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sappi

2018 **Risk Management Report**

2018 Risk Management Report

Risk factors

In addition to other information contained in our Annual Integrated Report, you should carefully consider the following factors before deciding to invest in our ordinary shares. The following summary is dated 07 December 2018 and describes many of the risks that could affect Sappi Limited. However, the risks and uncertainties our company faces are not limited to those described below. There may be additional risks that we do not know of or that we deem immaterial based on information available to us as of the date of this summary which may also adversely affect our business. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares.

Risks related to our industry

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

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

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

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

The majority of our woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally, would not exceed six to 12 months. In Southern Africa, we have entered into longer-term fixed-price agreements of between six and 12 months duration primarily for packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5.9% of consolidated group sales during fiscal 2018.

Most of our dissolving wood pulp sales contracts are multi-year contracts. These prices are mostly reset on a quarterly basis.

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

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

We compete against many pulp and paper producers located around the world. A trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that produce pulp and paper products at a lower cost than our mills, or are government subsidised. 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 as a result of a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs, which could lead to a loss in market share and aggressive pricing by competitors, and may force us to decrease prices to maintain market share.

We recently announced our plan to invest ZAR5 billion (US$353 million) over the next five years through maintenance and upgrade projects to decrease production costs, introduce new technology and optimise processes at Saiccor Mill. These investments will secure the mill's future by increasing its global cost competitiveness and significantly reducing its environmental footprint.

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

During the latter half of fiscal 2017 and during fiscal 2018, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or cancelled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. Despite the aggressive measures taken by governments and central banks thus far, the economic recovery remains slow. Certain countries have fallen back into recession and a significant risk remains that the measures taken may not prevent the global economy from falling back into recession. The turmoil in the sovereign debt markets as a result of the European debt crisis further resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

We are still negatively impacted by the slow recovery of the world economies, and the results of our European business have been adversely affected by the economic conditions in Europe. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing, duration or effect of any other downturn in the economy that may occur in the future.

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

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

We have successfully negotiated the renewal of our 2018 asset and business interruption insurance cover at more favourable rates to those of 2017. Maximum self-insured retention for any one property damage occurrence is €20.5 million, with an annual aggregate of €33 million. We are unable to predict whether past or future events will result in more or less favourable terms for 2019. For property damage and business interruption insurance, cost-effective cover is not generally available to full value.

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

We place the insurance for our plantations on a standalone basis into international insurance markets. While the impact of fires on our plantations during fiscal 2011 to fiscal 2018 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

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

New technologies may affect our ability to compete successfully.

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

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

Consumer preferences may change because of the availability of alternative products or services, including less expensive product grades, or because of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage, mobile devices and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Over the last 10 to 15 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, accessibility to, and use of, the internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications, including print publishing and advertising and the storage, duplication, transmission and consumption of written information generally, are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, towards a greater use of electronic and digital forms of advertising on the internet, mobile phones and other electronic devices, which tend to be less expensive. While neither the exact timing nor the extent of these trends can be predicted with certainty, competition from electronic media, for example, has led and may continue to lead to weaker demand for certain of our products, including coated woodfree and mechanical paper historically used in print publishing and advertising, as well as graphic paper more generally. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and consequently, could have a material and adverse impact on our results of operations.

Regulatory limitations/requirements on business (including complying with environmental, health and safety laws) as well as international political uncertainty (including land reform policy uncertainty in South Africa) could translate into cost increases that directly impact Sappi's competitiveness and profitability.

Our worldwide operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. We are therefore exposed 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.

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 Europe, the United States of America and Southern Africa.

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Risks related to our business

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 programmes and to pay dividends depend on our future operating performance. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions, which would result in a decline in global demand for our products, such as the current decline in demand in Europe, and a softening of prices for some of our products.

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness or reduce or delay our capital expenditures and research and development.

We may not be able to accomplish these alternatives on a timely basis or on satisfactory terms. The failure to do so could have an adverse effect on our business, results of operations and financial condition.

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

As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including high-cost capacity reductions, cost-saving projects, measures to enhance productivity and investment in our higher-margin speciality business. Any future growth, cost savings or productivity enhancements that we realise 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 realise may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for our products may decline.

