

sappi

investing in **growth**
2017 Annual Integrated Report

About this report

Our Annual Integrated Report for the year ended September 2017 provides both an assessment of our strategy and delivery as well as an introduction of our strategic direction, mission and vision together with our value statement. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues.

 The scope of this report includes all of our operations, as set out on page 20. We aim to present information that is material, comparable, relevant and complete. The issues and indicators we cover reflect our significant economic, environmental and social impacts, and those we believe would substantively influence the assessments and decisions of investors. The materiality of the information presented has been determined on the basis of extensive ongoing engagement with our stakeholders and has been assessed against the backdrop of current business operations, as well as prevailing trends in our industry and the global economy.

In preparing this report, we have tracked environmental findings and research, public opinion, employee views and attitudes, the interests and priorities of environmental and social groups, as well as the activities, profiles and interests of investors, employees, suppliers and customers, communities, governments and regulatory authorities.

This report is aligned with the King IV Code on Corporate Governance (King IV).

Board approval

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Annual Integrated Report and, to the best of its knowledge and belief, the Sappi Limited Annual Integrated Report for 2017 addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The report has been prepared in line with best practice and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 09 December 2017.

External assurance

Currently, assurance of sustainability information is conducted by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation. During 2017 we conducted a readiness review for external assurance and intend to have internal verification for our key sustainability metrics in 2018.



In practice, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe and globally, ISO 14001 environmental certification, ISO 9001 quality certification and OHSAS 18001 certification.


We are also assessed in terms of the forest certification systems we use, and in South Africa, our Broad-based Black Economic

Empowerment (BBBEE) performance is assessed by an external ratings agency.

In addition, our global governance, social and environmental performance is assessed annually in terms of our listing on the Socially Responsible Investment (SRI) Index of the JSE Securities Exchange (JSE).

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social, Ethics, Transformation and Sustainability Committee reviews the efficacy of conducting external assurance annually. The committee considered external verification in the year under review, but is satisfied that the sustainability information presented in this report has been provided with a reasonable degree of accuracy.

 Due to our delisting from the New York Stock Exchange in 2013, we no longer publish an annual report on Form 20-F. For information on the combined assurance framework relevant to the disclosure in this report, and for the Independent Auditor's Report, please refer to page 67 of this report and page 6 in the **Group Annual Financial Statements**. This year's report does not include summarised financials. However, the full Annual Integrated Report with financials is available on www.sappi.com in electronic and PDF format. 

 For important information relating to **forward-looking statements**, refer to the inside back cover. We present this Annual Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 130.

sappi | GalerieArt™ silk

GalerieArt™ coated fine paper manufactured at Sappi's European mills is made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests, plantations and controlled sources. These mills are third party certified according to internationally recognised standards including ISO 9001 quality and ISO 14001 and EMAS environmental certification. GalerieArt™ is acid free and fully recyclable. Printed on 135, 250 and 350g/m².


Stay informed: For a more comprehensive overview of our social, ethics, transformation and sustainability performance, please refer to:

Annual Integrated Report and Group Annual Financial Statements:
www.sappi.com/annual-reports

Quarterly results announcements and analyst presentations:
www.sappi.com/quarterly-reports

Group Sustainability Report:
www.sappi.com/sustainability

Group and regional sustainability reports

We will once again publish a Group Sustainability Report for 2017 in accordance with the Global Reporting Initiative's G4 guidelines. Additionally, each of our regions will publish separate sustainability reports for FY2017. These reports will be available early in 2018 on www.sappi.com. 



One Sappi

Sappi's 3Ps



Prosperity



People



Planet

Navigation aids:



Online information



Further reading

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Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.



Our business model

Inputs

Prosperity

Financial capital

We manage our financial capital, including shareholders' equity, debt and reinvested capital to maintain a solid balance between growth, profitability and liquidity.

- Total assets: US\$5,247 billion
- Net debt: down US\$86 million to US\$1.32 billion
- Cash and cash equivalents: US\$550 million

Manufactured capital

Investing in building, maintaining, operating and improving this infrastructure requires significant financial capital, together with human and intellectual capital.

- Nine paper mills, two specialised cellulose and paper mills, one specialised cellulose mill, two speciality paper mills, and one sawmill

Intellectual capital

Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company.

Our intellectual capital is closely aligned with our human capital.

- R&D spend: US\$29.5 million (including Exciter projects)
- Technology centres in each region
- Technology investments in 2017

People

Human capital

By creating a safe and healthy workplace for our people in which diversity is encouraged and valued, and providing them with ongoing development opportunities, we enhance productivity and our ability to service global markets.

- 12,158 employees including 851 fixed-term contractors
- US\$514 average training spend per employee

Social capital

Building relationships with our key stakeholders in a spirit of trust and mutual respect enhances both our licence to trade and our competitive advantage, thereby enabling shared value creation.

- Ongoing stakeholder engagement
- CSR spend: US\$5.3 million

Planet

Natural capital

Recognising that our business depends on natural capital, we focus on managing and mitigating our impacts.

- 2,734MW energy purchased, 1,893MW generated
- Specific energy usage: 22.77GJ/adT
- Specific process water extracted 33.74m³/adT
- 479,000ha owned or leased plantations with approximately 27.4 million tons of standing timber
- Contracted supply covers a further almost 92,000ha

Our processes

Material issues

- Stakeholder relationships
- Governance
- Cost containment and capital allocation
- Growth in the packaging sector
- Declining for graphics paper
- Growing popularity of cellulosic-based fibres
- Adjacent markets
- Safety
- Labour relations
- Community investment
- Sustainability of our woodfibre base and climate change
- Emissions regulations and carbon tax
- Energy
- Water

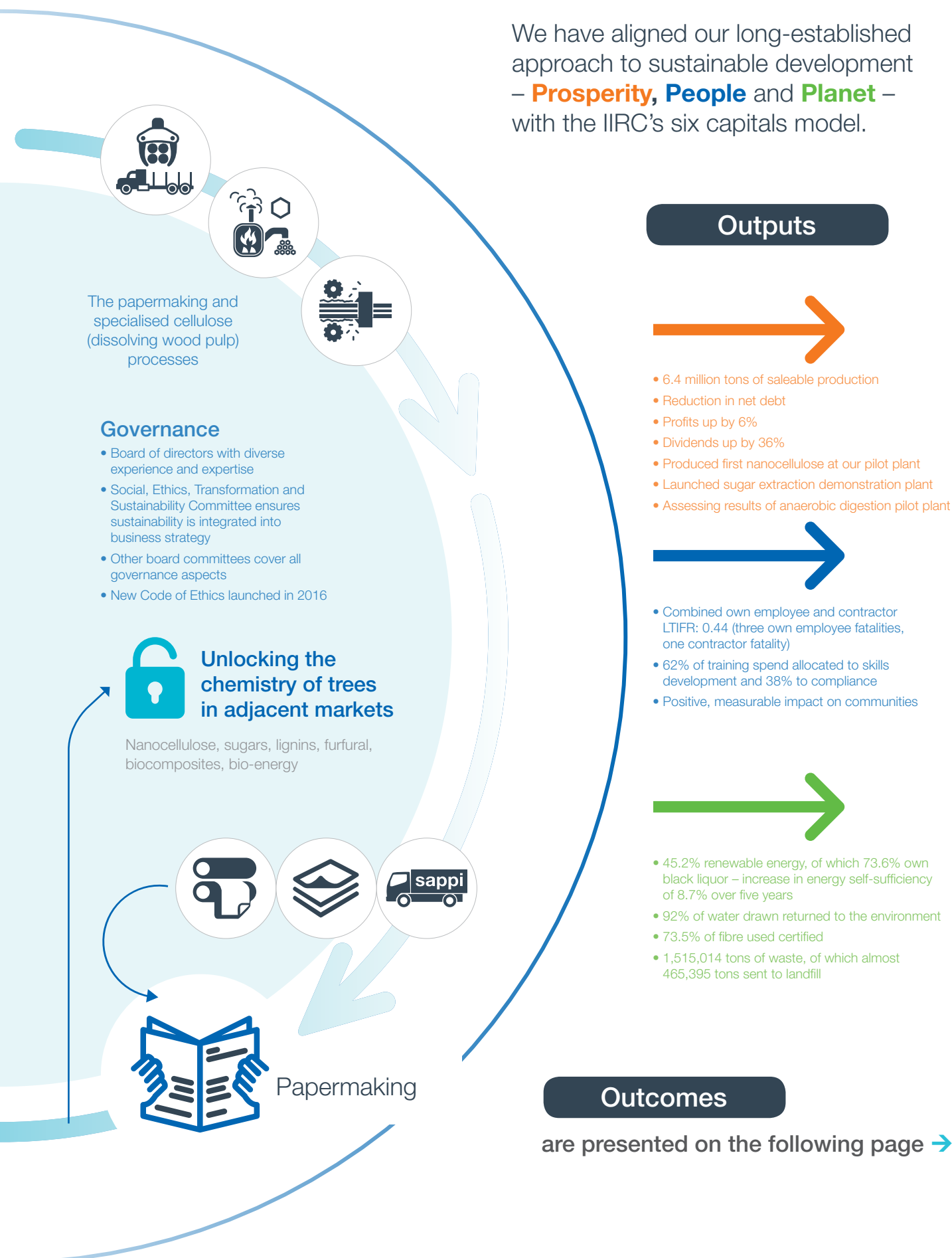


Dissolving wood pulp



Specialities and packaging papers

We have aligned our long-established approach to sustainable development – **Prosperity, People** and **Planet** – with the IIRC's six capitals model.



Outcomes of our business



¹<https://www.unilever.com/news/Press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html>

Group overview



Our engaged, motivated workforce enable realisation of our **2020Vision**, with engagement monitored by a global target.



Our specialised, sustainable packaging solutions:

- Preserve and protect
- Convey information
- Offer convenience, and
- Communicate and enhance brand image.



We play an active role in South Africa's transformation agenda and are classified as a **level 3 BBBEE contributor**.



In Southern Africa, our operations provide employment for just over **10,300 contractor employees**.



We **support local communities** and livelihoods by creating employment and business.

Our customers rely on us for technical, operational and market **expertise**.

We promote active **environmental stewardship** of our land.

We recently launched Neoterix™ ST, which creates surfaces that resist bacterial attachment and growth without the use of toxic additives or chemicals.



Our world-leading tree improvement programmes have led to **shorter growth times** and enhanced fibre gain.



Our use of natural capital



We are inspired by the art of nature and we depend on nature, so we aim to tread more lightly.

Our products come from nature and return to nature

Recyclable



Biodegradable



Some of our packaging papers are **compostable**.



Using less water (m³/adt)

Globally, we have **reduced specific process water extracted** by **7.2%** over five years.

Increasing energy self-sufficiency by **8.7%** over five years.

Reducing greenhouse gas emissions

Globally, over five years we have reduced **Specific Scope 1 emissions** by **4.6%**.

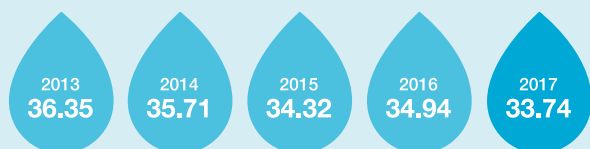
Globally, over five years we have reduced **Specific Scope 2 emissions** by **7.4%**.

5.4% reduction of absolute emissions intensity (**Specific Scope 1 and 2**) globally over five years.



Improving effluent quality

We discharge **35.5% fewer total suspended solids** in effluent than we did five years ago and our effluent has **12.9% less** chemical oxygen demand.



Generating **45.2%** renewable energy generated, of which **73.6%** own black liquor.

Responsible harvesting in sustainably managed forests and plantations perpetuates the carbon cycle and is not the same as deforestation:

Europe's net forest area is currently increasing at a rate of approximately 1.6 million hectares per annum. In the United States of America, over the last six decades, the total net forest area has increased by over 3%. In Southern Africa, we plant 1.2 trees for every tree harvested.

Ensuring responsible management of our woodfibre sources

The forests and plantations from which we source woodfibre are actively managed to **enhance biodiversity**.



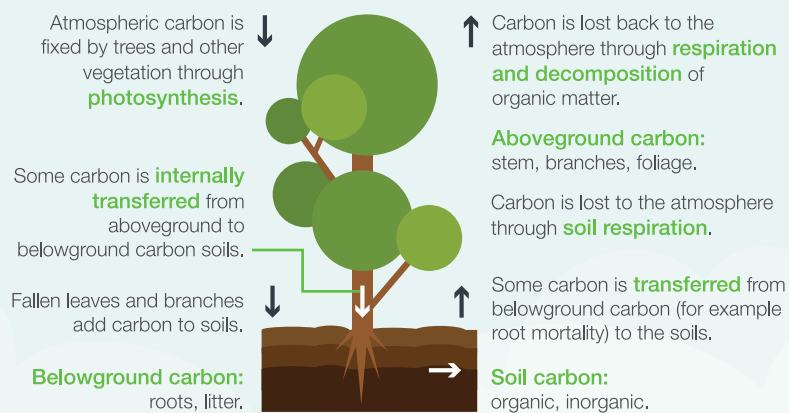
Our plantations in Southern Africa are **100% FSC®-certified**.

73.5% of woodfibre supplied to our mills is certified.



Approximately **a third of our land** is set aside for conservation purposes.

The forests and plantations from which we source woodfibre help **mitigate global warming** by acting as carbon sinks.



Our strategy

Through intentional evolution we will continue to grow Sappi into a profitable and cash-generative, diversified woodfibre group – focused on dissolving wood pulp, paper and products in adjacent fields.

At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. **Our values are underpinned by an unrelenting focus and commitment to safety.**

One
Sappi



Achieve cost advantages

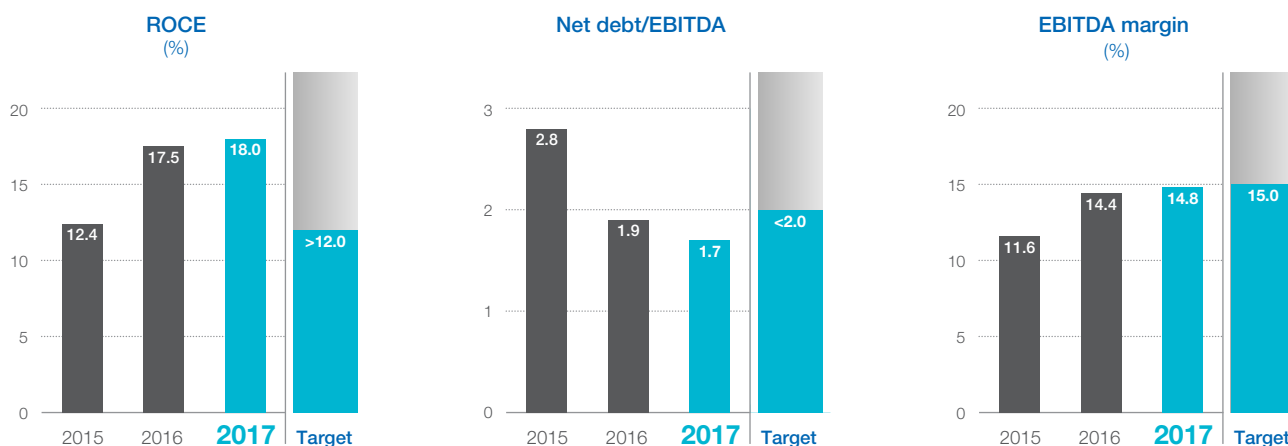
Rationalise declining businesses

Maintain a healthy balance sheet

Accelerate growth in higher margin growth segments



Performance to targets



2017 achievements



- Ongoing fixed cost savings year-on-year
- Ongoing variable cost savings year-on-year
- Investments in infrastructure and energy projects at core mills



- Continuously balance graphic paper demand and supply in all regions by converting capacity where possible to higher profitable specialties and packaging paper grades



- Maintained target of net debt/EBITDA of <2x
- Reduced net debt by US\$86 million to US\$1,322 million
- Paid back US\$400 million bond with cash reserves
- Strong cash generation



- Advancing the expansion of specialties and packaging paper grades in Europe and North America through conversions
- Acquired Rockwell solutions
- Strong pipeline of biotech business opportunities
- Maintain global leadership position in dissolving wood pulp
- Identified various growth opportunities in dissolving wood pulp and specialties and packaging papers
- Completed the construction of the nanocellulose pilot plant
- Commissioned the construction of a sugars extraction plant and acquired complementary clean-up technology (Xylex)

2018 objectives

- Continuously improve cost position
- Continue to maximise global benefits
- Best-in-class production efficiencies

- Maximise production at low-cost mills
- Continuously balance paper supply and demand in all regions
- Continue to convert low contributing graphic capacity to higher profitable specialties and packaging paper grades

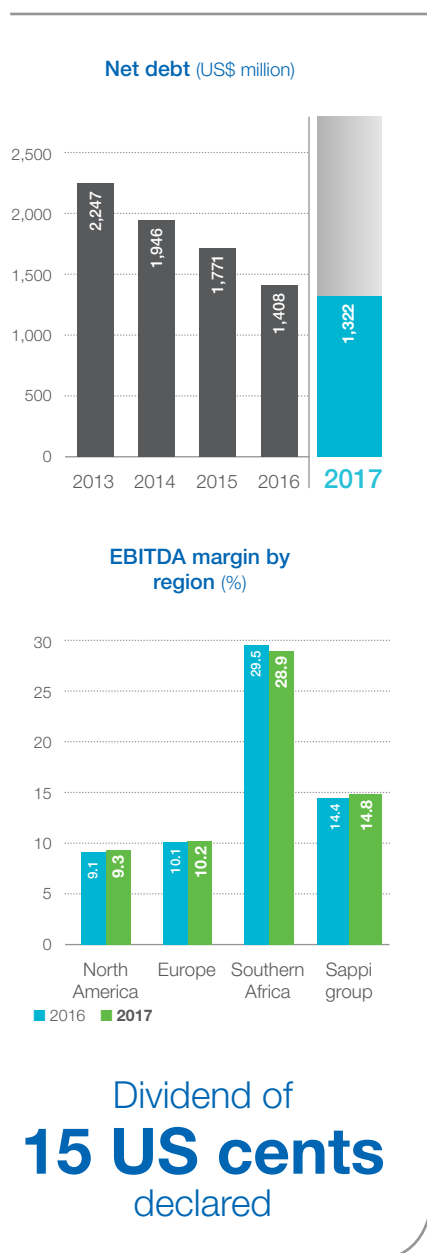
- Maintain net debt/EBITDA below 2x
- Continuously improve working capital

- Grow dissolving wood pulp capacity matching customer demand
- Continue to expand and grow specialties and packaging paper grades in all regions targeting 25% of group EBITDA
- Commence commercialisation of biotech opportunities

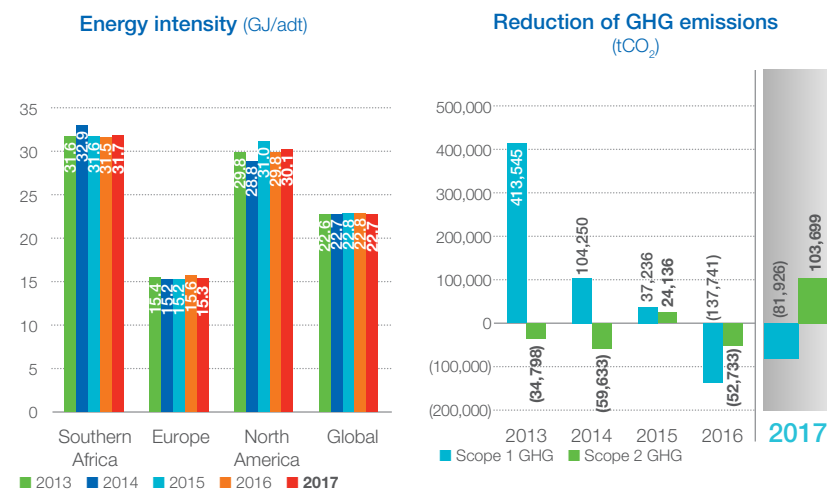
Focus and commitment to safety

Our performance in 2017

The **successful execution** of our strategy delivered a further **increase in earnings** in 2017.



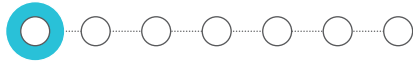
We invested capital in lowering our cost base at a number of mills during the year and repaid debt in order to lower our future debt service costs. We have also started investing for growth in our specialties and packaging papers business, with investments in both Europe and North America to convert graphic paper machines to specialties and packaging papers grades. The previous investments in dissolving wood pulp and specialties and packaging papers again delivered strong performances in the year.



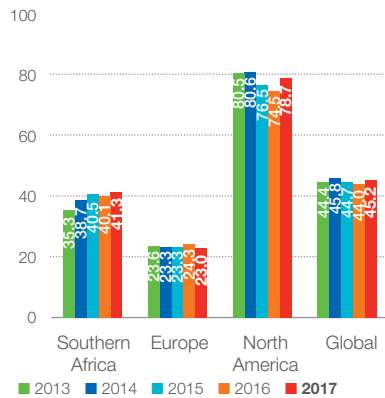
Our **European business** was able to offset lower average paper prices and significant cost pressure from higher paper pulp and latex prices through increased specialties and packaging papers sales volumes and excellent cost control.

Our **North American business** delivered a steady performance in difficult paper markets characterised by declining paper prices for much of the year and declines in overall paper demand in the United States of America. Gains in coated paper market share, higher dissolving wood pulp pricing, increased specialties and packaging papers sales and the realisation of cost savings enabled the business to improve slightly on last year's performance.

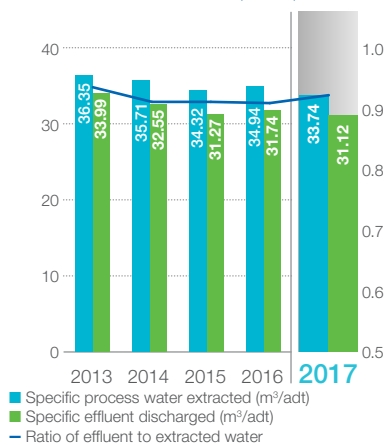
The **Southern African business** benefited from increased dissolving wood pulp sales volumes and prices, as well as good local demand for packaging papers. These negated the impact of a stronger Rand on the business.



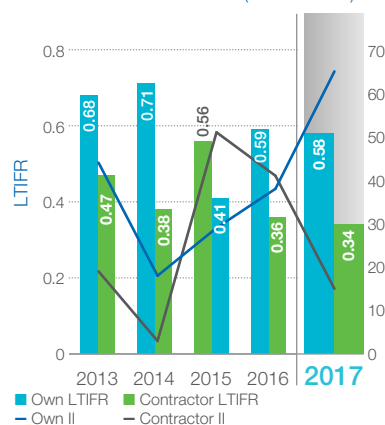
Percentage renewable energy (%)



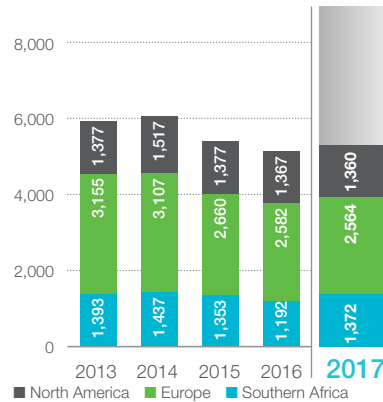
Specific water returned to extracted (m³/adt)



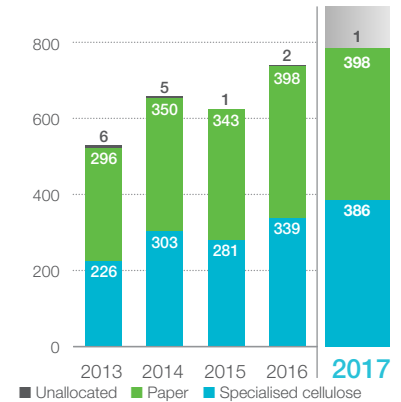
Lost-time injury frequency rate 2012 to 2017 (Year-to-date)



Sales (US\$ million)



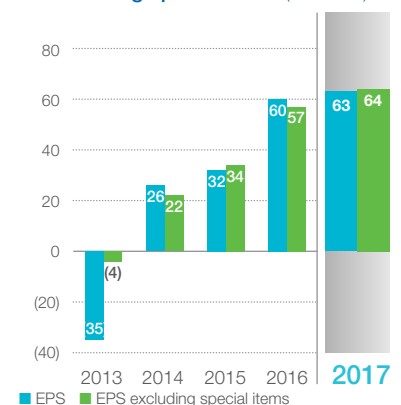
EBITDA excluding special items (US\$ million)



Operating profit excluding special items by product (%)



EPS and EPS excluding special items (US cents)



In a world increasingly exposed to the effects of climate change, both **energy efficiency** and **water use** are key metrics for us as we seek to maintain a sustainable business.

We continue to investigate and invest in processes that can make us more efficient in this regard.

We regret to have to report one contractor and four own employee (one of which was post year-end) fatalities in our forestry and mill operations respectively. After four years with no fatalities in our pulp and paper mills we have had four in the space of four months in three separate incidents. As a company we do not accept that injuries and accidents are inevitable. We have been, and continue to be, committed to our Project Zero goal of zero injuries.

