in any other case, as specified in the Applicable Pricing Supplement.

For the purposes of the above sub-paragraph **Floating Rate**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions specified in the Applicable Pricing Supplement.

Where Screen Rate Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject to the provisions below, be either:

- (a) if the Relevant Screen Page is available,
  - (i) the offered quotation (if only one quotation appears on the Relevant Screen Page); or
  - (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11h00 (or as otherwise specified in the Applicable Pricing Supplement) (Johannesburg time) on the Interest Rate Determination Date in question plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations; or

- (b) if the Relevant Screen Page is not available or if, in the case of (a)(i) above, no such offered quotation appears or, in the case of (a)(ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, the Calculation Agent shall request the principal Johannesburg office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11h00 (Johannesburg time) on the Interest Rate Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being

rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent; or

- (c) if the Rate of Interest cannot be determined by applying the provisions of (a) and (b) above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks offered, at approximately 11h00 (Johannesburg time) on the relevant Interest Rate Determination Date, deposits in an amount approximately equal to the nominal amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate to prime banks in the Johannesburg inter-bank market plus or minus (as appropriate) the Margin (if any). If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period will be determined by the Calculation Agent as the arithmetic mean (rounded as provided above) of the rates for deposits in an amount approximately equal to the Nominal Amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate, quoted at approximately 11h00 (Johannesburg time) on the relevant Interest Rate Determination Date, by the Reference Banks plus or minus (as appropriate) the Margin (if any). If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 8.2, the Rate of Interest shall be determined as at the last preceding Interest Rate Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Applicable Pricing Supplement as being other than ZAR-JIBAR-SAFEX, the Rate of Interest in respect of such Notes will be determined as provided in the Applicable Pricing Supplement.

#### *Notification of Rate of Interest and Interest Amount*

The Issuer will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the JSE and the CSD and/or every other relevant exchange or authority as soon as possible after their determination but in any event no later than the 4<sup>th</sup> (fourth) Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the JSE, the CSD and/or every other relevant exchange or authority and to the Noteholders in accordance with Condition 18 (*Notices*).

#### *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8.2, by the Calculation Agent shall (in the absence of wilful deceit, bad faith or manifest error or proven error) be binding on the Issuer and all Noteholders and in the absence as aforesaid no liability to the Issuer or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### **8.3. Dual Currency Interest Notes**

In the case of Dual Currency Interest Notes, the Interest Rate or Interest Amount payable shall be determined in the manner specified in the Applicable Pricing Supplement.

### **8.4. Mixed Rate Notes**

The Interest Rate payable from time to time on Mixed Rate Notes shall be the Interest Rate payable on the form of interest-bearing Note (be it a Fixed Rate Note, Floating Rate Note, Index-Linked Note or Dual Currency Note) specified for each respective period, each as

specified in the Applicable Pricing Supplement. During each such applicable period, the Interest Rate on the Mixed Rate Notes shall be determined and fall due for payment on the basis that such Mixed Rate Notes are Fixed Rate Notes, Floating Rate Notes, Index-Linked Notes or Dual Currency Notes, as the case may be.

#### 8.5. **Accrual of Interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the Default Rate specified in the Applicable Pricing Supplement until the date on which all amounts due in respect of such Note have been paid, or, in respect of uncertificated Notes, the date on which the full amount of the money payable has been received by the CSD and/or the Participants and notice to that effect has been given to Noteholders in accordance with Condition 18 (*Notices*).

#### 8.6. **Business Day Convention**

If any Interest Payment Date (or other date), which is specified in the Applicable Pricing Supplement to be subject to adjustment in accordance with a Business Day Convention, would otherwise fall on a Day that is not a Business Day, then, if the Business Day Convention specified is:

- (a) the **Floating Rate Business Day Convention**, such Interest Payment Date (or other date) shall be postponed to the next Day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (i) such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day and (ii) each subsequent Interest Payment Date (or other date) shall be the last Business Day in the month which falls the number of months, or other period specified as the Interest Period in the Applicable Pricing Supplement, after the preceding applicable Interest Payment Date (or other date) has occurred; or
- (b) the **Following Business Day Convention**, such Interest Payment Date (or other date) shall be postponed to the next Day which is a Business Day; or
- (c) the **Modified Following Business Day Convention**, such Interest Payment Date (or other date) shall be postponed to the next Day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other such date) shall be brought forward to the first preceding Business Day; or
- (d) the **Preceding Business Day Convention**, such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day.

### 9. **PAYMENTS**

#### 9.1. **General**

Payments of principal and/or interest on an Individual Certificate shall be made to the registered holder of such Note, as set forth in the Register on the close of business on the Last Day to Register (as specified in the Applicable Pricing Supplement). In addition to the above, in the case of a final redemption payment, the holder of the Individual Certificate shall be required, on or before the Last Day to Register prior to the Maturity Date, to surrender such Individual Certificate at the offices of the Transfer Agent.

Payments of principal and/or interest in respect of uncertificated Notes shall be made to the CSD, in the name of, and for, the account of the CSD's Nominee or the Participants, as shown in the Register on the Last Day to Register, and the Issuer will be discharged of its payment obligations by proper payment in the name of, and for, the account of the CSD's Nominee or the Participants, in respect of each amount so paid. Each of the Persons shown in the records of the CSD and the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for his share of each payment so made by the Issuer to the registered holder of such uncertificated Notes.

Payment will be subject, in all cases, to any Applicable Law, but without prejudice to the provisions of Condition 11 (*Taxation*).

## 9.2. **Method of Payment**

Payments will be made in the Specified Currency by credit or transfer, by means of electronic settlement, to the Noteholder.

Payments will be subject in all cases to any fiscal or other laws, directives and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*).

If the Issuer is prevented or restricted directly or indirectly from making any payment by electronic funds transfer in accordance with the preceding paragraph (whether by reason of strike, lockout, fire, explosion, floods, riot, war, accident, act of God, embargo, legislation, shortage of or breakdown in facilities, civil commotion, unrest or disturbances, cessation of labour, Government interference or control or any other cause or contingency beyond the control of the Issuer), the Issuer shall make such payment by cheque marked "*not transferable*" (or by such number of cheques as may be required in accordance with applicable banking law and practice to make payment of any such amounts). Such payments by cheque shall be sent by post to the address of the Noteholder as set forth in the Register or, in the case of joint Noteholders, the address set forth in the Register of that one of them who is first named in the Register in respect of that Note.

Each such cheque shall be made payable to the relevant Noteholder or, in the case of joint Noteholders, the first one of them named in the Register. Cheques may be posted by ordinary post, provided that neither the Issuer, nor the Paying Agent shall be responsible for any loss in transmission and the postal authorities shall be deemed to be the agent of the Noteholders for the purposes of all cheques posted in terms of this Condition 9.2.

In the case of joint Noteholders, payment by electronic funds transfer will be made to the account of the Noteholder first named in the Register. Payment by electronic transfer to the Noteholder first named in the Register shall discharge the Issuer of its relevant payment obligations under the Notes.

## 9.3. **Payment Day**

If the date for payment of any amount in respect of any Note is not a Business Day, subject to the applicable Business Day Convention, the holder thereof shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

## 9.4. **Interpretation of Principal and Interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- 9.4.1. any additional amounts which may be payable with respect to principal under Condition 11 (*Taxation*);
- 9.4.2. the Final Redemption Amount of the Notes or the Early Redemption Amount of the Notes, as the case may be;
- 9.4.3. the Optional Redemption Amount(s) (if any), as specified in the Applicable Pricing Supplement, of the Notes;
- 9.4.4. in relation to Instalment Notes, the Instalment Amounts;
- 9.4.5. in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 10.7.3); and
- 9.4.6. any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes, but excluding for the avoidance of doubt, interest.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 11 (*Taxation*).

## 10. REDEMPTION AND PURCHASE

### 10.1. Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer in the Specified Currency at its Final Redemption Amount specified in, or determined in the manner specified in, the Applicable Pricing Supplement on the Maturity Date.

### 10.2. Redemption for Tax Reasons

Notes may be redeemed at the option of the Issuer at any time (in the case of Notes other than Floating Rate Notes, Indexed Interest Notes or Mixed Rate Notes having an Interest Rate then determined on a floating or indexed basis) or on any Interest Payment Date (in the case of Floating Rate Notes, Indexed Interest Notes or Mixed Rate Notes), on giving not less than 30 (thirty) Days nor more than 60 (sixty) Days notice to the Noteholders prior to such redemption, in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable), if the Issuer, immediately prior to the giving of such notice, is of the reasonable opinion that:

- 10.2.1. as a result of any change in, or amendment to, the laws or regulations of South Africa or any political sub-division of, or any authority in, or of, South Africa having power to tax, or any change or amendment which becomes effective after the relevant Issue Date, the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 11 (*Taxation*); and
- 10.2.2. the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 (ninety) Days prior to the earliest date on which the Issuer would be obliged to pay or may become subject to the payment of such additional amounts were a payment in respect of the Notes then due. Notes may be redeemed by the Issuer in accordance with this Condition 10.2 in whole or in part. A redemption in part may be effected by the Issuer:

- 10.2.2.1. notwithstanding that such partial redemption may not entirely avoid such obligation to pay additional amounts as provided for or referred to in Condition 11 (*Taxation*); and
- 10.2.2.2. *mutatis mutandis* in the manner described in Condition 10.3 (*Redemption at the Option of the Issuer*), provided that the references to the giving of notice therein and to the Minimum Redemption Amount and the Higher Redemption Amount (both as specified in the Applicable Pricing Supplement) therein shall be disregarded for such purposes.

Notes redeemed for tax reasons pursuant to this Condition 10.2 will be redeemed at their Early Redemption Amount referred to in Condition 10.7 (*Early Redemption Amounts*), together (if appropriate) with interest accrued from (and including) the immediately preceding Interest Payment Date to (but excluding) the date of redemption or as specified in the Applicable Pricing Supplement.

### 10.3. Redemption at the Option of the Issuer

If the Issuer is specified in the Applicable Pricing Supplement as having an option to redeem, the Issuer may, having given not less than 30 (thirty) Days nor more than 60 (sixty) Days irrevocable notice to the Noteholders in accordance with Condition 18 (*Notices*) or unless otherwise specified with the Applicable Pricing Supplement, redeem all or some of the Notes (to which such Applicable Pricing Supplement relates) then Outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the Applicable Pricing Supplement, together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a Nominal Amount equal to the Minimum Redemption Amount or a Higher Redemption Amount, both as indicated in the Applicable Pricing Supplement.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by Individual

Certificates, and in accordance with the Applicable Procedures in the case of Redeemed Notes which are uncertificated, and in each case not more than 30 (thirty) Days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**).

In the case of Redeemed Notes represented by Individual Certificates, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 18 (*Notices*) not less than 15 (fifteen) Days prior to the date fixed for redemption. The aggregate Nominal Amount of Redeemed Notes represented by Individual Certificates shall bear the same proportion to the aggregate Nominal Amount of all Redeemed Notes as the aggregate Nominal Amount of Individual Certificates outstanding bears to the aggregate Nominal Amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned Nominal Amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate Nominal Amount of Redeemed Notes which are uncertificated shall be equal to the balance of the Redeemed Notes. No exchange of the relevant uncertificated Notes will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph, and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 18 (*Notices*) at least 10 (ten) Days prior to the Selection Date.

Holders of Redeemed Notes shall surrender the Individual Certificates, if any, representing the Notes in accordance with the provisions of the notice given to them by the Issuer as contemplated above. Where only a portion of the Notes represented by such Individual Certificates are redeemed, the Transfer Agent shall deliver new Individual Certificates to the Noteholders, as the case may be, in respect of the balance of the Notes.

#### 10.4. **Redemption at the Option of the Senior Noteholders**

If Senior Noteholders are specified in the Applicable Pricing Supplement as having an option to request the redemption of Senior Notes, such Senior Noteholders may exercise such option in respect of such Senior Notes by delivering to the Transfer Agent, in accordance with Condition 18 (*Notices*), a duly executed notice (**Put Notice**), at least 30 (thirty) Days but not more than 60 (sixty) Days, prior to the Optional Redemption Date.

For redemption in part, the redemption amount specified in such Put Notice in respect of any such Senior Note must be of a principal amount equal to or greater than the Minimum Redemption Amount or equal to or less than the Higher Redemption Amount, each as indicated in the Applicable Pricing Supplement.

The redemption by the Senior Noteholders of uncertificated Senior Notes shall take place in accordance with the Applicable Procedures.

The Issuer shall proceed to redeem the Senior Notes in respect of which such option has been exercised in accordance with the terms of the Applicable Pricing Supplement, at the Optional Redemption Amount and on the Optional Redemption Date, together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

In the event that the redeeming Senior Noteholder is the holder of an Individual Certificate, then such Senior Noteholder shall (attached to the Put Notice) deliver the Individual Certificate to the Transfer Agent for cancellation. A holder of an Individual Certificate shall, in that holder's Put Notice, specify a bank account into which the redemption payment amount is to be paid.

The delivery of Put Notices shall be required to take place during normal office hours to the Issuer and the Transfer Agent. Put Notices shall be available for inspection at the Specified Offices of the Transfer Agent.

Any Put Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where, after giving the notice but prior to the due date of redemption, an Event of Default shall have occurred and be continuing in which event such Senior Noteholder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Condition 16 (*Events of Default*).



The Issuer shall have no liability to remedy any defects in any Put Notice or bring any such defects to the attention of any Noteholder.

**10.5. Redemption in the event of a Change of Control**

The provisions of this Condition 10.5 (*Redemption in the event of a Change of Control*) shall apply if specified as applicable in the Applicable Pricing Supplement.

10.5.1. A **Change of Control Event** shall occur if at any time while any Note remains Outstanding:

- (i) a Change of Control occurs; and
- (ii) within the Change of Control Period and in respect of that Change of Control:
  - (A) a Rating Downgrade occurs in relation to the Issuer and/or the Programme and/or any Notes rated by a Rating Agency, as the case may be; or
  - (B) if, at the time the Change of Control occurs, the Issuer and/or the Programme and/or the Notes, as the case may be, are not so rated, a Negative Rating Event occurs.

10.5.2. Promptly upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Change of Control Event and the circumstances giving rise to it and the procedure for exercising the option contained in this Condition 10.5.

10.5.3. If a Change of Control Event occurs at any time while any Note remains Outstanding, then provided the Noteholders have:

- (i) in terms of Condition 20 (*Meeting of Noteholders*) convened a meeting of Noteholders within 30 (thirty) Days of the notification set out in Condition 10.5.2 above; and
- (ii) resolved in terms of Condition 20 (*Meetings of Noteholders*) by way of Extraordinary Resolution to require the redemption of the Notes of that Class of Noteholders in these circumstances,

the Issuer shall redeem all Notes held by that Class of Noteholders at its Early Redemption Amount together with accrued interest (if any) within 15 (fifteen) Days of having received a written notice from that Class of Noteholders to redeem such Note (a **Change of Control Redemption Notice**).

10.5.4. The option to require the Issuer to redeem the Notes in accordance with Condition 10.5.3 shall be exercisable by a Class of Noteholders by the delivery of a Change of Control Redemption Notice to the Issuer at its registered office within 60 (sixty) Days after the occurrence of a Change of Control Event, unless prior to the delivery by that Noteholder of its Change of Control Redemption Notice the Issuer gives notice to redeem the Notes.

10.5.5. For the purposes of this Condition 10.5 (*Redemption in the event of a Change of Control*):

- (a) **Acting in Concert** means a group of Persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition of shares in the Issuer by any of them, either directly or indirectly, to obtain or consolidate Control of the Issuer;
- (b) a **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the senior management or board of directors of the Issuer) that any Person (**Relevant Person**) or Person Acting in Concert or any Person or Persons acting on behalf of any such Person(s), at any time directly or indirectly acquires Control of the Issuer, provided that a Change of Control shall not be deemed to have occurred if the shareholders of the Relevant Person are also, or immediately prior to the event which would otherwise constitute a Change of Control, were all of the shareholders of the Issuer;

- (c) **Change of Control Period** means, in relation to a Change of Control of the Issuer, the period commencing 60 (sixty) Days prior to such Change of Control and ending 60 (sixty) Days after such Change of Control;
- (d) **Control** of the Issuer means (A) the holding beneficially of more than 50% (fifty percent) of the issued share capital of the Issuer (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital), or (B) the power to cast, or control the casting of votes in respect of, such number of the shares in the issued share capital of the Issuer carrying more than 50% (fifty percent) of the total number of votes that may be cast at a general meeting of the shareholders of the Issuer;
- (e) **Investment Grade Rating** means a national scale rating of “**Baa3za**” by Moody’s, “**BBB-(za)**” by Fitch, “**zaBBB-**” by S&P, “**BBB-(ZA)**” by GCR Proprietary Limited or its equivalent for the time being, or better;
- (f) a **Negative Rating Event** shall, in relation to Notes that are unrated and/or where no Rating is assigned to the Issuer and/or the Programme, as the case may be, by a Rating Agency at the time a Change of Control occurs, be deemed to have occurred if:
  - (A) the Issuer does not on or before the 60<sup>th</sup> (sixtieth) Business Day after the commencement of the Change of Control Period seek, and use all reasonable endeavours to obtain from a Rating Agency, a Rating in respect of itself and/or the Programme and/or the Notes, as the case may be, that are not rated; and
  - (B) if it does so seek and use such endeavours, it has not, at the expiry of the Change of Control Period and as a result of such Change of Control, obtained an Investment Grade Rating in respect of itself and/or the Programme and/or such Notes, as the case may be;
- (g) **Rating Downgrade** shall, in relation to the Issuer and/or the Programme and/or any Notes, as the case may be, be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the Rating previously assigned to the Issuer and/or the Programme and/or such Notes, as the case may be, by any Rating Agency is:
  - (A) withdrawn; or
  - (B) changed from an Investment Grade Rating to a non-Investment Grade Rating; or
  - (C) in the case of a non Investment Grade Rating, downgraded by any Rating Agency by one or more Rating Notches,

provided that no Rating Downgrade shall have occurred if the Rating assigned to the Issuer and/or the Programme and/or the Notes, as the case may be, is substituted for an Investment Grade Rating by another Rating Agency; and
- (h) **Rating Notch** means the difference between one Rating and the Rating immediately below it, for example, from “BB+” to “BB” by the Rating Agency or similar lower or equivalent Rating.

#### 10.6. **Redemption in the event of a failure to maintain JSE Listing or Rating**

The provisions of this Condition 10.6 (*Redemption in the event of a failure to maintain JSE Listing or Rating*) shall apply if specified in the Applicable Pricing Supplement.

- 10.6.1. The Issuer shall, for so long as listed Notes remain Outstanding:
  - 10.6.1.1. ensure that those Notes remain listed on the Interest Rate Market of the JSE (**JSE Listing**); and
  - 10.6.1.2. maintain a Rating in respect of the Issuer, the Notes or the Programme, as the case may be.

- 10.6.2. If a breach of the undertakings in Condition 10.6.1 above occurs, then the Issuer shall within 3 (three) Business Days of such breach and in accordance with Condition 18 (*Notices*), give notice (the **Issuer Redemption Notice**) of such breach and the procedure for exercising the option set out in Condition 10.6.3 below to the Noteholders.
- 10.6.3. Each Noteholder may within the period ending 15 (fifteen) Business Days of receipt of the Issuer Redemption Notice (the **Election Period**), require the Issuer to redeem its Notes on:
- 10.6.3.1. the Interest Payment Date immediately following the Election Period; or
- 10.6.3.2. if the Election Period expires within a Books Closed Period, the next Interest Payment Date falling after the Interest Payment Date at the end of the Election Period,
- by delivery to the Issuer of a notice (the **Noteholder Redemption Notice**) in accordance with Condition 18 (*Notices*).
- 10.6.4. The Issuer shall, in accordance with Condition 10.6.3 above, redeem the Notes relevant to each Noteholder Redemption Notice at the Early Redemption Amount calculated in accordance with Condition 10.7 (*Early Redemption Amounts*), together with accrued interest (if any).