During the second quarter we acquired the speciality paper business of Cham Paper Group Holding AG for US$132 million. The transaction included all brands and know-how, the Carmignano and Condino Mills (Italy), as well as their digital imaging business and facility situated in Cham (Switzerland). The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth, further acquisitions and will add approximately €183 million (US$212 million) of annual sales and approximately €20 million (US$23 million) of annual EBITDA before considering synergies. The acquisition was financed from internal resources.

During the fourth quarter we announced our commitment to capital investments at our Saiccor Mill in Umkomaas, south of Durban. The investments include a ZAR2.7 billion (US$191 million) dissolving wood pulp capacity expansion project.

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

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

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

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or inter-bank 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 a renewed European sovereign debt crisis, could negatively affect the funded status of our post-employment defined benefit arrangements.

Fluctuations in the value of currencies, particularly the Rand and the Euro in relation to the US Dollar, have in the past had, and could in the future have, a significant impact on our 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 our earnings, the competitiveness of our exports, the prices of imported competitors' products, and the costs of our raw materials. For example, weaker Euro/US Dollar exchange rates

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place pressure on our European business which purchases approximately half of its pulp requirements from local suppliers.

Since the adoption of the Euro by the European Union on 1 January 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$0.88 per Euro in October 2000 before trading at approximately US$1.16, US$1.18 and US$1.12 per Euro at the end of fiscal 2018, 2017 and 2016 respectively.

The value of the Rand against the US Dollar has fluctuated considerably, for example, moving against the US Dollar from a rate of approximately ZAR5.86 per US Dollar in December 1998 to approximately ZAR14.15, ZAR13.56 and ZAR13.11 per US Dollar at the end of fiscal 2018, 2017 and 2016 respectively.

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

We own manufacturing operations in seven countries in Europe, two states in the United States of America and in Southern Africa and own plantations in Southern Africa. We also sell our products to customers in over 150 countries worldwide. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

The inability to recover increasing input costs through increased prices of our products have 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 woodchips, in the same markets as us, driving prices upwards, especially during winter in the northern hemisphere. Although oil prices have decreased from the historical highs of 2008, they could return to high levels in the foreseeable future because of, among other things, political instability in the oil producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

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

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

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

We require substantial amounts of oil-based chemicals, fuels and other raw materials for our production activities and transport of our timber and other products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber and pulp, which are consumed in our operations. In addition, our operations are dependent on access to electricity generated by local utilities and power plants, which can at times be unpredictable. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions.

Environmental litigation aimed at protecting forests and species habitats, as well as regulatory restrictions, 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.

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

We sell a significant portion of our products to several significant customers, including Antalis, Birla, Igepa, Lenzing, Lindenmeyr, Papyrus and Veritiv. During fiscal 2017 and 2018, no single customer individually represented more than 10% of our total sales. As a significant portion of our sales, revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. In addition, we rely on credit insurance for our arrangements with certain customers, and the withdrawal or unavailability of such credit insurance may impact our ability to engage with such customers.

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

Adverse changes in economic conditions have had and may continue to have a negative impact on our significant customers. Such changes cannot be predicted and their

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impacts may be severe. For example, a disruption in the ability of our significant customers to access sources of liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position.

Similarly, sustained adverse changes in market conditions for our significant customers' products, such as lower demand or prices or increased competition, could also reduce future orders of our products and have a material adverse effect on our results of operations and financial position.

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

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

We are facing an ageing demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements.

The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

A large percentage of our employees are unionised and wage increases or work stoppages by our unionised 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. In recent years, certain of our unionised employees in Southern Africa have participated in strike actions that have resulted in interruptions in our business operations. Any 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.

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

The Southern African region has one of the highest infection rates of HIV/AIDS in the world. Although we initiated in the early 1990s a comprehensive HIV/AIDS management programme 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 programme will be successful in preventing or reducing the infection rate among our employees and any potential effect thereof on the mortality rate. We may be exposed to lost workers' time associated with the disease and a potential loss of skill, which may adversely affect our operations.