Letter to stakeholders

from the Chairman and CEO

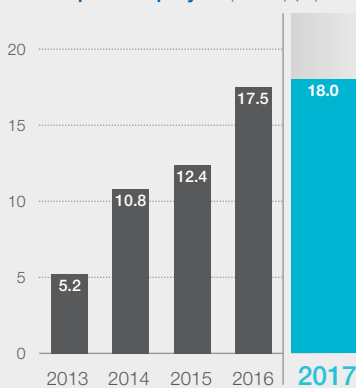
◀ Sir Nigel Rudd
Independent Chairman

Steve Binnie
Chief Executive Officer ▶

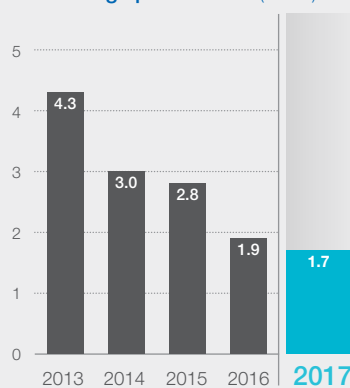


In 2017, we achieved all of our short-term targets and made significant strides towards our 2020Vision. We now have **greater flexibility to increase investments in strategic growth.**

Operating profit
excluding special items
to capital employed (ROCE) (%)

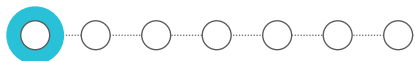


Net debt to EBITDA
excluding special items (Times)



Net operating assets
(%)





Operating review

The group delivered a further increase in EBITDA as the growth of the dissolving wood pulp (DWP) and specialties and packaging papers businesses gained momentum. Higher paper pulp prices, a key input cost, and the negative impact of a stronger Rand/Dollar exchange rate created significant challenges but ongoing initiatives to reduce variable costs and lower interest charges contributed to the success.

Following the achievement of our targeted leverage of less than two times net debt to EBITDA in the prior year, we increased investments into growth projects. Principally these related to conversions of paper machines in Europe and the United States into specialties and packaging papers grades and DWP debottlenecking projects in South Africa.

Both net profit for the year and EBITDA excluding special items increased by 6% to US\$338 million and US\$785 million respectively. The results benefited by approximately US\$20 million from an additional accounting week in the first quarter, when compared to the prior year.

We have worked very hard to create a culture which prioritises safety for our own employees and contractors at all times. While there was an improvement in the lost-time injury frequency rate for the group, we deeply regret having to report four own employee fatalities, one of which was post our year-end, and one contractor fatality in our operations. We have brought in some external experts to advise us on where we may further improve in our practices and procedures in order to entrench the safety culture with the ultimate target of zero harm.

We have built on our commitment to being an ethical corporate citizen with a continued communication and training campaign following our roll-out of the revised Code of Ethics in 2016. The Code of Ethics recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy. We have to ensure we interact ethically and honestly with our staff, customers and other stakeholders. How we do business is never a short-term consideration, but should rather contribute to our long-term sustainability. For our Code to be effective, we have to live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

Good corporate governance is of prime importance to Sappi. As such, we moved to implement the external auditor rotation recommendation of King IV prior to its formal implementation. A process in this regard commenced in 2015. KPMG was selected after a thorough search for a globally capable firm reflecting Sappi's global footprint. They have just completed their first audit for Sappi. The Sappi board is concerned about the recent allegations and investigations into KPMG and continues to engage with them on this matter. The board had a very serious debate as to whether we should appoint KPMG as our auditors at the AGM on 07 February 2018. We have expressed our concern to the senior management of KPMG around their lack of basic risk controls and potential loss of key

staff. We have been assured by KPMG International that they will support the local firm as necessary to alleviate any such risks. As a result we decided to continue with KPMG in the short-term. After the publication of the various enquiries and reports into KPMG we will revisit our decision.

Our European business delivered good profitability once again, with increased sales volumes and excellent cost control offsetting the impact of lower average paper prices and significant increases in paper pulp prices, a key raw material input. The specialties and packaging papers business continued to make good progress, with sales volumes for the year up 15% over 2016. Our focus on the growing higher-margin coated specialties and packaging papers such as release liner, solid bleached board and functional papers categories allows us to leverage our coating expertise and we are working closely with customers to develop new and innovative solutions to their packaging needs. Variable costs declined marginally during the year. This despite a 26% increase in the Euro list price of hardwood paper pulp and a 25% increase in latex costs, both major inputs to our paper business. The ongoing initiatives to reduce usage and boost efficiency were key to managing overall variable costs. Industry demand for coated woodfree and coated mechanical paper was slightly better than expected in 2017, particularly in the export markets where coated woodfree shipments increased year-on-year.

Coated paper pricing in the North American business declined 4% compared to 2016 due to an oversupplied market. However, gains in market share, increased packaging paper sales and reductions in variable costs helped offset the weaker market conditions. The Cloquet pulp mill produced both DWP and paper pulp for internal consumption in 2017 in order to maximise the profitability of the business. As our customers' demand for DWP increases we expect to slowly move towards full DWP production over the next two years. The casting release paper business remained affected by weaker demand from China.

The South African paper operations delivered enhanced profitability in 2017 notwithstanding the materially stronger Rand/Dollar exchange rate during the year. Increased sales volumes, and higher overall pricing more than offset the below inflation variable cost increases. Local containerboard sales were particularly strong and the growth in the domestic agricultural sector, particularly for fruit exports, is positive for this business.

Global demand for DWP continues to grow, and along with a generally constrained cotton supply this resulted in slightly higher average US Dollar market prices for DWP in 2017, and along with improved sales volumes led to improved profitability for our specialised cellulose business in 2017. Our specialised cellulose business was once again the main contributor to our success, delivering 49% of the group's EBITDA excluding special items, with strong margins. The stronger Rand/US Dollar lowered margins somewhat in our South African mills, though good cost control helped maintain their low-cost competitive position.

Letter to stakeholders continued

Strategic review

Our strategic 2020Vision was developed during the course of 2015, and while the core focus remains on improving profitability, cash generation and growth, we have turned our attention to more specific growth targets and aspirations. In 2017, we achieved all of our short-term targets and made significant strides towards the 2020Vision. As we have achieved our target of reducing leverage to below two times we have revised the description of our objectives somewhat to reflect the progress we have made.

Our strategy now encompasses the following four main objectives:

- **Achieve cost advantages** – We will work to improve operational and machine efficiencies, maximise procurement benefits and optimise business processes in order to lower costs.
- **Rationalise declining businesses** – Recognising the decreasing demand for graphic papers, we continuously balance paper supply and demand in all regions to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation. Where possible we will convert paper machines to higher margin businesses.
- **Maintain a healthy balance sheet** – This will reduce risk and improve our strategic flexibility.
- **Accelerate growth in higher margin growth segments** – We will invest in expanding our paper packaging grades, enhancing our specialised cellulose portfolio and in the extraction of value from our biorefinery stream.

Initiatives and actions undertaken to support our strategic objectives are outlined below.

Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to improving margins and to the sustainability of our operations, particularly in commodity type businesses such as graphic papers, where declining demand places additional pressure on margins and revenues. In 2016 we implemented a groupwide cost reduction project to lower costs through greater emphasis on global procurement, as well as local projects focused on efficiency and raw material usage. Our initial target was to achieve US\$100 million in annual savings by 2020. We are pleased to report that in 2017 we achieved more than US\$100 million in savings compared to our 2015 base year. These savings have allowed us to offset the impact of rising paper pulp and latex prices and the impact of lower graphic paper prices. In 2018 we are targeting a further US\$60 million in savings. During the year we commenced the Somerset Mill woodyard upgrade to improve reliability and enhance efficiency. In 2018 we will invest in the Saiccor woodyard, upgrade PM9 at Gratkorn Mill and will be focusing on a global logistics initiative, all of which will lower costs.

Rationalise declining businesses

Graphic paper demand in Europe and North America continues to be in long-term structural decline. Maintaining operating rates and lowering costs, in order to maximise cash generation, has been our strategy in these markets.

In a difficult North American market, our cost-competitive manufacturing facilities, excellent service to customers and superior paper quality, allowed us to increase market share in 2017.

In Europe we have focused both on cost containment and our go-to-market strategy – Sappi&You – which has enabled us to be a preferred supplier in the coated woodfree grades in particular and has seen us increase market share in a declining market.

In South Africa, we have become the sole local producer of newsprint after the closure of the last competing machine. The transfer of office paper production from Enstra Mill to Stanger Mill post the disposal of Enstra Mill in December 2015 has resulted in a more cost competitive product.

During the year we announced that in North America we will be investing approximately US\$165 million to convert PM1 at the Somerset Mill. The capacity of the machine will be expanded and it will have the flexibility to produce both coated graphics paper and paper packaging products. The project is expected to be completed in April 2018 and will replace approximately 150,000tpa of graphic paper with 350,000tpa of speciality grades.

In Europe we will undertake a number of projects that will result in a significant increase in our speciality packaging paper capacity and capability. The Maastricht Mill will be converted to focus predominantly on packaging grades and we will invest at Ehingen and Alfeld to enhance the specialities offerings. Lanaken Mill PM8 will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market. In total these European projects will cost approximately US\$140 million over a three-year period and will result in the replacement of 200,000tpa of graphic paper with a similar volume of speciality packaging paper.

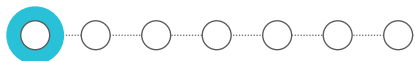
Maintain a healthy balance sheet

A healthy balance sheet is an important prerequisite in order for Sappi to make investments in higher-margin businesses. The continued improvement in our operational performance enabled us to reduce debt further and our net debt/EBITDA leverage sooner than the targets we had set ourselves. As a result we repaid US\$400 million of debt from cash reserves during the year, and our future net finance costs are expected to be in the range of US\$60 million to US\$70 million/annum. This is a significant reduction from the US\$182 million spent in 2015.

At a group level we are focused on optimising our working capital management, containing capital expenditure to US\$450 million and generating sufficient free cash to pay the annual dividend, while keeping the net debt/EBITDA ratio below two times leverage.

Accelerate growth in higher margin growth segments

With debt and leverage at levels that provide us with the necessary comfort and flexibility we started to accelerate investments in higher margin products and businesses. As



mentioned above, we are investing more than US\$300 million to convert graphic paper capacity to specialties and packaging papers and we have also completed the acquisition of Rockwell Solutions, a firm specialising in innovative barrier packaging solutions. Concerns about climate change, recycling and the environment are driving encouraging growth in paper-based packaging and we continue to look for more opportunities to expand our product offering in complementary segments of the market.

In 2017 we have initiated debottlenecking projects at both Saiccor and Ngodwana Mills with the aim to boost production by 50,000tpa at Ngodwana Mill and 10,000tpa at Saiccor Mill. Further significant expansion opportunities are also apparent in our specialised cellulose business, with robust demand growth expected from our major customers and from the DWP market in general. We intend to announce details of our plans in this regard during the first half of 2018.

Our new business development team, now named Sappi Biotech, has had a busy and successful year. During the year we commissioned a sugar extraction pilot plant at Ngodwana Mill, and produced the first batch of cellulose nanofibrils (CNF) and cellulose microfibrils (CMF) at our pilot plant at Maastricht Mill. We also acquired technology from Plaxica, a firm based in the United Kingdom which specialises in sugar extraction from waste streams. Within the next four years we believe that Sappi Biotech could contribute as much as 10% of the group's EBITDA.

Looking forward

Demand for DWP remains favourable and spot prices have increased significantly in recent weeks. After the quarter-end a severe storm caused significant damage to the harbour and logistics infrastructure in Durban, South Africa. The estimated impact on first-quarter profitability is approximately US\$4 million due to damaged inventory and lost production at Saiccor.

A significant proportion of our DWP sales prices are based on the prior quarter average market hardwood DWP price. For the first quarter of 2018 average pricing is therefore likely to be slightly lower than in the past quarter. The recent upward momentum in market prices will only be realised in our second quarter. Longer-term market dynamics remain favourable with additional demand expected to exceed supply over the next few years.

In Europe, local demand for graphic paper has stabilised somewhat and sales to export markets continue to grow. Paper pulp costs have continued to rise after year-end and margins will be under pressure.

In the United States, closures of competing mills have tightened the supply in a market that otherwise remains difficult. Further price increases have been announced and implemented after a long period of declining prices, and we are more optimistic about the prospects in the forthcoming year.

Demand for specialties and packaging papers continues to grow, and we require the additional capacity from the conversions of the paper machines at Maastricht and

Somerset Mills in order to continue to serve this growth. These conversions have commenced and are set to be completed in the second and third fiscal quarters of 2018 respectively.

Capital expenditure in 2018 is expected to increase to US\$450 million as we continue the conversions in both Europe and North America, complete the Saiccor and Ngodwana debottlenecking and start the upgrade of the Saiccor woodyard. The increase in expansionary capital spending during 2018 is focused on higher-margin growth segments including DWP and specialties and packaging papers. This will position us for stronger profitability from 2019 onwards.

The 2017 financial year included an extra trading week which contributed approximately US\$20 million to EBITDA in the first quarter of 2017. In addition, the higher external pulp costs and the aforementioned storm damage will have a negative impact on current profitability. As a result we expect the group's first quarter operating performance to be below that of the prior year.

Appreciation

Every business depends on a wide and varied group of stakeholders that contribute in many ways to our development and performance. Our interactions with these stakeholders, their ideas, suggestions and support guides us and we thank them for their contribution.

We are grateful for the support of our customers in all of our different markets, with whom we continue to work together, providing relevant products and services which provide sustainable value.

Our employees have supported the strategic initiatives of the group, and we thank them for this support and enacting our One Sappi vision. We also thank them for embracing the values and ethics that are vital to good corporate citizenship.

Our gratitude goes to the board for their continued commitment to the group, their valuable insights and encouragement and for holding us to the highest ethical standards.

We welcomed Dr Boni Mehlomakulu to the board as an independent non-executive director and as a member of the Social, Ethics, Transformation and Sustainability Committee, with effect from 01 March 2017.

In November we announced the retirement of Dr Rudolf Thummer, independent non-executive director, with effect from 31 December 2017, having reached mandatory retirement age. Dr Thummer has been a valued colleague for more than seven years having been appointed to the board in February 2010, and was appointed to the Social, Ethics, Transformation and Sustainability Committee in February 2012. We would like to thank him for the significant contribution which he has made to the board since his appointment.

In conclusion, we value the support which our shareholders have provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the AGM on 07 February 2018.

Q & A with the CEO

Steve Binnie



Each of our regions improved its operating performance and cash generation exceeded our own goals, as a result, we now have **greater flexibility to increase investments in strategic growth.**

Net profit for the year increased by 6% to

US\$338 million

EBITDA increased by 6% to

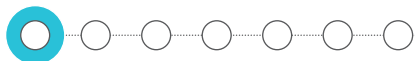
US\$785 million

Dividend declared

15 US cents

Net debt declined to

US\$1,322 million



Q Does the growth in Sappi's specialities and packaging papers sales volumes this year indicate that your investment in this market segment is justified?

A Sales growth in this segment, both in Europe and North America, has been above the overall market growth rates, and we have reached the limit of our current specialities and packaging papers capacity. The investments announced in February 2017 to convert graphic paper machines at our Maastricht and Somerset Mills are well underway and are expected to be complete in the second and third fiscal quarters respectively. These conversions will boost our specialities and packaging papers capacity by approximately 550,000tpa.

Our expertise in paper-based coatings, investment in R&D and our commitment to develop product solutions alongside some of the world's leading fast moving consumer goods (FMCG) companies have all contributed to our success in the past few years. In the past year we also announced the acquisition of Rockwell Solutions, a firm specialising in film coatings for the packaging industry and which has recently developed a non-solvent-based barrier for paper applications. Sappi has a growing reputation for offering premium speciality papers and boards for the packaging industry, but market requirements are changing continuously and brand owners are aiming for more sustainable solutions without compromising functionality. Paper-based barrier solutions have gained more focus as a sustainable alternative to film/foil laminate-based flexible packaging materials. This acquisition will give Sappi valuable insight into film products we will compete with, product performance experience and a much deeper market insight. Our focus is to introduce paper-based packaging solutions to brand owners who are used to working with plastic packaging solutions. Rockwell has been working on recyclable and compostable barrier films, making them a complementary solution to Sappi's paper-based barrier solutions.

Post the reporting period Sappi announced an important investment due to be finalised in calendar Q1 2018. More details can be found at www.sappi.com. Sappi agreed to acquire the specialities and packaging papers business of Cham Paper Group Holding AG for CHF146.5 million. The acquisition will add 160,000tpa of speciality paper to our capacity. The transaction will increase profitability and unlock the significant growth and innovation potential in this market.



Q Demand for dissolving wood pulp (DWP) continues to grow above your stated market expectations – what expansion plans do you have in your specialised cellulose business?

A Demand for DWP has indeed exceeded our longer-term 4% to 5% growth per annum expectation, having been closer to 10% per annum on average. Both cotton, which competes with viscose, and cotton linter pulp, an alternative feedstock to the viscose staple fibre (VSF) industry, experienced either diminishing or, at most, stable supply over the past few years facilitating increased demand for VSF and consequently DWP. Our VSF customers have increased demand during this time, and have additional expansion plans over the next five years or more. Currently we produce 1.2 million tons per annum of DWP, with production capacity of 1.4 million tons per annum. We currently operate our Cloquet Mill as a swing mill producing both paper pulp for internal use and DWP. Based on expectations of overall market growth, we believe that we need to be producing at least 1.7 million tons per annum by 2020. Fully utilising our current capacity, and debottlenecking our existing plants will enable us to produce an additional 200,000tpa within the 2020 timeframe. In order to meet the further 300,000tpa of demand we have been looking for further investment opportunities, both internal and external to our current operations. We hope to be able to detail these plans during the first half of 2018.

Q & A with the CEO continued

Q Did the rapid and sustained rise in paper pulp prices surprise you in 2017? What can you do to offset this cost pressure?

A Both the magnitude and duration of the rise in paper pulp prices, particularly hardwood paper pulp, surprised us. Like many in the industry we believed that new supply would outpace demand growth in 2017. This proved to be wrong due to a number of factors. Firstly, demand was stronger than expected, partly as a result of a decision by Chinese authorities to curtail the import of low-quality waste paper. This paper is used in many sectors of the paper market that traditionally rely on recycled paper. Secondly, supply did not grow as fast as predicted due to the late start-up of some new pulp plants and operating problems at some other facilities. For the moment the hardwood pulp market remains tightly supplied and prices are expected to continue to rise into the new year. Over the past year we have been successful in offsetting much of the increased prices through various cost containment initiatives, usage efficiency and by becoming more flexible in our product makeup. More recently, we have also been successful in raising paper prices in both Europe and North America, which clearly helps minimise the impact. Lastly, higher paper pulp prices support higher DWP prices as swing producers who can switch between paper pulp and DWP would be incentivised to produce paper pulp if the price premium of DWP over paper pulp narrowed.

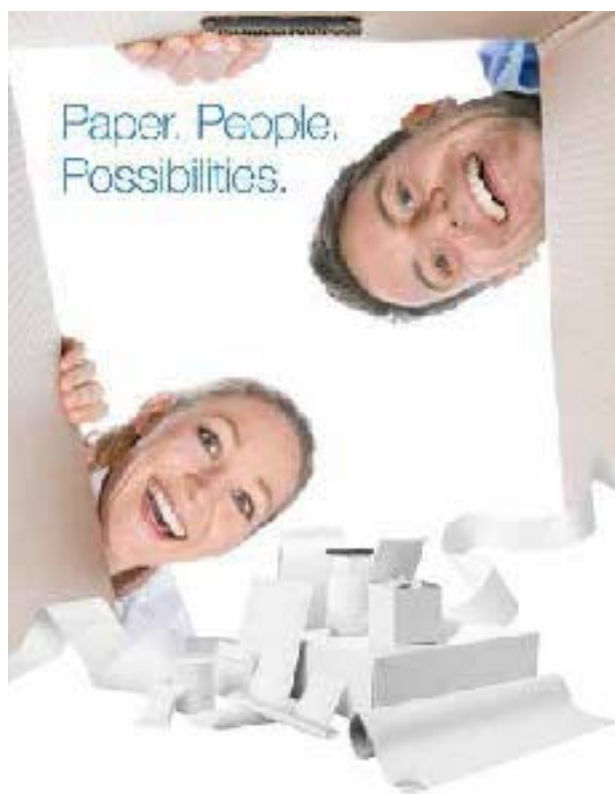
Q Sappi's capital expenditure has increased over the past two years, and you indicated that 2018 will see a further increase. Should investors be concerned about leverage and dividends, and what returns do you expect on major expansionary projects?

A We remain committed to maintaining our leverage to below two times net debt to EBITDA. Our capital expenditure plans take into account this leverage cap, as well as our intention to pay a reliable dividend at a long-term average cover ratio of three times. We focus on capital projects that achieve our strategic objectives and, as a minimum, beat our cost of capital. Typically, however, expansionary projects should earn a return on capital employed of at least 12%.



Q What are the major environmental and sustainability trends that are shaping your strategy and approach to risk?

A There are two major trends shaping our strategic thinking as well as our understanding of risks that may impact our business. Firstly, consumers, brand owners and governments are becoming more aware of the impact packaging has on the environment. The advantage paper-based packaging has over other competing materials such as plastics and foils is the renewable nature of the raw material and, in a well-designed product, the relative ease with which the packaging can be recycled or even composted in some circumstances. These factors are driving the development of paper-based alternatives to many common packaging solutions. As mentioned above, the Rockwell acquisition was aimed squarely at addressing this opportunity. Secondly, the textile industry, from raw material supplier through to final retailer or brand owner are becoming increasingly sensitive to the environmental and social impact of the various textile choices available to them. These include impact of water sources and quality, emissions, energy intensity, impact on biodiversity and working conditions. To address this effectively, NGOs, investors and responsible growers and manufacturers are conducting lifecycle assessments and insisting on greater supply chain transparency. While we believe that the viscose textile value chain has a lot of positive benefits compared to many other textiles, there are still areas that can be improved on, and aligning ourselves with more responsible value chains and constantly improving our own environmental performance enable us to grow and reduce risk.



Where we operate

Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, specialities and packaging papers, graphic/printing papers, as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

**Paper
per year
5.4 million tons**

**Paper pulp
per year
2.2 million tons**

**Dissolving wood
pulp per year
1.4 million tons**

**Globally we
have 12,158
employees**

Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products, as well as a wide range of consumer and household products. Quality specialities and packaging papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. Our market-leading range of coated and uncoated graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail, newspapers and many other print applications.

The wood and pulp needed for our products is either produced within Sappi or brought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sappi Trading

Sappi Trading operates a network for the sale and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Trading also coordinates our shipping and logistical functions for exports from these regions.

Sales offices

Bogotá, Hong Kong, Johannesburg, México City, Nairobi, São Paulo, Singapore, Shanghai, Sydney, Vienna

Logistics offices

Durban, New York

6 paper mills

1 speciality paper mill

18 sales offices

5,201

employees



Europe

Capacity⁽¹⁾ ('000 tons)

Mills	Products produced	Paper	Pulp
Alfeld Mill	Bleached chemical pulp for own consumption Coated and uncoated specialities paper	275	120
Eningen Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree paper	280	140
Gratkorn Mill	Bleached chemical pulp for own consumption Coated woodfree paper	980	250
Kirkniemi Mill	Bleached mechanical pulp for own consumption Coated mechanical paper	750	300
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption Coated mechanical paper, coated woodfree paper	530	165
Maastricht Mill	Coated woodfree paper	280	
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree paper, uncoated woodfree paper	445	145
Total Sappi Europe		3,540	1,120

Produces **48%** of group sales

- 1 paper mill
- 1 speciality paper mill
- 1 paper and specialised cellulose mill
- 6 sales offices

2,079
employees



North America

Capacity⁽¹⁾ ('000 tons)

Mills	Products produced	Paper	Pulp
Cloquet Mill	Dissolving wood pulp Coated woodfree paper	340	340
Somerset Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree paper	790	525
Westbrook Mill	Coated specialities paper	40	
Total Sappi North America		1,170	865

Produces **26%** of group sales

⁽¹⁾ Capacity at maximum continuous run rate.

* Approximately 140,000ha of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.

** Plantations include owned and leased areas as well as projects.

*** Sappi ReFibre collects waste paper in the South African market which is used to produce packaging papers.

Southern Africa

Capacity⁽¹⁾ ('000)

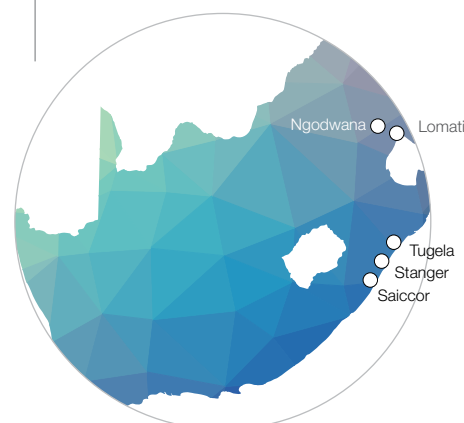
Plantations*	Products produced	Ha	Standing tons	m ³
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	221	11,017	
Mpumalanga	Plantations (pulpwood and sawlogs)**	258	16,380	
Sawmills	Sawn timber (m ³)			102
Total Sappi Forests		479	27,397	102

Capacity⁽¹⁾ ('000 tons)

Mills	Products produced	Paper	Pulp
Ngodwana Mill	Unbleached chemical pulp for own consumption Mechanical pulp for own consumption Kraft linerboard Newsprint	240 140	220 110
Stanger Mill	Bleached bagasse pulp for own consumption Office paper and tissue paper	110	60
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption Corrugating medium	195	135
Sappi ReFibre***	Waste paper collection and recycling for own consumption		140
Total Sappi Paper and Paper Packaging		685	665
Ngodwana Mill	Dissolving wood pulp		210
Saiccor Mill	Dissolving wood pulp		800
Total Sappi Specialised Cellulose			1,010
Total Sappi Southern Africa		685	1,675

- 2 paper mills
- 1 specialised cellulose mill
- 1 paper and specialised cellulose mill
- 1 sawmill
- 6 sales offices

479,000ha
forests
4,701
employees



Produces **26%** of group sales

Product review

A total global DWP capacity of
1.4 million tons

We currently supply 17% of global demand from our three mills located in Southern Africa and North America.