#### 10.7. **Early Redemption Amounts**

For the purpose of Conditions 10.2 (*Redemption for Tax Reasons*), and/or Condition 16 (*Events of Default*), the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- 10.7.1. in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- 10.7.2. in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in, or determined in the manner specified in, the Applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their Nominal Amount; or
- 10.7.3. in the case of Zero Coupon Notes, at an amount (the **Amortised Face Amount**) equal to the sum of: (i) the Reference Price; and (ii) the product of the Implied Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable; or
- 10.7.4. such other amount or method of calculation of the amount payable as is provided in the Applicable Pricing Supplement.

Where such calculation is to be made for a period which is not a whole number of years, it shall be calculated on the basis of actual Days elapsed divided by 365 (three hundred and sixty five), or such other calculation basis as may be specified in the Applicable Pricing Supplement.

#### 10.8. **Instalment Notes**

Instalment Notes will be redeemed at the Instalment Amounts and on the Instalment Dates. In the case of early redemption in accordance with Conditions 10.2 (*Redemption for Tax Reasons*), 10.5 (*Redemption in the event of a Change of Control*) and/or Condition 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.7 (*Early Redemption Amounts*).

#### 10.9. **Partly Paid Notes**

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 10 (*Redemption and Purchase*) and the Applicable Pricing Supplement. In the case of early redemption in accordance with Conditions 10.2 (*Redemption for Tax Reasons*), 10.5 (*Redemption in the event of a Change of Control*) and/or Condition 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.7 (*Early Redemption Amounts*).

#### 10.10. **Exchangeable Notes**

If the Notes are Exchangeable Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in the manner indicated in the Applicable Pricing Supplement. Exchangeable Notes in respect of which Mandatory Exchange is indicated in the Applicable Pricing Supplement as applying, or upon the exercise by the Noteholder of the Noteholder's Exchange Right (if applicable), will be redeemed by the Issuer delivering to each Noteholder as many of the Exchange Securities as are required in accordance with the Exchange Price. The delivery by the Issuer of the Exchange Securities in the manner set out in the Applicable Pricing Supplement shall constitute the *in specie* redemption in full of such Notes.

#### 10.11. **Purchases**

10.11.1 The Issuer or any of its Subsidiaries may at any time purchase Notes (in the open market or in privately negotiated transactions with any Noteholders) at any price in the open market or otherwise. Such Notes may, subject to Applicable Law, be held, resold, or, at the option of the Issuer and/or the relevant Subsidiary, as the case may be, be surrendered to the Transfer Agent for cancellation.

10.11.2 Where the Issuer or any Subsidiary purchases Notes and such purchase results in the Issuer or Subsidiary, as the case may be, holding in aggregate more than 35% (thirty five percent) of the Nominal Amount of Notes issued in a particular Tranche, the Issuer undertakes to immediately notify all remaining Noteholders of such purchase in accordance with Condition 18 (*Notices*).

#### 10.12. **Cancellation**

All Notes which have been redeemed will forthwith be cancelled. All Notes so cancelled shall be forwarded to the Issuer and cannot be re-issued or resold. Where only a portion of Notes represented by an Individual Certificate are cancelled, the Transfer Agent shall deliver an Individual Certificate to such Noteholder in respect of the balance of the Notes.

#### 10.13. **Late Payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 10 (*Redemption and Purchase*) or upon its becoming due and repayable as provided in Condition 16 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 10.7.3 as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of: (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and (ii) 5 (five) Days after the date on which the full amount of the monies payable has been received by the CSD, and notice to that effect has been given to the Noteholder in accordance with Condition 18 (*Notices*).

#### 10.14. **Applicable Procedures**

The redemption and partial redemption of Beneficial Interests shall take place in accordance with the Applicable Procedures and the Financial Markets Act.

### 11. **TAXATION**

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of South Africa or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law.

In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note:

11.1. held by or on behalf of a Noteholder who is liable for such taxes or duties in respect of such Note by reason of his having some connection with South Africa other than the mere holding

- of such Note or the receipt of principal or interest in respect thereof; or
- 11.2. presented for payment by or on behalf of, or held by, a Noteholder who could lawfully avoid (but has not so avoided) such withholding or deduction by complying with any statutory requirements in force at the present time or in the future by making a declaration of non-residence or other similar claim or filing for exemption to which it is entitled to by the relevant tax authority or the Paying Agent (the effect of which is not to require the disclosure of the identity of the relevant Noteholder); or
  - 11.3. where such withholding or deduction is in respect of taxes levied or imposed on interest or principal payments only by virtue of the inclusion of such payments in the taxable income (as defined in section 1 of the Income Tax Act) or taxable capital gain (as defined in paragraph 1 of Schedule 8 to the Income Tax Act) of any Noteholder; or
  - 11.4. where (in the case of payment of principal and/or interest which is conditional on surrender and/or presentation of the relevant Individual Certificate in accordance with the Terms and Conditions) the relevant Individual Certificate is surrendered and/or presented more than 30 (thirty) Days after the Relevant Date, except to the extent that the Noteholder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth Day;
  - 11.5. if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of tax defaulters; or
  - 11.6. if such withholding or deduction arises in terms of the US Foreign Account Tax Compliance Act (**FATCA**), any regulations or agreements thereunder, official interpretations thereof, any intergovernmental approach thereto, or implementing legislation adopted by another jurisdiction in connection with FATCA.

Any reference in these Terms and Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under these Terms and Conditions or under any undertakings given in addition to, or in substitution for, these Terms and Conditions.

## 12. EXCHANGE OF BENEFICIAL INTERESTS AND REPLACEMENT OF INDIVIDUAL CERTIFICATES

### 12.1. Exchange of Beneficial Interests

- 12.1.1. The holder of a Beneficial Interest in Notes may, in terms of the Applicable Procedures and subject to section 42 of the Financial Markets Act, by written notice to the holder's nominated Participant (or, if such holder is a Participant, the CSD), request that such Beneficial Interest be exchanged for Notes in definitive form represented by an Individual Certificate (the **Exchange Notice**). The Exchange Notice shall specify (i) the name, address and bank account details of the holder of the Beneficial Interest and (ii) the Day on which such Beneficial Interest is to be exchanged for an Individual Certificate; provided that such Day shall be a Business Day and shall fall not less than 30 (thirty) Days after the Day on which such Exchange Notice is given.
- 12.1.2. The holder's nominated Participant will, following receipt of the Exchange Notice, through the CSD, notify the Transfer Agent that it is required to exchange such Beneficial Interest for Notes represented by an Individual Certificate. The Transfer Agent will, as soon as is practicable but within 14 (fourteen) Days after receiving such notice, in accordance with the Applicable Procedures, procure that an Individual Certificate is prepared, authenticated and made available for delivery, on a Business Day falling within the aforementioned 14 (fourteen) Day period, to the holder of the Beneficial Interest at the Specified Office of the Transfer Agent; provided that joint holders of a Beneficial Interest shall be entitled to receive only one Individual Certificate in respect of that joint holding, and the delivery to one of those joint holders shall be delivery to all of them.
- 12.1.3. In the case of the exchange of a Beneficial Interest in Notes issued in uncertificated form:
  - 12.1.3.1. the CSD's Nominee will surrender (through the CSD system) such uncertificated Notes to the Transfer Agent at its Specified Office; and

12.1.3.2. the Transfer Agent will obtain the release of such uncertificated Notes from the CSD in accordance with the Applicable Procedures.

12.1.4. An Individual Certificate shall, in relation to a Beneficial Interest in any number of Notes issued in uncertificated form of a particular aggregate Nominal Amount standing to the account of the holder thereof, represent that number of Notes of that aggregate Nominal Amount, and shall otherwise be in such form as may be agreed between the Issuer and the Transfer Agent; provided that if such aggregate Nominal Amount is equivalent to a fraction of the Specified Denomination or a fraction of any multiple thereof, such Individual Certificate shall be issued in accordance with, and be governed by, the Applicable Procedures.

## 12.2. **Replacement**

If any Individual Certificate is worn out, mutilated, defaced, stolen, destroyed or lost it may be replaced at the Specified Office of the Transfer Agent, on payment by the claimant of such costs and expenses as may be incurred in connection therewith and the provision of such indemnity as the Issuer and the Transfer Agent may reasonably require. Worn out, mutilated or defaced Individual Certificates must be surrendered at the Specified Office of the Transfer Agent before replacements will be issued.

## 12.3. **Death and sequestration or liquidation of Noteholder**

Any Person becoming entitled to Notes as a consequence of the death, sequestration or liquidation of the holder of such Notes may, upon producing evidence to the satisfaction of the Issuer that he holds the position in respect of which he proposes to act under this Condition 12.3, or of his title as the Issuer and the Transfer Agent shall require, be registered himself as the holder of such Notes or, subject to the Applicable Procedures, this Condition 12.3 and Condition 14.2 (*Transfer of Notes represented by Individual Certificates*), may transfer such Notes. The Issuer and (if applicable) the CSD and the relevant Participant shall be entitled to retain any amount payable upon the Notes to which any Person is so entitled until such Person shall be registered as aforesaid or until such time such Notes are duly transferred.

## 12.4. **Costs**

The costs and expenses of the printing, issue and delivery of each Individual Certificate and all taxes and governmental charges that may be imposed in relation to such Individual Certificate and/or the printing, issue and delivery of such Individual Certificate shall be borne by the holder of the Notes represented by that Individual Certificate. Separate costs and expenses relating to the provision of Individual Certificates and/or the transfer of Notes may be levied by other Persons, such as a Participant, under the Applicable Procedures, and such costs and expenses shall not be borne by the Issuer. The costs and expenses of the delivery of Certificates and all taxes or governmental charges or insurance charges that may be imposed in relation to such mode of delivery shall be borne by the Noteholder.

# 13. **REGISTER**

13.1. The Register of Noteholders:

13.1.1. shall be kept at the Specified Office of the Transfer Agent and a copy thereof shall be made available for inspection at the registered office of the Issuer (as set out at the end of the Programme Memorandum) or such other Person as may be appointed for the time being by the Issuer to maintain the Register;

13.1.2. shall contain the names, addresses and bank account numbers of the registered Noteholders;

13.1.3. shall show the total Nominal Amount of the Notes held by Noteholders;

13.1.4. shall show the dates upon which each of the Noteholders was registered as such;

13.1.5. shall show the serial numbers of the Individual Certificates and the dates of issue thereof;

13.1.6. shall be open for inspection at all reasonable times during business hours on Business Days by any Noteholder or any Person authorised in writing by a Noteholder; and

- 13.1.7. shall be closed during the Books Closed Period.
- 13.2. The Transfer Agent shall alter the Register in respect of any change of name, address or account number of any of the Noteholders of which it is notified.
- 13.3. Except as provided for in these Terms and Conditions or as required by law, in respect of Notes, the Issuer will only recognise a Noteholder as the owner of the Notes registered in that Noteholder's name as per the Register.
- 13.4. Except as provided for in these Terms and Conditions or as required by law, the Issuer shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Individual Certificate may be subject.

#### **14. TRANSFER OF NOTES**

##### **14.1. *Transfer of Beneficial Interests in Notes held in the CSD***

- 14.1.1. Beneficial Interests may be transferred only in accordance with the Applicable Procedures through the CSD.
- 14.1.2. Transfers of Beneficial Interests to and from clients of Participants occur by way of electronic book entry in the securities accounts maintained by the Participants for their clients, in accordance with the Applicable Procedures.
- 14.1.3. Transfers of Beneficial Interests among Participants occur through electronic book entry in the central securities accounts maintained by the CSD for the Participants, in accordance with the Applicable Procedures.
- 14.1.4. Transfers of Beneficial Interests in Notes will not be recorded in the Register and the CSD's Nominee will continue to be reflected in the Register as the Noteholder of such Notes notwithstanding such transfers.

##### **14.2. *Transfer of Notes represented by Individual Certificates***

- 14.2.1. In order for any transfer of Notes represented by an Individual Certificate to be recorded in the Register, and for such transfer to be recognised by the Issuer:
  - 14.2.1.1. the transfer of such Notes must be embodied in a Transfer Form;
  - 14.2.1.2. the Transfer Form must be signed by the registered Noteholder of such Notes and the transferee, or any Representatives of that registered Noteholder or transferee; and
  - 14.2.1.3. the Transfer Form must be delivered to the Transfer Agent at its Specified Office together with the Individual Certificate representing such Notes for cancellation.
- 14.2.2. Notes represented by an Individual Certificate may only be transferred, in whole or in part, in amounts of not less than the Specified Denomination (or any multiple thereof).
- 14.2.3. Subject to this Condition 14.2, the Transfer Agent will, within 3 (three) Business Days of receipt by it of a valid Transfer Form (or such longer period as may be required to comply with any Applicable Laws and/or Applicable Procedures), record the transfer of Notes represented by an Individual Certificate (or the relevant portion of such Notes) in the Register, and authenticate and deliver to the transferee at the Transfer Agent's Specified Office or, at the risk of the transferee, send by mail to such address as the transferee may request, a new Individual Certificate in respect of the Notes transferred reflecting the outstanding Nominal Amount of the Notes transferred.
- 14.2.4. Where a Noteholder has transferred a portion only of Notes represented by an Individual Certificate, the Transfer Agent will authenticate and deliver to such Noteholder at the Transfer Agent's Specified Office or, at the risk of such Noteholder, send by mail to such address as such Noteholder may request, at the risk of such Noteholder, a new Individual Certificate representing the balance of the Notes held by such Noteholder.
- 14.2.5. The transferor of any Notes represented by an Individual Certificate will be deemed to remain the owner thereof until the transferee is registered in the Register as the holder thereof.

14.2.6. Before any transfer of Notes represented by an Individual Certificate is registered in the Register, all relevant transfer taxes (if any) must have been paid by the transferor and/or the transferee and such evidence must be furnished as the Issuer and the Transfer Agent may reasonably require as to the identity and title of the transferor and the transferee.

14.2.7. No transfer of any Notes represented by an Individual Certificate will be registered whilst the Register is closed as contemplated in Condition 13 (*Register*).

If a transfer of any Notes represented by an Individual Certificate is registered in the Register, the Transfer Form and cancelled Individual Certificate will be retained by the Transfer Agent.

In the event of a partial redemption of Notes under Condition 10.3 (*Redemption at the Option of the Issuer*), the Transfer Agent shall not be required in terms of Condition 10.3 (*Redemption at the Option of the Issuer*), to register the transfer of any Notes during the period beginning on the tenth Day before the date of the partial redemption and ending on the date of the partial redemption (both inclusive).

## 15. PRESCRIPTION

The Notes will become void unless presented for payment of principal within a period of three years after their redemption date.

## 16. EVENTS OF DEFAULT

### 16.1. Senior Notes

16.1.1. If, for any particular Series of Notes, one or more of the following events or unless otherwise set out in the Applicable Pricing Supplement (**Events of Default**) shall have occurred and be continuing:

#### 16.1.1.1. **Non-Payment**

the Issuer fails to pay any principal or interest due under the Senior Notes on its due date for payment thereof and any such failure continues for a period of 5 (five) Business Days, after receiving written notice from any of the Senior Noteholders demanding such payment; or

#### 16.1.1.2. **Negative Pledge**

the Issuer or any other Material Group Company, as the case may be, fails to remedy a breach of Condition 7 (*Negative Pledge*) within 21 (twenty one) Business Days of receiving written notice from the Senior Noteholders demanding such remedy; or

#### 16.1.1.3. **Breach of Material Obligations**

the Issuer fails to perform or observe any of its other material obligations or undertakings (not specifically covered elsewhere in this clause 16.1) under or in respect of any of the Senior Notes and such failure continues for a period of 30 (thirty) Days after receipt by the Issuer of a notice from the Senior Noteholders (in accordance with Condition 18 (*Notices*)) in respect of such failure specifying the failure and requesting the Issuer to remedy same; or

#### 16.1.1.4. **Cross Default**

the Issuer or any other Material Group Company, as the case may be, defaults on the payment of the principal or interest, or any obligations in respect of Material Indebtedness of, or assumed or guaranteed by the Issuer or any other Material Group Company, as the case may be, when and as the same shall become due and payable and where notice has been given to the Issuer or any other Material Group Company, as the case may be, of the default and if such default shall have continued for more than the notice period (if any) applicable thereto and the time for payment of such interest or principal or other obligation has not been effectively extended or waived, or if any such obligations in respect of any Material Indebtedness of, or assumed or guaranteed by, the Issuer or any other Material Group Company, as the case may be, shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of any event of default thereunder; or



16.1.1.5. **Authorisation and Consents**

any action, condition or thing, including obtaining any consent, licence approval or authorisation now or in future necessary to enable the Issuer to comply with its obligations under the Notes was not taken, is not fulfilled or in place or any such consent, licence, approval or authorisation is revoked, modified, withdrawn or withheld or ceases to be in full force and effect, resulting in the Issuer being unable to perform any of its payment or other obligations in terms of the Notes and the Issuer fails to take reasonable steps to remedy such circumstances within 21 (twenty-one) Business Days of receiving written notice from the Noteholders demanding such remedy; or

16.1.1.6. **Insolvency etc.**

an order by any court of competent jurisdiction or authority for the winding-up, dissolution, business rescue proceedings or placement under supervision and commencement of business rescue proceedings of the Issuer or any other Material Group Company, as the case may be, is made whether provisionally (and not dismissed or withdrawn within 30 (thirty) Days thereof) or finally, or the Issuer or any other Material Group Company, as the case may be, is placed under voluntary liquidation or curatorship or a meeting is convened to consider the passing of a resolution, or a resolution is passed, to authorise the implementation of any business rescue proceedings in respect of the Issuer or any other Material Group Company, provided that no liquidation, curatorship, winding-up, dissolution or business rescue proceedings shall constitute an Event of Default if (i) the liquidation, winding-up or dissolution is for the purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement within the Sappi Group with any third party; or (ii) the liquidation, winding-up or dissolution is for the purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement, the terms of which were approved by an Extraordinary Resolution of Noteholders before the date of the liquidation, winding-up or dissolution; or

16.1.1.7. **Winding-up etc.**

the Issuer or any other Material Group Company, as the case may be, initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up, business rescue or insolvency or other similar laws or compromises or attempts to compromise, with its creditors generally (or any significant class of creditors) or any meeting of creditors is convened by the Issuer or any other Material Group Company, as the case may be, to consider a proposal for an arrangement or compromise with its creditors generally (or any significant class of its creditors), save for any such initiation, consent, attempt or convening of a meeting which relates to the Issuer or any of its other Material Group Company and is for the purposes of an internal reconstruction or reorganisation within the Sappi Group; or

16.1.1.8. **Enforcement Proceedings**

if a Person validly attaches in execution the whole or a material part of the undertaking or assets of the Issuer or any other Material Group Company, as the case may be, or an execution or attachment or other process is validly levied, enforced upon, sued out or put in force against the whole or a material part of the undertaking or assets of any of them in both instances following a judgement against the Issuer or any other Material Group Company, as the case may be, by a court of competent jurisdiction and such is not discharged within 30 (thirty) Days; or

16.1.1.9. **Other**

any other Event of Default provided for such Series, as specified in the Applicable Pricing Supplement,

then any Senior Noteholder may, by written notice to the Issuer at the registered office of the Issuer, effective upon the date of receipt thereof by the Issuer, declare the Senior Notes held by the Senior Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as

described in Condition 10.7 (*Early Redemption Amounts*)), together with accrued interest (if any) to the date of repayment, or as specified in the Applicable Pricing Supplement, provided that, notwithstanding the taking of such action, although an amount will be due it may not be payable if the Issuer withholds or refuses to make such payment in order to comply with any law or regulation of South Africa or to comply with any order of a court of competent jurisdiction.