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

The Southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high. In 2017 and 2018, 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 affecting 14,000 ha 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 jeopardise our ability to supply our mills with timber from the region.

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

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

The increased emphasis on the 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 fibre sources, far beyond their traditional geographic spreads, increasing the risk that wood supply necessary to our operations may be negatively impacted.

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

We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. Although we employ safety procedures in the design and operation of our manufacturing facilities and forestry operations, there is a risk that accidents resulting in injury or death have occurred at our facilities in the past and could occur in the future. Any accident could result in manufacturing delays, which could harm our business and our results of operations. The potential liability resulting from any such accident or death, to the extent not covered by insurance, and any negative publicity associated therewith could harm our business, reputation, financial condition or results of operations. Whether or not a claim against us succeeds, its defence may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

Unforeseen shutdowns or outages at our production facilities may adversely impact our business.

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

We carry out a number of capital expenditure projects which, if delivered late or over budget, could materially adversely affect our results of operations, competitiveness and financial position.

In executing our strategy we carry out a number of capital expenditure projects. There is a risk that these projects may not be completed on time, do not deliver the expected quality or cost performance requirements or exceed the allocated capital spend. This would impact the project financial return metrics, impact normal operations, delay the time to market or loss in market share. Reasons for this could be supplier and vendor performance, skill levels and ineffective project management and controls.

Risks related to our shares

Your ability to trade a substantial number of ordinary shares may be restricted by the limited liquidity of shares traded on the JSE Limited.

Our ordinary shares are traded on the exchange operated by the JSE Limited (JSE) (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2018, 557 million of our ordinary shares were traded on the JSE. The relatively low liquidity of shares traded on the JSE Limited could affect your ability to sell ordinary shares.

Significant shareholders may be able to influence the affairs of our company.

Although our investigation of beneficial ownership of our shares identified only one beneficial owner of more than 5% of our ordinary shares, holding approximately 15.1%, as shown in our shareholders' register in September 2018, the five largest nominee shareholders on record owned approximately 40.8% of our ordinary shares as of September 2018. These significant potential voting blocks of shareholders may have the power to influence voting decisions for the shares they hold.

Risks related to our indebtedness

Our indebtedness may impair our financial and operating flexibility.

Our level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2018, our net interest-bearing debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) was US$1,568 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

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

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

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

Even though the group's credit ratings have been maintained at BB (Stable) by S&P and Ba2 (Positive) by Moody's, adverse developments in our credit rating and financial markets, including as a result of renewed turmoil in the European sovereign debt markets or deterioration of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favourable than the terms of the debt being refinanced. We may also need to agree to stricter covenants that place additional restrictions on our business.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic

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distribution of our debt. As a result, acquisitions in Europe and the United States of America were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on debt will depend on financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realised from any such disposition would depend upon circumstances at the time.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control. Our ability to make payments on our indebtedness, to refinance our indebtedness, and to fund planned capital expenditures and working capital requirements will partly depend on our ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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

If we default under our debt covenants, we may not be able to meet our payment obligations. Some of our credit facilities and other indebtedness contain covenants that restrict some of our corporate activities, including our ability to:
- Make acquisitions or investments
- Make loans or otherwise extend credit to others
- Incur indebtedness or issue guarantees
- Create security
- Sell, lease, transfer or dispose of assets
- Merge or consolidate with other companies, and
- Make a substantial change to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain covenants and specified financial covenants and ratios. Our ability to comply with these covenants and restrictions may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit the lending banks under our credit facilities or our bondholders to take certain actions, including declaring all amounts that we have borrowed under the credit facilities and other indebtedness to be due and payable, together with accrued and unpaid interest. Any acceleration of our credit facilities would cause a cross-acceleration of certain of our outstanding bonds. This would also result in an event of default under some of our debt instruments. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks and or the bondholders, they could proceed against any collateral that secures the debt under the credit facilities and our bonds. If we are unable to make payments on time or refinance our indebtedness, or if our debt or any other material financing arrangement that we enter into were to be accelerated, this could have a material adverse effect on our business and financial condition.