A truly sustainable raw material, DWP is noted for its versatility. We're innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Dissolving wood pulp

Coated mechanical paper

Coated woodfree paper

Graphic papers

Newsprint paper

Coated and uncoated papers designed to get the best results for you and your customers.

Our range of coated and uncoated graphic printing papers cover varying visual and tactile qualities to ensure that whether you're looking for a high-end product with extra wow factor, a comprehensive solution that caters to all of your campaign's requirements, or a paper that helps you make a distribution savings then we have the solutions.

To reshape Sappi's future, our 2020Vision draws on the power of One Sappi as we expand beyond pulp and paper to unlock and commercialise the potential of woodfibre-derived bioproducts.

As a longstanding leader and innovator in our industry, we deliver customised solutions for your specific needs.

We don't just supply materials, we deliver sustainable and innovative solutions. Whether you are a brand owner, converter, printer or designer, our specialities and packaging papers give you the advantage you need.

Flexible packaging and label papers

Containerboard

Functional papers

Paperboard

Specialities
and packaging
papers

Tissue paper

Release liner

Technical papers

Casting and release papers

Product review continued

Dissolving wood pulp



Specialities and
packaging
papers

Graphic
papers

Dissolving wood pulp

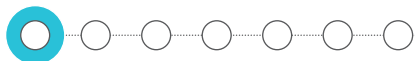
Dissolving wood pulp (DWP) is a highly purified form of cellulose extracted from wood through specialised cellulose chemistry. DWP is the primary input into the manufacture of viscose staple fibre (VSF) which is a natural substitute for cotton and polyester in the textile industry.

Sappi produces DWP in Southern Africa and North America. Sappi is the world's largest manufacturer of DWP and exports almost all of the production from our Saiccor and Ngodwana Mills in Southern Africa and Cloquet Mill in the United States. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives. With a total global DWP capacity of over 1.3 million tons, we currently supply 17% of global demand from our three mills. A truly sustainable raw material, DWP is noted for its versatility. We are innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Demand for DWP used in textiles, particularly for viscose, is both the largest market and fastest growing, while end markets and demand growth for other, more highly purified forms of cellulose can be characterised as smaller, and with slower growth rates. Based on the growth rate in the overall textile market (driven by factors such as population growth and wealth effects) and the move towards more comfortable, environmentally friendly natural fibres, we expect long-term growth of 4% to 5% per annum for DWP.

In 2013, Sappi converted facilities in both North America and Southern Africa from paper grade pulp to DWP to capture the growth in this market and we have plans to invest further in the forthcoming years. We are currently debottlenecking our Saiccor, Ngodwana and Cloquet Mills, adding 90,000 tons by the end of 2019, and we maintain the flexibility to increase our production in North America by utilising swing capacity at our Cloquet Mill, which will add 100,000 tons of DWP production. Over and above these internal actions, we require 300,000tpa of additional capacity to meet our growing customer needs. We are making good progress in identifying how best to serve our customers.

Market prices for DWP are derived from several supply and demand factors. Swing capacity – mills that can shift production between paper grade pulps, fluff pulps, and DWP – can and do optimise their facilities largely depending on the price differential of the markets they choose to serve. DWP is typically priced at a premium to paper grade pulps due to the lower yield per ton of wood and typically lower production volumes. When the price differential becomes sufficiently wide, swing producers may elect to produce DWP, the reverse also applies. The availability of cotton linter pulp, a competing source of cellulose for VSF production, also plays a role in determining the DWP price. In the last six years almost 50% of Chinese cotton linter pulp capacity closed due to the enforcement of more stringent environmental standards. Lastly, our customers – VSF producers – and the prices they realise on their products are governed by their own supply/demand dynamics and will influence the DWP market price.



In FY2017, 20% of Sappi's sales were **dissolving wood pulp**.

Our markets in 2017 and outlook for 2018

Viscose production grew 11% in China in the first nine months of 2017 relative to the same period last year as producers added capacity. Consequently, demand for DWP grew at a similar rate. Despite this rapid growth in demand and production, prices for DWP declined from their highs in November 2016 of US\$990/ton to approximately US\$830/ton in June 2017 as a result of a slowdown in VSF production and a rise in DWP inventories. Subsequently, viscose inventories declined to historic lows, and prices for DWP increased for the balance of the fiscal year and are currently at US\$935/ton in November 2017.

Sales volumes in fiscal 2016 were hampered by drought conditions in Southern Africa and an extended shut at our Ngodwana Mill. Production and sales volumes grew 6% in 2017. During the year, we began debottlenecking projects at our Ngodwana and Saiccor Mills in Southern Africa. These projects are expected to add approximately 60,000tpa to our current capacity. We anticipate these projects to begin making incremental tonnage in the latter half of fiscal 2018. At Cloquet Mill, we aim to optimise profitability by utilising our swing capability depending on the price differential between DWP versus the price of buying market pulp for our two paper machines. We will also be adding 30,000 tons at the Cloquet Mill through debottlenecking in a project that will be completed in 2019.

We believe spot prices for DWP will continue to rise in the near term, mostly due to swing capacity moving away from DWP and toward hardwood paper pulp. Hardwood paper pulp prices have been on a clear upward trend through 2017 due to the closure of non-competitive and environmentally unfriendly paper pulp capacity in China. Chinese paper producers are also facing an import shortage on recovered paper forcing them more toward virgin fibre for paper production. Rising hardwood paper pulp prices should cause market prices for DWP to follow. We anticipate cotton linter pulp availability to continue to decline and, as such, demand for DWP will continue to grow.

More recently, we have seen a push for viscose manufacturers to source their DWP from sustainable forests – forests that are PEFC, FSC and/or SFI certified. Sappi adheres to strict sustainability guidelines put forth by these organisations to ensure our products not only meet, but exceed current environmental certification standards.

We expect demand to continue to grow, and we strive to serve our customers with unmatched quality, consistency and scale. The long-term market fundamentals for dissolving wood pulp are very attractive. Our competitive and geographic positioning provides us with the platform to grow the business further.



Product review continued

Dissolving
wood pulp

Specialities and packaging papers



Graphic
papers

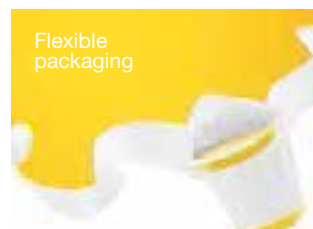
Specialities and packaging papers

Specialities and packaging paper products are an exciting growth area in Sappi. They offer customers an opportunity to add value to their products in niche markets where requirements are more specific and tailor-made.

Converters and end-use customers choose Sappi's coated and uncoated speciality paper, such as paper used in flexible packaging, for food and luxury packaging for consumer goods and aspirational products, as well as packaging paper to protect products. Demand for these papers is growing as a result of the superior print quality and versatility the paper offers compared to non-paper options. Converters and customers also appreciate paper's haptic potential, further extending the marketing message of a product's campaign and creating an all-round sensory experience. Specialities and packaging papers can be customised and personalised with printing (both digital and litho), varnishing, foiling, embossing and folding. Environmental concerns, governmental regulations and customer demands are all contributing to make this segment an exciting growth part of Sappi's business.

In FY2017, 18% of Sappi's sales were specialities and packaging papers.

Sappi offers products and solutions in many different segments including:



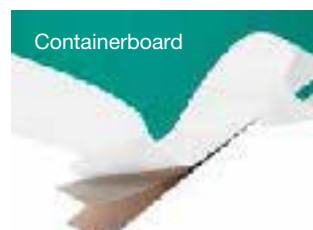
Flexible packaging with coated and uncoated paper for food and non-food applications, such as sachets, pouches and wrappers.



Label papers for pressure sensitive and wet adhesive applications.



Functional papers that offer highly efficient paper-based solutions with integrated functionality, like paper with barriers against mineral oil residuals, oxygen, water vapour and grease as well as sealing properties.



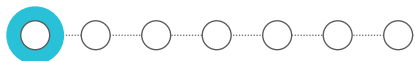
Containerboard, including liner and fluting, for corrugated boxes. Sappi's products are found in applications like consumer packaging, shelf ready packaging and transport packaging for agricultural and industrial uses.



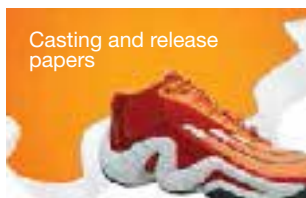
Paperboard, such as solid bleached board and folding box board for luxury packaging with more graphic applications. Packaging for cosmetic, perfume, confectionery and premium beverages use our products.



Release liner with silicon base papers for self-adhesive applications, such as graphic art applications with outdoor advertisement and adhesive tapes and office material.



Technical papers for interleaving and thermal coating, for example, tickets for boarding pass and concert/stadium tickets.



Casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. It is used in the manufacture of synthetic leather and decorative laminate products, creating textures that make designs come to life.



Tissue paper used for toilet tissue, kitchen towels, serviettes and medical and industrial wipes.

Global market size

One of our strategic pillars is to invest in adjacent areas with strong potential for growth.

Four years ago, we invested €60 million to rebuild paper machine number two at our Alfeld Mill, converting the coated woodfree paper machine to coated specialties in order to support growth in this market. Four years later, we find ourselves capacity constrained at Alfeld Mill, with investments underway at our Ehingen and Maastricht Mills to convert printing paper capacity to specialties and packaging paper in order to match our capacity with demand in both markets. Specialties and packaging papers are also made in North America at our Somerset, Westbrook and Cloquet Mills and at Tugela and Ngodwana Mills in Southern Africa.

Sappi enjoys clear competitive advantages in this sector. We are experts at coating surfaces. We have a deep understanding of what happens to a substrate when a coating is applied, and we have experience in specialised chemistry to modify coatings to match a wide variety of customer preferences. We manufacture from a suite of machines from Europe, North America and Southern Africa, ensuring scale-based efficiencies and security of production, lower production costs, and passing savings on to our customers.

Sappi is geared to serve diverse customer markets with smart sustainable solutions for light and heavyweight packaging that can be recycled and is biodegradable.

Our markets in 2017 and outlook for 2018

Demand for Sappi's wide range of products continues to grow in the specialties and packaging papers market, reflecting the increasing needs from customers for more sustainable and environmentally-friendly packaging solutions. We estimate global growth across the spectrum of our product focus is growing at approximately 3% per year. However, in fiscal 2017, demand for our products grew 15% relative to last year as we grew market share and developed new products to meet

changing market demands. Average realised prices were flat relative to last year for the European portion of this business due to the translation impact of a stronger Euro on export sales. EBITDA margins were better than those achieved last year due to higher volumes and lower costs.

Our specialties and packaging business in North America also experienced good growth this year. Demand for our coated one-side label paper grew from a small base and we gained market share during the year. Margins grew relative to last year from better volumes and lower costs, whereas realised prices were flat. In 2017, we began work at our Somerset Mill to transition PM1 to make specialties and packaging papers. During the next three years, we expect to reduce coated woodfree sales by approximately 150,000tpa and to increase specialties and packaging paper sales by 350,000tpa.

In the containerboard market in Southern Africa, Sappi largely serves the agricultural sector with cartonboard to protect fresh produce as it is exported around the world. Volumes were 1% better than last year and average pricing was 9% higher than last year. As this market is expected to grow by 4% to 5% per annum going forward, we have plans to grow our capacity in order to meet that demand.

We have witnessed a growing need for more sustainable and environmentally-friendly packaging solutions from a wide variety of industries and sectors forced to review the effects that their packaging materials have on the environment. When a producer reviews the packaging component of its entire product, it generally regards the packaging aspect as a high-risk/low-cost part of its operation. With this newfound spotlight on packaging of products, and the role packaging paper can play, not only in regard to environmental standards, but in the other functions packaging papers can play – from moisture controls, barrier papers, heat-sealing, or even grease resistant barriers – we will be an innovative and trusted supplier, working with customers to find the solutions they require.

Product review continued

Graphic papers

Publishers, advertising agencies, designers and corporate end-users who want to make an impact with their brands know paper is an integral part of the marketing and now science tells us why.

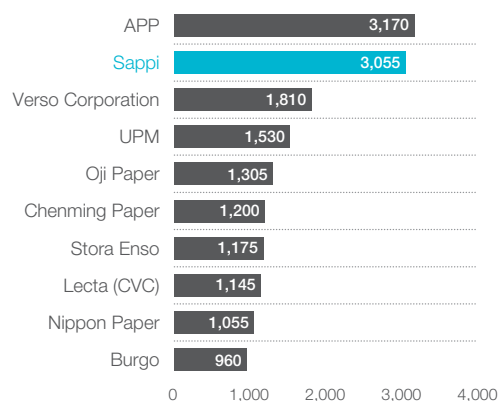
Dissolving
wood pulp

Specialities and
packaging
papers

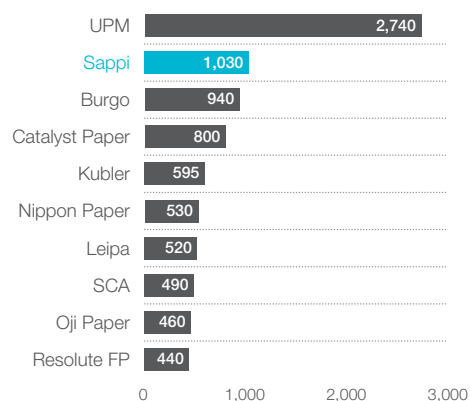
Graphic
papers



Sappi's global position – coated woodfree paper ('000 tons)



Sappi's global position – coated mechanical paper ('000 tons)



Neuroscientists find that people absorb content through touch as well as sight, and touch influences our decisions powerfully at a subconscious level. The physicality of ink on paper elicits human emotions in ways that computer screens do not, because paper's tactile quality engages the brain differently. Online, our eyes skim and scan information in a distinctive pattern. On paper, the pattern is much different. As we read, our fingers infuse the experience with touch-information that subtly shapes our perception of the content. On paper, we read more deeply, more responsively, and transfer more of what we read to long-term memory. Studies of direct mail, for example, show print ads generate more emotional response than digital ads and are remembered longer, and specific tactile qualities like warmth, weight, and texture influence cognitive response in ways that lie just beneath our conscious recognition. This use of paper and print is important to marketers who want their brands noticed, and remembered.

Our markets in 2017 and outlook for 2018

Average EBITDA margins were flat relative to last year. Lower average selling prices and rising paper pulp and latex costs offset gains from 2% growth in volume. During the FY2017, we announced that we would begin investing in our specialities and packaging papers businesses in Europe and North America. In Europe, we will collectively spend approximately US\$140m over three years at our Maastricht, Ehingen, Alfeld and Lanaken mills to enable us to make approximately 200,000tpa of solid bleached board, folding boxboard and white top liner, as well as increase the flexibility of our assets to serve the market for our customary printing papers. In North America, we plan to spend approximately US\$165m at our Somerset Mill to allow for the production of SBS board on PM1. Both these projects are aligned to our strategy of rationalising declining businesses and accelerating growth in high margin products.

Our outlook for 2018 is for average realised prices to be higher than that of FY2017. We announced and implemented price increases in both Europe and North America in the latter half of fiscal 2017 and more have been announced for January 2018. Mill closures from two of our North American competitors and our own conversion of PM1 at Somerset Mill, which will take place in mid-2018, will keep utilisation rates high. Increased paper pulp prices, a key input cost and good export demand are driving coated woodfree prices higher in Europe. In both Europe and North America, cost control remains a primary focus.

— In FY2017, 62% of Sappi's sales were in four different grades of **graphic papers** discussed below: —

Coated woodfree paper



Share of sales
46%

Printers and publishers use coated woodfree paper for a variety of marketing promotions including brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. Coated paper is brighter, smoother and tends to have greater opacity than uncoated grades. In FY2017, 46% of Sappi's sales were in this segment, typically through large paper merchants.

Demand trends: Advertising spend follows consumer behaviour and as consumers are spending more time using digital and electronic platforms, advertisers are shifting their budgets away from printed materials. Although global demand for coated woodfree paper is expected to decline 1% to 2% year-on-year, we do, however, believe that there will always be a place for quality coated woodfree paper in the advertising mix.

Sales volumes: Sappi's sales of coated woodfree paper were 1% less than last year. Sales volumes rose approximately 3% in 2017, while global demand fell by approximately 1.6%.

Coated mechanical paper



Share of sales
10%

Coated mechanical paper is primarily used in magazines, catalogues and other advertising materials. In FY2017, 10% of Sappi's sales constituted coated mechanical paper. Customers for this paper are typically large merchants, large printers and publishers of weekly or monthly magazine titles.

Demand trends: Demand for coated mechanical paper is more closely linked to that of demand for magazines. As readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease, demand for this paper is forecast to decline more rapidly than for coated woodfree paper.

Sales volumes: Sappi's sales of coated mechanical paper were 8% lower than last year. Sales volumes were approximately 4% lower than fiscal 2016, while the global market contracted by approximately 4.5%.

Uncoated woodfree paper



Share of sales
5%

Uncoated woodfree paper is used in letterhead, envelopes, business stationery, photocopy paper, cut-size, preprint, and office paper, with certain brands used for books, brochures and magazines. Uncoated paper absorbs ink faster, which means the text or images are not as crisp. In FY2017, 5% of Sappi's sales were made up of uncoated woodfree paper. Typically large paper merchants are our main customers in this sector.

Demand trends: Demand for uncoated woodfree paper is expected to remain flat over the next several years. Demand is expected to fall in mature markets, where adoptions of paperless solutions are expected to continue. Much of that decline is expected to be offset by growth in emerging economies.

Sales volumes: The uncoated woodfree market was relatively stable this financial year, with a modest decline of 0.5%.

Newsprint paper



Share of sales
1%

Newsprint, 1% of Sappi's sales, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers.

Demand trends: Demand for newsprint is highly dependent on newspaper circulation and retail advertising. Though demand for newsprint continues to decline at a global level, our newsprint volumes were 10% higher in fiscal 2017 relative to last year, due to a capacity closure by a competitor in the local South African market.

Our key relationships

We believe that building relationships with our stakeholders in a spirit of trust and mutual respect enables more tangible business value creation: Firstly, by communicating our performance as well as the business decisions and activities that have a material impact on our activities, we enhance our licence to trade. Secondly, by understanding the rights, needs and expectations of our stakeholders; integrating their inputs; as well as measuring and monitoring our activities; we ensure alignment with our strategic goals, including shared value.

Recognising the strong link between stakeholder inclusiveness and materiality, we use stakeholder engagement as a tool to assist in the identification and prioritisation of material issues. Materiality takes into account substantial economic, environmental and social factors in addition to financial factors. By determining our most material issues through stakeholder engagement, we clarify and confirm the strategic themes that ascertain our most significant risks and opportunities and manage expectations and priorities, thereby facilitating our licence to operate, enhancing our organisational effectiveness and ultimately, driving the long-term success of our business.

Accordingly, we engage with a broad range of stakeholders through a variety of formal and informal channels – from ongoing engagement across all our stakeholder groupings, including investors, government, industry bodies, customers, communities and NGOs, to collective public meetings with stakeholders by our mills, as well as surveys of selected groups such as employees, customers and investors and audits with suppliers. We view stakeholder engagement not as a once-off annual intervention but as an ongoing dynamic process able to respond to the changing nature of issues of interested and affected parties.

Our approach to engagement with all stakeholder groupings is based on the principles of:

- **Materiality** – identifying the material concerns of stakeholder groupings
- **Relevance** – focusing on those issues of material concern to our stakeholders and to Sappi and identifying how best to address them for our mutual benefit
- **Completeness** – understanding the views, needs, performance expectations and perceptions associated with these material issues and assessing them against prevailing local and global trends, and
- **Responsiveness** – engaging with stakeholders on these issues and giving regular, comprehensive, coherent feedback.

Our main stakeholder groupings, as set out in our Group Stakeholder Engagement Policy (available on www.sappi.com), are set out in this section, together with selected examples of engagement undertaken during the reporting period. As a global business, with our products sold into more than 150 countries, our ability to connect with stakeholders as One Sappi, motivated by our revised mission, strategy and shared values, gives us a clear advantage and for our stakeholders a connection they can trust to add value.

A key development in FY2017 aimed at enhancing stakeholder engagement was the relaunch of our website www.sappi.com with significant updates and now being optimised for mobile access. Regional information is now all consolidated in one hub, in line with our One Sappi strategy.

The website features full descriptions of products and services offered; comprehensive award-winning educational materials for customers; in-depth sustainability reporting; easy access to corporate social responsibility efforts like Ideas that Matter; dynamic portals for customers and investors and a prominent social media presence. The site is being updated on an ongoing basis in line with our engagement principles of completeness, relevance, materiality and responsiveness.





→ Employees

Management approach

We invest in future talent while challenging our people so that they are able to seize the opportunities presented by global megatrends. We make resources available to enable our people to grow intellectually, fulfil their potential and drive innovation within Sappi.

Areas of mutual interest

- Strategy, priorities and performance of the company
- Internal and external activities of the company, our staff and our communities
- Organisational developments, particularly in respect of restructuring
- Ongoing training and skills development
- Creation of a dynamic and encouraging environment through a focus on safety, health, wellness and recognition programmes
- Commitment to sustainability
- Group values and Code of Ethics.

Ongoing avenues of engagement

- Our group and regional CEOs engage with staff through regular site visits, presentations and discussions; suggestion lines exist at some facilities, and unions have formal channels through which they engage with management. We encourage full engagement between managers and their staff. Other avenues of engagement include:
 - Global, regional and local newsletters
 - Our global intranet
 - Letters, roadshows and presentations by the group CEO as well as regional CEOs
 - Operating unit meetings, briefings and workshops, and
 - Various forums (SA):
 - » National Employment Equity and Learning Forum
 - » Shop Steward Forum
 - » National Partnership Forum
 - » Transformation Steering Committee
- Global Employee Engagement Survey (every second year)
- Wellbeing committees at mills and business units
- Health and safety committees at mills
- Global Technical Innovation Awards and Global Sappi Limited CEO Award for Excellence
- Regional recognition awards:
 - **SEU:** the annual Coryphaena Award
 - **SNA:** the quarterly Risk Taking and Ingenuity Awards
 - **SSA:** the Excellence in Achievement Awards (EAA), and
 - **Sappi Trading:** the SMART Awards
- Ongoing training and development initiatives, training targets in each region
- Targeted training and engagement programmes in each region regarding sustainability
- In **Europe**, we train and develop young apprentices
- In **Southern Africa (SA)**, we operate bursary and training programmes and support Further Education and Training (FET) colleges
- In **SA**, our employees also have access to the Earthkind Agent eLearning game by which they are exposed to Sappi's sustainability information in a new and innovative platform. A tablet version of the game enables children and family and friends of employees to access the game.

Engagement in 2017

- We completed an engagement survey in all regions to assess levels of connection to our business
- In all regions, we encouraged employees to participate in outreach and community projects. For example, in Southern Africa, employees are encouraged to participate in Mandela Day
- In **Europe**, we:
 - Linked the eco-effectiveness campaign to the annual Sappi safety week so that corporate responsibility is seen within its broadest context, and
 - Continued to attract top internal talent to the SEU Leadership Academy. The group of 16 employees who started in September 2016 and will complete in October 2017, while a new intake of 25 employees began in June 2017
- In **North America**, we:
 - Continued with our Sustainability Ambassador, Enhancing Development and Growth through Engagement (EDGE) and Leadership Excellence and Development (LEADS) programmes. The latter focused on resourcefulness while our sustainability ambassadors developed training modules to broaden understanding of the business units within SNA (pulp, coated, packaging and casting and release papers)
 - Established a peer recognition programme called TOUTS which enables employees to offer feedback and recognition to one another
 - Launched the Employee Ideas that Matter (EITM) initiative which builds on the successful Ideas that Matter (ITM) programme by supporting worthy causes identified by Sappi employees, and
 - Introduced the Udemy online learning tool which was rolled out in Southern Africa in 2016
- In **Southern Africa**, we:
 - Embedded the utilisation of online video-based training through the deployment of five core programmes to all employees in skills technical and higher-level roles
 - Renewed focus on the Young Talent programmes as a mechanism to address our technical skills shortages. These programmes include engineers in training, apprenticeships, mill and forestry technical trainees, corporate functions learners, learnerships for people with disabilities and bursaries
 - Initiated a 21 module, 10-month Sappi Manager in Training programme, and
 - Successfully deployed Anti-Bribery, Competition Law and Code of Ethics courses, all in online format.

Value add

- Engaged employees are pivotal to the success of our business – alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development
- By building our human capital, we enable delivery of our 2020Vision and establish a base of the technical skills needed by the industry.

Our key relationships continued



→ Unions

Management approach

Given today's challenging global economic conditions and the current socio-economic dynamics in the South African labour market, we prioritise our relationship with our employees and their representatives. Protecting the right to freedom of association and collective bargaining are fundamental to the manner in which Sappi does business. Globally, approximately 60% of our workforce is represented by unions.