- 16.1.2. For the purposes of Condition 16.1.1.4, any Indebtedness which is in a currency other than South African Rand shall be converted into South African Rand at the spot rate for the sale of South African Rand against the purchase of the relevant currency quoted by any leading bank of South Africa selected on the date of such Event of Default.

**16.2. Subordinated Notes**

If the Issuer defaults in relation to Subordinated Notes in the payment of any amount payable in respect of such Notes, and such default continues for a period of 7 (seven) Business Days after receiving written notice from any of the holders of Subordinated Notes, or if an Event of Default as contemplated in Condition 16.1.1.6 occurs, any holder of a Subordinated Note may, subject as provided below, at its discretion and without notice, institute such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under such Subordinated Notes, provided that the Issuer shall not be obliged, save in the case of liquidation, winding-up or business rescue proceedings, to pay any sum(s) sooner than the same would otherwise have been payable by it.

In the event of the winding-up or liquidation, whether finally or provisionally, or business rescue proceedings of the Issuer, otherwise than for the purposes of an amalgamation, merger, consolidation or re-organisation not involving liquidation, winding-up or bankruptcy, then any holder of Subordinated Notes issued by the Issuer may by written notice to the Issuer at its registered office, require that its Subordinated Notes are immediately due and repayable at their Early Redemption Amount together with the accrued interest to the date of payment, save that the Noteholders of Subordinated Notes may only receive payment once all the other creditors of the Issuer have been paid in full.

**16.3. Notification of Event of Default**

If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify all Noteholders in accordance with Condition 18 (*Notices*), the Dealers and the JSE in writing.

**17. CALCULATION AGENT, TRANSFER AGENT AND PAYING AGENT**

Any third party appointed by the Issuer as Calculation Agent, Transfer Agent, Paying Agent or otherwise shall act solely as the agents of the Issuer and does not assume any obligation towards or relationship of agency or trust for or with any Noteholders. The Issuer is entitled to vary or terminate the appointment of such agents and/or appoint additional or other agents and/or approve any change in the specified office through which any agent acts.

**18. NOTICES**

- 18.1. Notices to Noteholders shall be valid if mailed to their registered addresses appearing in the Register. Any such notice shall be deemed to have been given on the 7<sup>th</sup> (seventh) Day after the Day on which it is mailed.
- 18.2. In the event of there being any Individual Certificates in issue, such notices shall be published, not earlier than 4 (four) Days after the date of posting of such notice in terms of this Condition 18 (*Notices*):
- 18.2.1. in an English language daily newspaper of general circulation in South Africa; and
- 18.2.2. for so long as the Notes are listed on the Financial Exchange, a daily newspaper of general circulation in the city in which the Financial Exchange is situated, and any such notices shall be deemed to have been given on the date of first publication.
- 18.3. Notwithstanding the provisions of Condition 18.1, for so long as all of the Notes in a Tranche are held in their entirety in the CSD, they may be substituted for the notice contemplated in Condition 18.1, by the delivery of the relevant notice to the CSD's Nominee (as the registered holder of such Notes), the Participants and the Financial Exchange for

communication by them to the holders of Beneficial Interests in such Notes in accordance with the Applicable Procedures. Each such notice will be deemed to have been received by the holders of Beneficial Interests on the Day of delivery of such notice to the CSD's Nominee.

- 18.4. Any notice to the Issuer shall be deemed to have been received by the Issuer, if delivered to the registered office of the Issuer, on the date of delivery, and if sent by registered mail, on the seventh Day after the Day on which it is sent. The Issuer may change its registered office upon prior written notice to Noteholders specifying such new registered office.
- 18.5. For so long as any of the Notes are uncertificated, notice may be given by any holder of an uncertificated Note to the Issuer via the relevant Settlement Agent in accordance with the Applicable Procedures, in such manner as the Issuer and the relevant Participants may approve for this purpose.

## 19. AMENDMENT OF THESE CONDITIONS

- 19.1. These Terms and Conditions set out all the rights and obligations relating to the Notes and, subject to the further provisions of this Condition 19, no addition, variation or consensual cancellation of these Terms and Conditions shall be of any force or effect unless the JSE has been notified and the amendments have been reduced to writing and signed by or on behalf of the Issuer and the Noteholders.
- 19.2. The Issuer may effect, without the consent of the relevant Class of Noteholders, any modification of the Terms and Conditions which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is established, provided that the JSE or such other Financial Exchange, as the case may be, shall be notified. Any such modification shall be binding on the relevant Class of Noteholders and any such modification shall be communicated to the relevant Class of Noteholders in accordance with Condition 18 (*Notices*) as soon as is practicable thereafter.
- 19.3. The Issuer may, with the prior sanction of an Extraordinary Resolution of Noteholders or with the prior written consent of Noteholders holding not less than 66.67% (sixty-six point sixty-seven percent) in Nominal Amount of the Notes Outstanding from time to time, amend these Terms and Conditions, provided that no such amendment shall be of any force or effect unless notice of the intention to make such amendment shall have been given to all Noteholders in terms of Condition 18 (*Notices*).
- 19.4. Any modification of these Terms and Conditions which may have a direct effect on compliance with the debt listings requirements of the JSE or such other Financial Exchange, as the case may be, will require the approval of the JSE or such other Financial Exchange, as the case may be.

## 20. MEETINGS OF NOTEHOLDERS

### 20.1 Convening of meetings

- 20.1.1. The Issuer may at any time convene a meeting of Noteholders (a **meeting** or **the meeting**).
- 20.1.2. The Issuer shall convene a meeting upon the requisition in writing of the holders of at least 25% (twenty five percent) of the aggregate Nominal Amount Outstanding of the Notes (**requisition notice**).
- 20.1.3. Whenever the Issuer wishes or is required to convene a meeting, it shall forthwith give notice in writing to the Noteholders of the place, Day and hour of the meeting and of the nature of the business to be transacted at the meeting.
- 20.1.4. All meetings of Noteholders shall be held in Johannesburg.
- 20.1.5. Any director or duly authorised representative of the Issuer and/or any other Material Group Company, and any other Person authorised in writing by the Issuer and/or any other Material Group Company, may attend and speak at a meeting of Noteholders, but shall not be entitled to vote, other than as a proxy (as defined below) or duly authorised representative of a Noteholder.

- 20.2.1 A requisition notice shall state the nature of the business for which the meeting is to be held and shall be deposited at the registered office of the Issuer.
- 20.2.2 A requisition notice may consist of several documents in like form, each signed by one or more requisitionists.
- 20.3 **Convening of meetings by requisitionists**
- If the Issuer does not proceed to cause a meeting to be held within 10 (ten) Days of the deposit with the company secretary of the Issuer of a requisition notice, requisitionists who together hold not less than 25% (twenty five percent) of the aggregate Nominal Amount outstanding of the Notes for the time being, may themselves convene the meeting, but the meeting so convened shall be held within 60 (sixty) Days from the date of such deposit and shall be convened as nearly as possible in the same manner as that in which meetings may be convened by the Issuer. Notice of the meeting shall be required to be given to the Issuer.
- 20.4 **Notice of meeting**
- 20.4.1 Unless the holders of at least 90% (ninety percent) of the aggregate Nominal Amount outstanding of the Notes agree in writing to a shorter period, at least 21 (twenty one) Days written notice specifying the place, Day and time of the meeting and the nature of the business for which the meeting is to be held shall be given by the Issuer to Noteholders. Such notice is required to be given in accordance with Condition 18 (*Notices*).
- 20.4.2 The accidental omission to give such notice to any Noteholder or the non-receipt of any such notice, shall not invalidate the proceedings at a meeting.
- 20.5 **Quorum**A quorum at a meeting shall for the purposes of considering:
- 20.5.1.1 an ordinary resolution generally, consist of Noteholders present in person or by proxy and holding in the aggregate not less than one-third of the aggregate Nominal Amount outstanding of the Notes; and
- 20.5.1.2 an Extraordinary Resolution, consist of Noteholders present in person or by proxy and holding in the aggregate not less than 50.1% (fifty point one percent) of the aggregate Nominal Amount outstanding of the Notes.
- 20.5.2 No business shall be transacted at a meeting of the Noteholders unless a quorum is present at the time when the meeting proceeds to business.
- 20.5.3 If, within 15 (fifteen) minutes from the time appointed for the meeting, a quorum is not present, the meeting shall, if it was convened on the requisition of Noteholders, be dissolved. In every other case the meeting shall stand adjourned to the same Day in the third week thereafter, at the same time and place, or if that Day is not a Business Day, the following Business Day. If at such adjourned meeting a quorum is not present the Noteholders present in person or by proxy shall constitute a quorum for the purpose of considering any resolution, including an Extraordinary Resolution.
- 20.6 **Chairman**
- The chairman of the meeting shall be appointed by the Issuer.
- 20.7 **Adjournment**
- 20.7.1 Subject to the provisions of this Condition 20 (*Meetings of Noteholders*) the chairman may, with the consent (which consent shall not be unreasonably withheld and/or delayed) of, and shall on the direction of the Issuer, adjourn the meeting from time to time and from place to place.
- 20.7.2 No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.
- 20.7.3 At least 14 (fourteen) Days written notice of the place, Day and time of an adjourned meeting shall be given by the Issuer to each Noteholder. In the case of a meeting adjourned in terms of Condition 20.7.1, the notice shall state that the Noteholders present in person or by proxy at the adjourned meeting will constitute a quorum.
- 20.8 **How questions are decided**At a meeting, a resolution put to the vote shall be decided on a

show of hands unless, before or on the declaration of the result of the show of hands, a poll is demanded by the chairman or by any one of the Noteholders present in person or by proxy.

20.8.2 Unless a poll is demanded, a declaration by the chairman that on a show of hands a resolution has been carried, or carried by a particular majority, or lost, shall be conclusive evidence of that fact, without proof of the number or proportion of the votes cast in favour of or against such resolution.

20.8.3 A poll demanded on the election of a chairman or on the question of the adjournment of a meeting shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs and the result of such poll shall be deemed to be the resolution of the meeting.

20.8.4 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall not be entitled to a casting vote in addition to the vote, if any, to which he is entitled.

## 20.9 **Votes**

20.9.1 On a show of hands every Noteholder present in person shall have one vote. On a poll every Noteholder, present in person or by proxy, shall have one vote for each ZAR1,000,000 (One Million Rand) of the Nominal Amount outstanding of the Notes held by him. The joint holders of Notes shall have only one vote on a show of hands and one vote on a poll for each ZAR1,000,000 (One Million Rand) of the Nominal Amount outstanding of the Notes of which they are the registered holder and the vote may be exercised only by that holder present whose name appears first on the Register in the event that more than one of such joint holders is present in person or by proxy at the meeting. The Noteholder in respect of uncertificated Notes shall vote at any such meeting on behalf of the holders of Beneficial Interests in such Notes in accordance with the instructions to the CSD or its nominee from the holders of Beneficial Interests conveyed through the Settlement Agents in accordance with the Applicable Procedures.

20.9.2 Notwithstanding anything to the contrary contained herein, any Noteholder that is the Issuer or any of its Subsidiaries shall not be entitled to vote.

## 20.10 **Proxies and representatives**

20.10.1 Noteholders may:

20.10.1.1 present in person; or

20.10.1.2 through any appointed Person (a **proxy**), by an instrument in writing (a **form of proxy**), signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney of a duly authorised officer of the corporation,

vote on a poll.

20.10.2 A Person appointed to act as proxy need not be a Noteholder.

20.10.3 The form of proxy shall be deposited at the registered office of the Issuer or at the office where the Register is kept or at such other office as the Issuer may determine not less than 24 (twenty four) hours before the time appointed for holding the meeting or adjourned meeting at which the Person named in such form of proxy proposes to vote, and in default, the proxy shall be invalid.

20.10.4 No form of proxy shall be valid after the expiration of 6 (six) months from the date named in it as the date of its execution.

20.10.5 A proxy shall have the right to demand or join in demanding a poll.

20.10.6 Notwithstanding Condition 20.10.4 the form of proxy shall be valid for any adjourned meeting, unless the contrary is stated thereon.

20.10.7 A vote given in accordance with the terms of a proxy shall be valid notwithstanding the previous death or incapacity of the principal or revocation of the proxy or of the authority under which the form of proxy was executed or the transfer of Notes in respect of which

the proxy was given, provided that no intimation in writing of such death, incapacity or revocation shall have been received by the Issuer at the office of the Transfer Agent more than, and that the transfer has been given effect to less than, 12 (twelve) hours before the commencement of the meeting or adjourned meeting at which the proxy is to be used.

- 20.10.8 Any Noteholder which is a corporation may by resolution of its directors or other governing body authorise any Person to act as its representative in connection with any meeting or proposed meeting of Noteholders. Any reference in this Condition 20 (*Meetings of Noteholders*) to a Noteholder present in person includes such a duly authorised representative of a Noteholder.

**20.11 Minutes**

- 20.11.1 The Issuer shall cause minutes of all resolutions and proceedings of meetings to be duly entered in the minute books of the Issuer.

- 20.11.2 Any such minutes as aforesaid, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings held or by the chairman of the next succeeding meeting, shall be receivable in evidence without any further proof, and until the contrary is proved, a meeting of Noteholders in respect of the proceedings of which minutes have been so made shall be deemed to have been duly held and convened and all resolutions passed thereat, or proceedings held, to have been duly passed and held.

**20.12 *Mutatis mutandis* application**

The provisions of this Condition 20 (*Meetings of Noteholders*) shall apply *mutatis mutandis* to the calling and conduct of meetings on an individual Tranche, Series or Class of Noteholders, as the case may be.

**21 FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further Notes having terms and conditions the same as any of the other Notes issued under the Programme or the same in all respects save for the amount and date of the first payment of interest thereon, the Issue Price and the Issue Date, so that the further Notes shall be consolidated to form a single Series with the Outstanding Notes.

**22 GOVERNING LAW**

These Terms and Conditions and all rights and obligations to the Notes are governed by, and shall be construed in accordance with, the laws of South Africa in force from time to time.

**SIGNED** at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 2013

For and on behalf of

**SAPPI SOUTHERN AFRICA LIMITED**

\_\_\_\_\_  
Name: Stephen Robert Binnie  
Capacity: Director  
Who warrants his authority hereto

\_\_\_\_\_  
Name: Colin Maxwell Mowatt  
Capacity: Director  
Who warrants his authority hereto

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## USE OF PROCEEDS

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*Capitalised terms used in this section headed “Use of Proceeds” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

For purposes of the Commercial Paper Regulations it is recorded that the “*Ultimate Borrower*”, as defined in the Commercial Paper Regulations, of the net proceeds from each Tranche of Notes will be the Issuer, unless otherwise indicated in the Applicable Pricing Supplement.

The proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, or as may otherwise be described in the Applicable Pricing Supplement.

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## DESCRIPTION OF SAPPI SOUTHERN AFRICA LIMITED

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### 1. GROUP OVERVIEW

Sappi Southern Africa Limited (“**Sappi Southern Africa**”, “**SSA**” or the “**Issuer**”) is a subsidiary of Sappi Limited (“**Sappi**”, “**we**”, “**our**”, “**us**” or the “**Company**”) which is a public company founded and incorporated in 1936 in accordance with the company laws of the Republic of South Africa (“**South Africa**”). Our principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, South Africa, our telephone number is +27-11-407-8111 and our web address is [www.sappi.com](http://www.sappi.com). We currently have our primary listing on the JSE Limited (“**JSE**”), formerly the Johannesburg Stock Exchange, and have a secondary listing on the New York Stock Exchange (“**NYSE**”).

Sappi is a global pulp, paper and dissolving wood pulp solutions group. We are a leading producer of coated woodfree and coated mechanical paper widely used in books, brochures, magazines, catalogues and many other print applications. We are also a leading producer of dissolving wood pulp, used primarily in the manufacture of viscose fiber, acetate tow, and consumer and pharmaceutical products. In addition, we produce newsprint, uncoated graphic and business papers, premium quality packaging papers, a range of coated speciality papers and a range of paper grade pulp.

#### History

Until 1990, we primarily expanded our operations within southern Africa. Since 1990, we have grown through acquisitions outside of southern Africa. In the mid 1990's we acquired S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other speciality paper products. It now conducts business as Sappi Fine Paper North America. In the late 1990's we acquired KNP Leykam, a leading European producer of coated woodfree paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. In 2002 we acquired Potlatch Corporation's coated woodfree paper business and have integrated it in Sappi Fine Paper North America. In 2008 we acquired the coated graphic paper business of M-real Corporation (now known as Metsä Board) and have integrated it in Sappi Fine Paper Europe.

On January 31, 2010 we closed our production facilities at the Usutu Mill in Swaziland due to market conditions and forest fire damage. Forestry operations have, however, continued at Usutu.

During January 2010 we permanently ceased operations at the Kangas Mill in Finland. Products produced at the Kangas Mill were moved to and supplied from the Lanaken Mill in Belgium and our Kirkniemi Mill in Finland. On March 24, 2010, we announced a BEE transaction involving the issuance of 24.3 million Sappi shares (approximately 4.5% of Sappi Limited). The transaction empowers our South African employees, our strategic empowerment partner, Lereko Investments (Pty) Ltd, and the South African communities in which we operate. On April 19, 2010, we announced the acquisition of 14,500 ha of forestry land in Mpumalanga, South Africa.

During the second half of fiscal 2011, we ceased operations at our Adamas Mill in South Africa and Biberist Mill in Switzerland. We also announced significant restructuring and cost reduction programs in the European and southern African paper businesses.

To address a long-term declining trend in coated graphic paper demand in our major markets, we are in the process of repositioning the Sappi group (the “**Group**” or “**Sappi Group**”) in an effort to generate 60% or more of operating profit from higher margin products such as dissolving wood pulp and speciality casting release paper. As part of this plan we announced in fiscal 2011, an investment to convert Ngodwana Mill's bleached pulp production facility to produce 210,000 tons of dissolving wood pulp and the conversion of our Cloquet Mill's bleached pulp production facility to produce 330,000 tons of dissolving wood pulp. These conversions are planned to be completed in our 2013 fiscal year.

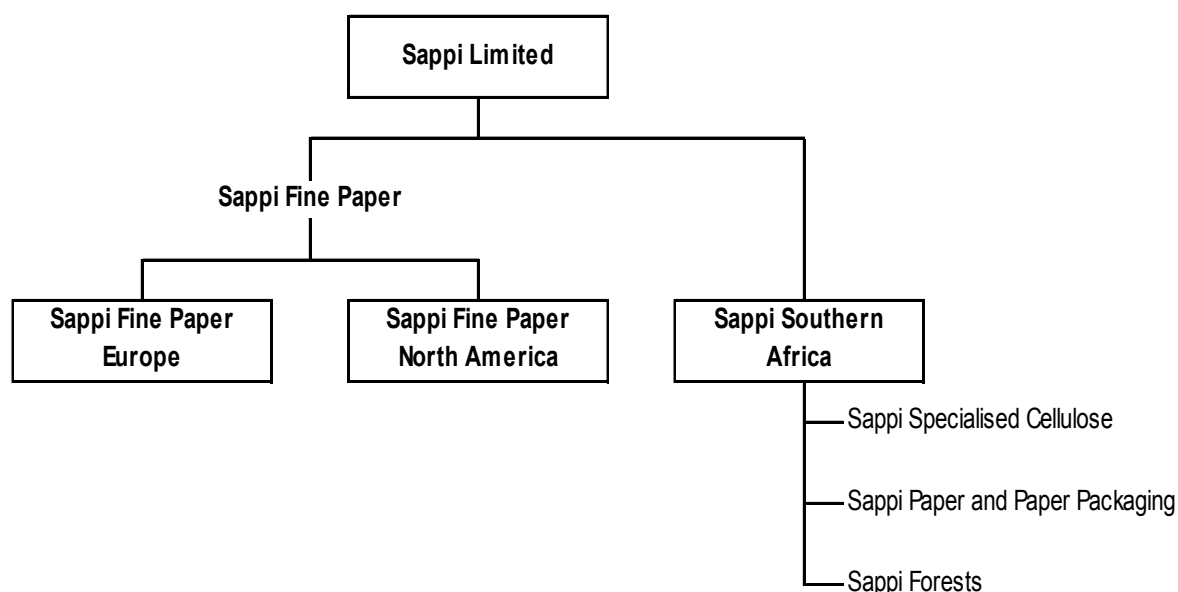
In fiscal 2012 we sold our 34% shareholding in Jiangxi Chenming Paper Company Limited, situated in the People's Republic of China, to the majority shareholder and co-founding joint venture partner for US\$42 million. The proceeds for the sale were received on November 06, 2012.

On October 12, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill. During fiscal 2012 we also announced the closure of the 10,000 ton per annum paper machine at the Tugela Mill. During fiscal 2012 we announced the closure of the pulp line



at our Enstra Mill as well as the closure of the Kraft Continuous Digester (“**KCD**”) at our Tugela Mill.

The Sappi Group has three reportable segments, Sappi Fine Paper North America, Sappi Fine Paper Europe, and Sappi Southern Africa. Sappi Fine Paper comprises the reporting segments Sappi Fine Paper North America and Sappi Fine Paper Europe. We operate 17 pulp and paper mills, with an aggregate annual paper, pulp and dissolving wood pulp production capacity of approximately 6 million tons, approximately 2.9 million tons and approximately 0.8 million tons, respectively. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of our products in areas outside our core operating segments of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa.



The following table set forth certain information with respect to our operations for, or as of the end of, fiscal 2012.

	<b>Sappi Fine Paper</b>				
	<b>North America</b>	<b>Europe</b>	<b>Sappi Southern Africa</b>	<b>Unallocated and Eliminations</b>	<b>Total</b>
					<b>(tons '000)</b>
Segment sales volume .....	1,400	3,507	2,798	—	7,705
					<b>(US\$ million)</b>
Segment sales .....	1,438	3,350	1,559	—	6,347
Segment operating profit .....	87	178	153	3	421
Segment operating profit excluding special items .....	94	133	178	(2)	403

## 2. GROUP STRATEGY

We endeavour to be a growing and profitable leader in paper and dissolving wood pulp, providing value for our shareholders and customers by leveraging our resources effectively to create wealth. In order to achieve this goal we have identified specific themes and actions.

During the course of the year Sappi has refined its strategy to the following three themes, namely: growing our Specialised Cellulose business, further optimising and improving the profitability of our paper businesses, strengthening our balance sheet and reducing debt.

### **Growing our Specialised Cellulose business**

Dissolving wood pulp production is a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. In May 2011 we invested US\$340 million in the Ngodwana Mill in order to grow our dissolving wood pulp production capacity by 210,000 tons per year. During November 2011 we announced an additional investment of US\$170 million in our Cloquet Mill pulp production facilities which will enable the mill to produce 330,000 tons of dissolving wood pulp. This is expected to increase our total dissolving wood pulp production capacity to approximately 1.3 million tons per year. Both projects have been initiated and are scheduled to be commissioned during the 2013 fiscal year.

In anticipation of the growth in production of dissolving wood pulp, we have entered into various long-term supply agreements with existing and new customers in order to secure a market for our new production capacity.

In addition, and in line with our strategy to secure a stable fiber supply for our southern African operations, we entered into long-term supply agreements with forestry companies.

### **Further optimizing and improving the profitability of our paper businesses**

Despite a long-term declining demand trend for graphic paper in our major markets, we believe that our graphic paper businesses will continue to be able to generate reasonable net profits and strong cash flows for the foreseeable future.

We have initiated actions to ensure that we continuously optimise our paper business in all three regions in which we produce paper.

A cost reduction process was implemented in Europe during 2012 which has achieved fixed and variable cost savings in excess of €100 million. Part of these actions included a decision to establish a shared service centre in Cracow, Poland. Further, during the course of 2012 we sold various non-essential assets, including the recently closed Biberist Mill property.

As a further means to improve the profitability of our paper business in Europe we have decided to convert our existing coated fine paper machine at our Alfeld Mill in Germany to produce speciality paper. This investment will result in a reduction in our capacity to manufacture coated fine paper in Europe (by 150,000 tons p.a.) in a currently over supplied market and, at the same time, increase our capacity (by 135,000 tons p.a.) to produce a more profitable speciality paper from this mill. Production is expected to start in the first quarter of fiscal 2014.

In addition to the above, we continuously evaluate our current capacity relative to demand in order to adjust capacity pro-actively.

During 2012 the southern African business underwent a restructuring exercise which resulted in both administrative and production staff being retrenched in order to optimize and improve the profitability of the southern African paper business. Sappi Southern Africa also closed two pulp lines at the Enstra and Tugela Mills, respectively. On October 12, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill due to poor market conditions.

## **Strengthening our balance sheet and reducing debt**

The group has made a concerted effort to reduce debt by introducing various initiatives to reduce cost and increase efficiencies and sell non-essential assets. Such disposals included our properties upon which our Adamas and Biberist Mills operated, as well as the disposal of our 34% shareholding in Jiangxi Chenming Paper Company, a lightweight coated paper mill in China, to the majority shareholder and co-founding joint venture partner.

Furthermore, during 2012, we raised US\$700 million, the proceeds of which were used to repay bonds maturing in 2014 and which had higher interest rates. The refinancing initiative resulted in an improved maturity profile and an annual cash interest saving of US\$30 million.

We intend to grow our Specialised Cellulose business through the investments at our Cloquet Mill and Ngodwana Mill within the constraints of the group's balance sheet and liquidity position. We will continue to carefully manage the group's level of indebtedness and to retain our focus on maintaining a good liquidity position during the implementation of our growth strategy.

## **Sappi Southern Africa Strategy**

Sappi Southern Africa's strategy is aligned to the Sappi Group strategy in that it addresses the most critical challenges facing its business, and identifies the following strategic initiatives:

- *Growing the Specialised Cellulose business:* The dissolving wood pulp business is a major contributor to Sappi Southern Africa and we will continue to explore expansion opportunities in this business and maintain our global leadership. In May 2011, the Sappi Board approved the conversion of the Ngodwana Mill to produce 210 000 tons of dissolving wood pulp per annum. Sappi Southern Africa expects that this dissolving wood pulp production will commence during the 2013 fiscal year.
- *Optimising the Paper and Paper Packaging business:* One of Sappi Southern Africa's key strategic initiatives, is to return the paper business to sustainable profitability through a programme of comprehensive and fundamental restructuring. In fiscal 2012 Sappi Southern Africa restructured its paper and paper packaging business which included the closure of a pulp line and the mothballing of a 80,000 ton per annum sackkraft machine at the Tugela Mill as well as the closure of a pulp line at the Enstra Mill.
- *Cost management and strengthening the balance sheet:* Aligned with the growth in our Specialised Cellulose business, it is a strategic imperative that Sappi Southern Africa own its fibre resource as well as maintaining a globally cost competitive resource. Thus we will continue to seek sustainable fibre expansion opportunities including re-assessing Sappi Southern Africa's fibre strategy post the Ngodwana Mill conversion.

Furthermore Sappi Southern Africa will continue to maximise energy "self-sufficiency" together with other sustainable bio-energy opportunities including the optimisation of our wood resource, as well as the generation of income from our waste streams.

## **Investment Highlights**

### **Leading market positions**

We believe we are one of the largest producers of coated woodfree paper in the world with an estimated global market share of 11% based on production capacity. On a regional basis, we have an estimated market share based on production capacity in Europe and North America of 24% and 28%, respectively. We believe we are also a global leader in the dissolving wood pulp market, through our Specialised Cellulose business. Dissolving wood pulp is a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. We have achieved leading positions in our core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands. Our leading market positions place us in an advantageous position as the global economic conditions continue to improve. We believe that the expansion of our dissolving wood pulp production

capacity in southern Africa and North America, that we are currently implementing, will favourably reposition us to generate additional benefits from any growth in this market.

### **High level of economic pulp integration**

Our group, as a whole, purchases slightly more pulp than it has the capacity to produce (including dissolving wood pulp) and is therefore generally neutral to pulp price changes. From a regional perspective, Sappi Southern Africa and Sappi Fine Paper North America are net sellers of pulp. Sappi Southern Africa has an economic capacity based pulp integration of approximately 175%. Sappi Fine Paper North America and Sappi Fine Paper Europe, which are net buyers of pulp, have capacity based pulp integration of approximately 119% and 56%, 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 and dissolving wood pulp sectors in the world. A significant portion of our past capital expenditure was used to increase production capacity at efficient facilities, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base, including by divesting or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. We have very strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio. During fiscal 2012, no mills were closed, but we closed the pulp line at our Enstra Mill as well as the closure of the Kraft Continuous Digester ("KCD") at our Tugela Mill in South Africa. Sappi Southern Africa also shut two pulp lines at the Enstra and Tugela Mills respectively and a decision was taken on October 12, 2012 to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill due to poor market conditions. We will continue to align our production capacity with market demand, which may require us to impair operating assets, sell assets or initiate further capacity reductions.

### **Global presence**

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 fiscal 2012, our operations in North America, Europe and southern Africa accounted for 23%, 53% and 24% of our sales, respectively.

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

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

### **Experienced management team and strong track record of integrating acquisitions**

Our management team has substantial experience in the global paper industry. In addition, we have been a key player in the consolidation process of the coated paper market, with a strong track record of successfully executing and integrating acquisitions. These acquisitions included S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other speciality paper products that is now Sappi Fine Paper North America, KNP Leykam, a leading European producer of coated woodfree paper that is now Sappi Fine Paper Europe, Potlatch Corporation's coated woodfree paper business that is now part of Sappi Fine Paper North America and, most recently, the coated paper business of M-real (now known as Metsä Board) that is now part of Sappi Fine Paper Europe.

## **3. THE GLOBAL PULP AND PAPER INDUSTRY**

### **3.1 Overview**

The paper industry is generally divided into the graphics paper business (consisting of woodfree paper, mechanical paper and newsprint) and the packaging business (consisting of label papers, sackkraft, boxboard and containerboard).

Over the long-term, paper and packaging consumption has grown in line with 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 as 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. Paper consumption patterns have recently been impacted by changes in consumer preferences for digital media over traditional print media.

While readership and circulation of newspapers and magazines declined in the past decade, and accessibility and use of the internet has increased, advertising expenditure has gradually shifted away from the more traditional and expensive forms of advertising, such as newspapers, magazines, radio and television, toward a greater use of electronic and digital forms of advertising, on the internet, mobile phones and other electronic devices. Competition from digital media has led to weaker demand for certain of our paper.

In addition, the pulp and paper industry, as many other industries, experienced significant recessionary pressures and lower business and consumer confidence as a result of the global economic downturn during the latter half of fiscal 2008 and fiscal 2009. As global economic conditions improved during fiscal 2010, demand for pulp and paper products improved, and market prices increased in most of our major markets. Market prices for pulp increased significantly in fiscal 2010 due to higher demand and a major earthquake in February 2010, which resulted in a disruption of supply of market pulp from Chile. During the first three quarters of fiscal 2011, pricing and demand for pulp and paper products continued to improve, with NBSK reaching a record high of US\$1,023 in June 2011, mainly driven by demand from Asia. However, the global economic recovery was negatively impacted during the latter half of calendar 2011 and the first quarter of 2012 as concerns mounted over the European sovereign debt crisis, which led to a reduction in the demand, and consequently undermined our ability to successfully implement price increases for pulp and paper products in our major markets.

In recent years, the industry experienced significant strategic changes. The high costs associated with building new paper mills and establishing and growing market share led to companies focusing on acquisitions, rather than construction of new capacity. As a result,

the regional market shares of leading producers have increased significantly over the past decade. Another important emerging trend for leading industry producers is to focus on fewer paper grades as a result of divesting non-core assets that are not part of the industry, or which have been considered not consistent with long-term strategies. Increased grade focus is more advanced in the North American paper industry when compared to Europe, where the two largest producers, Stora Enso and UPM Kymmene, still retain extensive operations across a broad range of grades.

Significant developments have also taken place in China, where rapid economic growth and government incentives have spurred investment in the pulp and paper industry. In recent years, China's paper and packaging capacity, and in particular its woodfree paper capacity, increased considerably, allowing China to change from a net importer to a net exporter of coated woodfree paper, mainly to Asian markets and to the United States. To ensure that local industries are not negatively affected by low cost substitutes from China, both the United States and the European Union imposed import duties and tariffs on certain coated paper products manufactured in China during the first half of fiscal 2011. In addition, while the coated graphic paper market is characterized by a declining demand trend in developed countries, there is a growing demand trend in China and many other emerging and developing countries.

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.

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



## Major Product Categories

## Description and Typical Uses

### **Pulp:**

**Dissolving wood pulp** Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibers. Dissolving wood pulp is used in the manufacture of a variety of cellulose textile and non-woven fiber products, including viscose staple fiber (rayon), solvent spun fiber (lyocell) and filament. It is also used in various other cellulose-based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders. The various grades of dissolving wood pulp are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the dissolving wood pulp is one of the key determinants of its suitability for particular applications with the purer grades of dissolving wood pulps generally supplied into the speciality segments.

### **Pulp:**

**Paper pulp** Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fiber derived from wood. These cellulose fibers may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibers to leave cellulose fibers. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.

**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.

	Year ended September					
	2012		2011		2010	
	High	Low	High	Low	High	Low
<b>Coated Woodfree Paper</b>						
100 gsm delivered Germany (euro per ton) <sup>(1)</sup> .....	820	735	880	780	870	710
60 lb. delivered US (US\$ per short ton) <sup>(2)</sup> .....	1,030	965	1,030	930	1,000	880
<b>Uncoated Woodfree Paper</b>						
50 lb. delivered US (US\$ per short ton) <sup>(3)</sup> .....	940	910	965	920	950	845
<b>Dissolving Wood Pulp</b>						
92 alpha (US\$ per ton) <sup>(4)</sup> .....	1,650	829	2,400	903	1,460	780
<b>Paper Pulp</b>						
NBSK (US\$ per ton) <sup>(5)</sup> .....	943	762	1,023	950	980	730

<sup>(1)</sup> 100 gsm sheets, RISI.

<sup>(2)</sup> 60 lb. Coated Web, RISI.

<sup>(3)</sup> 50 lb. Offset, RISI.

<sup>(4)</sup> Includes selected indicative spot prices. However most of our product is sold at contract prices.

<sup>(5)</sup> Northern Bleached Softwood Kraft Pulp CIF Western Europe, RISI.

## 3.2 Major Product Categories

### ***Woodfree Paper***

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

*Coated Woodfree Paper:* Major end uses of coated woodfree paper include high-end magazines, catalogues, brochures, annual reports and commercial printing. Coated woodfree paper is made from chemical pulp and is coated on one or both sides for use where high reprographic quality is required. The majority of coated woodfree paper production is coated on two sides, permitting quality printing on both sides of the paper. Paper that is coated on one side is used in special applications such as consumer product and mailing label applications.

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

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

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

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

### ***Mechanical Paper Products***

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

*Newsprint:* The Ngodwana Mill, situated in South Africa, produces newsprint. The worldwide market for newsprint is a negative growth sector in the paper industry and is adversely affected by the growing use of electronic media.

### ***Paper Packaging Products***

We are one of the major suppliers of paper packaging solutions in southern Africa, which we produce locally at our Cape Kraft, Tugela and Ngodwana Mills. These products are sold



predominantly to customers in southern Africa with some products destined for export markets.

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

### **Pulp**

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

***Dissolving Wood Pulp:*** The viscose staple fiber (“VSF”) industry, which manufactures textile and non-woven fibers, is the largest market segment for dissolving wood pulp. Most of our VSF grade dissolving wood pulp production is sold on contract to long-standing customers at prices that tend to follow the European PIX NBSK price. The remaining VSF grade dissolving wood pulp production is sold on the spot market at prices that tend to follow the international price of cotton, as VSF can be used as a substitute for cotton. The PIX NBSK linked prices decreased during 2012 as demand for paper pulp decreased alongside demand for printing and writing paper. European PIX NBSK prices in US dollars reached a high point of US\$1,023 per metric ton in June 2011 before retreating steadily to reach a low of US\$762 per metric ton by the end of September 2012. Spot prices for dissolving pulp reached record highs at the beginning of calendar 2011 but have since steadily declined as new supply capacity has begun entering the market. 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 NBSK and cotton. The market price for these dissolving wood pulp products is set by competitive forces within those specific markets.

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

NBSK prices are cyclical and can change rapidly due to changes in the dynamics of the supply/ demand balance. NBSK pulp prices reached a record high of US\$1,023 in June 2011 but have eased and were trading at US\$958 at the end of fiscal 2011. As demand for printing and writing paper decreased throughout fiscal 2012, demand for market pulp fell, along with the PIX NBSK price. For fiscal 2012, the average PIX NBSK pulp price was approximately 14% lower than that of fiscal 2011.

### **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

## **3.3 Group Funding**

The Sappi Group generally borrows in the currency of the country in which it invests. Thus, funding for Sappi’s international business is raised on the consolidated balance sheet of Sappi Papier Holding GmbH (Austria) and the Group treasury operations, Sappi International SA (Belgium). Sappi Southern Africa, however, raises its funding independently of the international business in South African Rand based on its own balance sheet.

As at 30 September 2012, Sappi Southern Africa had ZAR7 848.7 million in shareholder’s equity and ZAR1 799 million in net external interest bearing debt. At the same date, Sappi Southern Africa’s inter-company loan of ZAR1 148 million with its parent company Sappi, is considered capital in nature as it is interest free and has no fixed repayment terms. Sappi Southern Africa’s debt to equity ratio of 22.9% is therefore considered to be

conservative when compared to its financial covenants with the banks allowing a maximum gearing of 65%.

#### **4. SAPPI SOUTHERN AFRICA**

##### **4.1 Overview**

Sappi Southern Africa, headquartered in Johannesburg, South Africa, is an integrated pulp, packaging paper, coated paper, uncoated paper, speciality paper, tissue wadding and timber products producer. Sappi Southern Africa operates five paper and paper packaging mills, one dissolving wood pulp mill and one sawmill. The segment is managed in three divisions: Sappi Paper and Paper Packaging, Sappi Specialised Cellulose and Sappi Forests. Sappi Southern Africa is a major pulp and paper producer in Africa, with a production capacity of 580,000 tons of paper packaging products, 140,000 tons of newsprint, 310,000 tons of coated, uncoated and tissue paper products, 800,000 tons of dissolving wood pulp and 780,000 tons of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 554,000 hectares of forestland. Currently, we have access to approximately 400,000 hectares of plantable forestland; however, due to forest fires and timing differences between felling and planting activities, approximately 378,000 hectares is planted with primarily pine and eucalyptus. Approximately 70% of our southern African timber requirements are from our managed, owned and leased plantations. The term “directly manages” relates to plantations in southern Africa established on land that we either own or lease from a third party. The term “indirectly manages” relates 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.