Areas of mutual interest

In addition to meeting with local union leadership for the purposes of remuneration, working hours, and other conditions of service as well as resolving grievances, Sappi relies on local unions to demonstrate their commitment to the safety and wellbeing of their members through active support, participation in and contributions to company safety and wellness initiatives, as well as various forms of community outreach.

Ongoing avenues of engagement

- **SEU:** Negotiations occur at the various country and industry-specific collective labour associations, and the contract terms range from one to two years. The labour framework in Europe consists of works councils and collective labour agreements and differs from country to country
- **SNA:** The majority of our hourly employees – generally production unit employees – are represented by the United Steelworkers (USW) union, but employees are also represented by various craft, guard and railroad unions. In this region, labour agreements are usually for three years
- **SSA:** Our wage negotiations with recognised trade unions take place at the Pulp and Paper and Sawmilling Chambers under the auspices of the Bargaining Council for the Wood and Paper Sector in South Africa, and our agreements are generally annual. In this region, we also engage on broader issues with the recognised trade unions at the National Employment Equity and Skills Development Forum, the Shop Steward Forum and the National Partnership Forum.

Engagement in 2017



Overall, FY2017 was characterised by amicable, but tough negotiations and relatively good relationships with organised labour across the geographies. More comprehensive details are provided on page 52 of this report.

Value add

Meaningful engagement on a number of issues affecting both business and employees results in:

- Improved relationships
- More stable labour force
- Safer work conditions and safer behaviour from employees, and
- Enhanced productivity.



→ Communities

Management approach

Having a mutually respectful relationship with the communities in which our business is situated is critical to our success. We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of conserving natural resources, uplifting people so that they are able to develop and create opportunities in their immediate environment as well as thrive in our increasingly inter-connected world and also through sharing value.

Social projects are reviewed on a case-by-case basis and we encourage projects which facilitate partnerships and collaboration between communities, government and the private sector.

Areas of mutual interest

Key issues discussed on a regular basis include employment, job creation and business opportunities, economic and social impacts/contributions and community support. Environmental issues relate to biodiversity conservation as well as water usage and quality, effluent quality and air emissions.

Ongoing avenues of engagement

There are various formats of community engagement meetings held by our mills in the regions where they operate. These range from broad liaison forums for business, local government and communities to legally mandated environmental forums which form part of the licensing conditions of mills. In Southern Africa, there are local farmer and community forums related to our forestry communities. We also support direct community engagement initiatives.

Globally, we engage with local communities through support of and sponsorship for local events and initiatives and we encourage employees to participate in outreach and community projects.

- **SEU:** Each Sappi mill and sales offices support various local education, cultural and environmental projects based on annual requests and identified needs. We also have established extensive internship programmes at all of our mills.
- **SNA:**
 - Each business location has a team of sustainability ambassadors who are responsible for supporting sustainability communication, conducting training and fostering community engagement through local projects
 - Education programmes are supported at targeted colleges and universities as are programmes to encourage study in fields relevant to our operations
 - Corporate sponsorships support organisations like Living Lands & Waters focused on environmental stewardship and education.
- **SSA:** We support:
 - SANBI (South African National Biodiversity Institute)
 - Birdlife SA
 - WWF-SA
 - The Honorary Rangers of the Kruger National Park
 - The UCT Animal Demography Unit (ADU) indigenous tree mapping project
 - Mountain biking which promotes access to our plantations and enables us to communicate with an influential and growing group of stakeholders regarding the positive messages around our forestry operations
 - The development of early childhood education capacity within our communities
 - The promotion of an asset-based community development approach within our forestry communities to enable new businesses to develop and existing businesses to improve.

Engagement in 2017

- In **Europe** all mills continued to offer paper and financial sponsorship to local schools, sport and hobby clubs, forest products industry students, local safety/environmental organisations, and also support local charities
- In **North America**, we:
 - Supported the Hurricane Harvey relief effort by matching employee donations to the American Red Cross
 - Continued with the Ideas that Matter programme which recognises and rewards designers who support good causes. Since 1999 the programme has funded over 500 non-profit projects and has contributed more than US\$13 million to a wide range of causes around the world that use design as a positive force for good in society
- In **Southern Africa**, we continued to work with local government and communities to accelerate afforestation in the northern region of the Eastern Cape through our Sappi Khulisa enterprise and supplier development scheme. We also continued to be active in land reform
- We created two technical training facilities using our existing infrastructure at Ngodwana and Saiccor Mills in May 2017. The centres will cater for basic handyman training for local unemployed youth with a view of enabling them to create micro-enterprises. In addition, Sappi's intake of apprentices will be doubled and the centres will provide high-quality specialised technical training to mill employees. The first handyman trainees joined in October as a pilot and the centres will be fully operational by January 2018
- We expanded our Abashintshi forestry community engagement programme to cover all our operations (44 communities).



More detailed information about our initiatives can be found on pages 52 to 53 of this report.

Value add

Engagement with communities:

- Enhances our licence to operate
- Promotes socio-economic development which could in the long term lead to increased demand for our products
- Helps to develop the rural economy, and
- Initiates real social mobilisation and change for the better.

Our key relationships continued



→ Customers

Management approach

We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. We offer customers innovative products and high levels of service that enable them to meet the needs of the rapidly changing world of tomorrow. We also review our go-to-market strategy where relevant to ensure that we align our interests and the interests of our end-users. Where relevant, we will also conduct R&D and develop products to suit customers' specific needs.

Areas of mutual interest

- High service levels
- Provision of technical information and support to our paper and specialised cellulose (SC) customers
- Information about organisational developments, and the fibre sourcing and production processes behind our brands
- Information and campaigns to promote paper and paper packaging
- Information and campaigns to promote print as a communication medium
- New products that meet rapidly changing market demand.

Ongoing avenues of engagement

- The group follows an approach of regular engagement with customers by senior and executive management in support of the ongoing engagement by the relevant sales and marketing teams. In North America, we also meet annually with the Sappi Merchant Association
- Trade shows and exhibitions
- Online, print education and technical platforms include:
 - **SEU:** The Sappi Houston online knowledge platform
 - **SNA:** Environmental Quotient (eQ) and Education, Training and Consulting (ETC). Free and fully searchable, the Sappi ETC site covers everything from basic paper and sustainability resources to advanced print and design techniques, including colour management, printer technical tips, special effects, varnishes, folding, designing for direct mail, and
 - **SSA:** Our paper and paper pulp product offerings are supported by strong technical teams at each mill and the technology centre in Pretoria.

Engagement in 2017

- We introduced several new products
- We showcased our packaging papers from Europe and North America at FachPack 2017 and Labelexpo Europe 2017. At the former, we featured solutions and information for brand owners, packaging companies, converters, printers and print finishers, designers and advertising agencies. Our primary focus at the latter, under the theme 'People, Paper, Possibilities' was our innovations in the Release Liner and Label Paper product groups
- In **Europe**, we:
 - Held the eighth annual Sappi Football Cup, which challenges our customers, printers and publishers to show their skills in table football. Qualifying matches follow the rules issued by the International Table Soccer Federation. Sappi Europe welcomed this year's 13 qualifying teams to Brussels, Belgium to compete for the Sappi Cup Table Football Tournament title on 20 April 2017. In total, 26 players from an original pool of close to 180 teams made the trip, representing Austria, CEE – Hungary and Serbia, France, Germany, Italy, Poland, Spain, and Switzerland
 - Provided our customers with information and solutions through the Sappi&You online portal which continued to gain traction
 - Are supporting printers' needs for digital transformation through OctoPrint by becoming a software solution provider and selling software licences and services, and
 - Continued to enable customer engagement through our eco-effectiveness campaign which promotes individual action and recognition to make efforts to be sustainable and effective. It is about highlighting those who make the efforts to help improve our eco-effectiveness. Investments and innovations are also made to meet customer expectations of increased efficiencies, reduced impacts and products which will enhance their own social responsibility journey. The personal stories from Sappi's eco-effectiveness campaign can be found at: <http://www.sappi.com/eco-effective-stories>



Ongoing avenues of engagement



- We provide extensive technical support:
 - Globally, a series of technical brochures is available on our website www.sappi.com
 - We host customer and investor visits to the various mills
 - In **Europe** and **Southern Africa**, we publish paper profiles and information sheets for our papers. These give details regarding the composition of our papers, as well as key environmental parameters related to our pulp and paper production processes and information on environmental management systems and woodfibre sourcing policies, and
 - In **North America**, we use GreenBlue's Environmental Paper Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill-by-mill basis
- Our customers can also make use of the following:
 - In terms of specialised cellulose, technical centres of excellence are located at Saiccor and Cloquet Mills
 - A competence centre for speciality papers and paper laboratory at Alfeld Mill, and
 - In North America, the Sustainability Customer Council provides candid feedback and helps to identify emerging issues.

Engagement in 2017

- In **North America**:
 - Our Sustainability Customer Council continued to provide candid feedback and valuable input on emerging issues. The council comprises Sappi customers, representing multiple customer segments of the coated papers and casting and release papers business, including merchants, printers, publishers, corporate paper buyers and graphic designers. Online and print education platforms in this region include the Environmental Quotient (eQ) and Education, Training and Consulting (ETC)
 - We continued to support the Paper and Packaging Board (P+PB), of which we are a member, in rolling out a public, consumer-facing integrated marketing campaign on behalf of the paper and packaging industry
 - We announced the winners of the 2017 Sappi North America Printer of the Year competition, chosen as the most outstanding print submissions from nearly 1,500 entries, and
 - We also continued to support the 'Paper Checkoff', a consumer campaign aimed at helping reverse the decline in printing and writing papers as well as boost demand for paper-based packaging using TV, print, billboards and the internet.
- In **Southern Africa**, we:
 - Sponsored the graphic design category in the Student Gold Pack Awards held under the auspices of the Institute of Packaging SA and we also sponsored paper for the Citrus Research Institute annual report in addition to sponsoring their annual symposium, and
 - Sponsored the 'Help Colour My Dreams' initiative, in partnership with the Nashua Children's Charity Foundation (NCCF) which supports 75 charities. For every ream of Nashua-wrapped A4 paper produced by Sappi and sold through Nashua franchises, a certain amount of money was donated to the initiative.

Value add

Ongoing engagement with our customers enables us to:

- Meet their needs for products with an enhanced environmental profile
- Innovate to align with evolving market trends
- Heightened awareness of the importance of sustainability
- Promote our customers' own sustainability journeys
- Keep abreast of market developments, and
- Showcase our products and promote the Sappi brand.

At Labelexpo 2017, Sappi presented two new Face Stock label papers in the form of Parade

Face Stock C1S and Parade Face Stock Vellum, both of which are approved for direct contact with food and conform to DIN EN 71 for toy safety. The range of applications for these self-adhesive label papers include decorative labels for tins, glass containers, single-use and multi-use bottles and stickers or price labels (such as those found in the fruit and vegetable aisle) and more. Thanks to their excellent surface properties, these label papers ensure a brilliant appearance and excellent print results. Single-side-coated semi-gloss-paper Parade Face Stock C1S can be processed with all standard printing processes, while Parade Face Stock Vellum meets the requirements for a high-quality result in thermal transfer printing. Parade Face Stock C1S is available in a weight of 80g/m², and Parade Face Stock Vellum in grammages of 70 and 80g/m². Both papers are also available in FSC®-certified versions.

Our key relationships continued



→ Industry bodies

Management approach

We partner with industry and business bodies to showcase the role of business in building society, to provide input into issues and regulations that affect and are relevant to our businesses and industries. We also support and partner with industry initiatives aimed at addressing broad-ranging social issues and promoting the use of our products.

Areas of mutual interest

- Issues that affect the sustainability of our industry – woodfibre base, carbon taxes, energy and emissions, etc
- Energy issues in general and in particular government proposals on carbon taxation
- The impact of increased regulations on business
- The benefits of our industry and our economic contribution to society
- Social and environmental credentials of our products.

Ongoing avenues of engagement

- Sappi has been a signatory to the UN Global Compact since 2008
- In **Europe** and **North America**, close engagement is maintained directly and through the respective industry bodies CEPI and AF&PA. In **Europe** we also engage with FSC®, WWF International and with the Programme for the Endorsement of Forest Certification (PEFC™). In **North America**, Sappi is a member of the economic chamber of both FSC® US and SFI® and actively engages with these organisations through a variety of working groups and committee activities. In **Southern Africa**, Sappi is a member of the local WWF organisation as well as FSC®.

SEU

- Confederation of European Paper Industries (CEPI)
- Eurograph
- European Joint Undertaking on Bio-based Industries
- Print Power
- The Alliance of Energy-Intensive industries
- The Two Team Project (focusing on breakthrough technology concepts in the industry which could enable a more competitive future)
- TwoSides.

SNA

- American Forests and Paper Association (AF&PA)
- Paper and Paper Packaging Board
- Agenda 2020 Technology Alliance
- Sustainable Packaging Coalition (SPC)
- Forest Products Working Group
- The Recycling Partnership
- TwoSides.

Engagement in 2017

- We continued to support targeted communication campaigns help to promote the value of paper-based communication and support the efforts of marketers and communicators in their search for responsible choices. Examples include support for the TwoSides organisations in Europe, North America, South America, South Africa and Australia and the Print Power campaign in Europe
- Sappi Forests continues to be involved in the development of an FSC® National Forest Steward Standard for South Africa, as well as a PEFC™ standard for the country
- Under the umbrella of the European Pulp and Paper Chemicals Group AISBL (EPCG), SEU is working on an industry solution for an online information exchange between chemical suppliers and pulp and paper manufacturers
- SEU contributed to the report *European industry in the 21st century: New models for resource productivity* published by the University of Cambridge's Institute for Sustainability Leadership (CISL)
- SEU has been intensively working with CEPI to ensure that the revised criteria of the EU Ecolabel remain achievable

Ongoing avenues of engagement

SSA

- Business Unity South Africa
- Business Leadership South Africa
- Energy Intensive Users' Group
- Fibre Processing and Manufacturing Skills Education and Training Authority (SETA)
- Forestry South Africa
- Forest Stewardship Council® (FSC®)
- Packaging SA
- Paper Manufacturers' Association of South Africa (PAMSA)
- Paper Recycling Association of South Africa (PRASA)
- Printing SA (PIFSA) Manufacturing Circle
- South African Chamber of Commerce and Industry (SACCI) and local chambers of commerce and industry
- The CEO initiative
- TwoSides.

Sappi Forests is a member of the Institute for Commercial Forestry Research (ICFR) and is a founding member of the Tree Protection Co-operative Programme (TPCP) based in the Forestry and Bio-technical Institute (FABI) (<http://www.fabinet.up.ac.za/>) at the University of Pretoria. Through the TPCP we also belong to the internationally collaborative programme Biological Control of Eucalyptus Pests (BiCEP) (<http://bicep.net.au/>) at the Australian Centre for Industrial and Agricultural Research (ACIAR).

In addition, we belong to the Eucalyptus Genome Network (EUCAGEN) based at the University of Pretoria and to CAMCORE, an international non-profit organisation dedicated to the conservation and utilisation of subtropical and tropical tree species.

Sappi Speciality Papers is a member of the Save Food initiative which aims to eliminate food waste and loss globally.

Sappi Limited supports the Technical Association of the Pulp and Paper Industry (TAPPI).

Engagement in 2017

- In 2016, in response to a sovereign ratings downgrade in South Africa, the CEO initiative, of which Sappi is a member, was established. The initiative launched three major workstreams in 2016: one focusing on youth employment, which endeavours to create one million internships for unemployed youth across the private sector; the second, the investment workstream, seeks to bring private money into sectors such as agriculture and tourism, while also developing black industrialists and the third, the small and medium-sized enterprises (SMEs) fund aims to provide capital to existing fund managers already investing in SMEs. The latter workstream progressed further in 2017.

Value add

- Work with industry and business associations through collective initiatives to support societal change and deal with societal challenges
- Collaborate on legislative trends such as carbon tax and carbon budgets
- Maintain and expand markets for our products
- Demonstrate the value-add of the forest products industry
- Dispel myths and promote understanding of our industry.

Our key relationships continued



→ Investors

Management approach

Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.

Areas of mutual interest

- Information on Sappi's strategy
- Return on investment
- Transparent information about risks, opportunities and ESG performance.

Ongoing avenues of engagement

- Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. This team has direct access to the executive directors and any issues shareholders raise that would be relevant for the board are channelled through the IR team. Our Chairman also engages with shareholders on relevant issues
- We conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Service (SENS), in the press and on our website www.sappi.com
- We publish our Annual Integrated Report and sustainability report on the company website
- Shareholders can attend and participate in the AGM as well as the four quarterly financial results briefings
- Our CFO and Head of Treasury engage with bondholders, banks and rating agencies on an ongoing basis regarding the performance of the company
- We participate in the Carbon Disclosure and Forest Footprint Disclosure projects every year, making our submissions publicly available.

Engagement in 2017

In 2017, we continued to engage with our investors through the avenues set out on the left.

Value add

- Understanding of and support for our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest.



→ Suppliers and contractors

Management approach

We are committed to establishing mutually respectful relationships with our suppliers and encouraging them to join our commitment to economic, social and environmental responsibility and to creating an environment that shares our commitment to doing business with integrity and courage, making smart decisions which we execute with speed. We aim to build long-term value partnerships.

Given our focus on zero harm in the workplace, we work with our contractors to ensure that they follow Sappi's safety systems.


Areas of mutual interest

- Transparent information
- Forest certification
- Increased value and decreased costs
- Corporate responsibility
- Security of fibre supply, income generation and job creation.

Ongoing avenues of engagement

- **SEU:** A joint sourcing partnership assists in negotiating better terms with timber and other suppliers. In addition, the Confederation of European Paper Industries (CEPI), of which Sappi Europe is a member, participates in actions supporting and promoting the development of sustainable forestry management tools – including forest certification – all over the world, particularly in less developed countries
- **SNA:** The Sappi Forestry Programme assists forest landowners to meet their objectives for managing their woodland. Sappi's trained foresters are able to develop a forest management plan geared to the interests of the landowner including wildlife management and aesthetics, marketing of timber to generate maximum return
- **SSA:** Qualified extension officers provide growers in our Sappi Khulisa enterprise and supplier development scheme with ongoing growing advice and practical assistance.

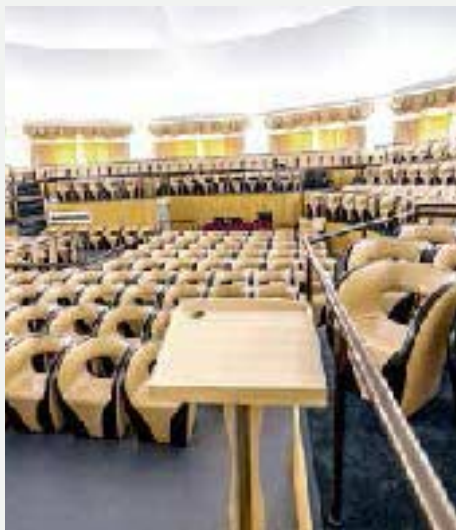
Engagement in 2017

- In SA, the intake at our Khulisa Ulwazi (Growing Knowledge) training centre aimed at developing small growers and other forestry value chain participants more than doubled to over 1,000 people
-  In SSA, contractors participated in creating and living our Stop and Think before you Act safety initiative, described on page 51.

Value add

- Security of woodfibre supply
- Improved supplier relations
- Better understanding of the requirements of the Sappi group
- Expanded basket of certified fibre.

	<h2>→ Civil society (Media)</h2> <p>Management approach</p> <p>We maintain an open relationship with the media, believing that an informed media is better able to serve public reporting and debate on any issue.</p> <p>We continue to update the media regarding our strategic shifts to extract value from woodfibre in line with future trends as well as Sappi's positive impact in the communities where we operate. We engage with civil society organisations on issues of mutual interest and belong to key organisations relevant to our operations.</p> <p>Areas of mutual interest</p> <ul style="list-style-type: none"> • Business developments • The future of our industry • Our impacts on our communities • Protecting biodiversity/the environment.
<p>Ongoing avenues of engagement</p> <ul style="list-style-type: none"> • We join key credible organisations as members • We develop personal relationships and engage on an ongoing basis • We provide support to and sponsorship for key organisations on issues of mutual interest •  In SSA, our forestry operations belong to a number of fire associations, given that fire is a key risk on our plantations. Our innovative Abashintshi project continued to gain traction, helping to prevent the spread of fires. This has also been helped by the African Honey Bee project on our plantations. For further details, go to page 53 of this report. 	<p>Engagement in 2017</p> <p>Engagement in 2017 took place through the avenues outlined on the left.</p>
<p>Value add</p> <ul style="list-style-type: none"> • Opportunity to inform and educate media • Transparent, two-way communication and opportunity for dialogue. 	



→ Government and regulatory bodies

Management approach

We engage with government departments and regulatory bodies to provide input into issues and regulations that affect our industry. We also engage with regional and local governments and local authorities to obtain support for our operations and show how our activities contribute to local economic and social development.

Areas of mutual interest

- Energy issues in general and in particular government moves on carbon taxation
- The impact of increased regulations on business
- The social and economic benefits of our industry nationally as well as at a local level.

Ongoing avenues of engagement

Consultations take place on an ongoing basis with government departments and regulatory bodies in each region.

Engagement in 2017

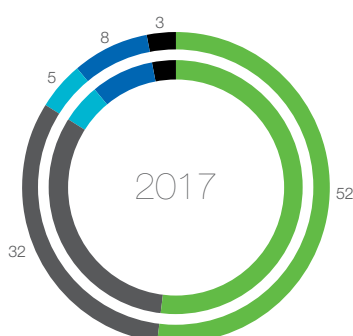
Across all regions we continue to engage with region-wide, national, state and local authorities to ensure that our interests are raised and protected.

In South Africa, we continued to engage with government organisations regarding the transformation agenda and in particular the new Broad-based Black Economic Empowerment (BBBEE) Forestry Charter following the gazetting of the Amended Forestry Sector Code in April. We trust that the delayed biomass energy project at Ngodwana Mill will move ahead by the end of November 2017.

Value add

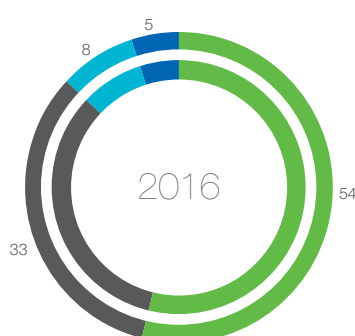
Engagement helps to promote understanding of the issues and challenges we face and resolve certain challenges.

Value added statement (%)



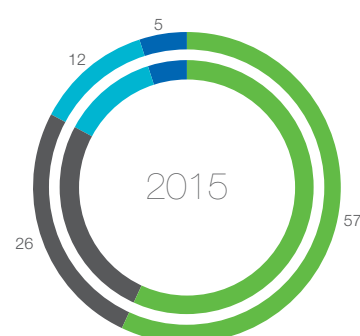
- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation
- To shareholders as dividends

Value added statement (%)



- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation

Value added statement (%)





- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation


Our global sustainability goals

In line with our 2020Vision and One Sappi strategic approach, in 2015 we established ambitious global sustainability targets. Regional targets are aligned to these goals. The base year is 2014, with five-year targets from 2016 to 2020.

Our performance in 2017, together with commentary, is set out below:

PROSPERITY					
Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal	
ROCE	10.8%	18%	67% improvement	12% ROCE minimum	

PEOPLE					
Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal	
LTIFR (Combined own and contractor employees)	0.53	0.44	17% improvement	Target zero LTIFR with minimum 10% improvement year-on-year	
Sustainable engagement – increase level of survey participation	Not measured (2015: 74%)	85%	Not applicable	76%	

PLANET					
Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal	
Energy efficiency (Specific total energy)	22.77GJ/adt	22.77GJ/adt	Constant*	5% improvement over the period	
Certified fibre	79%	73.5%	5.5% decline	Maintain or improve percentage	

* The base figure for specific total energy has changed as we are now using net, rather than gross, calorific values. (It was previously 22.92GJ/adt.)

Prosperity

ROCE: The 67% improvement compared to 2014 base reflects the ongoing successful implementation of our One Sappi strategy and 2020Vision. The ongoing viability of our business and generation of value for all our stakeholders depends on our ability to generate profits and earn a return in excess of our cost of capital.

People

Safety: While our LTIFR improved marginally (2016: 0.46), safety performance was highly disappointing, with one fatality in Europe and three in Southern Africa.

Sustainable engagement: The high rate of participation (85%) in our engagement survey means we have already achieved our 2020 goal. In addition to measuring engagement, the survey also identifies perceived gaps in our human capital strategy and we are currently assessing these.

Planet

Specific total energy: Energy self-sufficiency remained stable and there was a slight increase in renewable energy.

Certified fibre: In Europe we exceeded our certified fibre procurement goal by just over 4%. In North America, certified fibre content was down from earlier years due to changes in wood procurement strategies to acquire woodfibre from sources closer to the mills. As reported last year, it was also due to a change in production strategy at Cloquet Mill which involved a change from buying 100%-certified market pulp to making our own pulp (doing so means we are limited to the amount of certified fibre available in the local wood basket). In Southern Africa, we increased the percentage of certified fibre supplied to our mills by 1.1%.

Our key material issues

Governance

→ **Material issue: Corruption affecting the national interest**

Background

In South Africa, a widespread patronage network which is chipping away at state institutions is undermining the country's credibility and is causing global investor concern. Transparency International's 2016 International Corruption Perceptions Index, published at the beginning of 2017 evaluates corruption in 176 countries. The index ranks countries based on how corrupt their public sector is perceived to be. A country's score indicates the perceived level of corruption on a scale of 0 to 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. While no country has a perfect score – the global average score is 43 – over two-thirds of countries score below 50, including South Africa, indicating a serious corruption problem.