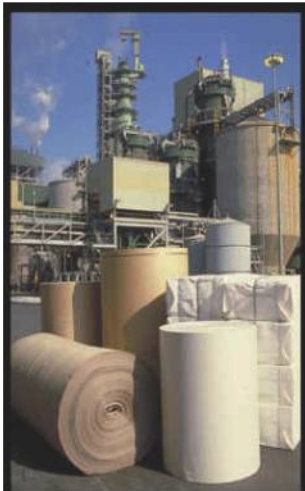
Sappi Southern Africa accounted for US\$1,559 million or 24% of our sales in fiscal 2012. The Sappi Southern Africa segment comprises three separate divisions: Sappi Specialised Cellulose, Sappi Paper and Paper Packaging and Sappi Forests.

## 4.2 Sappi Southern Africa: Major Product Categories

### Pulp Products



Sappi Southern Africa produces dissolving wood pulp through Sappi Saiccor, as well as a wide range of paper pulp grades, including groundwood pulp used in newsprint, unbleached kraft pulp, and bleached kraft pulp operating through its Ngodwana, Tugela, Cape Kraft and Usutu mills.

Product	Description	Product Description
Dissolving wood pulp	Manufactured by similar processes to paper pulp, but purified further to leave virtually pure dissolving wood pulp. The purity of the dissolving wood pulp is one of the key determinants of its suitability for particular applications with the purer grades of dissolving wood pulp generally supplied into the speciality segments. Dissolving wood pulp is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose-based applications in the food, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate tow microcrystalline cellulose, cellophane, ethers and moulding powders.	 

Product	Description	Product Description
Paper Pulp (unbleached and bleached kraft pulp)	Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibres to leave cellulose fibres. Paper made from chemical pulp is generally termed "woodfree". Paper pulp is used in production of printing, writing, packaging paper and tissue.	



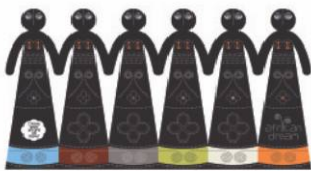
## Packaging and Groundwood Products

Sappi Southern Africa's packaging products are produced at the Tugela, Cape Kraft and Ngodwana mills. Sappi Southern Africa is one of the two major suppliers of packaging papers in South Africa.

Product	Description	Product Description
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. End uses include linerboard, plasterboard, sack kraft and machine glazed kraft. Products can be coated to enhance barrier and aesthetics properties	
Groundwood	<p><i>Newsprint</i></p> <p>Manufactured at Sappi Southern Africa's Ngodwana mill from groundwood (mechanical) and bleached chemical pulp. Major uses include advertising inserts and newspapers.</p> <p><i>Coated mechanical paper</i></p> <p>Coated paper is manufactured from groundwood (mechanical) pulp. Primarily end uses are stationery, magazines, catalogues and advertising materials.</p>	

## Coated and uncoated fine paper and speciality paper grades

Sappi Southern Africa's fine paper activities are divided into coated and uncoated fine paper and speciality paper grades.

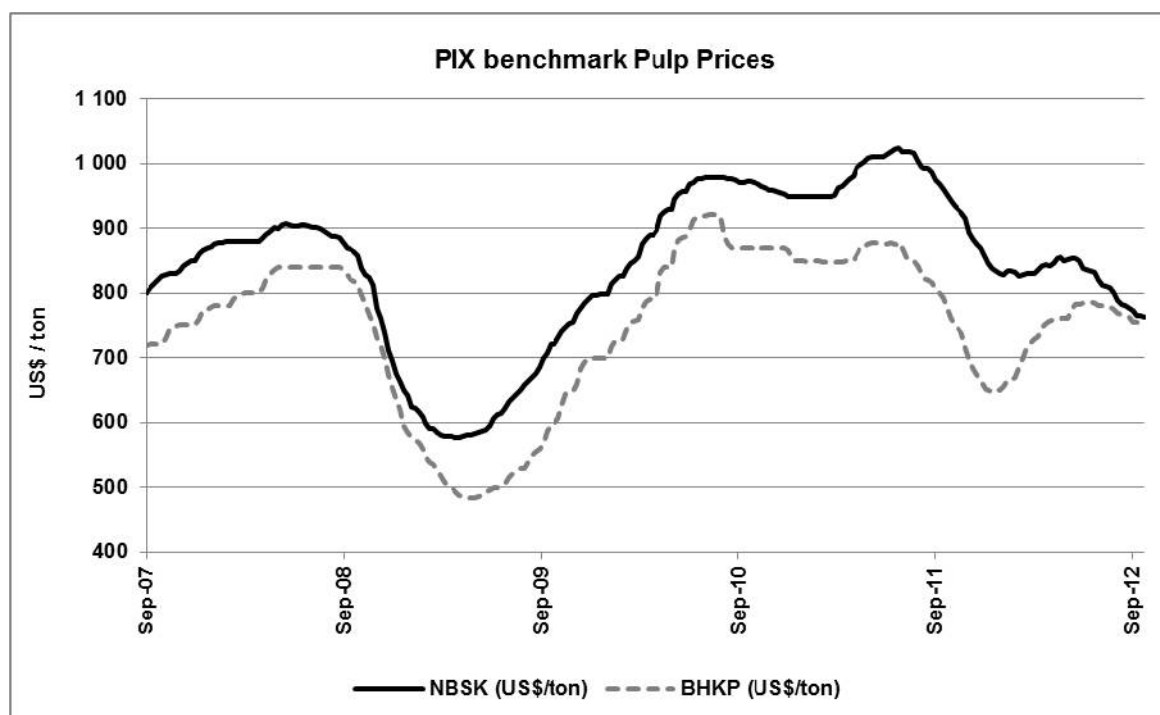
Product	Description	Product Description
Coated Fine Paper	Is made from bleached chemical pulp and coated on one or both sides for use where high reprographic quality is required. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper. Major end uses include high-end magazines, catalogues, brochures, annual reports, corporate communications materials and commercial printing.	
Uncoated Paper	Is made from bleached chemical pulp and is used for general printing or photocopying. It is referred to as uncoated as it does not contain a layer of pigment to give it a coated surface. Major end uses are business forms, business stationery, office/photocopy paper, general stationery and tissue	
Speciality Paper	A generic term for a group of papers (either coated or uncoated) intended for commercial and industrial use. Uses include bags, labels and packaging material	

### 4.3 Markets

- *Pulp* NBSK pulp prices peaked in June 2011 but began falling as worldwide economic conditions became increasingly uncertain due to the European Union sovereign debt crisis. Average PIX NBSK prices fell by approximately US\$140 per ton, or 14%, during fiscal 2012 due to lower demand for printing and writing papers around the world.

Since we sell roughly as much pulp as we purchase, fluctuations in market pulp prices have a marginal direct impact on our overall profitability. However, at a divisional level, pulp prices do affect the profitability of our divisions as Sappi Fine Paper Europe is a net buyer of pulp and Sappi Southern Africa and Sappi Fine Paper North America are net sellers of pulp.

The price of NBSK and Bleached Hardwood Kraft Pulp (BHKP) is depicted in the following chart:



Source: PIX (Index from FOEX Indexes Ltd)

Dissolving wood pulp accounts for the majority of our third-party pulp sales. The dissolving wood pulp produced at our Saiccor Mill in South Africa is used principally as an input in the production of various textile fibers, non-woven fibers, microcrystalline cellulose for the food and pharmaceutical industries, film, ethers and Cellulose Microcrystalline's ("CMC") for a range of household as well as mining products, and a number of other application areas. Sappi is not currently active in the acetate segment primarily due to production constraints at the Saiccor Mill, coupled with strong demand from its other segments.

In fiscal 2011, we announced the conversion of the pulp mills at our Cloquet Mill and our Ngodwana Mill to manufacture dissolving wood pulp instead of paper pulp. We plan to sell these volumes primarily into the commodity VSF and Lyocell production markets as a significant portion of the expected output is being contracted with key customers in those segments.

The price of dissolving wood pulp grades made by Sappi is linked to the price of NBSK. The higher technical grade specification of dissolving wood pulp allows dissolving wood pulp to trade at a premium to the listed NBSK price.

European NBSK prices in US dollar terms reached a high point of US\$1,023 per metric ton in June 2011 before retreating steadily to reach a low of US\$762 per metric ton by the end of September 2012. Spot prices for dissolving pulp reached record highs at the beginning of calendar 2011 but have since steadily declined as new supply entered the market.



Demand growth for dissolving wood pulps continues to be strong. After showing demand growth of approximately 6% in 2011, demand for dissolving wood pulp is forecast to show growth of 9% for the 2012 calendar year. Some impetus to growth is expected to be provided by the demand stimulus from significantly lower viscose staple fiber (VSF) prices.

The buoyant market conditions since 2010 and the concerns about shortages of cellulose fibers resulted in a spate of new capacity announcements both on the demand side (mainly VSF) as well as on the supply side (dissolving pulp). The capacity announcements on the supply side outstrip capacity announcements on the demand side by a significant margin. Approximately 700,000 tons per annum of new dissolving pulp capacity (excluding about 300,000 tons per annum of paper grade “extender” pulps) entered the market in calendar 2011 and was followed by a further approximately 1 million tons per annum in calendar 2012 with a further approximately 1 million tons per annum expected in 2013. Some of the most recent dissolving wood pulp capacity projects, excluding the Sappi mills, that have started up or which are about to start up include Cosmo Speciality Fibres (140,000 tons per annum), Fortress Paper (200,000 tons per annum), Sun Paper (200,000 tons per annum), Fujian (2 mills at 145,000 tons per annum), Södra (170,000 tons per annum), StoraEnso (160,000 tons per annum), Vida (30,000 tons per annum), Lee and Man (140,000 tons per annum), Paskov Biocel (240,000 tons per annum) and Hunan Juntai (300,000 tons per annum).

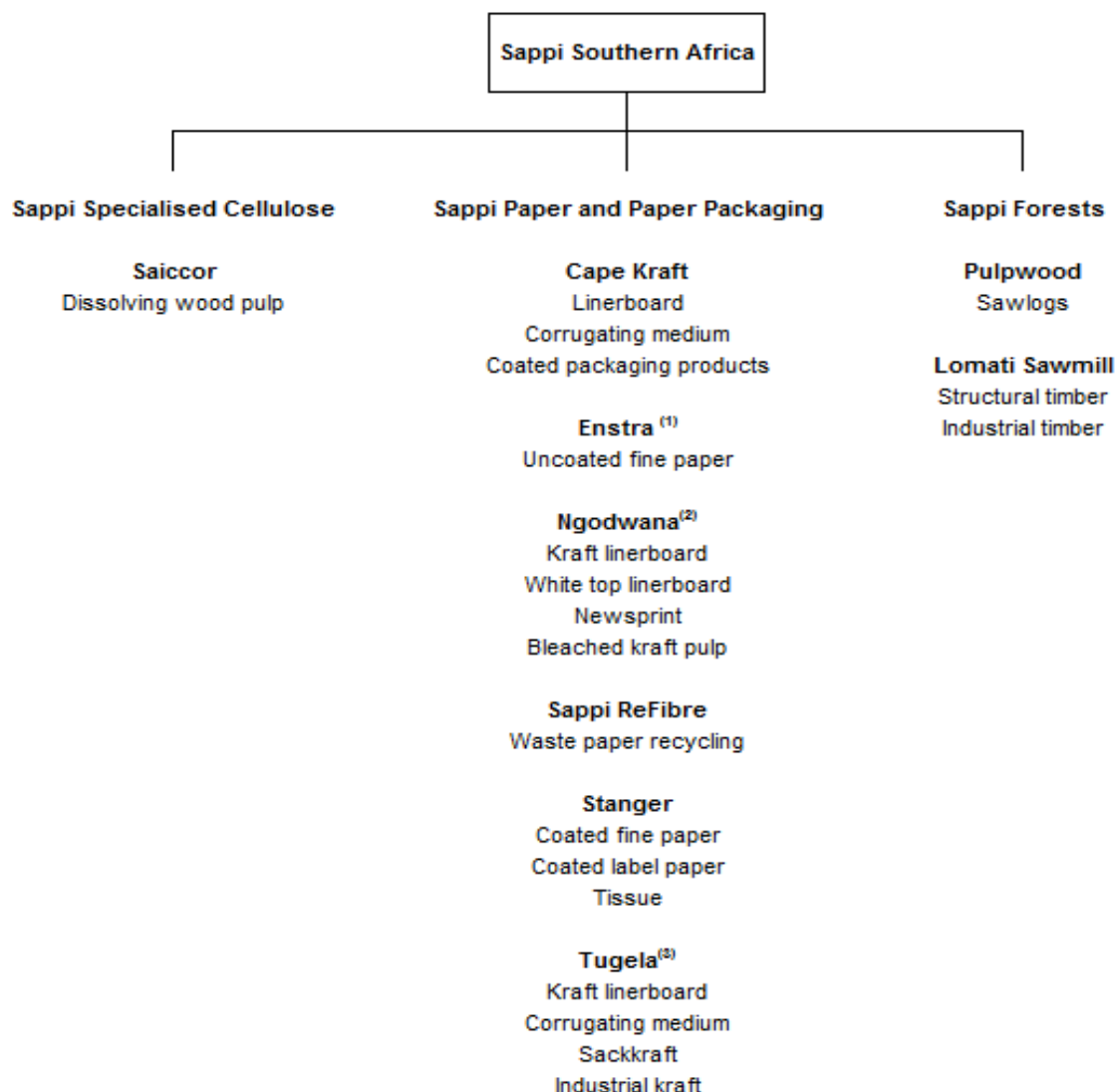
The Saiccor Mill operated at full capacity during the second half of fiscal 2009, and throughout the full 2010, 2011 (except for a three-week strike during July 2011) and fiscal 2012 years. Towards the end of calendar 2011, a number of viscose staple fiber producers, largely those purchasing dissolving wood pulp on a non-contract basis, began reducing their dissolving wood pulp order quantities as a result of weakening VSF demand, the introduction of new viscose capacity and the expectation that dissolving wood pulp prices would decrease as a result of the newly announced dissolving wood pulp capacity. However, Saiccor’s order book remains full.

- *Packaging Paper:* During fiscal 2010 global demand for packaging paper recovered, and there was an overall reduction in inventory levels throughout the supply chain. Fiscal 2011 was a transitional year for the paper business. Demand was generally weak for our packaging paper, and was further impacted by aggressive competition from imports as a result of the strong Rand. Fiscal 2012 was marked by flat volumes and prices in the South African market. Cost saving initiatives have boosted margin growth in this business.

- *Newsprint:* Sappi Southern Africa’s Ngodwana mill produces newsprint. The worldwide market for newsprint is a low growth sector in the paper industry. South African demand has fallen over the last two years as some smaller newspaper titles have stopped printing. Advertising-subsidised free daily newspapers offer steady orders for newsprint producers. During May 2013 Mondi announced the closure of one of the two newsprint machines at its Merebank mill, which will reduce the total local production of Newsprint and should have a positive impact on the local supply and demand position of newsprint from Sappi Southern Africa.

#### 4.4 Facilities and Operations

The following chart sets forth certain information with respect to the mills and principal products of Sappi Southern Africa as of September 2012:



<sup>(1)</sup> During fiscal 2012 we announced the closure of the pulp line at our Enstra Mill.

<sup>(2)</sup> During May 2011 we announced the conversion of the Ngodwana Mill pulp production facilities to produce 210,000 tons of dissolving wood pulp per annum.

<sup>(3)</sup> During fiscal 2011 we announced the closure of the 60,000 ton containerboard machine at our Tugela Mill. On October 12, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill. During fiscal 2012 we also announced the closure of the 10,000 ton per annum paper machine and the Kraft Continuous Digester ("KCD") pulp line at our Tugela Mill.



The following table sets forth sales by product for Sappi Southern Africa's operations:

	<b>Year ended September</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(US\$ million)</b>		
<b>Sales:</b>			
Commodity paper products <sup>(1)</sup> .....	457	540	462
Dissolving wood pulp .....	685	796	604
Woodfree and speciality papers .....	312	359	380
Paper pulp .....	27	26	42
Timber and timber products .....	84	80	73
<b>Total</b> .....	<b>1,559</b>	<b>1,801</b>	<b>1,561</b>

<sup>(1)</sup> Includes newsprint and packaging products.

For the fiscal years 2012 and 2011, Sappi Southern Africa sold approximately 2.8 million tons and 2.6 million tons respectively, of paper, pulp and forest products.

The following table sets forth annual production capacity with respect to Sappi Southern Africa's products:

Production capacity: ('000 tons)

<b>Paper products</b>	
Packaging paper .....	580
Newsprint .....	140
Coated woodfree paper and tissue wadding .....	110
Uncoated .....	200
<b>Total</b> .....	<b>1,030</b>
<b>Pulp</b>	
Dissolving wood pulp .....	800
Paper pulp .....	780
<b>Total</b> .....	<b>1,580</b>
Timber products <sup>(1)</sup> .....	43

<sup>(1)</sup> Represents 85,000 cubic meters.

#### 4.4.1 Sappi Specialised Cellulose

Saiccor was established in 1951 and was acquired by us in 1988. It is the world's largest single producer of dissolving wood pulp. In 1995, we completed an approximately US\$221 million expansion project to increase capacity by one third to 600,000 tons per annum. Capital expenditures during the period from October 2005 to the end of September 2010 were approximately US\$615 million. Included in this period were a modernisation project to de-bottleneck production at Saiccor at a cost of US\$40 million and an amount of US\$551 million spent on an expansion project to increase Saiccor's dissolving wood pulp capacity to 800,000 tons per annum. Construction on the expansion project commenced in August 2006 and was originally scheduled for completion in the first half of calendar 2008. Unfortunately the project was subject to delays and cost increases, with the increased capacity only coming on line in September 2008 and achieving full operational efficiency only in April 2009. As a result of the rapid decline in demand for dissolving wood pulp that was experienced in the first half of fiscal 2009, we did not utilise all of the additional capacity initially and curtailed production in certain elements of the old plant while utilising the new plant to improve efficiencies. Demand came back strongly in the latter half of fiscal 2009, fiscal 2010 and fiscal 2011 and the plant operated at full capacity, except for the three week strike in July 2011. Demand growth in the dissolving wood pulp market in the first half of 2012 has accelerated and for fiscal 2012 the plant operated at full capacity.

Saiccor's dissolving wood pulp 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 excellent breathing properties. Given their particularly high absorbency properties, these fibers are also used in non-woven applications in the healthcare, industrial and disposable product markets. Dissolving wood pulp is also used in the manufacture of acetate flake, which is used in products such as filter tow for cigarette filters, high quality yarns and fabrics, and LCD screens. It is also used to manufacture microcrystalline cellulose, which is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various ethers for the chemical industry. It is also used to manufacture cellophane film for use in a variety of packaging applications.

The mill's timber consumption is comprised primarily of eucalyptus hardwoods. These relatively fast growing trees are grown in relatively close proximity to the mill, which contributes to Saiccor's position as a low cost producer of dissolving wood pulp.

#### 4.4.2 Sappi Paper and Paper Packaging

The following table sets forth the annual paper production capacity, number of machines, and products at each of Sappi Paper and Paper Packaging's mills in South Africa:

Mill Locations in South Africa	Production capacity (‘000 tons)	Number of paper machines	Products
Cape Kraft.....	60	1	Linerboard, corrugating medium and coated products
Enstra.....	200	3	Uncoated woodfree paper
Ngodwana.....	380	2	Kraft linerboard, white top linerboard, newsprint, plasterboard and bleached and unbleached market pulp
Stanger.....	110	2	Coated woodfree paper, coated label paper and tissue
Tugela.....	280	2	Kraft linerboard, corrugating medium and sackkraft

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

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

**Ngodwana:** The Ngodwana Mill was expanded between 1981 and 1985 from an unbleached kraft mill with a capacity of 100,000 tons per annum to a modern integrated mill with a capacity of approximately 240,000 tons of linerboard and white top liner as well as 140,000 tons of newsprint per annum. The mill produces nearly 410,000 tons of bleached and unbleached pulp and 100,000 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 May 2011, we announced the approximately US\$340 million investment of the mill to change its product portfolio to include expected annual production of 210,000 tons of dissolving wood pulp per annum. The capital expenditure on the conversion project to date has been US\$152 million, of which US\$136 million was spent in fiscal 2012. The total cost of the project is expected to be US\$340 million and its commission is expected for fiscal 2013.

**Stanger:** The Stanger Mill commenced operations in 1976, and is the only producer of coated woodfree paper in South Africa. It is unique in South Africa as it uses bagasse (the fibrous residue of sugar cane) as its basic raw material to produce high quality matt and gloss coated art papers and tissue wadding.

Art paper is used for high quality books and magazines, brochures, annual reports and labels. A US\$26 million upgrade of the mill's paper machine was completed in August 2001, increasing the coated paper capacity to 80,000 tons per annum. The mill also produces 30,000 tons of tissue wadding and 60,000 tons of bleached bagasse pulp per annum. We also completed an elemental chlorine free bleach plant upgrade during 2006 at a cost of US\$11 million and installed a tissue converting line during September 2011 at a cost of US\$7 million.

*Tugela:* The Tugela Mill is our largest integrated unbleached kraft mill, with a capacity of 280,000 tons of packaging paper per annum. The mill has the capacity to supply kraft linerboard, corrugating medium and most of South Africa's requirements for sackkraft, which is used in the production of multiwall sacks. The Kraft Linerboard machine was upgraded in 1996 at a cost of approximately US\$81 million and the Sackkraft machine and components of the pulp plant were upgraded in 2003 and 2004 at a cost of approximately US\$50 million. It is the only mill in South Africa to offer high performance containerboard packaging and extensible sackkraft. During fiscal 2011, we announced the permanent suspension of production from the 60,000 ton containerboard machine at the Tugela Mill. During March 2012 we shut down a 10,000 ton per annum paper machine and the Kraft Continuous Digester pulp line as part of our restructuring programme. On October 12, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill due to poor market conditions.

*Sappi ReFibre:* Sappi Paper and Paper Packaging also manage Sappi ReFibre (formerly Sappi Waste Paper) which collected approximately 210,000 tons of waste paper during fiscal 2011 and 2012. Most of the waste paper is supplied to our mills as it represents approximately 30% of the fiber requirements of our packaging grades.

#### 4.4.3 Sappi Forests

Sappi Forests, (which includes Usutu Forests), supplies or procures all of Sappi Southern Africa's domestic pulpwood requirements of approximately 5.3 million tons per annum. 89% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 554,000 hectares of land situated in: Mpumalanga (47%), KwaZulu-Natal (41%) and Swaziland (12%).

	Hectares
Owned by us in South Africa .....	383,000
Leased by us or managed directly in South Africa .....	8,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	96,000
Leased by us in Swaziland .....	67,000
<b>Total.....</b>	<b>554,000</b>

Securing raw material for the future is a vital element in the long-term planning of Sappi Southern Africa's business. Currently, we have access to approximately 400,000 hectares of plantable forestland; of which approximately 378,000 hectares is planted with primarily pine and eucalyptus. Our plantations provide approximately 70% of the wood requirements for our southern Africa mills. Sappi Forests has an extensive research operation which concentrates on programs to improve the yield per hectare of forestland used. Significant progress has been made in developing faster-growing trees with enhanced fiber yields. Sophisticated nurseries have been developed to accommodate the seedling requirements of Sappi Southern Africa's operations. Approximately 47

million seedlings are grown annually at Sappi Forests nurseries, and by contract growers in both South Africa and Swaziland. In addition, during fiscal 2011, we announced a joint proposal with Accelerated and Shared Growth Initiative for South Africa (“AsgiSA”) to accelerate the establishment and management of 30,000 hectares of commercial tree plantations by 2020 in the Eastern Cape province of South Africa.

Sappi Forests have spent approximately US\$245 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2009 to September 2012.

The sawmill division operates one mill, Lomati sawmill, with a total production capacity of 85,000 cubic meters per annum of structural timber for the building industry and components for the furniture and packaging industry.

## **4.5 Marketing and Distribution**

### *Overview*

Each of Sappi Southern Africa’s divisions, with major South African markets, has its own marketing, sales and technical support teams based in three major centres in South Africa. Sappi Trading manages the exports of Sappi Southern Africa’s products, in particular the marketing and distribution of dissolving wood pulp produced at the Saiccor Mill.

### *Customers*

Sappi Paper and Paper Packaging’s coated and uncoated paper products are distributed in southern Africa primarily through a combination of merchants and direct sales. In addition, some large volume graphic orders and speciality grades are sold directly to printers and converters respectively. Its most significant fine paper customers include the CTP Group, Paarl Media, Antalis SA (Pty) Limited and Peters Papers.

Sappi Paper and Paper Packaging’s most significant packaging paper customers, based on sales in fiscal 2012, are Mpact, APL (Pty) Ltd, Nampak, Houers Co-operative and New Era Packaging. The most significant Newsprint customer remains CTP Limited.

A number of the major viscose staple fiber manufacturers around the world purchase dissolving wood pulp from our Specialised Cellulose division. This includes large groups such as the Aditya Birla Group and the Lenzing Group. Most of our dissolving wood pulp sales contracts are multi-year contracts with pricing generally based on a formula linked to the NBSK price, which resets on a quarterly basis.

During fiscal 2012, approximately 49% of the total sales volume (excluding Forestry sales volume) of Sappi Southern Africa was destined for the export market.

### *Competition*

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

Coated woodfree paper imports, primarily from Europe and Asia where there is currently significant over capacity, have gained an increasing share of the southern African woodfree paper market as a direct result of declining import duties which were removed in 2006. However, a portion of the imports originate from Sappi Fine Paper’s European mills.

In recent years, the regional recycled containerboard capacity has increased by approximately 120,000 tons. Due to exchange rate fluctuations and the lack of local import duties, a number of offshore containerboard suppliers have also entered the southern African packaging market.

In respect of dissolving wood pulp, competitors include Borregaard ChemCell, Bahia Pulp, Tembec Inc, Sateri Holdings Limited, Hunan Juntai Paper and Pulp, Sun Paper, Fortess Specialty Cellulose, Sodra, Weyerhaeuser, Western Pulp Inc., Buckeye Technologies Inc. and Rayonier Inc.

## **4.6 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 electricity generation. Consequently, electricity generating companies are competing for the same raw material, namely wood, in the same markets as us, thereby driving prices upwards.

### *Wood*

Sappi Southern Africa manages directly or indirectly approximately 554,000 hectares of forestland in southern Africa. Approximately 400,000 hectares are plantable forestland, which produce approximately 70% of the timber required for this reporting segment's operations. Sappi Forests owns approximately 383,000 hectares and manages the majority of the remainder. Usutu Forests cultivates 50,000 hectares of pine and eucalyptus on 67,000 hectares of land that is leased from the Swazi nation under a long-term lease agreement which is extendable to 2089. Sappi Forests presently has supply contracts for the timber from approximately 96,000 hectares of plantations planted by small growers with our technical and financial support. The remaining timber requirements are met through a number of significant medium-term contracts and open market purchases.

### *Pulp*

Following the closure of the pulp line at our Enstra Mill and the closure of the Kraft Continuous Digester ("KCD") at our Tugela Mill in fiscal 2012, Sappi Southern Africa has an economic, capacity based pulp integration of approximately 175%. Although Sappi Southern Africa is long on pulp from an economic sense, it does buy pulp on the open market, which is supplied through both local and international open market contracts, for contracted periods of between 3 and 5 years.

### *Energy Requirements*

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

Energy costs for our southern African operations have risen sharply in recent years, which has had a significant impact on profitability in the region. In addition, in February 2010, NERSA, the National Energy Regulator of South Africa, announced that it had approved substantial annual tariff increases for electricity in South Africa for the years 2010 to 2012. In fiscal 2011 and 2012, electricity purchased from Eskom amounted to approximately 20% and 21% respectively, of the variable costs in the southern African operations.

Sappi Southern Africa has contractually agreed to sell up to 35MW of electricity generated from the Saiccor and Ngodwana mills to Eskom under the Medium Term Power Purchase Program. Furthermore, Sappi Southern Africa is currently pursuing a number of renewable and co-generation energy projects in order to further increase its electricity self-sufficiency and thus to reduce the impact of higher than inflation electricity increases that are expected over the forthcoming few years.

#### *Chemicals*

Major chemicals used by Sappi Southern Africa include caustic soda, calcium carbonates, latexes, starches, sulphur and sulphuric acid. Sappi Southern Africa purchases these chemicals from a variety of South African and overseas suppliers. There are generally adequate sources of supply, and in only one case are we dependent upon a sole source of supply. Most of these chemicals are subject to price and foreign currency fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feedstock, transportation costs and the specific market supply and demand dynamics.

### **4.7 Financial Highlights**

Please refer to the financial statements as published on our website at [www.sappi.com](http://www.sappi.com) and which have been incorporated by reference into this Programme Memorandum

### **4.8 Risks Related to Our Industry**

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

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

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

Despite a relatively high level of economic pulp integration on a group-wide basis, a significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased costs. Other input cost increases including (but not limited to) energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently.

The majority of our woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed 6 to 12 months. In southern Africa, we have entered into longer-term fixed-price agreements of between 6 to 12 months duration primarily for packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5% of consolidated sales during fiscal 2012.

Most of our dissolving wood pulp sales contracts are multi-year contracts. However, the pricing is generally based on a formula linked to the NBSK price and reset on a quarterly basis.

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

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

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

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

During the latter half of fiscal 2008 and during fiscal 2009, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession was due to the subprime mortgage crisis, which originated in the United States of America, and led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or cancelled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. These trends negatively impacted our results of operations during fiscal 2009. Despite the aggressive measures taken by governments and central banks thus far, the economic recovery has been extremely slow. Certain countries have fallen back into recession and a significant risk remains that the measures taken may not



prevent the global economy from falling back into recession or even a depression. In addition, the current turmoil in the sovereign debt markets as a result of the European debt crisis has resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

Even though our operational results improved during fiscal 2011 and continued to improve during fiscal 2012, we are still negatively impacted by the slow recovery of the world economies, and the results of our European business have been adversely affected by the worsening economic conditions in Europe in the last two quarters of fiscal 2011 and fiscal 2012. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing or duration of any other downturn in the economy that may occur in the future.

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

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

We have successfully negotiated the renewal of our 2012 asset and business interruption insurance cover at more favourable rates to those of 2011. Maximum self-insured retention for any one property damage occurrence is e20.5 million, with an annual aggregate of e33 million. We are unable to predict whether past or future events will result in more or less favourable terms for 2013. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value.

From fiscal 2011, our property damage insurance policy is 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 in fiscal 2011 and fiscal 2012 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

While we believe our insurance policies provide adequate coverage for reasonably foreseeable losses, we continue working to improve risk management to lower the risk of incurring losses from uncontrolled incidents. We are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

**4.8.5      *New technologies or changes in consumer preferences may affect our ability to compete successfully.***

We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect our operations and product range could render the technologies we utilize or the products we produce obsolete or less competitive in the future. Difficulties in

assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely impact our results of operations.

Consumer preferences may change as a result of the availability of alternative products or of services including less expensive product grades, or as a result of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Over the last ten to fifteen years, the pulp and paper industry has encountered a growing transformation in consumer preference. During this time, readership and circulation of newspapers and magazines has been declining, and accessibility to, and use of, the internet has increased. As a result, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising, on the internet, mobile phones and other electronic devices, which tend to be less expensive. During the latter half of calendar 2011 and continuing into calendar 2012, competition from electronic media adversely affected demand for many of our products. While neither the exact timing nor the extent of those trends can be predicted with certainty, competition from electronic media, for example, has led to weaker demand for certain of our products in some of our markets. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and consequently, could have a material and adverse impact on our results of operations.

**4.8.6      *The cost of complying with environmental, health and safety laws may be significant to our business.***

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

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

We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade pollution control equipment at our mills and to meet new regulatory requirements, including those in the United States, southern Africa and Europe. For example, under new benchmarks for the allocation of emissions rights pursuant to European Union regulations governing the reduction of greenhouse gas emissions we expect to fall short of emission rights during the trading period beginning in 2013. We currently estimate the cost to purchase extra emission rights to be e4 million for 2013.

## **4.9 Risks Related to Our Business**

### **4.9.1 *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. For example, we are primarily financing current capital expenditures to expand our dissolving wood pulp capacity in South Africa and North America through internally generated funds and our OeKB facility. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions, which would result in a decline in global demand for our products, such as the current decline in demand in Europe, and a softening of prices for some of our products.

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

### **4.9.2 *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 mill closures and other cost saving projects, measures to enhance productivity and an expansion of our dissolving wood pulp capacity and other higher margin speciality businesses. Any future growth, cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates, or we may not be able to successfully implement part or all of our initiatives. The benefit of cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for dissolving wood pulp may decline. With respect to our investments in additional dissolving wood pulp capacity, a number of our competitors have also recently announced additional production capacities, and total announced supply capacity currently significantly outstrips announced demand capacity for dissolving wood pulp, which may adversely affect the price of dissolving wood pulp. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

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

Several global economic factors currently make the general outlook for the forthcoming fiscal years uncertain. The equity and bond markets (including sovereign debt markets) may remain volatile and move in uncertain and

unusual ways in the forthcoming fiscal years leading to significant swings in the value of the assets and liabilities of our funded and unfunded defined benefit schemes.

Generally, but not always, rising corporate bond yields reduce our net balance sheet liabilities whereas falling bond yields increase our net balance sheet liabilities. We estimate the funded status of our post-employment benefit arrangements has deteriorated slightly since the end of fiscal 2011. There is a risk that equity markets will deteriorate and bond yields will remain low in North America and Europe if the global economic climate worsens, 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 recent statutory easements in the pace of funding on these bases have provided some contribution relief to us, as long as yields on these asset classes remain low, we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

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

**4.9.3      *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 earnings in these currencies.***

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

Fluctuations in the exchange rate between currencies, particularly the Rand and euro in relation to the US dollar, have in the past and could in the future significantly affect, inter alia, our earnings, the competitiveness of our exports, the prices of imported competitors' products, and the costs of our raw materials.

Since the adoption of the euro by the European Union on January 01, 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\$1.29, US\$1.34 and US\$1.35 per euro at the end of fiscal 2012, 2011 and 2010, respectively.

In recent years, the value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R8.31, R8.10 and R7.02 per US dollar at the end of fiscal 2012, 2011 and 2010, respectively.

**4.9.4      *There are risks relating to the countries in which we operate that could impact our earnings or affect your investment in our Company.***

We own manufacturing operations in five countries in Europe, two states in the United States and in South Africa and own plantations in South Africa and Swaziland. 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.

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

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

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

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

While we continue to implement procedures to reduce our cost of commodity inputs, other than maintaining a high level of economic pulp integration, the hedging techniques we apply on our raw materials and products are on a small scale and short-term in nature. 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.

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

We require substantial amounts of oil-based chemicals, fuels and other raw materials for our production activities and transport of our timber products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber, which are consumed in our operations. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. For example, energy costs for our southern African operations have risen sharply in recent years, which has significantly impacted profitability in the region.

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

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

**4.9.7      *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, PaperlinX and Xpedx. During fiscal 2012 and 2011, no single customer individually represented more than 10% of our total sales. As a significant portion of our sales revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations.

In February 2012, our credit insurer withdrew credit insurance for a major customer of Sappi Fine Paper Europe due to concerns over the customer's lower than expected profitability. Our average monthly exposure to this customer for the 2012 calendar year has been approximately €40 million and our exposure to this customer at the end of September 2012 was €24 million. Approximately half of our exposure to this customer was credit insured prior to the withdrawal of credit insurance by the insurer. While this customer has continued to meet its payment obligations to us and has embarked on a significant restructuring program, further deterioration of this customer's financial condition may result in its inability to make payments to us which will increase our bad debt provision and reduce our revenues in the future.

**4.9.8      *The recent global liquidity and credit crises could have a negative impact on our significant customers, which in turn could materially adversely affect our results of operations and financial position.***

The global liquidity and credit crises continue to have a negative impact on businesses around the world. The impact of these crises on our significant customers cannot be predicted and may be severe. 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.

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

We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our

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

**4.9.10      *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 labour unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labour disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labour unions. This could increase expenses in absolute terms and/or as a percentage of net sales. Although we believe we have good relations with our employees, work stoppages or other labour disturbances may occur in the future which could adversely impact our business.

For example, during the 2011 wage negotiations with the southern African labour unions, most of our unionized employees participated in a strike action which affected a number of industries, including (but not limited to) the pulp and paper, chemical and transport industry. The strike action lasted for approximately three weeks and impacted our production and shipment capabilities, culminating in a loss of turnover. Furthermore, the settlement as agreed with the labour unions and our employees will require us to incur above inflation salary and wage increases for all unionized employees.

Any further strike actions or other labour disruptions, or any related negotiations that result in onerous terms for us may have an adverse effect on our business and profitability.

**4.9.11      *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 1990's a comprehensive HIV/AIDS management program to address the effects of the disease and its impact on our employees and our business, our operations, and in specific our southern African operations, continue to be exposed to certain risks related to the HIV/AIDS pandemic. We incur and will continue to incur costs related to the prevention, detection and treatment of the disease. Also, we cannot guarantee that any current or future management program will be successful in preventing or reducing the infection rate amongst 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.

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

The southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. 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 and Swaziland affecting 14,000 hectares and 26,000 hectares, respectively, of our plantations. These abnormal weather conditions might be more frequent as a result of climate change. In addition, because the transformation of land ownership and management in southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

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

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

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

Climate change 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.