In 2016, South Africa was ranked as the 64th most corrupt country in the world out of 176 countries with a score of only 45 out of 100. In terms of the other countries in which we have significant operations, the scores were as follows: Finland scored 89 (ranked 3rd); the Netherlands scored 83 (ranked 8th); Germany scored 81 (ranked 10th); Belgium scored 77 (ranked 15th); Austria scored 75 (ranked 17th) and the United States of America scored 74 (ranked 18th)¹.

↘ **Our response**

As indicated by the Corruptions Perceptions Index scores, apart from South Africa, the countries in which we operate are relatively corruption-free. However, we share investor concerns about the situation in South Africa and we remain hypervigilant in this regard. Our auditors, KPMG, have been implicated in allegations related to patronage and corruption which have caused us to reassess their provision of services to Sappi. We have engaged with KPMG International in this regard. We currently await the findings of the various inquiries and reports into KPMG. We will then revisit our decision to retain KPMG as auditors.

Sappi Limited is a member of Business Leadership South Africa (BLSA), a voluntary organisation of the approximately 70 largest listed companies on the JSE Limited. It serves as the voice of big business in South Africa facilitating engagement with the government, ratings agencies and other local and global stakeholders and also promoting the positive role of business in society. BLSA is actively working to end corruption and Sappi will be signing BLSA's pledge after year-end. This echoes and reinforces our own Code of Ethics by committing us to:

- Actively combating corrupt practices wherever we encounter them
- Not acting anti-competitively
- Having zero tolerance for corruption in our midst, and
- Protecting whistle-blowers and providing information.

→ **Material issue: A sound ethical culture**

Background

Employees make better decisions in less time with business ethics as a guiding principle which increases productivity and overall employee morale. Ethics – or lack thereof – can significantly impact reputation and affect stakeholders' views of a business which in turn can impact profitability and licence to trade.

↘ **Our response**

Given that Sappi operates in a number of different geographies and given our One Sappi approach, a Code of Ethics that provides simple-to-follow guidance to all our employees is a priority. Following the roll out of our revised Code of Ethics in six different languages in September 2016, we continued with a communication campaign to raise awareness of the Code. Videos, including a video on the Foreign Corrupt Practices Act, were used by the different regions to promote ethical awareness during the year.

The Code makes reference to group policies, where major risks and heightened levels of compliance are required. In familiarising themselves with the Code, employees have been encouraged to read the different policies. Story pictures have been created and distributed to the mills to assist those unable to read the policies. Ethics messages are displayed on media screens, in lift lobbies and on Sappi desk calendars to keep ethical conduct top of mind.

In addition, globally, employees have been exposed to online training relating to competition law, anti-bribery and corruption online training.

¹ <https://www.transparency.org/country>

Our key material issues continued



Prosperity

→ **Material issue: Costs and capital allocation**

Background

In the highly capital-intensive pulp and paper industry, cost containment and strategic capital allocation are key pillars of competitive advantage.

↘ **Our response**

Cost containment

Reducing variable and fixed costs throughout the business is integral to improving margins, particularly in commodity-type businesses such as printing paper, where declining demand places additional pressure on margins and revenues. In 2016, we launched a global procurement and efficiency savings initiative which has put Sappi on track to achieve targeted groupwide cost reductions of US\$100 million per annum by 2020.

In addition to our usual cost management and continuous improvement initiatives during FY2017, we realised US\$157 million in savings – US\$57 million more than anticipated, and three years early.

Capital allocation

Our 2020Vision strategy is focused on opportunities to substantially increase our group EBITDA. By making smart investment decisions – in line with our values of making smart decisions which we execute with speed – and investing in our business to pursue growing areas of demand, we can remain profitable and competitive in the global marketplace.

Given robust demand for specialties and packaging paper grades, we are leveraging our existing manufacturing base by converting existing paper machines to higher margin products, including specialties and packaging paper grades.

In Europe, we are investing US\$140 million over the next three years in projects that will increase our specialties and packaging papers capacity and capability, as well as support our drive to be the lowest-cost producer of graphic papers.

Maastricht Mill in the Netherlands is being converted to focus predominantly on specialties grades and the specialties paper offering at Ehingen and Alfeld Mills in Germany will be expanded.

Lanaken Mill in Belgium will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market.

The displaced graphic paper volumes will be assigned to other mills.

These projects will enable us to make better use of our assets to drive growth in our specialties and packaging papers business, as well as to reduce our coated graphic papers capacity by about 200,000 tons by 2020.

In **North America**, we are investing US\$165 million in upgrading and enhancing the flexibility of Paper Machine 1 at Somerset Mill in Maine, to enable growth in paper-based packaging. The overall capacity of the mill, currently the largest coated mill in North America, will increase by 180,000tpa and the upgrade is expected to be completed in 2018.

In **Southern Africa**, we are investing US\$55 million in an upgrade to the woodyard at Saiccor Mill which will:

- Improve mill logistics by enhancing the mill's capability of segregating woodchip species – important because there is a distinct difference in cooking times between various species of wood based on their lignin, cellulose and hemicellulose contents
- Improve the mill's wood screening systems for reduced silica levels and overall enhanced chip quality, and
- Enable future expansion.

Improving logistics and screening systems will ultimately lead to enhanced pulp quality, increased pulp yield and a reduction in consumption of bleaching chemicals. The modifications will be made with minimal impact on production.

→ **Material issue: Growth in the packaging sector**

Background

The demand for all types of products being shipped in eCommerce is expanding in line with the rapidly accelerating digital economy. At the same time, the global population and demand for natural resources are increasing and this is placing pressure on society to repurpose materials like paper and packaging. In addition, there are growing concerns about the impact of fossil-based packaging on the world's oceans.

These factors are positive for the global sustainable packaging market which is poised to grow at a compound annual growth rate (CAGR) of around 7.7% over the next decade to reach approximately US\$440.3 billion by 2025 according to a recent report².

In recent years, we have evolved from being a pure substrate supplier to a provider of complete paper and carton packaging solutions. Our focus is on innovative products designed to find intelligent answers to issues and trends in the packaging market, thereby growing the contribution of this sector of our business to 25% of EBITDA by 2020.

² <http://www.prnewswire.com/news-releases/global-4403-billion-sustainable-packaging-market-analysis--trends-2013-2016--industry-forecast-to-2025---research-and-markets-300421046.html>

One such topical issue that our packaging papers are addressing is the issue of food waste. Four years ago, Sappi was the world's first manufacturer to present a new speciality paper with a mineral oil barrier integrated directly in the paper, as well as including heat sealing properties. In FY2017, we built on this successful foundation by:

- Establishing a collaboration agreement with the global manufacturing Felix Schoeller Group (Felix Schoeller) based in Germany. Felix Schoeller produces high-quality papers for analogue and digital photographic print, non-wovens for the wallpaper industry, as well as release liners and décor papers. In addition, the company has been developing flexible food packaging for some years and has built particularly strong process technology expertise in the production of photographic and digital printing papers. The agreement covers the joint development of sustainable barrier paper solutions for flexible packaging applications. The collaboration has already resulted in the development of a paper-based, sealable packaging solution with high barriers against water vapour, oxygen and grease. This was presented to trade customers at Interpack 2017, the world's largest trade fair
- Acquiring the barrier film technology of Rockwell Solutions. This will enable us to offer our customers an even wider range of barrier coated solutions and could enable us to support market needs for more sustainable and recyclable packaging solutions by offering a replacement to fossil-based packaging material. In addition, the acquisition has enhanced our insight into the packaging market in terms of product performance, cost benchmark and market dynamics
- Extending the manufacture of Algro Design and Algro Design Duo bleached board grades to Maastricht Mill. By producing this high-quality carton at two locations, we can now respond even more quickly to customer requirements
- Introducing new face stock label papers Parade Face Stock C1S and Parade Face Stock Vellum, both of which are approved for direct contact with food and conform to DIN EN 71 for toy safety. The range of applications for these self-adhesive label papers includes decorative labels for tins, glass containers, single-use and multi-use bottles and stickers or price labels, such as those found in the fruit and vegetable aisle and more. Parade Face Stock C1S is available in a weight of 80g/m², and Parade Face Stock Vellum in grammages of 70 and 80g/m²
- Launching a new Clay Coated Kraft (CCK) carrier paper, Sappi Sol DNC. The satin finish of this paper significantly improves surface quality and results in lower overall silicone

consumption, a condition that is important to label converters, and

- Developing Ultraflex, a hybrid flute and liner which offers converters strength with the ability to print, while making ordering more efficient. Research is currently under way to impart the paper with antimicrobial properties.

At Interpack 2017, Sappi was presented with the international WorldStar Packaging Award for foodstuffs. This follows our receipt of the 2016 German Packaging Award in the 'New Materials' category.

→ **Material issue: Declining demand for graphics paper**

Background

News, entertainment and information are increasingly consumed via computers, tablets and mobile phones instead of paper with an obvious impact on demand for graphics paper.

↳ Our response

Part of our longer-term strategy is to reduce our exposure to graphic paper. We manage our capacity to strengthen our leadership position in this market, realising its strategic importance to the group and maximising its significant cash flow generation. Accordingly, we continue to develop and enhance our portfolio of products to meet the needs of customers who recognise the value of print.

In FY2017, we added Somerset 9-point (9pt) Gloss to our Somerset Mill product line. The new line offers an 8% yield advantage over competitive 9pt grades and increased cost savings for customers.

In this market, we continue to provide innovations, including Spraytec technology which produces a unique gloss surface with an enhanced bulky feel to the paper. The result is an uncompromised, high bulk paper with a glossy and even print surface.

In Europe, Sappi&You, our updated customer portal and the shift towards a direct-to-market strategy is paying dividends by positioning Sappi as the preferred go-to partner in print.

Research from Millward Brown Digital, an industry-leading research company, analysed more than 100 market mix client studies. The print campaign analysis shows magazines increase both upper-and-lower funnel metrics, from awareness through to purchase intent, for all four studied advertiser categories – consumer packaged goods, auto, entertainment and financial services. In addition, research from Nielsen Catalina Solutions (NCS), which compiled data from more than 1,400 product studies, showed that magazines had the highest return on advertising spend by a wide margin. For each US\$1 invested in magazine media, the advertisers averaged a US\$3.94 return, according to NCS³.

³ <http://www.magazines.org.au/news/the-state-of-the-magazine-market-usa/>

Our key material issues continued

→ **Material issue: Growing demand for cellulosic-based fibres**

Background

As viscose technology improves and gains market acceptance, so the economic and environmental case versus cotton and petroleum-based fibres grows. The popularity of cellulosic-based fibres is based on their high levels of absorbency, breathability and softness, as well as wash and wear characteristics.

A potential shortage of cotton supply is expected to accelerate demand for dissolving wood pulp (DWP). The initial US Department of Agriculture cotton projections for 2017/18 indicate that world cotton consumption will rise slightly and exceed production for the third consecutive season⁴.

This supply/demand deficit is expected to be exacerbated by Chinese cotton policies. India, China and the United States of America are the world's largest suppliers of cotton by a long way. In 2016/2017, China was the world's second largest producer of cotton⁵ accounting for 34% of global supply. The country has historically supported spinners with a rebate on domestically purchased cotton. The policy was amended in 2014, to subsidise cotton farming. However, only Xinjiang province was offered subsidies, as China looked to unwind its stored inventories. In March 2017, it was announced that China would set target prices for cotton in Xinjiang province every three years instead of annually, even as domestic and global prices have soared.

The Chinese National Development and Reform Commission has now set a limit for how much cotton grown in Xinjiang can benefit from future subsidies, which could mean supply constraints going forward. In addition, the focus on growers in Xinjiang has led farmers in other provinces to switch to other crops, with negative implications for supply⁶.

↘ **Our response**

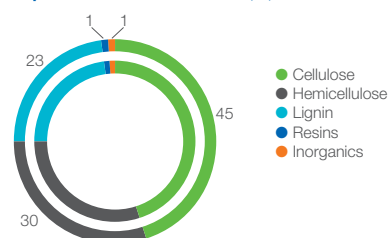
Textiles are the primary market for our DWP, which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell), and we continue to supply smaller quantities into the other DWP market segments. Sappi is the world's biggest producer of DWP, and we expect global demand for textiles continuing to grow, particularly in markets in Asia, as the region continues to be the leader of global growth in the short and longer term – the IMF predicts that growth in this region will remain strong at 5.4% in 2018⁷. This is well above the IMF's predicted global growth rate of 3.7% for the same period⁸.

Against this backdrop, we are expanding our DWP capacity at Ngodwana and Saiccor Mills by up to 100,000tpa and are debottlenecking capacity at both mills.

→ **Material issue: Our strategic move into adjacent markets: nanocellulose, sugars, lignins and bio-energy**

Background

Key components of woodfibre (%)



The key components of woodfibre include cellulose, hemicellulose, lignin and extractives. Both cellulose and hemicellulose are polysaccharides containing many different sugar monomers which can be extracted from pulping streams. New revenue opportunities include possibilities to extract biobased materials from the pre-hydrolysate kraft stream, such as hemicellulose sugars and lignin, for beneficiation to higher-value biochemicals.

↘ **Our response**

Our aim is to leverage the key components of woodfibre to extract more value from each tree and in doing so, strengthen our overall core business model. Accordingly, in July 2016, we established a new business unit, Sappi Biotech, to accelerate our response to consumer trends for renewable products with a low carbon footprint, continue to innovate in new growth segments and take global responsibility for the commercialisation of new products.

Nanocellulose

Nanocellulose from woodfibres provides a new material platform for sustainable production of a wide range of high-performance products. The global nanocellulose market is expected to exceed more than US\$700 million by 2023; growing at a CAGR of more than 33% in the given forecast period⁹.

⁴ agfax.com/2017/05/15/cotton-outlook-world-consumption-to-exceed-production-in-201718/

⁵ <https://www.statista.com/statistics/263055/cotton-production-worldwide-by-top-countries/>

⁶ <http://www.reuters.com/article/us-china-cotton-prices/china-rejigs-cotton-policy-for-top-grower-xinjiang-idUSKBN1600G0>

⁷ <https://www.imf.org/en/News/Articles/2017/05/08/NA050917-Asia-Dynamic-Economies-Continue-to-Lead-Global-Growth>

⁸ <https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017>

⁹ <https://www.marketresearchengine.com/reportdetails/nanocellulose-market-report>

Demand and value are forecast on the basis of various key applications of nanocellulose, such as composites and packaging, paper and paper board, biomedicine, and other applications, including as a viable alternative to expensive high-tech materials such as carbon fibres and carbon nanotubes.

In March 2016, we successfully commissioned our nanocellulose pilot plant at Brightlands Chemelot Campus in Sittard-Geleen, the Netherlands. The plant has successfully produced a high quality wet micro-fibrillated and nano-fibrillated cellulose. Further commissioning will take place in Q4 2018 in order to produce dry re-dispersible nanocellulose.

To accelerate our work in this fast-developing field, we are growing our nanocellulose competency at three of our global research and development facilities and have commenced with numerous industry collaboration projects in order to promote the benefits of nanocellulose in a wide range of applications including construction chemicals, personal and homecare products, plastic composites, paint, coatings, specialities and packaging papers.

Our nanocellulose process uses unique chemistry whereby wood pulp fibres can be easily broken down into nanocellulose without producing the large volumes of effluent associated with existing techniques using high amounts of energy. In addition, the chemicals used in the process can easily be recycled and reused without generating large amounts of effluent.

Sugars

In April 2017, we launched a trial sugar extraction demonstration plant at Ngodwana Mill in Mpumalanga province (South Africa). The demonstration plant is a joint development project with Valmet. It has been designed in accordance with all applicable industrial codes and regulations and will extract and make available industrial-scale samples of sugar rich pre-hydrolysate liquors. The plant can be operated independently from the day-to-day pulp mill and does not pose a productivity risk to Ngodwana Mill. The project team is resourced with skilled scientists and engineers from Sappi and Valmet and our development partners.

Following the successful commissioning of the demonstration unit, we strengthened our biotech division and bolstered our biorefining expertise through the acquisition of the Xylex® and Versalac® technologies (including the patents, know-how and equipment) owned by Plaxica Limited. Plaxica Limited is a United Kingdom technology licensing company founded in 2008 as a spin-out from Imperial College, London, and is situated in the Wilton Technology Centre in the United Kingdom. A number of key technical staff of Plaxica have joined the biotech division.

We have a high degree of confidence that the demonstration plant's hydrolysate extraction capabilities together with the proprietary low-cost Xylex® technology acquired by Plaxica – rated as one of the most advanced to offer optimum efficiency and economics for separation and clean-up of C5 sugars from pulp mill hydrolysates – will enable us to realise our stated objective to participate in the downstream value chains which include furfural, glycols and xylitol.

The plant will also help us to:

- Evaluate the potential of the process to offer access to higher value pulp markets
- Demonstrate and optimise the extraction of co-product streams from the PHK process for sale or conversion to higher value biochemicals, and
- Establish an operating model that could be replicated at any future pulp line.

The sugars we are targeting are known as 'second generation sugars' – in other words, they are not derived from a crop like sugar cane. Second generation sugars are attractive because they do not compete with first generation sugars which are sourced from agricultural crops. This is extremely important because of a rapidly growing global population and worldwide pressure on agricultural resources.

Furfural

Furfural is used as a solvent for refining lubricating oils, as a fungicide and weed killer and in the production of tetrahydrofuran, an important industrial solvent. It was one of the first biorenewable chemicals produced from biomass and has an established and growing market, where it competes with oil-based chemicals. It can be produced from the hemicellulose fraction of a number of biomass sources or agricultural residues such as bagasse and corncobs.

The xylose fraction in the pulping liquors from various mills has been identified as a possible source of furfural. The conversion and extraction of furfural from pulping liquors would be an additional source of income and could also improve the energy efficiency and environmental footprint of our pulp mills.

Sappi has partnered with Dalin Yebo to develop a business case for conversion and extraction of furfural from PHK liquor at Ngodwana Mill and acid sulphite liquor at Saiccor Mill. The project will include the design and construction of a pilot plant to remove and convert xylose into furfural.

The first phase of the project, which launched in July 2017, will include the collection of historical data, plant information and sampling campaigns to determine the best location in the process at Saiccor Mill to produce furfural. From here, a portable pilot plant will be constructed to determine the feasibility of producing furfural on a small scale and a full-scale demonstration plant could be built, depending on the results.

Our key material issues continued

Lignin

We are the world's largest producer of lignosulphonate from our operations in Southern Africa and Europe. The material is both used internally for bio-energy generation or beneficiated and processed to technical lignins for sale to global lignin markets. Here they are commonly used as surfactants, binders, dispersers and emulsifying agents.

Development work to use lignin from Stanger and Tugela Mills in Southern Africa in phenolic resins, polyurethane foams and polyester resins is underway at our Technology Centre in Pretoria. The work is being done in collaboration with an industrial chemist consultant and relevant industry leaders in South Africa.

In 2017, our biotech division appointed CellMark, a global sales, marketing, financing and logistics business, as the non-exclusive sales agent for Sappi Biotech's Hansa lignin products, produced in liquid and powder formats at Tugela Mill. The mill produces a total of 90,000tpa of liquid sodium lignosulphonate per year and we currently have the capacity to dry 25,000tpa of powder (\pm 50,000 tons liquid input).

We are currently assessing the use of lignin in energy storage applications.

Biocomposites

In 2016, in conjunction with Intertek, we developed a composite called Symbio which is based on cellulose fibres found in trees and polypropylene. Cellulose fibres can significantly increase the rigidity of plastic despite keeping weight low, simultaneously giving the material renewable properties. Higher rigidity also means a potentially lower carbon footprint, as less materials are used.

Symbio has now reached a stage where we are conducting trials with customers for special grades which have been developed for the automotive, audio, furniture and toy industries.

Bio-energy

As the world looks to move away from fossil-based fuels in view of the need to reduce carbon footprint and mitigate global warming, so bio-energy is becoming increasingly important.

The South African government's Renewable Energy Independent Power Producer Programme (REIPPPP) is the result of the national need to increase energy capacity and reduce carbon emissions. Sappi submitted the Energy Biomass Project at Ngodwana Mill to REIPPPP and was selected as preferred bidder. The project involves the supply of biomass from local plantations to Ngodwana Mill. This is then used as boiler fuel to produce steam which in turn would generate 25MW of electrical energy which would be fed into

the national grid. To date, regulatory approval has stalled on the issue of price, but we now expect negotiations to be concluded before the end of calendar 2017.

→ Material issue: Innovation

Background

The world is increasingly recognising the value of products based on woodfibre, so that opportunities are opening up to supply products, processes and services based on this renewable, biodegradable natural resource.

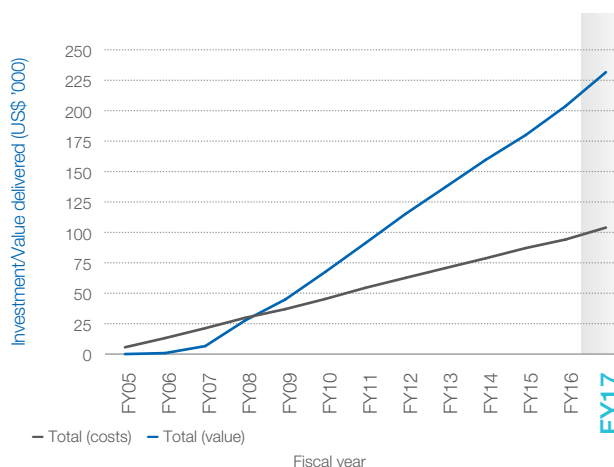
↳ Our response

Our R&D initiatives focus on consolidating and growing our position in our targeted markets segments; driving cost competitiveness and cost reduction; as well as optimising our equipment and forestry assets.

Our total R&D spend in 2017 was US\$29.5 million, including spend of approximately US\$9.8 million on our Exciter programme which focuses on core business (Exciter I) and new and adjacent business (Exciter II).

Cost vs value of Exciter projects

Cumulative global value generated vs total expenditure
(Percentages – total value vs total expenditure)



In FY2017, the focus for Exciter I projects (core business) was focused on market growth, cost reduction, continuous improvement and efficiency optimisation.

In terms of Exciter II projects, the emphasis was mainly on nanocellulose and biorefinery developments. A major highlight was the opening and commissioning of the sugar demonstration plant at Ngodwana Mill in April 2017 (described on page 49).



People

→ Material issue: Safety

Background

Safety is first and foremost a human issue. Unsafe practices and conditions can have devastating consequences on people's lives and families. Globally, the pulp and paper industry and forestry in particular, is viewed as potentially hazardous.

Our response

At Sappi we believe that every life matters. Accordingly, we strive to ensure that all workplaces are safe and that all employees act in a safe manner. However, we recognise that about 85% of accidents are due to the behaviour of people and that safe conditions do not necessarily create a safe workplace. Only when we change the hearts and minds of every employee and contractor will we have a safe workplace.

We have a goal of zero harm in the workplace, which is supported by a culture that seeks to minimise risk. In addition to our overall safety goal, all regions have established specific safety targets to be achieved by 2020 and each region has compiled specific action plans to achieve these targets.

With shock and regret we report that tragically, there were three own employees (two in Southern Africa and one in Europe) and one contractor (Southern Africa) fatalities during the year. Unfortunately, in November there was an additional incident where one of our mill colleagues in Europe was fatally injured. We are doing everything possible to support the families and to provide support to colleagues who were affected by these tragic losses. The severity of these accidents was reflected in the increased Injury Index (II) for own employees and contractors.

At Ngodwana Mill, where two of the fatalities in FY2017 took place, a shift change programme based on sound fatigue management principles on identification of accident trends associated with the current shift system has been investigated. Once accepted by the workers unions and implemented, learnings from this programme will be rolled out to other mills.

Our further action plan for Southern Africa going forward is to critically assess the current programme and to modify it where necessary with the assistance of DuPont Sustainable Solutions. Their review will involve a 'deep dive' to understand operational risk profile and practices. It will cover operational data, management systems, a culture survey and onsite visits.

The fatality in Europe in FY2017 took place during an activity previously assessed as low risk. To rectify the situation, while there continued to be an average of 18 safety-based audits per calendar day, the identified actions from these audits increased to almost 27 actions to improve safety per day. We anticipate that this will improve safety performance in the region going forward.

Globally, safety performance was highly unsatisfactory. Only Sappi North America (SNA) ended the year with a lower lost-time injury frequency rate (LTIFR) than that achieved in FY2016. A month after year-end, SNA received the American Forests and Paper Association (AF&PA) 2017 Leadership in Sustainability Award for Safety.

A programme at Sappi Forests initiated to re-energise safety, yielded highly positive results. In February 2017, Sappi Forests announced a new safety target for the business: to be Twice as Safe by 2020 which meant reducing fatalities to zero and putting an end to the culture of unacceptable risk tolerance. The solution was to implement a fit for purpose, audience-appropriate communications strategy to roll out a 'Stop and Think before you Act' (STA) initiative in Sappi Forests, including contractor operations while improving communication and relationships. This was important, because Sappi Forests' operations are almost 100% outsourced to 76 private contractors who employ 10,334 people (including subcontractors).

Low literacy rates required a new approach to communication. Research showed that the audience loved stories and Sappi Forests adopted a storytelling approach to safety communication using graphics and symbols. The audience connected exceptionally well with the material, and they understood and accepted that behaviour is your own choice. Many asked for posters and also implemented STA at home. The use of a standard set of symbols throughout all safety communication created a universal language that was consistent. Colour-blind stakeholders were catered for by using symbols in the graphics. Sappi Forests' key audiences and contractor staff responsible for training were trained at 'Train the Trainer' sessions.