**4.10 MANAGEMENT – SAPPI SOUTHERN AFRICA LIMITED**

**Chief Executive Officer**

Alex Thiel (51)\*\* BSc Mech Eng, MBA

**Chief Executive Officer**

Alex Thiel (51)\*\* BSc Mech Eng, MBA

**Finance Director**

Colin Mowatt\*\* (55) BCom Acc, CA(SA), EDP, MBL

**Technical Director**

Bertus van der Merwe\*\* (59) BSc, MBA, Hdip (Engineering)

**Other Directors**

Ralph Boëttger\*\*\* (51) B Acc Hons, CA(SA)

Steven Binnie\*\*\* (45) BComm, BAcc, CA(SA), MBA (appointed 1 September 2012)

Mark Thompson\*\*\* (60) BCom, BAcc, LLB, CA(SA) (resigned 31 August 2012)



**Information Technology Director**

Deon van Aarde\*\* (52) B Compt

Andrea Rossi\*\* (58) BSc (Engineering)  
(Hons) C Eng

**Strategic and New Business Development Director**

Tyrone Hawkes \*\* (44) BCom Hons,  
CA(SA)

Robert Hope \*\* (59) BA (Hons)  
Economics, MRICS (resigned 29  
June 2012)

**Regional Procurement Director**

Nat Maelane\*\* (53) MDP, SEP

Lucia Swartz \*\* (55) BA, Dip HR

**Human Resources Director**

Esther Letlape\*\* (45) BA, BA (Hons)  
Industrial Psychology

Maarten Van Hoven\*\*(39) BProc,  
LLM (appointed 31 March 2012)

**Sappi Saiccor Managing Director**

Gary Bowles \*\* (53) B.Sc Eng (Elect) and  
GCC & PMD (UCT)

**Group Secretary**

Denis O'Connor

**Executive Director Marketing: Sappi Paper and Paper Packaging SA**

Dinga Mncube\*\* (52) Dip (Forestry), BSc  
(Forest Management), MSc (Forest  
Products), Dip (Business Management)  
(resigned 30 November 2011)

**Secretaries**

Sappi Limited

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e-Mail Denis.O'Connor@Sappi.com

**Manufacturing Director: Sappi Paper and Paper Packaging SA**

Patrick McGrady \*\* (55) BSc Eng (Elec);  
GCC (Factories)

**Sappi Forests Managing Director**

Hendrik de Jongh\*\* (57), GCC (electrical),  
EDP and post-graduate diploma  
(Management)

\*\* Member of the Board of Directors

\*\*\* Member of the Board of Directors of  
Sappi Southern Africa Ltd and Sappi  
Limited (holding company)

**5. GOVERNANCE**

The New York Stock Exchange (NYSE) requires compliance with its corporate governance rules. The application of these NYSE rules is restricted for foreign companies, recognizing that such companies have to comply with domestic requirements. As a foreign private issuer, Sappi must comply with four NYSE corporate governance rules.

Sappi is listed on the JSE Limited and complies fully with the King III Principles on Corporate Governance for South Africa (the **King Code**). Although there are differences between the King Code and the NYSE corporate governance rules, Sappi applies the principles of the King Report and has voluntarily adopted corporate governance practices that do not differ in any significant ways from the requirements of the NYSE corporate governance rules.

## **5.1 Corporate Governance**

### **5.1.1 *The board of directors***

The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board collectively determines major policies and strategies and is responsible for managing risk, including setting risk appetite. For further information about the board and the board charter please refer to the group's website ([www.sappi.com](http://www.sappi.com)).

### **5.1.2 *Induction and training of directors***

Following appointment to the board, directors receive induction and training tailored to their individual needs. For further information refer to [www.sappi.com](http://www.sappi.com).

### **5.1.3 *Board committees***

The Sappi board has established committees to assist it with the discharge of its duties. Some of the board committees were restructured in 2012 in order to accommodate the South African Companies Act requirement for certain companies to have a social and ethics committee. These committees operate within written terms of reference set by the board. The Sappi board committees are as follows:

### **5.1.4 *Audit committee***

The audit committee consists of one independent member (Dr D Konar – chairman and non executive director of Sappi Limited) and Mr S Binnie Chief Finance Officer of Sappi Limited, and the Chief Executive Officer - Southern African (Mr A Thiel) and assists the board in discharging its duties relating to the:

- Safeguarding and efficient use of assets;
- Oversight of the risk management function;
- Operation of adequate systems and control processes;
- Reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards;
- Reviewing compliance with the group's code of ethics and external regulatory requirements;
- Oversight of the external auditors' qualifications, experience and performance;
- Oversight of the performance of the internal audit function; and
- Oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

The audit committee confirms that it has received and considered sufficient and relevant information to fulfil its duties.

The external and internal auditors attended audit committee meetings and had unrestricted access to the committee and its chairman. The external and internal auditors met privately with the audit committee on a regular basis during 2012.

The committee met four times during 2012.

#### **5.1.5      *Nomination and governance committee***

The nomination and governance committee consists of four independent Sappi Limited directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders' approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. Following the 2011 appraisal process which was conducted by an external evaluator, the 2012 performance assessments were conducted internally. As with the 2011 process, the 2012 results indicated that the board and all the board committees functioned well and that there were no major shortcomings.

#### **5.1.6      *Human resources and compensation committee***

The human resources and compensation committee consists of four independent Sappi Limited directors. The responsibilities of the human resources and compensation committee are, among others, to determine the group's human resource policy and strategy, assist with the hiring and setting of terms and conditions of employment of executives, the approval of retirement policies and succession planning for the CEO and management. The committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of executive directors and senior executives as well as employee benefits. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

Regional human resources and compensation committees meet on an ad-hoc basis to execute HR strategy and implement policy at a regional level.

#### **5.1.7      *Social, ethics, transformation and sustainability committee***

The social, ethics, transformation and sustainability ("**SETS**") committee comprises three independent non-executive Sappi Limited directors, a non-executive director and the Sappi Limited CEO. Other executive and group management committee members attend SETS committee meetings via invitation. Its mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment as well as its contribution to social and economic development and, with regards to the group's South African subsidiaries, the strategic business priority transformation.

Regional Sustainability Councils provide strategic and operational support to the SETS Committee in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

#### **5.1.8      *Treasury Committee***

The treasury committee meets regularly to assess risk and advise on treasury related matters.

#### **5.1.9      *Technical Committees***

The technical committees focus on global technical alignment, performance and efficiency measurement as well as new product development.

#### **5.1.10     *Sappi risk management team***

The Sappi Limited board mandates the group risk management team (“**GRMT**”) to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The group risk management team reports regularly on risks to the audit committee and the board. The main focus in 2012 was the updating of the risk management policy to improve alignment with practices recommended in King III. In addition, risk management software was implemented to support the risk management process throughout the group. Improvement areas for the GRMT during 2013 include the periodic review of updated risk profiles, risk treatments and related assurance as to the effectiveness thereof. We continue to improve our plant and equipment risk profile by making use of an internationally recognised 3rd party to audit and identify potential risks and where applicable the use of best practices to mitigate such risks. There will be more focus in 2013 on embedding risk management activities in the business, benchmarking and reporting.

#### **5.1.10     *Group IT steering committee***

The Group IT steering committee promotes IT governance throughout the group. The committee has a charter approved by the audit committee and the Sappi Limited board. An IT governance framework has been developed and IT feedback reports have been presented to the audit committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a group-wide risk framework supported by the use of risk management software. IT management are improving the quantification of IT project spend, related value to the business, disaster recovery plans, and IT risks, in its reporting to the audit committee.

#### **5.1.11     *Financial statements***

The directors are responsible for overseeing the preparation and final approval of the group annual financial statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. The Group's results are reviewed prior to submission to the board by external audit.

#### **5.1.12 Internal controls**

The board is responsible for Sappi's systems of internal financial and operational control. Sappi's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information, and that assets are adequately safeguarded against material loss and transactions are properly authorised and recorded. Internal controls also provide assurance that the group's resources are utilised efficiently and the activities of the group comply with applicable laws and regulations.

As part of an ongoing comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by Internal Audit, and other assurance providers were undertaken across the Group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls, procedures and systems. Identified areas of improvement are being addressed to strengthen the Group's controls further. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment are considered to be effective.

#### **5.1.13 Code of Ethics**

We have adopted a code of ethics (the “**code**”) that applies to all directors and employees of Sappi worldwide. Following a review during the course of fiscal 2012 of the wording and scope of the code, we are currently in the process of adopting an updated code.

The current code is, and the revised code will be, available on the Sappi Limited website, at [www.sappi.com](http://www.sappi.com).

### **5.2 Regulatory Framework**

The Sappi Group has implemented a legal compliance program designed to increase awareness of, and enhance compliance with, applicable legislation across the Group. A Group compliance officer has been appointed who reports semi-annually to the Group Audit Committee. The key regulatory frameworks within which Sappi Southern Africa operates and/or is required to comply are noted below:

- **International Disclosure Requirements**

Sappi Limited maintains its primary listing on the JSE and has secondary listing on the NYSE. The Group, including Sappi Southern Africa, complies in all material respects with the regulations and codes of those exchanges to the extent required.

Section 404 of the Sarbanes-Oxley Act of 2002 (the “**Sarbanes-Oxley Act**”) published in the United States of America requires companies listed on the NYSE to complete a comprehensive evaluation and report on the effectiveness of their controls over financial reporting. Sappi is required to report on the evaluation in the Form 20-F filed annually with the United States Securities and Exchange Commission.

- **Environmental**

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration in 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<sub>2</sub>**”) and other greenhouse gases (“**GHG**”), 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.

In southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and environmental considerations.

The primary South African environmental laws affecting our operations are:

- The National Water Act addresses the water shortages in South Africa and relates to both, our manufacturing and our forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.
- The National Environmental Management Act provides for the integration of environmental considerations into all stages of any development process, and in particular, provides for the issuance of environmental authorizations and imposes a duty of care regarding environmental harm. The Act includes a number of significant principles, such as prosecution of companies in the interest of the protection of the environment.
- The National Environmental Management: Air Quality Act was promulgated at the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations in 2015 and then again in 2020.
- The National Environmental Management: Waste Act was enacted on July 01, 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol: South Africa has ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period. South Africa as a developing country does not presently have targets and timetable commitments. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact on our mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over the next three to eight years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

Environmental liability assessments were done on a number of Sappi Southern Africa's mills. It was concluded that there was no material environmental liability exposure for Sappi Southern Africa with regard to present operations. The landfill sites at the Enstra and Tugela Mills could incur rehabilitation and remediation costs should Sappi Southern Africa decide to close these sites. We believe that these sites will continue to operate into the foreseeable future. Landfill sites in South Africa are regarded as assets for continued operations and for commercial on-sale due to the scarcity of available air space as the Government is reluctant to approve the development of new landfill sites. Our Enstra Mill is located in a contaminant catchment area currently being investigated by the relevant authorities as to possibly allocate responsibilities to different industries in respect of contributing to the remediation of this specific catchment. This is not expected to materialize within the next five years.

- **Safety**

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 behaviour-based safety programs throughout our group and focusing on those activities which have in the past resulted in injuries or fatalities.

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 is the Occupational Health and Safety Act (No. 85 of 1993), the Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) and related regulations. The COIDA Act regulates insurance for employees against injuries and diseases contracted in the workplace. During any project involving construction, such as the dissolving wood pulp expansion project at Ngodwana, we are also required to comply with the "Construction Regulations". Our South African businesses are audited every two years to evaluate compliance with this legislation. All Pulp and Paper mills, as well as Sappi Forests Plantations, are OHSAS 18001:2007, FSC and ISO 14001:2004 certified for health and safety management systems and environmental management systems, respectively.

### **5.3 People**

In our southern African operations 46% of employees are represented by four trade unions. Our wage negotiations with recognized trade unions take place at the Pulp and Paper Bargaining Council and Saw Milling Chamber in South Africa, and our agreements are generally annual. Most of the union members in this region are blue collar workers and artisans. The 2012 wage negotiations were successfully concluded in August 2012 without any disruption to production due to industrial actions. We agreed wage increases for our pulp and paper operations at 7.5% and for our sawmills at 7%.

The southern African region has one of the highest infection rates of HIV/AIDS in the world. The HIV/ AIDS programme is aimed at addressing the effects of HIV/AIDS on our employees and its impact on our business. Strategic interventions to manage the pandemic and prevent new infections were initiated in 1992. The key elements of the HIV/AIDS management programme include health risk assessments and counselling services. The health risk assessment mechanism

assesses the health risk levels among our employees, and channels the high risk individuals into various managed programs. Sappi Southern Africa has now reached a position where more than 56.3% of our southern African employees check their HIV status every year. Regular voluntary counselling and testing (“VCT”) ensures that we achieve early diagnosis of HIV infection to ensure timely access to care.

Following the first anonymous voluntary prevalence tests in 2003, a fourth comprehensive voluntary study was conducted during 2012 in all of our southern African operations. Based on a participation rate of greater than 80%, at the locations tested, we estimate that the overall infection rate in our southern African operations has stabilized at approximately 14.9%, which compares favourably with the national average (19.2%). In response to these surveillance results, renewed focus has been placed on the HIV/ AIDS management programme so as to further contribute to the effective containment of the pandemic. We estimate that approximately 63% of our employees that are HIV/AIDS positive participate in our HIV/ AIDS managed care programs. Furthermore, the impact of HIV/AIDS on a company is generally reflected in the mortality rate of its employees. Sappi Southern Africa’s mortality rate has more than halved from a high level of 1.12% in 2005 to a rate of 0.68% in fiscal 2012.

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 programme, thereby eliminating duplication and making optimum use of relevant resources through private-public sectors partnerships.

The Employment Equity Act which was promulgated in 1998 (No. 55 of 1998) requires certain employers to implement affirmative action measures designed to ensure that suitably qualified persons from previously disadvantaged groups (Blacks, Coloureds and Indians) have equal opportunities and are equitably represented in all occupational categories and levels in the workforce. In addition, the amended Act requires a ballot process prior to commencing with any labour strike. In complying with the Act, Sappi Southern Africa has developed the Transformation Charter, which is a strategy document aimed at driving organizational transformation and that supports the Employment Equity initiatives. A Transformation Committee comprising executive managers has been established to lead and oversee the company’s compliance with the Transformation Charter, Employment Equity and BBBEE commitments. All South African companies who by law have to comply with the Act, have to report annual progress on Employment Equity to the Department of Labour. The 2013 Employment Equity report will be submitted in January 2013 as per the Department of Labour schedule.

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) were promulgated to address skills shortage. This has been cited as a major obstacle to economic growth, social development and sustainable employment growth in South Africa. There has been significant attention given to comply with these Acts, through the Employment Equity forum. A mandatory company skills levy of 1% of total payroll, specified in accordance with the Skills Development Levies Act, was paid to the Fibre Processing and Manufacturing Sectorial Education Authority (“FPM SETA”). The percentage of this skills levy is claimable as a discretionary grant, based on the company’s implementation of the learning and development programs.

A priority and focus of Sappi Southern Africa is to improve the business competitiveness and profitability. We identified certain improvement plans including restructuring the business through managing and better aligning overheads to our business strategy. Restructuring within Sappi Southern Africa commenced in July



2011, where approximately 1,000 employees were affected, of which 694 employees were retrenched in fiscal 2012. The Adamas Mill was closed and 174 employees were retrenched by August 2011. Other restructuring processes took place within support services and operations. A hub functional structure for support services was adopted with the aim of reducing duplication of activities, inefficiencies and high overheads as well as increasing economies of scale. Further restructuring commenced during October 2012 with the mothballing of Paper Machine 4 at our Tugela Mill, which will result in approximately 300 employees being retrenched or redeployed and this process is expected to be finalized during December 2012.

#### **5.4 Broad Based Black Economic Empowerment**

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

In February 2007, the BEE scorecard as set out in the Codes of Good Practice published by the Department of Trade and Industry was streamlined and simplified without affecting their intended objectives. Our South African businesses were evaluated by Empowerdex, an independent BEE certification agency, against the Department of Trade and Industry's generic BEE scorecard and we achieved a score of 41 points with an overall BEE status of a "level seven contributor" (B rating) and a preferential procurement recognition level of 50%. Preferential procurement is used to drive transformation throughout the South African economy in that many customers will only buy from high BEE scorecard suppliers to boost their own BEE scorecard ratings. In July 2009, Empowerdex undertook the second verification of our South African businesses' BEE scorecard, and we improved our rating to a score of 54 points and an overall BEE status of a "level six contributor" (BB rating) and a preferential procurement recognition level of 60%. The Forest Sector Charter was published in the Government Gazette in June 2009 as the "Forest Sector Code". This Charter applies to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses are signatories to this charter via their membership of both Forestry South Africa ("**FSA**") and the Paper Making Association of South Africa ("**PAMSA**"). This charter sets the objectives and principles for BEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by the government and the private sector (or South African forestry companies) to assist the forestry industry to achieve its BEE targets. With effect from calendar 2010, our South African businesses were evaluated against the Forest Sector's BEE scorecard.

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

Charter and BEE legislation in general.

In September 2010, Empowerdex verified the South African businesses against the Forestry Sector's BEE scorecard for the first time, and we achieved a score of 75.2 points with an overall BEE status of a "level three contributor" and a preferential procurement recognition level of 110%. The latest Empowerdex verification of the South African businesses against the Forestry Sector's BEE scorecard was in October 2011. We achieved a score of 74.5 which was marginally lower than the 2010 score, with an overall BEE status of a "level four contributor" and a preferential procurement recognition level of 100%. As a result, 100% of the value of all purchases from our South African businesses qualify as preferential procurement spend in a customer's BEE scorecard.

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

The South African constitution guarantees ownership rights of assets, and it is the stated intent of the constitution that transfer of ownership will occur at market prices. It should be noted that BEE equity participation need not necessarily occur at the corporate level, and can be effected at divisional, business unit or lower levels. Because the BEE 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.

## **6. GENERAL DEFINITIONS APPLICABLE TO THIS SECTION**

Please refer to the financial statements as published on our website at [www.sappi.com](http://www.sappi.com) for a list of general definitions and terms.

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## INVESTOR CONSIDERATIONS/RISK FACTORS

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*Capitalised terms used in this section headed “Investor Considerations/Risk Factors” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

*The Issuer believes that the factors outlined below may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. The value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it, or which it may not currently be able to anticipate. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.*

*Prospective investors should also read the detailed information set out elsewhere in this Programme Memorandum to reach their own views prior to making any investment decision.*

*References below to the “Terms and Conditions”, in relation to Notes, shall mean the “Terms and Conditions of the Notes” set out under the section of this Programme Memorandum headed “Terms and Conditions of the Notes”.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme**

#### **Risks Relating to the Notes**

##### ***The Notes may not be a suitable investment for all investors***

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Programme Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such an investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

***There may not be an active trading market for the Notes***

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

***The Notes may be redeemed prior to maturity***

Unless in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

***Because uncertificated Notes are held by or on behalf of the CSD, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

Notes issued under the Programme which are listed on the Interest Rate Market of the JSE or such other or additional Financial Exchange and/or held in the CSD may, subject to Applicable Laws and the Applicable Procedures, be issued in uncertificated form. Unlisted Notes may also be held in the CSD in uncertificated form. Notes held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. Except in the limited circumstances described in the Terms and Conditions, investors will not be entitled to receive Individual Certificates. The CSD will maintain records of the Beneficial Interests in Notes and/or issued in uncertificated form, which are held in the CSD (whether such Notes are listed or unlisted). Investors will be able to trade their Beneficial Interests only through the CSD and in accordance with the Applicable Procedures.

Payments of principal and/or interest in respect of uncertificated Notes will be made to the CSD's Nominee or the Participants and the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the CSD's Nominee or the Participants for distribution to their account holders. A holder of a Beneficial Interest in uncertificated Notes, whether listed or unlisted, must rely on the procedures of the CSD to receive payments under the relevant Notes. Each investor shown in the records of the CSD or the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for his share of each payment so made by the Issuer to the registered holder of such uncertificated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, such Beneficial Interests.

Holders of Beneficial Interests in uncertificated Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the CSD to appoint appropriate proxies.

***Recourse to the BESA Guarantee Fund Trust***

The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market of the JSE and in accordance with the rules of the BESA Guarantee Fund Trust. Unlisted notes are not regulated by the JSE.

***Credit Rating***

Tranches of Notes issued under the Programme, the Issuer and/or the Programme, as the case may be, may be rated or unrated. A Rating is not a recommendation to buy, sell or hold securities and may

be subject to suspension, reduction or withdrawal at any time by the assigning Rating Agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

### ***Risks related to the structure of the particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

#### ***Notes subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### ***Index-Linked and Dual Currency Notes***

The Issuer may issue Notes the terms of which provide for interest or principal payable in respect of such Notes to be determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**) or with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- no interest may be payable on such Notes;
- payments of principal or interest on such Notes may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the Nominal Amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

#### ***Partly-paid Notes***

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

#### ***Notes issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### *Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate may at any time be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes where denominations involve integral multiples: Individual Certificates*

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate in respect of such holding and would need to purchase a Nominal Amount of Notes such that its holding amounts to a minimum Specified Denomination.

If Individual Certificates are issued, holders should be aware that Individual Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### ***Modification and waivers and substitution***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

#### ***Change of law***

The Notes are governed by, and will be construed in accordance with, South African law in effect as at the Programme Date. No assurance can be given as to the impact of any possible judicial decision or change to South African law or administrative practice in South Africa after the Programme Date.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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## SETTLEMENT, CLEARING AND TRANSFER OF NOTES

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*Capitalised terms used in this section headed "Settlement, Clearing and Transfer of Notes" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

### **Notes listed on the Interest Rate Market of the JSE and/or held in the CSD**

Each Tranche of Notes which is listed on the Interest Rate Market of the JSE in uncertificated form will be held in the CSD. A Tranche of unlisted Notes may also be held in the CSD.

### **Clearing systems**

Each Tranche of Notes listed on the Interest Rate Market of the JSE will be issued, cleared and settled in accordance with the Applicable Procedures for the time being of the JSE and the CSD through the electronic settlement system of the CSD. Such Notes will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the CSD.

The CSD has, as the operator of an electronic clearing system, been appointed by the JSE to match, clear and facilitate the settlement of transactions concluded on the JSE. Subject as aforesaid each Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued, cleared and transferred in accordance with the Applicable Procedures and the Terms and Conditions, and will be settled through Participants who will comply with the electronic settlement procedures prescribed by the JSE and the CSD. The Notes may be accepted for clearance through any additional clearing system as may be agreed between the JSE, the Issuer and the Dealers.

### **Participants**

The CSD maintains accounts only for Participants. As at the Programme Date, the Participants which are approved by the JSE, in terms of the debt listing requirements of the JSE, as Settlement Agents to perform electronic settlement of funds and scrip are Absa Bank Limited, Citibank N.A. South Africa Branch, FirstRand Bank Limited, Nedbank Limited, The Standard Bank of South Africa Limited, Standard Chartered Bank, Johannesburg Branch and the South African Reserve Bank. Euroclear, as operator of the Euroclear System, and Clearstream will settle off-shore transfers in the Notes through their Participants.

### **Settlement and clearing**

Participants will be responsible for the settlement of scrip and payment transfers through the CSD, the JSE and the South African Reserve Bank.

While a Tranche of Notes is held in the CSD, the CSD's Nominee, a Wholly Owned Subsidiary of the CSD approved by the Registrar of Securities Services in terms of the Financial Markets Act, and any reference to "CSD's Nominee" shall, whenever the context permits, be deemed to include any successor nominee operating in terms of the Financial Markets Act, will be named in the Register as the sole Noteholder of the Notes in that Tranche. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.

In relation to each Person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the Nominal Amount of such Notes standing to the account of such Person shall be *prima facie* proof of such Beneficial Interest. The CSD's Nominee (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market of the JSE and/or held in uncertificated form will be made to the CSD's Nominee, as the registered Noteholder of such Notes, which in turn will transfer such funds, via the Participants, to the holders of Beneficial Interests. Each of the Persons reflected in the records of the CSD or the relevant Participant, as the case may be, as the holders of Beneficial Interests in Notes shall look solely to the CSD or the relevant Participant, as the case may be, for such Person's share of each payment so made by (or on behalf of) the Issuer to, or for the order of, the CSD's Nominee, as the registered Noteholder of such Notes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market of the JSE and/or held in uncertificated form will be recorded by the CSD's Nominee, as the registered Noteholder of such Notes, distinguishing between interest and principal, and such record of payments by the CSD's Nominee, as the registered Noteholder of such Notes, shall be *prima facie* proof of such payments.

### ***Transfers and exchanges***

Subject to the Applicable Laws, title to Beneficial Interest held by clients of Participants indirectly through such Participants will be freely transferable and will pass on transfer thereof by electronic book entry in the securities accounts maintained by such Participants for such clients. Subject to the Applicable Laws, title to Beneficial Interests held by Participants directly through the CSD will be freely transferable and will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Beneficial Interests may be transferred only in accordance with the Applicable Procedures.

Beneficial Interests may be exchanged for Notes represented by Individual Certificates in accordance with Condition 14.2 (*Transfer of Notes represented by Individual Certificates*).

### ***Records of payments, trust and voting***

Neither the Issuer nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, Beneficial Interests, or for maintaining, supervising or reviewing any records relating to Beneficial Interests. Neither the Issuer nor the Paying Agent nor the Transfer Agent will be bound to record any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Note may be subject. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

### ***BESA Guarantee Fund Trust***

The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of the Notes listed on the Interest Rate Market of the JSE and in accordance with the rules of the BESA Guarantee Fund Trust.

### ***Notes listed on any Financial Exchange other than (or in addition to) the Interest Rate Market of the JSE***

Each Tranche of Notes which is listed on any Financial Exchange other than (or in addition to) the Interest Rate Market of the JSE will be issued, cleared and settled in accordance with the rules and settlement procedures for the time being of that Financial Exchange. The settlement and redemption procedures for a Tranche of Notes which is listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.



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## SUBSCRIPTION AND SALE

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*Capitalised terms used in this section headed "Subscription and Sale" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

The Dealers have in terms of the programme agreement dated 13 September 2013, as may be amended, supplemented or restated from time to time (the **Programme Agreement**), agreed with the Issuer a basis upon which it may from time to time agree to subscribe for Notes or procure the subscription of the Notes.

### **Selling restrictions**

#### **South Africa**

Each Dealer has (or will have) represented, warranted and agreed that it (i) will not offer Notes for subscription, (ii) will not solicit any offers for subscription for or sale of the Notes, and (iii) will itself not sell or offer the Notes in South Africa in contravention of the Companies Act, Banks Act, Exchange Control Regulations and/or any other Applicable Laws and regulations of South Africa in force from time to time.

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that it will not make an "offer to the public" (as such expression is defined in the Companies Act, and which expression includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. This Programme Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act.

#### *Offers not deemed to be offers to the public*

Offers for subscription for, or sale of, Notes are not deemed to be offers to the public if:

- (a) made to certain investors contemplated in section 96(1)(a) of the Companies Act; or
- (b) the total contemplated acquisition cost of Notes, for any single addressee acting as principal, shall be equal to or greater than ZAR1,000,000, or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to section 96(2)(a) of the Companies Act.

Information made available in this Programme Memorandum should not be considered as "advice" as defined in the Financial Advisory and Intermediary Services Act, 2002.

#### **United States**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that:

- (a) the Notes in that Tranche have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act;
- (b) it has not offered, sold or delivered any Notes in that Tranche and will not offer, sell or deliver any Notes in that Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 (forty) Days after completion of the distribution, as determined and certified by the Dealers or, in the case of an issue of such Notes on a syndicated basis, the relevant Lead Manager, of all Notes of the Series of which that Tranche of Notes is a part, within the United States or to, or for the account or benefit of, U.S. Persons;
- (c) it will send to each dealer to which it sells any Notes in that Tranche during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and

sales of such Notes within the United States or to, or for the account or benefit of, U.S. Persons; and

- (d) it, its Affiliates and any Persons acting on its or any of its Affiliates behalf have not engaged and will not engage in any directed selling efforts in the United States (as defined in Regulation S under the Securities Act) with respect to the Notes in that Tranche and it, its Affiliates and any Persons acting on its or any of its Affiliates' behalf have complied and will comply with the offering restrictions requirements of Regulation S.

In addition, until 40 (forty) Days after the commencement of the offering of a Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the Securities Act.

### **European Economic Area**

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of any of such Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of any of such Notes to the public in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive and/or, where appropriate, published in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with Article 18 of the Prospectus Directive and ending on the date which is 12 (twelve) months after the date of such publication;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal Persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “*Prospectus Directive*” means Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “*2010 PD Amending Directive*” means Directive 2010/73/EU.

### **United Kingdom**

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that:

- (a) in relation to any of the Notes in that Tranche which have a maturity of less than one year, (i) it is a Person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any of such Notes other than to Persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses

where the issue of such Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act, 2000 (the **FSMA**) by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any of the Notes in that Tranche under circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any of the Notes in that Tranche in, from or otherwise involving the United Kingdom.

**General**

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to agree that:

- (a) it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, subscribes or procures the subscription for, offers or sells Notes in that Tranche or has in its possession or distributes the Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, subscription, offer or sale by it of Notes in that Tranche under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscription, offers or sales; and
- (b) it will comply with such other or additional restrictions as the Issuer and such Dealer agree and as are set out in the Applicable Pricing Supplement.

Neither the Issuer nor any of the Dealers represent that Notes may at any time lawfully be subscribed for or sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder nor assumes any responsibility for facilitating such subscription or sale.

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## **SOUTH AFRICAN TAXATION**

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*Capitalised terms used in this section headed “South African Taxation” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

***The comments below are intended as a general guide to the relevant tax laws of South Africa as at the Programme Date. The contents of this section headed “South African Taxation” do not constitute tax advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.***

### **Securities Transfer Tax**

The issue, transfer and redemption of the Notes will not attract securities transfer tax under the Securities Transfer Tax Act, 2007 (the **STT Act**) because the Notes do not constitute “securities” as defined in the STT Act. Any future transfer duties and/or taxes that may be introduced in respect of (or applicable to) the transfer of Notes will be for the account of holders of the Notes.

### **Value-Added Tax**

No value-added tax (**VAT**) is payable on the issue or transfer of the Notes. The issue, sale or transfer of the Notes constitute “financial services” as defined in section 2 of the Value-Added Tax Act, 1991 (the **VAT Act**). In terms of section 2 of the VAT Act, the issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security as well as the buying and selling of derivatives constitute a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act. The Notes constitute “*debt securities*” as defined in section 2(2)(iii) of the VAT Act.

However, commissions, fees or similar charges raised for the facilitation of the issue, allotment, drawing, acceptance, endorsement or transfer of ownership of Notes will be subject to VAT at the standard rate (currently 14 percent), except where the recipient is a non-resident as contemplated below.

Services (including exempt financial services) rendered to non-residents who are not in South Africa when the services are rendered, are subject to VAT at the zero rate in terms of section 11(2)(l) of the VAT Act.

### **Income Tax**

Under current taxation law effective in South Africa, a “*resident*” (as defined in section 1 of the South African Income Tax Act, 1962 (the **Income Tax Act**)) is subject to income tax on his/her worldwide income. Accordingly, all holders of Notes who are residents of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any income (including income in the form of interest) earned in respect of the Notes.

Non-residents of South Africa are subject to income tax on all income derived from a South African source (subject to applicable double taxation treaties). Interest income is derived from a South African source if it is incurred by a South African tax resident (unless it is attributable to a foreign permanent establishment of that resident) or if it is derived from the utilisation or application in South Africa by any Person of funds or credit obtained in terms of any form of “*interest-bearing arrangement*”. The Notes will constitute an “*interest-bearing arrangement*”. The Issuer is tax resident in South Africa as at the Programme Date, accordingly, the interest earned by a Noteholder will be from a South African source and subject to South African income tax unless such interest income is exempt from South African income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act (which is effective for all amounts of interest that accrue or is paid on or after 1 July 2013), any amount of interest which is received or accrued (during any year of assessment) by or to any Person that is not a resident of South Africa is exempt from income tax, unless that Person:

- (a) is a natural Person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is received or accrued by or to that Person; or

- (b) at any time during (that year) the twelve-month period preceding the date on which the interest is received or accrued by or to that Person carried on business through a permanent establishment in South Africa.

If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, an exemption from or reduction of any South African tax liability may be available under an applicable double taxation agreement. Furthermore, certain entities may be exempt from income tax. Investors are advised to consult their own professional advisers as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation agreement.

In terms of section 24J of the Income Tax Act, broadly speaking, any discount or premium to the principal amount of a Note is treated as part of the interest income on the Note. Interest income which accrues (or is deemed to accrue) to a Noteholder is deemed, in accordance with section 24J of the Income Tax Act, to accrue on a day-to-day basis until that Noteholder disposes of the Note or until maturity unless an election has been made by the Noteholder (if the Noteholder is entitled under Section 24J(9) of the Income Tax Act to make such election) to treat its Notes as trading stock on a mark-to-market basis. This day-to-day basis accrual is determined by calculating the yield to maturity (as defined in Section 24J of the Income Tax Act) and applying this rate to the capital involved for the relevant tax period. The premium or discount is treated as interest for the purposes of the exemption under section 10(1)(h) of the Income Tax Act. With effect from 1 January 2014, the section 24J(9) election is no longer available and with effect from that date, section 24JB will deal with the fair value taxation of financial instruments for certain types of taxpayers.

### **Capital Gains Tax**

Capital gains and losses of residents of South Africa on the disposal of 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, a gain or loss must be calculated. The gain or 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 gain or loss will take into account interest which has already accrued or been incurred during the period in which the transfer or redemption occurs. In terms of section 24J(4A) of the Income Tax Act, where an adjusted loss on transfer or redemption includes interest which has been included in the income of the holder, that amount qualifies as a deduction from the income of the holder during the year of assessment in which the transfer or redemption takes place.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to 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 through which a trade is carried on in South Africa during the relevant year of assessment.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in a liability to capital gains tax.

### **Withholding Tax**

Under current taxation law in South Africa, all payments made under the Notes to resident and non-resident Noteholders will generally be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa.

The withholding tax on interest was introduced into the Income Tax Act by the Taxation Laws Amendment Act, 2010 and will come into effect on 1 March 2014 and will be applicable in respect of interest that accrues, or interest that is paid or that becomes due and payable on or after 1 March 2014. It is proposed that the withholding tax will be imposed at the rate of 15 (fifteen) percent of the amount of any interest that is paid by any Person to or for the benefit of any foreign Person to the extent that such amount of interest is from a South African source in terms of the Income Tax Act. For the purposes of the withholding tax, a "foreign Person" is defined as any Person that is not a resident. Accordingly, to the extent that any interest is paid to Noteholders who are South African tax residents, the withholding tax will not apply.

In terms of the legislation, South African sourced interest that is paid to a foreign Person in respect of any listed debt will be exempt from the withholding tax on interest. In terms of the legislation, a “listed debt” is a debt that is listed on a recognised exchange as defined in the Income Tax Act. Also exempt from the withholding tax on interest is any amount of interest from a South African source paid to a foreign Person if such foreign Person is a natural Person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve month period preceding the date on which the interest is paid or to a foreign Person who at any time during the twelve month period preceding the date on which the interest is paid carried on business in South Africa through a permanent establishment. Documentary requirements exist in order to rely on the latter exemption.

#### **Definition of Interest**

The references to “*interest*” above mean “*interest*” as understood in South African tax law. The statements above do not take account of any different definitions of “*interest*” or “*principal*” which may prevail under any other law or which may be created by the Terms and Conditions or any related documentation.

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## **SOUTH AFRICAN EXCHANGE CONTROL**

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*Capitalised terms used in this section headed “South African Exchange Control” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

*The information below is intended as a general guide to the position under the Exchange Control Regulations as at the Programme Date. The Exchange Control Regulations are subject to change at any time without notice. The contents of this section headed “South African Exchange Control” do not constitute exchange control advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.*

*For purposes of this section, **Common Monetary Area** means South Africa, Lesotho, Namibia, and Swaziland.*

### **Non-South African resident Noteholders and emigrants from the Common Monetary Area**

Dealings in the Notes and the performance by the Issuer of its obligations under the Notes and the Applicable Terms and Conditions may be subject to the Exchange Control Regulations.

#### **Blocked Rands**

Blocked Rands may be used for the subscription for or purchase of Notes. Any amounts payable by the Issuer in respect of the Notes subscribed for or purchased with Blocked Rands may not, in terms of the Exchange Control Regulations, be remitted out of South Africa or paid into any non-South African bank account.

#### **Emigrants from the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are emigrants from the Common Monetary Area will be endorsed “*emigrant*”. Such restrictively endorsed Individual Certificates shall be deposited with an authorised foreign exchange dealer controlling such emigrant’s blocked assets.

In the event that a Beneficial Interest in Notes is held by an emigrant from the Common Monetary Area through the CSD, the securities account maintained for such emigrant by the relevant Participant will be designated as an “*emigrant*” account.

Any payments of interest and/or principal due to a Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder’s Blocked Rand account, as maintained by an authorised foreign exchange dealer. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Exchange Control Regulations.

#### **Non-residents of the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are not resident in the Common Monetary Area will be endorsed “*non-resident*”. In the event that a Beneficial Interest in Notes is held by a non-resident of the Common Monetary Area through the CSD, the securities account maintained for such Noteholder by the relevant Participant will be designated as a “*non-resident*” account.

It will be incumbent on any such non-resident Noteholder to instruct the non-resident’s nominated or authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Notes are to be dealt with. Such funds may, in terms of the Exchange Control Regulations, be remitted abroad only if the relevant Notes are acquired with foreign currency introduced into South Africa and provided that the relevant Individual Certificate has been endorsed “*non-resident*” or the relevant securities account has been designated as a “*non-resident*” account, as the case may be.

The Issuer is established and domiciled in South Africa and as such is not required to obtain exchange control approval.

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## GENERAL INFORMATION

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*Capitalised terms used in this section headed “General Information” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

### Authorisation

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of South Africa as at the Programme Date have been given for the establishment of the Programme and the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Memorandum and the Notes.

### Listing

The Programme Memorandum has been approved by the JSE on 13 September 2013. Notes to be issued under the Programme will be listed on the Interest Rate Market of the JSE or any other Financial Exchange. Unlisted Notes may also be issued under the Programme Memorandum.

### Documents Available

So long as the Notes are capable of being issued under the Programme, copies of the documents incorporated under the section headed “*Documents Incorporated by Reference*” will, when published, be available at the registered office of the Issuer as set out at the end of this Programme Memorandum. This Programme Memorandum, any supplement and/or amendment hereto, and the Applicable Pricing Supplements relating to any issue of listed Notes will also be available on the Issuer’s website at <http://www.sappi.com>. In addition, this Programme Memorandum, together with any supplement and/or amendment thereto, and the Applicable Pricing Supplements relating to any issue of listed Notes will be filed with the JSE which will publish such documents on its website at <http://www.jse.co.za>.

### Material Change

As at the Programme Date, and after due and careful inquiry, there has been no material change in the financial or trading position of the Issuer since the date of the Issuer’s latest audited financial statements. As at the Programme Date, there has been no involvement by Deloitte & Touche in making the aforementioned statement.

### Litigation

Save as disclosed herein, neither the Issuer, nor any of its respective consolidated Subsidiaries is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had a significant effect on the financial position of the Issuer or its consolidated Subsidiaries.

### Auditors

Deloitte & Touche have acted as the auditors of the financial statements of the Issuer for the financial years ended September 2010, 2011 and 2012 and, in respect of those years, have issued unmodified audit reports.



## **ISSUER**

### **SAPPI SOUTHERN AFRICA LIMITED**

(registration number 1951/003180/06)

48 Ameshoff Street  
Braamfontein  
2001  
South Africa  
P O Box 31560  
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Contact: Mrs S McGinn

## **ARRANGER**

### **Nedbank Capital, a division of Nedbank Limited**

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135 Rivonia Road  
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## **DEALERS**

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### **Rand Merchant Bank, a division of FirstRand Bank Limited**

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### **Investec Bank Limited, acting through its Corporate and Institutional Banking division**

(registration number 1969/0047631)

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**PAYING AGENT AND CALCULATION  
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**TRANSFER AGENT**

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**LEGAL ADVISERS TO THE ISSUER, ARRANGER AND DEALERS**

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South Africa  
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**AUDITORS TO THE ISSUER**

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