The 12th Global Safety Awareness week was held during the week of 12 June 2017. The theme for this year was 'life Matters' and it illustrated that to Sappi every life is important including that of our contractors and stakeholders. The initiative was well supported with senior managers visiting all the Sappi sites. The safety theme for FY2018 is 'Own Safety, Share Safety' – in other words, every individual should be responsible not only for his/her own safety but also of his/her colleague's and family's safety.

Our key material issues continued

→ **Material issue: Labour relations**

Background

Sound labour relations are important in creating a harmonious working environment, enhancing productivity and maintaining a healthy turnover rate.

↘ **Our response**

The Sappi employment landscape includes interaction with trade unions at all our manufacturing sites across the group. This interaction is based on transparent communication and mutual respect.

Sappi promotes freedom of association and engages extensively with representative trade unions. Globally, approximately 60% of Sappi's workforce is unionised, with 72.6% belonging to a bargaining unit.

Overall, FY2016 was characterised by amicable, but tough negotiations, and relatively good relationships with organised labour across the geographies.

In **Europe**, approximately 68% of our employees belong to a union and are represented through Work Councils. European Works Council meetings take place twice a year at which Sappi is represented by the Chief Executive Officer and Human Resource Director. The main purpose of the meetings is to inform and consult on business results/market developments and pan-European organisational topics.

The overall labour relations climate in this region continued to be constructive and we concluded collective labour agreements (CLA) at Lanaken and Maastricht Mills.

In **North America**, approximately 65% of our employees are members of a union and there are 11 collective bargaining agreements with hourly employees in place.

There were no major disputes in this region and labour agreements were successfully concluded during FY2017.

In **Southern Africa**, approximately 48.5% of the total workforce is unionised.

We are currently reviewing our relationship/recognition agreement with the majority union, CEPPWAWU. The agreement will become a joint agreement and will include two other recognised trade unions in the region (Solidarity and UASA). We expect the agreement to be finalised by the end of November 2017.

The mills continued to enjoy labour stability owing to ongoing positive engagement with union leadership facilitated by structures such as the National Partnership Forum which includes senior members of management and senior union leaders. They hold regular meetings where business, safety and union challenges are discussed. In addition, in each business unit where there is a representative trade union and

the majority of employees are unionised, shop steward committees have been established and meet with local management on a regular basis to discuss matters of mutual interest.

While collective bargaining during FY2017 was extremely tough, we once again successfully concluded wage negotiations without industrial action in all sectors – forestry, pulp and paper, as well as sawmilling.

→ **Material issue: Sharing value**

Background

Globally, companies are expanding the definition of corporate citizenship to include both corporate social investment or responsibility and the concept of corporate shared value (CSV). This involves developing profitable business strategies that deliver tangible social benefits. In other words, identifying societal challenges within a company's sphere of operation and finding ways of addressing these for the mutual benefit of communities and the company.

↘ **Our response**

We have expanded our focus to embrace the concept of CSV more fully. We take a very active approach to CSV both regionally and globally, driving key initiatives in support of our three primary stakeholder groups – employees, customers and the local communities in which we operate.

Projects are aligned with and support business priorities and needs, taking into account feedback from our stakeholders. While each region has its own programmes, these conform to common themes which are aligned with our business needs and priorities and which include education, local community support, the environment and health and welfare. We encourage employees to participate in outreach and community projects.

In addition, support for activities associated with access to Sappi land and conservation efforts, such as biodiversity and species mapping, mountain biking and recreational birding continues to grow.

The fact that Sappi is headquartered and listed in South Africa, coupled to the significant development needs of the country, dictates a higher focus on CSV activities by Sappi in Southern Africa.

Our CSV initiatives in 2017 are described in more detail in our Group Sustainability Report, available at www.sappi.com, but initiatives in **North America** and **Southern Africa** give some idea of this approach.

Building on our long-standing, respected Ideas that Matter programme for print designers in **North America**, we launched a new programme, Employee Ideas that Matter (EITM). Through the EITM programme, we highlight the



concept of CSV by providing funding to the non-profit organisations our employees are most passionate about, thereby helping to improve lives and to promote employee morale. We have pledged US\$25,000 annually to proposals submitted by Sappi employees in SNA.

In 2015, **SSA's** forestry division in KwaZulu-Natal set out to establish what it could do to simultaneously provide communities with opportunities and reduce the numbers of fires in its plantations.

Research showed high unemployment within communities in Sappi regions and expectations that the company would provide more jobs than were possible, thus highlighting a critical need for enterprise development. This resulted in the implementation of a 12-month pilot community engagement and social mobilisation project, which involved the appointment of 18 unemployed youngsters called the Abashintshi (isiZulu for 'change agents').

Based on the asset-based community development (ABCD) methodology and with the objective of establishing and helping activate entrepreneurial enterprises among their communities, the Abashintshi were taught how to facilitate life skills and entrepreneurship training, activate the Ifa Lethu Legacy programme with elders, and offer holiday programmes for school children. They also provided Sappi with a new channel of communication, which has helped to improve the company's reputation significantly.

The Abashintshi Social Mobilisation Project won a gold award in the 'Shared Value' category of the 2017 Loeries Awards, South Africa's premier advertising and brand awards. The project also won a merit award in the 2017 International Association of Business Communicators (IABC).

Approximately 230 small businesses have either been started up or rejuvenated with the assistance of the Abashintshi while fires declined in the target areas by 89% in just two years. The programme has subsequently been extended to 43 communities in KwaZulu-Natal and Mpumalanga and today involves 88 Abashintshi.

Social investment spend in 2017

Total	Spend 2017
Europe	€100,000
North America (ITM US\$250,000)	US\$537,000
Southern Africa	ZAR56 million
Additional once-off spend by Sappi Forests on capex items for villages including solar geysers, etc.	ZAR7 million



Planet

→ Material issue: Woodfibre

Background

The global demand for woodfibre is expected to increase for the foreseeable future, driven partly by the demand for wood pellets rather than finite fossil fuels as a green energy source. This is expected to accelerate as more and more countries commit to mitigation actions on climate change.

In addition, climate change has the potential to seriously impact our fibre base. In all three regions where Sappi operates, climate change could alter the frequency and intensity of forest disturbances such as insect outbreaks, invasive species, wildfires, and storms. These disturbances could reduce forest productivity and change the distribution of tree species. Given that woodfibre is a key input to our manufacturing operations, maintaining continuity of supply and containing costs is integral to our sustainability as a business.

Our position

In **Europe**, we mitigate fibre supply risk through shareholdings in wood sourcing cooperatives and in this region and **North America**, through a combination of approaches which include both short- and long-term wood supply agreements.

In **North America**, our US\$25 million capital project to update Somerset Mill woodyard has reduced white wood losses and costs while enhancing efficiency gains through the increased production of woodchips. The commissioning of the new woodyard will be complete by the end of November 2017.

Our new woodyard at Saiccor Mill in **Southern Africa**, (described on page 15) will also result in efficiency gains.

Given **Sappi Europe's** general risk mitigation strategy of sourcing pulp and woodfibre from a variety of sources and regions, we do not anticipate any material impact to raw material supply from climate change in the short to medium term. In **North America**, our operations do not currently face material risks associated with climate change. With the exception of fibre from Brazil for Westbrook Mill, we source from northern hardwood and softwood wood baskets that have not suffered under any drought conditions or from fire.

In **Southern Africa**, the fact that we own and lease 387,291 hectares (ha) of plantations with approximately 27.4 million tons of standing timber gives us a competitive advantage. We also have access to wood from a further 92,000ha via contracted timber suppliers. Our aim is to produce low-cost wood with the required pulping



Our key material issues continued

characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

Work to enhance the genetic improvement and sustainability of our fibre base in **SSA** in FY2017 included:

- Progress in our *Eucalyptus (E.) grandis* x *E. urophylla (GU)* backcrossed genomic mapping project, which is aimed at developing DNA marker tools to enhance our tree breeding efforts, by speeding up the tree selection process. The project culminated in the testing of specific markers that are linked to or contain the genes controlling traits of interest such as growth, wood density, various sugars or metabolite levels. Based on the presence of these molecular markers in the DNA, just over 100 trees were selected for two wood property traits. These trees have now been sampled and are currently being pulped to confirm the marker predictions.
- Genomic selection, another marker-assisted breeding tool that we are in the process of developing, aims at increasing selection intensity and shortening the breeding cycle to improve our genetic gains. Working with *E. dunnii*, our most important eucalypt species, we have focused on developing genomic selection models for approximately 15 growth and wood property traits. The next step will involve validating these models in related and unrelated *E. dunnii* populations in order to confirm our predictions.
- Furthering our understanding of the molecular basis for resistance to *Fusarium circinatum*, a fungal disease that impacts pine species. In this regard we have been looking at the expressed genes of a resistant (*Pinus [P.] tecunumanii*) and a susceptible (*P. patula*) pine species after infection with the pathogen in order to develop models for resistance versus susceptibility.
- Developing a pine hybrid in response to a severe threat from our softwood supply from the Pitch Canker Fungus (PCF). By crossing the highly PCF susceptible *P. patula*, until recently Sappi's most important pine species, with the closely related but PCF tolerant *P. tecunumanii*, a disease tolerant hybrid known as PPT was created. The hybrid holds numerous benefits:
 - 45% more productive than pure *P. patula*
 - Better field survival
 - Easier to propagate in the nursery
 - More broadly adapted to a greater range of sites
 - Higher density and more uniform wood qualities
 - Rapid establishment on site, and
 - Good drought tolerance.

The value of the hybrid to Sappi has been estimated at ZAR73 million over a 20-year rotation, for the 3,500 hectares of PPT already commercially planted. More will be added every year over the next 20 years as the majority of the area currently planted to *P. patula* in the Mpumalanga province is gradually replaced with PPT. An additional benefit of the increased yield from PPT is the opportunity to reduce the area needed for softwoods in Mpumalanga, allowing more of Sappi's land to be converted to hardwoods, thereby increasing hardwood fibre output for the production of dissolving wood pulp.

- Upgrading the existing nursery at Ngodwana and adding cutting facilities. This has helped to enhance the sustainability of our fibre base in two ways:
 - Firstly, by mitigating against crop losses in the nursery during the cold winter period, and
 - Secondly, by helping to meet our need for increased deployment of hybrid cuttings, rather than pure species seedlings, as the former are generally more disease resistant and faster growing and can only be economically deployed using cuttings.

The deployment of hybrids has become a priority in order to meet the requirement for more hardwoods, necessitated by the conversion of Ngodwana Mill to dissolving wood pulp, and also to mitigate the risks associated with climate change and increased pests and disease introductions.

Together with Clan Nursery, which was upgraded in 2015, this means that our nurseries now have capacity for 54 million plants per annum, with an equal split between seedlings and cuttings. In FY2017, our nurseries supplied approximately 38,000 plants to our own operations, 14,000 to projects such as Sappi Khulisa and 2,000 to outside operations.

The full rebuild of Ngodwana Nursery will be completed by the end of December 2017.

In terms of climate change, we mitigate risk to our plantations by:

- Deploying a diverse range of commercial species and hybrids across a wide range of climatic conditions
- Continually monitoring and reviewing forest best practices in light of changing environmental factors, thus helping to mitigate any increased threat from water shortages or drought
- Maintaining wide genetic variability in planting material, including drought resistant breeds
- Measuring permanent sample plots annually (eucalypts) or bi-annually (pines) to determine the effect of drought for use in long-term planning
- Proactively implementing innovative pest and disease programmes
- Maintaining a broad genetic base, thereby facilitating response to new challenges such as pests, disease and climate change while providing continuous genetic improvement over the long term, and
- Implementing an extensive fire protection strategy, as climate change exacerbates the potential for fires.

In **Southern Africa**, we work to mitigate fibre supply risk and drive shared value by expanding access to the forestry sector in a number of ways, including:

- Sappi Khulisa ('Khulisa' means 'to grow' in isiZulu), our enterprise development initiative, previously known as Project Grow. This initiative, which began in 1983, is aimed at community tree farming and has successfully uplifted

impoverished communities in KwaZulu-Natal and the Eastern Cape. The total area currently managed under this programme amounts to 22,362ha. In FY2017, under the programme, 448,221 tons (2016: 395,232 tons) worth approximately ZAR362 million was delivered to our operations. Since 1995, a total volume of 3,313,581 tons, to the value of ZAR1.6 billion, has been purchased from small growers in terms of this programme.

As rotation times, and the associated cash flows, in forestry are long, growers receive advances. In addition, qualified extension officers advise on all aspects of tree farming.

In recent years, we have expanded Sappi Khulisa beyond the borders of KwaZulu-Natal to the Eastern Cape. We have signed a Memorandum of Understanding with the Eastern Cape Rural Development Agency (ECRDA) to facilitate forestry development in this region. To date, the total area planted covers 4,782ha and a further 4,812ha is in the environmental impact assessment phase, with records of decision awaited on a further 1,250ha. For further details, please see our Sappi FAQs Khulisa Umnotho, available on www.sappi.com.



- We are also active in land reform. As at the end of September 2017, Sappi was involved in 60 land reform projects. Many of these properties previously belonged to commercial farmers who had supply agreements with Sappi. To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and have also provided assistance. This depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive Forestry Enterprise Development Agreement (FEDA). The latter is a supply agreement but also incorporates development objectives whereby Sappi provides technical and business training as well as administrative support.
- To further assist with the development of small growers and other forestry value chain participants, we have established a training centre at Richmond in KwaZulu-Natal (KZN). The training centre has Khulisa Ulwazi ('Growing Knowledge') as its slogan and is providing training to small growers, land reform beneficiaries and small-scale contractors in the technical and business aspects of forestry and small business management. In FY2017, the centre more than doubled its intake of trainees. To date, over 1,000 people have been trained.

→ **Material issue: Emissions regulations and carbon tax**

Background

In light of evidence that anthropogenic greenhouse gas (GHG) emissions are driving global warming, governments around the world are assessing national carbon taxes in an attempt to promote low-carbon economies.

↘ **Our response**

We acknowledge that our industry is energy intensive, but believe that this is mitigated by our high use of renewable energy (black liquor in particular) and by the important role that sustainably managed natural forests and plantations play in mitigating global warming.

Globally, our renewable energy stands at 45.2%, of which just over 73% is own black liquor, a by-product of the pulping process in our integrated mills. Black liquor contains more than half of the energy content of the digested wood. As a renewable biomass-derived fuel, black liquor supplants fossil fuels, with a corresponding reduction in greenhouse gas emissions.

Biomass-derived energy like black liquor is fundamentally different from fossil fuel-derived energy because biomass recycles carbon whereas fossil fuels introduce carbon, that had previously been 'locked away', to the atmosphere. Biomass is deemed 'carbon neutral' – the carbon dioxide (CO₂) generated during combustion is equivalent to that which was originally bound from the atmosphere through photosynthesis.

In terms of carbon taxes, we continue to monitor the situation in each region where we operate. In **North America** and **Europe**, carbon taxes do not appear to be an imminent risk. In **Southern Africa**, the Department of Environmental Affairs has accepted our proposed carbon budget which is valid until 2020.

In terms of global warming, the challenge is to not only reduce future carbon emissions, but to actively remove existing carbon from our atmosphere. Sustainably managed forests and plantations like Sappi's play a vital role in this regard by:

- *Balancing the earth's water-cycle essential for cooling the climate*
- *Stabilising the climate by removing CO₂ from the atmosphere and fixing it into soils and biomass, and*
- *Storing carbon – 50% of a tree's biomass is carbon which remains stored, acting as a 'carbon sink', unless the tree decays or is burned.*

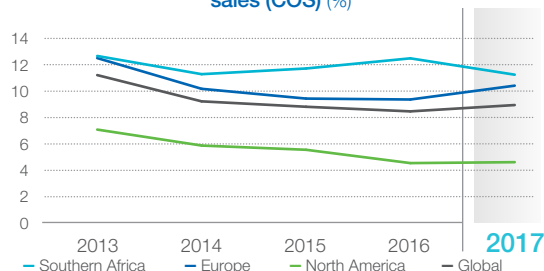
Global forests are estimated to hold more CO₂ than the atmosphere¹⁰.

¹⁰ <http://www.weforest.org/page/why-it-matters>

Our key material issues continued

→ **Material issue: Energy**

Purchased energy costs as a percentage of cost of sales (COS) (%)




Background

Energy is a key input for our industry. Aggressively managing energy usage leads to a reduction in carbon emissions and enhanced cost efficiencies. In South Africa, where national energy demand outstrips supply at times, energy security is also an issue.

↘ **Our response**

Energy in relation to cost of sales increased slightly in Europe. Although energy intensity remained stable, energy costs increased by 11.13% year-on-year, leading to purchased energy as a percentage of cost of sales rising from 9.37% in 2016 to 10.47% in 2017. Even though globally, our energy costs as a percentage of cost of sales have declined over five years due to actions taken, it makes business sense for Sappi to aggressively manage energy usage and promote the generation of renewable energy. Environmental impact is reduced not only by the amount of energy, but also by the type of energy consumed. We have made significant efforts to reduce reliance on fossil fuels, thereby reducing fossil-related greenhouse gas (GHG) emissions and separating our operations from the volatility of energy prices.

 We are succeeding in this regard, as indicated by our high use of renewable energy (see page 44) and by the following.

Over five years, we have increased global levels of energy self-sufficiency by 8.7%, while over the same period, globally, specific direct (Scope 1) GHG emissions have reduced by 4.6% and specific indirect (Scope 2) GHG emissions have decreased by 7.42%. Overall, there has been a reduction of 5.4% in GHG emissions intensity over five years.

In addition, both Sappi Europe and Sappi Southern Africa are ISO 50001 certified. To achieve accreditation, an organisation has to prove that it is continuously reducing the amount of energy consumed.

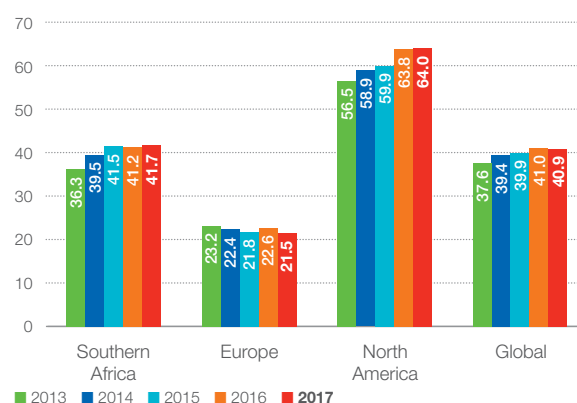
Our energy efficiency is enhanced through our extensive use of cogeneration and through our ongoing drive to install more efficient equipment and make process improvements, for example:

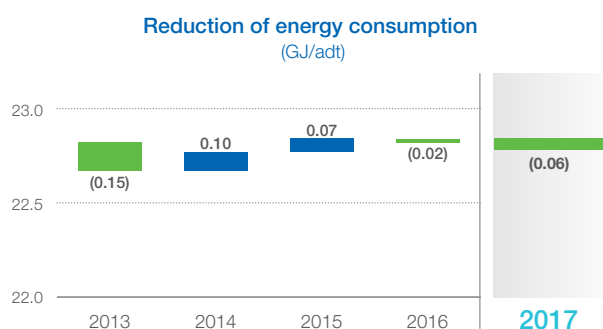
- Globally, we have combusted 20.43% more waste for on-site heat use over the last five years, and
- In FY2016, we announced the establishment of a pilot scale plant at Saiccor Mill to assess the use of anaerobic technology to treat evaporator condensate which we progressed in FY2017. The technology uses organic matter in the condensate to generate methane gas. Methane gas, in turn, can be used to generate electricity or generate steam.

The pilot study showed that the technology can be successfully used to biologically convert the organic material present in the condensate into biogas (methane). The energy potential associated with the use of the generated biogas is 1.7MW electrical and 1.8MW thermal. The generated biogas has the potential to replace 17 tons of coal per day.

The assessment has now been completed and we are currently evaluating the implementation of the technology.

Percentage energy self-sufficiency (%)





→ Material issue: Water

Background

The United Nations estimates that global demand for water will grow by 50% by 2030.¹¹ At the same time, globally, over 80% of the wastewater generated by society flows back into the ecosystem without being treated or reused¹². In addition, partly to help maximise yields to meet demand, usage of chemical fertilisers and pesticides has increased in recent years, both in industrial and small farming, making agriculture a potential source of environmental pollution.

Our response

In terms of the concerns outlined in the paragraph above:

- Our production processes depend on water, as does woodfibre, our primary input. Globally, we return 93% of the water we extract back into the environment after it has been treated and cleaned. Of the 7% balance, approximately 4% exits the mill in the form of production, while the remaining 3% is lost to the environment
- Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand (COD) by 12.9% and total suspended solids (TSS) by 35.5%
- Our plantations are not irrigated and fertiliser is generally only used once in each rotation
- Our Technology Centre in Pretoria (South Africa) is currently assessing the wastewater biorefinery (WWBR) concept, which involves the recovery of valuable products (eg sugars, lignin or biogas) from waste streams. An additional benefit is

also the improvement of effluent quality, prior to discharge into the environment. The WWBR aims to process complex input streams to multiple products, while reducing the costs associated with conventional water treatment. While chemical and physical processes are traditionally used to reduce the toxicity of effluent streams, enzymes could potentially also be employed to reduce toxicity and increase substrate availability (in the case of bioreactors). This could, in turn, reduce the COD loading or aid in the production of biogas.

Of all the regions where Sappi has operations, **South Africa**, which is a water-stressed country and which has been experiencing its worst drought in many years, has been most severely affected.

To mitigate the impact of low flows on the Umkomazi River, the prime source of water to Saiccor Mill, in FY2016 we completed a project to raise the Comrie Dam wall, upstream of Saiccor Mill, tripling the amount of water in the dam. We have now been awarded a water use licence from the regulatory authorities.

At Ngodwana, Tugela and Stanger Mills, we are focusing on internal modifications which involve the more efficient use of water.

Following the conversion of the PM8, Lanaken Mill (Belgium) will be switching from the use of softwood to hardwood pulp, making wastewater treatment more challenging. Accordingly, in January 2018, the mill will be building a new anaerobic wastewater treatment plant. This will produce 280% more biogas, which will generate electricity and heat. Once the plant is completed in June 2018, the old anaerobic tanks will be converted into aerobic tanks to increase the capacity and quality of wastewater treatment. As a comparison, we will go from a wastewater treatment capacity comparable with municipal wastewater of 300,000 residents to a capacity for 900,000 residents. Finally, in a third step, from September to October 2018, coating waste water will move to an existing separator and biological treatment, in order to free up capacity for effluent of the paper machine. A final step involving advanced oxidation will remove non-biodegradable COD.

¹¹ UNHABITAT (2016), *World Cities Report 2016: Urbanization and development*: <http://wcr.unhabitat.org/wp-content/uploads/sites/16/2016/05/WCR-%20Full-Report-2016.pdf>

¹² <http://www.un.org/en/events/waterday/>

Light photomicrograph of pine tree wood cross section seen through a microscope.



Safety at Sappi comes before everything else. We do not accept that injuries and accidents are inevitable. We remain **fully committed to our project zero goal of zero injuries** and have increased our focus on improved personal behaviour and making safe choices.



Our leadership

Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee

Non-executive directors



Sir Nigel Rudd (70)

Independent Chairman

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

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



Robert John DeKoch (Bob) (65)

Non-independent

Qualifications: BA (Chemistry), MBA

Nationality: American

Appointed: March 2013

Sappi board committee memberships:



Michael Anthony Fallon (Mike) (59)

Independent

Qualifications: BSc (Hons) (First Class)

Nationality: British

Appointed: September 2011

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



John David McKenzie (Jock) (70)

Lead independent director

Qualifications: BSc Chemical Engineering (cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships:



Dr Bonakele Mehlomakulu (Boni) (45)

Independent

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

Nationality: South African

Appointed: March 2017

Sappi board committee memberships:



Mohammed Valli Moosa (Valli) (60)

Non-independent

Qualifications: BSc (Mathematics)

Nationality: South African

Appointed: August 2010

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





Governance and compensation

**Dr Deenadayalen Konar (Len) (63)**

Independent

Qualifications: BCom, MAS, DCom, CA(SA), CRMA**Nationality:** South African**Appointed:** March 2002**Sappi board committee memberships:**
Audit Committee (Chairman)**Nkateko Peter Mageza (Peter) (63)**

Independent

Qualifications: FCCA (UK)**Nationality:** South African**Appointed:** January 2010**Sappi board committee memberships:****Godefridus Peter Franciscus Beurskens (Frits)* (70)**

Independent

Qualifications: BSc Mechanical Engineering, MSc Industrial Engineering and Management Science**Nationality:** Dutch**Appointed:** October 2011**Sappi board committee memberships:**** Mr Beurskens retired from the Sappi board at the end of February 2017.***Bridgette Radebe* (57)**

Independent

Qualifications: BA (Pol Sc and Socio)**Nationality:** South African**Appointed:** May 2004**Sappi board committee memberships:**** Mrs Radebe retired from the Sappi board at the end of February 2017.***Karen Rohn Osar (68)**

Independent

Qualifications: MBA, Finance**Nationality:** American**Appointed:** May 2007**Sappi board committee memberships:****Robertus Johannes Antonius Maria Renders (Rob Jan) (64)**

Independent

Qualifications: MSc (Mechanical Engineering), MDP**Nationality:** Dutch**Appointed:** October 2015**Sappi board committee memberships:****Dr Rudolf Thummer* (70)**

Independent

Qualifications: Dr Techn, Dipl-Ing**Nationality:** Austrian**Appointed:** February 2010**Sappi board committee memberships:**** Dr Thummer will retire from the Sappi board in December 2017.*

Our leadership

Executive directors



Stephen Robert Binnie (Steve) (50)

Chief Executive Officer

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

Nationality: British

Appointed: September 2012

Sappi board committee memberships:



Attends meetings of all other board committees by invitation.



Glen Thomas Pearce (54)

Chief Financial Officer

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

Nationality: South African

Appointed: July 2014

Sappi board committee memberships:

Expected to attend Audit Committee meetings by invitation.

Executive management



Berend John Wiersum (Berry) (62)

Chief Executive Officer of Sappi Europe

Qualifications: MA (Medieval and Modern History)



Mark Gardner (62)

President and Chief Executive Officer of Sappi North America

Qualifications: BSc (Industrial Technology)



Alexander van Coller Thiel (Alex) (56)

Chief Executive Officer of Sappi Southern Africa

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

Executive management *continued*



Andrea Rossi* (63)

Group Head Technology

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

** Mr Rossi relinquishes the role of Group Head Technology in December 2017.*



Maarten van Hoven (44)

Group Head Strategy and Legal

Qualifications: BProc, LLM (International Business Law)



Gary Bowles (57)

Executive Vice President Specialised Cellulose
Group Head Technology from January 2018

Qualifications: BSc Electrical Eng, GCC, PR Eng, PMD, EDP



Fergus Marupen (52)

Group Head Human Resources

Qualifications: BA Hons (Psychology), BEd (Education Management), MBA



Corporate governance

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2016 (King IV) and applies the various principles. An application register of how Sappi applies the King IV principles is provided on pages 72 to 75 of this report.

The group is listed on the JSE Limited and complies in all material respects with the JSE listings requirements, regulations and codes.

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 strategies, approves major policies and plans, is responsible for risk management, and provides oversight as well as monitoring, to help to ensure accountability. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

For further information about the board and the board charter please refer to www.sappi.com.

The composition of the board and attendance at board meetings and board committee meetings is set out in the table below for the year ended September 2017:

			Board committees											
Name	Status	Board	Audit			Nomination and Governance			Human Resources and Compensation			Social, Ethics, Transformation and Sustainability (SETS)		
SR Binnie	Chief Executive Officer	6/6		B	5/5		B	3/3		B	4/4	✓		3/3
GT Pearce	Chief Financial Officer	6/6		B	5/5									
Sir Nigel Rudd	Independent non-executive Chairman	6/6		E	4/5	✓	C	3/3	✓	E	4/4	✓	E	3/3
PF Beurskens ⁽¹⁾	Independent non-executive	0/3												
RJ DeKoch	Non-executive	6/6										✓		3/3
MA Fallon	Independent non-executive	6/6	✓		5/5				✓	C	4/4			
D Konar	Independent non-executive	6/6	✓	C	5/5	✓		3/3						
JD McKenzie	Lead independent director	6/6				✓		3/3	✓		4/4			
NP Mageza	Independent non-executive	6/6	✓		5/5				✓		4/4			
B Mehlomakulu ⁽²⁾	Independent non-executive	3/3										✓		3/3
MV Moosa	Non-executive	6/6										✓	C	3/3
KR Osar	Independent non-executive	5/6	✓		4/5									
B Radebe ⁽³⁾	Independent non-executive	2/3												
RJAM Renders ⁽⁴⁾	Independent non-executive	6/6	✓		2/2				✓		4/4			
R Thummer	Independent non-executive	6/6										✓		3/3

⁽¹⁾ Mr GPF Beurskens retired from the board of Sappi Limited and from the Audit Committee with effect from 28 February 2017.

⁽²⁾ Dr B Mehlomakulu was appointed to the Sappi Limited board and member of the SETS Committee with effect from 01 March 2017.

⁽³⁾ Mrs B Radebe retired from the board of Sappi Limited and from the SETS Committee with effect from 28 February 2017.

⁽⁴⁾ Mr RJAM Renders was appointed as a member of the Audit Committee with effect from 01 March 2017.

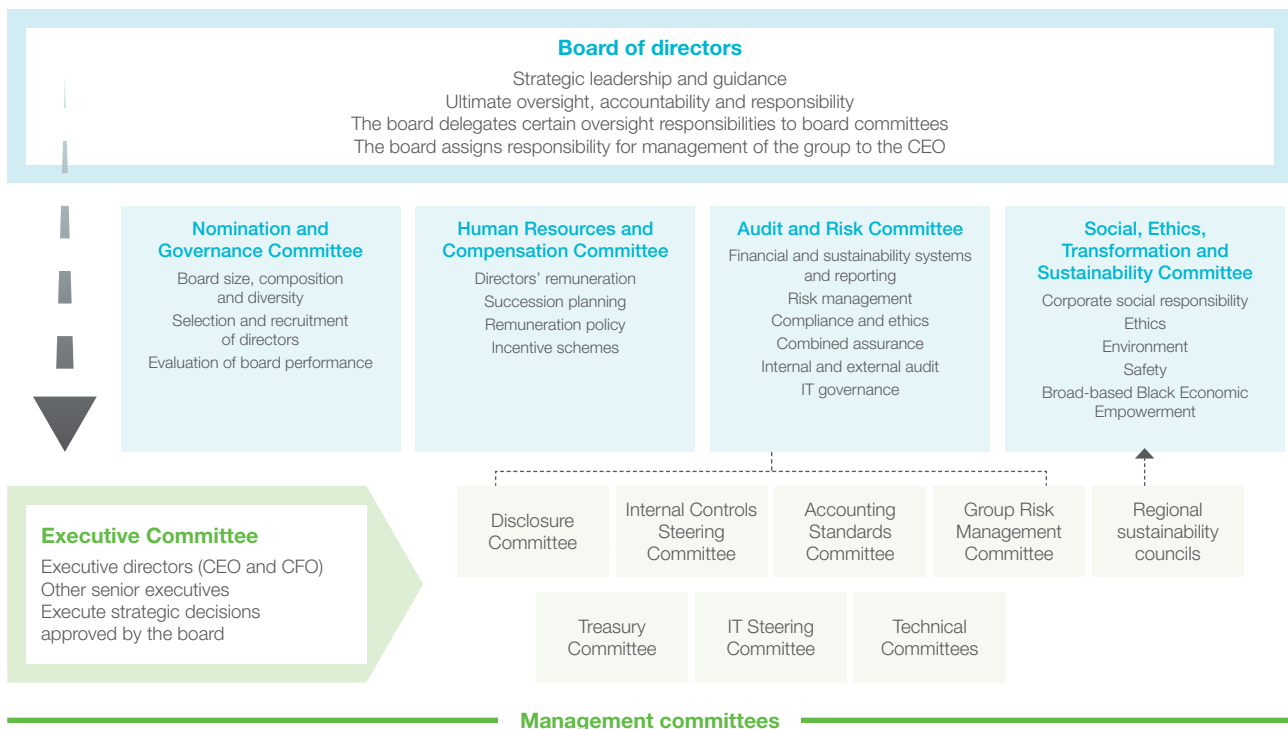
✓ Indicates board committee membership, C indicates board committee chairman, B indicates attendance by invitation and E indicates attendance ex officio. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated.

Induction and training of directors

Following appointment to the board, directors receive induction and training tailored to their individual needs, when required.

Sappi board and management committees

A number of board and management committees have been established, as follows:



Board committees

The board has established committees to assist it to discharge its duties. The committees operate within written terms of reference set by the board.

Audit Committee

The Audit Committee consists of five independent non-executive directors and assists the board in discharging its duties relating to:

- Safeguarding and efficient use of assets
- Oversight of the risk management function
- Oversight of information and technology risks, related controls and governance
- Oversight of non-financial risks and controls, through a combined assurance model
- 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 sustainability information included in the Annual Integrated Report
- 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
- Oversight of the performance of the finance function
- Oversight of taxation policies, congruent with responsible corporate citizenship, and
- A formal review of the committee's operating effectiveness and performance every two years by way of an assessment with feedback being provided to the board.

The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit Committee Report in the Group Annual Financial Statements.

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit Committee during 2017.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2017.

Corporate governance continued

Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent 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 in line with Sappi's policy on the promotion of gender and race diversity at board level, 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. The functioning and performance of Sappi's board and board committees were assessed internally in 2017 and established that the board and board committees functioned well.

Human Resources and Compensation Committee



The Human Resources and Compensation Committee consists of four independent directors. The responsibilities of the Human Resources and Compensation Committee are, among others, to provide oversight of the group's human capital, 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.

 The Remuneration Report can be found on pages 76 to 88.

Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises at least three independent non-executive directors and the CEO. Other executive and Group Management Committee members attend SETS Committee meetings by invitation. Its mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment practices, as well as its contribution to social and economic development and, with regard to the group's Southern African subsidiaries, the strategic business priority of 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.

For more information on sustainability at Sappi refer to  pages 32 to 57 and for a summary of the group's initiatives at www.sappi.com. 

Management committees

The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees.

Executive Committee

This committee comprises executive directors and senior management from Sappi Limited as well as the CEOs of the three main regional business operations and the specialised cellulose business. The CEO has assigned responsibility to the Executive Committee for a number of functional areas relating to the management of the group, including the development of policies and alignment of initiatives regarding strategic, operational, financial, governance, sustainability, social and risk processes. The Executive Committee meets at least five times per annum.

Disclosure Committee

The Disclosure Committee comprises members of the Executive Committee and senior management from various disciplines. Its objective is to review and discuss financial and other information prepared for public release. It is the ultimate decision-making body, apart from the board, with regard to disclosure.

Treasury Committee

The Treasury Committee meets monthly to assess financial risks on treasury-related matters.

Technical Committees

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

Group Risk Management Team

The 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 GRMT reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process.



Internal Control Steering Committee

The Internal Control Steering Committee supported by the internal control function provides regular oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks.

Group IT Steering Committee

The Group IT Steering Committee promotes IT governance throughout the group and is the highest authority responsible for this aspect of Sappi's business, apart from the board. The committee has a charter approved by the Audit Committee and the board. An IT governance framework has been developed and IT feedback reports are presented to the Audit Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a groupwide risk framework supported by the use of risk management software.

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, as follows:

- All quarterly results – by the Disclosure Committee and Audit Committee, and
- Interim and final results – by external audit as well.

Sappi's internal controls and combined assurance framework

Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls. Sappi maintains a robust framework of risks and controls which assists in the application of the King IV guidelines, including controls addressing our material matters and the main drivers of Sappi. The framework comprises both financial and non-financial controls, which relate to achieving our strategy, within our risk appetite and tolerance levels, across the economic, social and environmental context in which the organisation operates as well as each of the six capitals set out in the IIRC's model.

 More information on these capitals in the context of Sappi's sustainable business model can be found on pages 2 to 5.

The group's internal controls and systems are designed in accordance with the COSO control framework, to provide reasonable assurance as to the integrity and reliability of the annual financial statements, the Annual Integrated Report and operational management information used for decision making, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

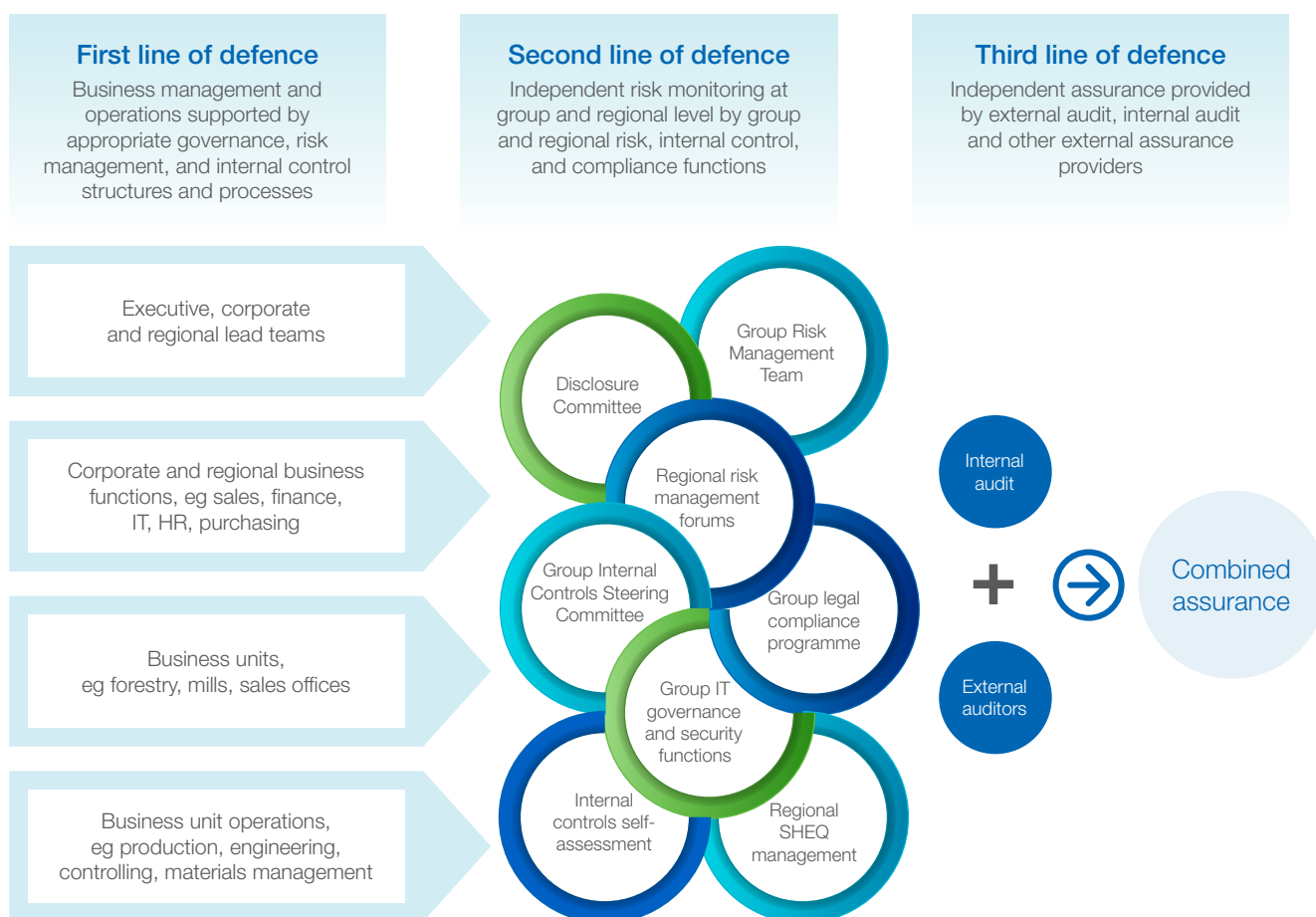
Feedback as to the effectiveness of internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control framework.

The assurance obtained informs executive management and the Audit Committee about the effectiveness of the group's internal controls in respect of significant risks. The Audit Committee, which is responsible for the oversight of risk management and combined assurance at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically provides direction as to the type, nature, extent and approach of the assurance required. The Audit Committee advises the board on the state of risks and controls, as well as assurance, in Sappi's operating environment. This information is used as the basis for the board's review, sign-off and reporting to stakeholders, via the Annual Integrated Report and Group Annual Financial Statements, on risk management and the effectiveness of internal controls and assurance within Sappi.

Sappi's combined assurance framework comprises three lines of defence, with oversight provided by the board and board committees. This is in keeping with enterprise risk management best practice and is depicted on the following page:

Corporate governance continued

Oversight by the board, audit (risk) and other committees



As part of combined assurance in respect of internal controls, Sappi has obtained assurance on the data in the Annual Integrated Report from the following sources:

- Financial data is independently audited by KPMG Inc
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit
- Specific Planet (environment) related processes are subject to review by third parties during the year
- A preliminary sustainability external readiness review was undertaken by KPMG Inc in 2017 with a focus on Scope 1 and 2 emissions information as well as safety information, and
- No other external assurance was obtained on the consolidated sustainability indicators reported, although certain local data is subject to external audits.

Internal audit

The group has an effective risk-based Internal Audit Department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the group's governance, risk management, systems, internal controls and accounting records. Internal audit coordinates combined assurance and reports the findings to local and divisional management, the external auditors as well as to the Audit Committee.

The Head of Internal Audit reports to the Audit Committee, meets with board members, has direct access to executive management and is invited to attend certain management meetings. The role of internal audit at Sappi is set out in the following diagram:



Core principles				
Integrity	Competence and due professional care	Objective and independent	Aligned with strategies, risks and objectives	Appropriately positioned and resourced
Quality and continuous improvement	Effective communication	Risk-based assurance	Insightful, future-focused and proactive	Promotes organisational improvement

Corporate governance continued

During 2017, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas and provided advisory services for a number of regional and global harmonisation projects such as requisition to pay and sales order to cash as well as shared service centre processes.

Internal audit maintains an internal quality assurance programme. An external quality assurance review is undertaken periodically. In 2015, an external validation was conducted by the Institute of Internal Auditors (IIA). A Generally Conforms rating was received, which is the highest of the three levels of conformance to the IIA's standards.

Board assessment of the company's risk management, compliance function and effectiveness of internal controls and combined assurance

The board is responsible for the group's systems of internal financial and operational control. As part of an ongoing comprehensive evaluation process, control self-assessments, independent reviews by internal audit, external 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 as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The board has assessed the combined assurance provided in 2017. 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 and provide a sound basis for the preparation of the Group Annual Financial Statements, Annual Integrated Report and other reports used internally for management decision making.

Group Company Secretary

The Group Company Secretary does not fulfil executive management functions outside of the duties of Group Company Secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the Group Company Secretary and has concluded that she is sufficiently independent (ie maintained an arm's length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The Group Company Secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

Code of Ethics

Sappi requires its directors and employees to act with integrity, to be courageous, to make smart decisions and to execute with speed, in all transactions and in their dealings with all business partners and stakeholders. These values underpin the group's Code of Ethics, and commit the group and its employees to sound business practices and compliance with applicable legislation. Actions are taken against employees who do not abide by the spirit and provisions of our code. Online Code of Ethics and anti-bribery and corruption training was provided to employees across the group in 2017. The SETS Committee provides oversight for social, ethics, transformation and sustainability matters throughout the group. Refer to www.sappi.com for the Code of Ethics.

Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports twice per annum to the group Audit Committee. The resourcing of the compliance function was boosted by the appointment of a compliance manager in 2016. Sappi is in the process of enhancing the legal compliance programme by the acquisition and implementation of suitable compliance software and an additional external legal compliance update service. In addition, online training has been provided to employees across the group on relevant core legal compliance topics.

Conflict of interests

The group has a policy that obliges all employees to disclose any interest in contracts or business dealings with Sappi to assess any possible conflict of interest. The policy also dictates that directors and senior officers of the group must disclose any interest in contracts as well as other appointments to assess any conflict of interest that may affect their fiduciary duties. During the year under review, apart from those disclosed in the financial statements, none of the directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

Insider trading

The company has a code of conduct for dealing in company securities and follows the JSE Limited Listings Requirements in this regard. For further information refer to www.sappi.com.




Reporting on compliance and ethics concerns

Sappi employees and stakeholders can report any potential illegal or non-compliant behaviour they observe directly to (senior) management, internal audit or legal counsel, or alternatively, report anonymously, via telephone or an online form. Whistle-blower 'hotlines' have been implemented in all the regions in which the group operates. The hotline service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is coordinated either by legal counsel or internal audit and reported to the Audit Committee. The majority of calls and ethics reports received related to the Southern African region. Please refer to the whistle-blower hotline and ethics report graphs for information on the number of hotline calls per 1,000 employees, the categories of hotline calls and ethics reports, and the outcome of the investigations. The hotline report rates, categories of reports and outcomes of cases broadly align with international whistle-blower benchmark data.

Stakeholder communication

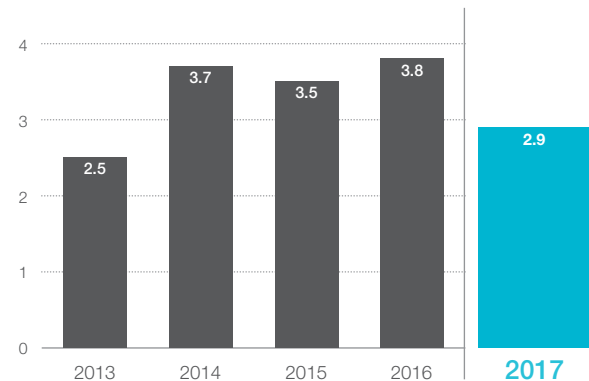
The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed to guide engagement with Sappi's stakeholders such as the Group Stakeholder Engagement Policy and Group Corporate Social Responsibility Policy. Sappi has a policy addressing Alternate Dispute Resolution (ADR) and relevant ADR clauses are generally included in contracts with customers and suppliers. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

 For more information on our key relationships at Sappi refer to pages 32 to 43.

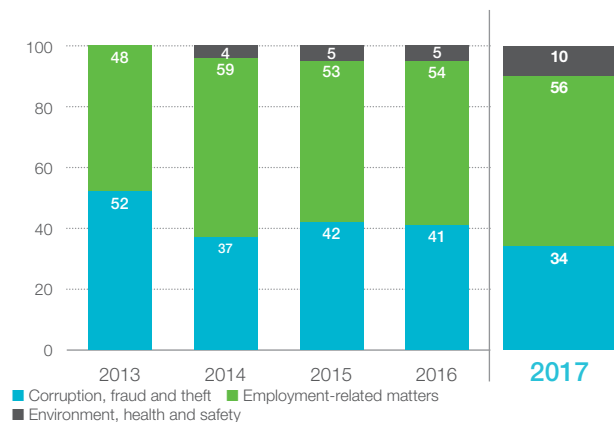
For a summary of how Sappi applies the King IV principles, please refer to www.sappi.com.



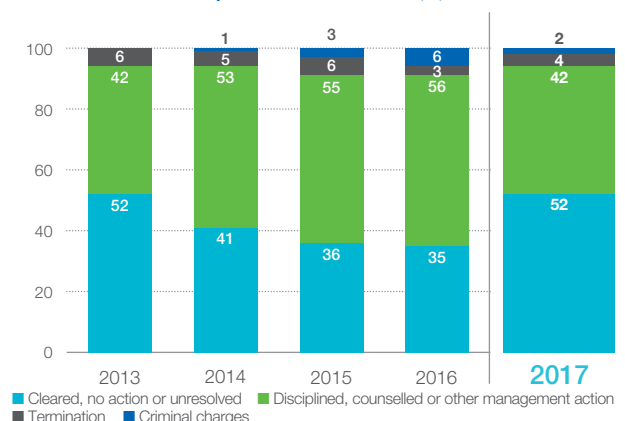
Hotline report rate per 1,000 employees



Analysis of hotline and ethics reports by category (%)



Analysis of hotline and ethics report case outcomes (%)



King IV principles

General comments


Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business.

Sappi endorses the governance outcomes of ethical culture, good performance, effective control and legitimacy, promoted by the King IV Report on Corporate Governance for South Africa (released November 2016).

The purpose of this register is to provide an overview of Sappi's application of the principles contained in King IV. The register should be read in conjunction with the Sappi Annual Integrated Report.

Leadership	
Principle 1 The governing body should lead ethically and effectively.	The directors hold one another accountable for decision making based on integrity, competence, responsibility, fairness and transparency through their commitment to lead Sappi. The Chairman oversees this process on an ongoing basis.
Organisational ethics	
Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	<p>The board sets the example and tone for an ethical culture in Sappi based on our core values of doing business with integrity and courage; making smart decisions, which we execute with speed. The board is assisted with ongoing oversight of ethics management through SETS and the Audit Committee.</p> <p>Sappi's ethics values and norms are clearly articulated in the Code of Ethics and supporting policies. There are processes in place to ensure that employees, business associates, contractors and suppliers are familiar with Sappi's ethics norms as set out in the Codes of Ethics. These include:</p> <ul style="list-style-type: none"> • Reference to the Code of Ethics in employment and supply contracts • Publication of the Code of Ethics online on external (https://www.sappi.com/sappi-code-of-ethics) and internal website, and • Ongoing training and induction of employees. <p>Other arrangements to manage ethics include:</p> <ul style="list-style-type: none"> • Annual fraud and ethics and fraud risk assessments (with due consideration for stakeholders) • Safe reporting (hotline) mechanisms are in place, and • Periodic employee control environment surveys.
Responsible corporate citizenship	
Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	<p>The board, assisted by the SETS Committee, provides strategic direction for Sappi to be a responsible corporate citizen and to respond appropriately to the economic, social and environmental outcomes of its activities. Sappi is committed to the United Nations Global Compact. Our key corporate citizenship considerations include:</p> <ul style="list-style-type: none"> • Protecting people and the environment underpins our approach to sustainability. Sappi places the highest priority on the health and safety of our workforce and on the protection of the environment, and • Human rights: Sappi is committed to the principles of the United Nations Global Compact, the Universal Declaration of Human Rights, and the International Labour Organisation. <p>The board reviews annually the corporate responsibility strategy, priorities and action plans of the company.</p>



Strategy and performance	
Principle 4 The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	<p>Sappi's strategic direction, mission and vision together with our value statement are described in our Annual Integrated Report. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead.</p> <p>Sappi's approach to sustainable development – Prosperity, People and Planet is aligned with the IIRC's six capitals model. Currently, natural capital, financial capital and human capital are the most important in our drive to position Sappi as a profitable and cash-generative, diversified woodfibre group.</p>
Reporting	
Principle 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.	<p>The Audit Committee is responsible for the integrity and transparency of reporting and oversees the issue of the annual financial statements and integrated reports. The Annual Integrated Report aims to present material information in an integrated manner and provide users with holistic, clear, and concise information about Sappi's performance, measured against its objectives and Sappi's short-, medium- and long-term prospects.</p>
Primary role of the board	
Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.	<p>The board is the focal point and custodian of corporate governance. The board's role and responsibilities and the way it executes its duties and decision making are set out in the board charter and the terms of reference and work plans of its various committees.</p>
Composition of the board	
Principle 7 The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	<p>The Nomination and Governance Committee, considers, on an annual basis, the board and committee compositions in terms of balance of skills, experience, diversity, independence and knowledge. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p> <p>The King IV requirements for director independence, board composition, chair and lead independent director, induction and training, managing conflicts and nomination and appointment are met.</p> <p> Refer to <i>Corporate governance</i> section on page 64 of this report for further information about board members.</p>
Committees of the board	
Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	<p>The board may delegate to individual members, groups of members, standing or ad hoc committees. The standing committees of the board comprise the Audit Committee, the Nomination and Governance Committee, the Human Resources and Compensation Committee, and the Social, Ethics, Transformation and Sustainability Committee.</p> <p>The composition of the board and its committees are in line with King IV. There is a clear balance of power to ensure that no individual has undue decision making powers. Each committee has formal terms of reference, approved by the board, recording the responsibilities delegated to it. Each committee has sufficient capability and capacity to function effectively.</p> <p>Refer to our Annual Integrated Report on www.sappi.com/reports for information on the members of each committee and attendance and to our website for the terms of reference for each committee of the board.</p>

King IV principles *continued*

Board performance evaluation

Principle 9

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The Nomination and Governance Committee evaluates the performance of the board and the board committees annually. The performance of individual directors is normally evaluated prior to reappointment. The Chairman's performance is evaluated by the board annually under the leadership of the lead independent director.

Appointment and delegation to management

Principle 10

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

The board is satisfied that key functions are appropriately resourced and that the board's delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.

The board charter provides direction on the powers reserved for the board: matters that have specifically been reserved for board decision making or consent and the approval authority of board committees in respect of the company and its subsidiaries are contained in the limits of authority document adopted by the board.

The CEO is appointed by and reports to the board and is responsible for leading the implementation of strategy and policy. The King IV requirements for the CEO in terms of appointment, roles and responsibilities, succession planning, and performance evaluation are complied with.

Sappi has a Company Secretary with the necessary experience, expertise and qualifications, as well as at the appropriate level of seniority to discharge the role effectively. The King IV recommendations for Company Secretary in respect of appointment, reporting lines, independence, duties and performance evaluation are met.

Risk governance

Principle 11

The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.

The Audit Committee assists the board with the governance of risk.



For more detail on Sappi's risks and the management thereof, refer to the *Risk management* section on pages 90 to 93 of this report.

Technology and information governance

Principle 12

The governing body should govern technology and information in a way that supports the organisation in setting and achieving strategic objectives.

Sappi's 2020Vision (and associated strategy, performance, and sustainability) is highly dependent on technology and information.

The board is accountable for the governance of technology and information management. Management committees have been established to assist the CEO and board by implementing policy on technology and information management:

- Group Technical Committees focus on global technical alignment, performance and efficiency measurement as well as new product development, and
- Group IT Steering Committee promotes IT governance throughout the group. Sappi has adopted Control Objectives for Information and Related Technologies (COBIT) – the global good practice framework for IT management and IT governance.



Compliance governance

Principle 13

The governing body should govern compliance with applicable laws, and adopted non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Sappi's commitment to act as a responsible corporate citizen includes compliance with all laws and regulations in the countries and jurisdictions where Sappi operates.

A group legal compliance programme is in place to mitigate the risk of non-compliance with the laws and also to ensure appropriate responses to changes and developments in the regulatory environment.

Significant legal and regulatory matters and compliance risks are reported to the Audit Committee.

During 2017, there were no material penalties, sanctions or fines for contraventions of, or non-compliance with, statutory and regulatory obligations.

Remuneration governance

Principle 14

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term.

The Human Resources and Compensation Committee ensures that directors, executives and employees are remunerated fairly and responsibly so as to promote the delivery of strategic objectives and the creation of value in a sustainable manner.


 Refer to the Remuneration Report (included in the Annual Integrated Report on pages 16 to 88 of this report for further information.

Assurance

Principle 15

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports.

The Audit Committee is responsible for oversight of assurance on the effectiveness of governance, risk management and control at Sappi. Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal and external assurance providers, on the risk areas affecting the group.


 Refer to the *Corporate governance* section of pages 64 to 75 of this report for more information on Sappi's combined assurance framework including external audit, internal audit, and the provision of assurance over external reports.

Stakeholders

Principle 16

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The board has adopted a stakeholder-inclusive approach and the One Sappi strategy is built on collaborating and partnering with stakeholders. Sappi strives to understand, be responsive to, and balance stakeholder legitimate and reasonable needs, interests and expectations. Key stakeholders have been identified.

 A Group Stakeholder Engagement Policy has been established. Information on how we have approached our stakeholder relations can be found in *Our key relationships* section on pages 32 to 43 of this report.

Responsibilities of institutional investors

Principle 17

The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests.

Not applicable – Sappi is not an institutional investor.

Remuneration Report

The Remuneration Report details the company's compensation policy for executive directors, executive committee members and non-executive directors.

The information provided in the report has been approved by the board as per the recommendation by the Human Resources and Compensation Committee.

This report is split into three sections: section A details our remuneration background statement disclosures, section B gives an overview of our remuneration policy and section C addresses the implementation of the remuneration policy in 2017.

Section A: Remuneration background statement disclosures

I am pleased to present the committee's report on directors' remuneration. Our report and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. We have changed the structure of this report to align with the principles and recommended practices of King IV. This demonstrates our continued commitment to good corporate governance.

Sappi Limited Annual General Meeting (AGM) was held on 08 February 2017 and the requisite ordinary resolution endorsing the remuneration policy was passed. The resolution was passed by a 95% majority in comparison to 81% at the previous AGM.

As described in the respective reports by our Chairman, Sir Nigel Rudd, and CEO, Steve Binnie, Sappi's performance in the year under review was strong, and in terms of shareholder return outperformed its peers. EBITDA was

US\$785 million. Bonus performance outcome, against the targets that were set, are outlined in this report. Performance outcomes are reflected in the remuneration received by executive directors. This recognises the group's financial, environmental and safety performance, as well as performance against personal, operational and strategic objectives.

The performance period for the 2013 Performance Share Plan (PSP) ended on 30 September 2017. Half of the award was based on cash flow return on net assets (CFRONA) and the other half on total shareholder return (TSR) performance. Sappi's performance on CFRONA, when measured against the peer group for the above four-year performance period, ranked second out of 16 companies.

The peer group is detailed on page 86 and represents industry players in graphic papers, dissolving wood pulp and specialities and packaging papers. In terms of the vesting schedule, 100% on the CFRONA portion vested. In terms of the TSR performance condition, Sappi ranked first out of the 16 companies. 100% on the TSR portion vested. The result has been a net vesting of 100% of the 2013 share awards.

Our remuneration policy is continuously benchmarked against the relevant industry peers to ensure that it motivates our senior team to achieve the group's objectives and deliver sustained returns and value creation for our stakeholders. The committee also believes that the remuneration of executives during 2017 reflects our successes to date in the delivery of our strategy. I trust that you will support the remuneration resolutions at this year's AGM.

Statement of voting at AGM

The AGM of Sappi Limited was held on 08 February 2017 and the requisite ordinary resolution endorsing the remuneration policy was passed. The resolution was passed by a 95% majority. See the voting results below.

Mike Fallon,
Chairman of Human Resources and
Governance Committee



Ordinary resolution number 6: Non-binding endorsement of remuneration policy

For	Against	Abstain	Shares voted
435,285,251 94.71%	24,297,880 5.29%	609,513 0.11%	459,583,131 82.89%

At the February 2015 and 2016 AGMs, the results for the requisite ordinary resolution endorsing the remuneration policy were 83.5% and 81.2% respectively.



Human Resources and Compensation Committee

The purpose of the committee is to oversee remuneration matters for all controlled subsidiaries of Sappi Limited. Its key objectives are to:

- Make recommendations on remuneration policies and practices, including Sappi's employee share schemes
- Ensure effective executive succession planning, and
- Review compliance with all statutory and best practice requirements on labour and industrial relations management.


At the end of the year, the committee consisted of four independent non-executive directors:

- Mr MA Fallon – Chairman
- Mr JD McKenzie
- Mr NP Mageza, and
- Mr RJ Renders.

The Chairman of the company, Sir Nigel Rudd, attends committee meetings ex officio while the group Chief Executive Officer, Mr SR Binnie together with Group Head Human Resources, Mr F Marupen attend meetings by invitation.

Mrs AJ Tregoning, Company Secretary, attends the meeting as secretary to the committee.

The Human Resources and Compensation Committee met four times during the year and held one telephone conference.

 Attendance at meetings by individual members is detailed on page 64.

None of the committee members has any significant personal financial interest, or conflict of interest, or any form of cross directorship, or day-to-day involvement in the running of the business.

Executive directors and managers are not present during committee discussions relating to their own compensation.

The Human Resources and Compensation Committee ensures that the compensation practices and structures within the group support the group's strategy and performance goals. The policy also enables the attraction, retention and motivation of executives and all employees.

The key activities of the committee during 2017 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the Performance Share Plan awards which were awarded on 02 December 2012
- Approved the allocation of 2016 Performance Share Plan awards to executive directors and all other eligible participants
- Reviewed and approved salary increases and bonus payments for executive directors and other key senior managers for 2017

- Recommended fee levels for non-executive directors of the Sappi Limited board for consideration and recommendation to shareholders for approval
- Approved the allocation model and the comparator peer group for the 2017 Performance Share Plan
- Reviewed the Remuneration Report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the AGM in February 2017
- Approved the 2018 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan, and
- Reviewed the succession and retirement plans for key management positions.

Independent advice

Management engaged the services from the following organisations to assist in compensation work during the course of the year:

- Mercer Kepler, United Kingdom
- KPMG Services, South Africa, and
- PricewaterhouseCoopers Tax Services, South Africa.

Compliance statement

The Human Resources and Compensation Committee is committed to maintaining high standards of corporate governance and supports and applies the principles of good governance advocated by the South African Institute of Directors (IoD) and King IV. Our remuneration approach and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

Management and the non-executive Chairman, from time to time, meet with some of our largest shareholders to discuss compensation practices in the group.

The Human Resources and Compensation Committee is of the view that the objectives stated in the remuneration policy have been achieved for the period under review. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and with the status of remuneration and incentives in the group.

Areas of focus for 2018

Key activities for the committee in 2018 will be, inter alia, the approval of the remuneration and bonuses for executive directors and senior management. The committee will also take a view on fees to be paid to non-executive directors.

Focus will be placed on the key principles of King IV and Sappi's commitment to these principles.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, also be visiting key shareholders to discuss issues of mutual concern.

Remuneration Report continued

Section B: Overview of the remuneration policy

Compensation strategy and policy

Our compensation packages:

- Are designed to attract, retain and motivate executives and all employees to deliver on performance goals and strategy
- Are simple, transparent and aligned with the interests of shareholders
- Reflect the views of our investors, shareholder bodies and stakeholders
- Are structured in a way that superior rewards are only paid for exceptional performance and that poor performance does not earn an incentive award
- Encourage behaviour consistent with the group's risk and reward philosophy
- Have an appropriate and balanced reward mix for executive directors and other executive managers based on base pay, benefits and short- and long-term incentives within the context of the industry sector
- Are applied consistently across the group to promote alignment and fairness, and
- Through the executive Management Incentive Scheme, provide for a voluntary deferral of 40% of the CEO's annual bonus, and 30% of the executive managers' annual bonuses (to purchase Sappi shares), as this is to ensure a long-term focus on the company's performance by the individual concerned and establish a personal stake in the company.

Summary of reward components of executive directors and other members of the Group Executive Committee

The compensation of executive directors and other Executive Committee members comprises fixed and variable components.

Purpose	Operations	Opportunity
Fixed		
Component – Base salary		
<ul style="list-style-type: none"> • To reflect market value of the role, individuals' skills, contribution, experience and performance • To attract and retain key talent. 	<ul style="list-style-type: none"> • Paid monthly in cash • Reviewed annually with any increases to be effective from 01 January each year • Base salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population. 	<ul style="list-style-type: none"> • Increases are applied in line with outcomes of performance discussions with the individuals concerned.
Component – Benefits		
<ul style="list-style-type: none"> • To provide protection and market competitive benefits to aid recruitment and retention. 	<ul style="list-style-type: none"> • Private medical insurance • Income in the event of death or disability <p>These are:</p> <ul style="list-style-type: none"> • Appropriate in terms of level of seniority • Market-related • Death benefit is a multiple of base salary, and • Non-pensionable. 	None



Purpose	Operations	Opportunity
Fixed		
Component – Pension		
<ul style="list-style-type: none"> • Make ongoing company contributions during employment • To provide market-related benefits • Facilitate the accumulation of savings for post-retirement years. 	<ul style="list-style-type: none"> • Comprises defined benefit and defined contribution plans • A large number of defined benefit plans are closed to new hires • Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service • Retirement plans differ by region. 	<ul style="list-style-type: none"> • Executive members of defined contribution plans receive a company contribution of up to 18.47% of salary • Executive members of defined benefit plans receive company contributions of up to 31.24% of salary. This applies to only one Executive Committee member. The contribution varies based on the actuarial valuation of the reserves of the relevant schemes.
Variable		
Component – Annual cash incentive		
<ul style="list-style-type: none"> • Focus participants on targets relevant to the group's strategic goals • Drive performance • Motivate executives to achieve specific and stretching short-term goals • Reward individuals for their personal contribution and performance • Deferred share proportion of the annual bonus aligns interests with shareholders. 	<ul style="list-style-type: none"> • All measures and objectives are reviewed and set at the beginning of the financial year • Payments are reviewed and approved at year-end by the committee based on performance against the targets • Threshold is required to be met for any bonus payment to occur • Target level of bonuses varies from 65% to 85% of base salary • Weightings for 2017 were: EBITDA – 48%; working capital – 24% and safety – 8%; individual – 20% • Bonuses are paid in cash. The group CEO and Executive Committee members have volunteered to purchase shares with 40% and 30% of their after-tax cash bonus respectively. The right to sell the shares is deferred for up to three years, subject to individual members not being terminated for cause • Non-pensionable. 	<ul style="list-style-type: none"> • The maximum bonus for executive directors is 116% of base salary • Executive Committee members and other senior managers may earn a maximum bonus of up to 95% of base salary • The number of shares arising from the deferred executive Management Incentive Scheme – will be increased by 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years.

Remuneration Report continued

Purpose	Operations	Opportunity
Variable		
Component – Long-term share incentive plans		
<ul style="list-style-type: none"> Align the interests of the executive members with those of the shareholder Reward the execution of the strategy and long-term outperformance of our competitors Encourage long-term commitment to the company Is a wealth creation mechanism for executive members if the company outperforms the peer group. 	<ul style="list-style-type: none"> Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company Straight-line vesting after four years Performance is measured relative to a peer group of 16 other industry-related companies The number of conditional shares allocated varies from 162,000 conditional share awards to the CEO and between 45,000 and 90,000 conditional share awards to Executive Committee members Measures for 2015 awards were relative TSR – 50% and relative CFRONA – 50%. 	None
Component – Broad-based black economic empowerment		
<ul style="list-style-type: none"> Provide black managers with the opportunity to acquire equity in the company Attract, motivate and retain black managers. 	<ul style="list-style-type: none"> Established to meet the requirements of the Forestry Sector Charter BBBEE codes Eligible employees receive an allocation based on seniority of 'A' ordinary shares Shares vest 40% after three years and 10% each year thereafter Shares can only be taken up after September 2019 Managers receive the net value in shares or cash at the end of the lock-in period. 	None
Component – Service contracts		
<ul style="list-style-type: none"> Provide an appropriate level of protection to both the executive and to Sappi. 	<ul style="list-style-type: none"> Executive Committee members have notice periods of 12 months or less Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures. 	<ul style="list-style-type: none"> In circumstances where there is a significant likelihood of a transaction involving the Sappi group or a business unit, limited change in control protections may be agreed and implemented if deemed necessary for retention purposes.



Service contracts

Messrs Binnie and Pearce have an ongoing employment contract which requires six months' notice of termination by the employee and 12 months' notice of termination by the company.

Depending on their location, Executive Committee members have ongoing employment contracts which require between three to six months' notice of termination by the employee and six to 12 months' notice of termination by the company.

Other than in the case of termination for cause, the company may terminate the executive directors' service contracts by making payment in lieu of notice equal to the value of the base salary plus benefits which they would have received during the notice period.

Executive directors are required to retire from the company at the age of 63 years. The retirement age of Executive Committee members is generally between the ages of 63 and 65 years, and differs by region.

Choice of performance measures and approach to target setting

Short-term incentive

The table below shows the metrics for 2017, why they were chosen and how targets are set.

Metric	Weighting	Relevance	How do we set the targets?
EBITDA	48	A key indicator of the underlying profit performance of the group, reflecting both revenues and costs. Aligns closely with our strategic goals of achieving cost advantages and growth. More efficient water, energy and raw material usage is also encouraged.	Targets and ranges are set each year by the board taking account of required progress towards strategic goals, and the prevailing market conditions.
Working capital	24	A key indicator of accounts payable, accounts receivable and stock levels. Achieving optimum working capital levels in the business requires efficient use of resources throughout the supply chain and influences cash management, a key pillar of our strategy.	Targets and ranges are set each year by the board taking account of the required progress towards strategic goals, and the prevailing market conditions.
Safety	8	One of the key indicators of whether the business is meeting its sustainability goal of zero harm.	The committee considers input from the Social, Ethics, Transformation and Sustainability Committee, and sets appropriate standards and goals.
Individual performance*	20	An indicator of the contribution made by each executive director.	Targets and ranges are set each year by the committee, based on the specific priorities, and areas of responsibility of the role.

* Individual performance for relevant managers includes a number of key non-financial targets in relation to the environment, energy consumption, water usage and waste management.

Remuneration Report continued

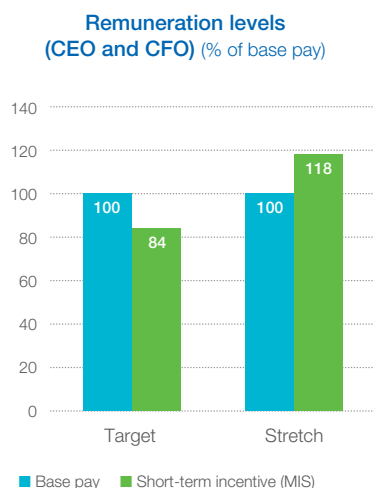
Performance Share Plan (PSP)

The table below shows the metrics for 2017 grants, why they were chosen and how targets are set.

Metric	Relevance	How do we set the targets?
Total shareholder return (TSR)	TSR measures the total returns to Sappi's shareholders, so provides close alignment with shareholder interests.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 to 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 to 5.
Cash flow return on net assets (CFRONA)	A key indicator of the effective use of capital.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 to 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 to 5.

Remuneration scenarios at different performance levels

The chart below illustrates the total potential remuneration (base pay and short-term incentives) for executive directors at different performance levels.



Performance Share Plans (PSPs) are excluded from these scenarios as their vesting depends on performance conditions being met. Vesting is based on a linear vesting schedule.

Statement of fair and responsible remuneration

The group's compensation policy for the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other employees in the group.

The committee annually receives a report from management on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation. At the time that salary increases are considered, the committee additionally receives a report on the approach management proposes to adopt for general staff increases. Both these reports are taken into account in the committee's decisions about the remuneration of executive directors and other senior executives.

In some countries where the group operates, more formal consultation arrangements with employee representatives are in place relating to employment terms and conditions, in accordance with local legislation and practice. The group also conducts employee engagement surveys every two years which gauge employees' satisfaction with their working conditions. The Sappi board is given feedback on these survey results.



Approach to remuneration benchmarks

Executive compensation is benchmarked on data provided in national executive compensation surveys, for countries in which executives are domiciled, as well as information disclosed in the annual reports of listed companies on the JSE Limited. Sappi participates in global remuneration surveys and uses data from global remuneration surveys, ie PwC, Mercer, et al to determine appropriate remuneration levels.

Ensuring an appropriate peer group in order to retain the integrity and appropriateness of the benchmark data is a key

task of the Human Resources and Compensation Committee. Executive pay is benchmarked every alternate year.

The remuneration package for a newly appointed executive director would be set in accordance with the terms of the group's approved remuneration policy in force at the time of appointment. The variable remuneration for a new executive director would be determined in the same way as for existing executive directors. For internal and external appointments, the group may meet certain relocation expenses, as appropriate.

Remuneration policy for non-executive directors (fees)

Element	Purpose	How it works?	Fees
Non-executive Chairman (fees)	<ul style="list-style-type: none"> To attract and retain high-calibre chairmen, with the necessary experience and skills To provide fees which take account of the time commitment and responsibilities of the role. 	<ul style="list-style-type: none"> The Chairman receives an all-inclusive fee. 	<ul style="list-style-type: none"> The Chairman's fees are reviewed periodically by the committee Fees are set by reference to market median data for companies of similar size and complexity to Sappi.
Other non-executive directors (fees)	<ul style="list-style-type: none"> To attract and retain high-calibre non-executives, with the necessary experience and skills To provide fees which take account of the time commitment and responsibilities of the role. 	<ul style="list-style-type: none"> The non-executives are paid a basic fee Attendance fees are also paid to reflect the requirement for non-executive directors to attend meetings in various international locations The chairmen of the main board committees and the independent directors are paid additional fees to reflect their extra responsibilities. 	<ul style="list-style-type: none"> Non-executive directors' fees are reviewed periodically by the Chairman and Human Resources and Compensation Committee Fees are set by reference to market median data for companies of similar size and complexity to Sappi.

Remuneration Report continued

Sappi may reimburse the reasonable expenses of board directors that relate to their duties on behalf of Sappi (including tax thereon if applicable). Sappi may also provide advice and assistance with board directors' tax returns where these are impacted by the duties they undertake on behalf of Sappi.

All non-executive directors have letters of appointment with Sappi Limited for an initial period of three years. In accordance with best practice, non-executive directors are subject to re-election at the AGMs after the three-year period. Appointments may be terminated by Sappi with six months' notice. No compensation is payable on termination, other than accrued fees and expenses.

Voting on remuneration

As required by King IV, Sappi's remuneration policy and implementation report as detailed in this Remuneration Report, need to be tabled for separate non-binding advisory votes by shareholders at the upcoming AGM. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights entitled to be exercised by shareholders at such AGM, then the committee will ensure that the following measures are taken in good faith and with best reasonable efforts:

- An engagement process to ascertain the reasons for the dissenting votes, and
- Appropriately addressing legitimate and reasonable objections and concerns raised which may include amending the remuneration policy or clarifying or adjusting remuneration governance and/or processes.

You can also view the full remuneration policy on www.sappi.com.

Section C: Remuneration implementation report

Compensation structure

Total compensation comprises fixed pay (ie base salary and benefits) and variable performance-related pay, which is divided further into short-term incentives with a one-year performance period and long-term incentives which have a four-year performance period.

Compensation mix

The compensation mix for executive directors and Executive Committee members is shown in the schematics alongside.

The term 'target' in terms of short-term incentives refers to the annual bonus award if all performance criteria were met at 100% achievement.

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2016 (share price at date of allocation: ZAR86.25 December 2016).

Executive directors (average)

(Number of employees at 30 September 2017 = 2) (%)



Executive committee (average)

(Number of employees at 30 September 2017 = 7) (%)



Base salary

The Compensation Committee approved the level of base salary for each executive director, Executive Committee member and other key senior managers.

Increases are effective from 01 January each year. There are no automatic annual base salary adjustments.



The 2017 salary increases were based on individuals' performances and contributions, internal relativities, inflation rates in the countries of operation, general market salary movement and overall affordability.

The same salary increase percentages were applied in determining the salaries for executive directors' and Executive Committee members' increases as was the mandate for general staff, dependent on location.

Mr Binnie received a salary increase of 7% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Binnie's salary with effect from 01 January 2017 was US\$440,214 per annum.

As a result of the good performance of Sappi and the resultant upgrade by ratings agencies, Mr Binnie also received a market adjustment in June 2017 which resulted in an increase in both the South African and the off-shore portions of his salary (see remuneration disclosure tables). The Mercer and Remchannel salary benchmarks also supported this adjustment.

Mr Pearce received a salary increase of 6.5% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Pearce's salary with effect from 01 January 2017 was US\$306,284 per annum.

Retirement benefits

Retirement benefits are largely in the form of defined contribution schemes. In some instances, legacy defined benefit schemes exist. Almost all the defined benefit schemes are closed to new hires.

Mr Binnie and Mr Pearce are both members of defined contribution funds and the total employee and company contribution is ZAR350,000.

No additional payments were made to any retirement fund on behalf of the executive directors.

Short-term incentive

Performance-related annual bonuses may be paid to executive directors and other executive and senior managers under the Management Incentive Scheme. The scheme is designed to incentivise the achievement of predefined annual financial targets and personal objectives which are critical measures of business success.

For the 2017 financial year, the financial business performance criteria were: EBITDA (48%), working capital (24%) and safety (8%) – which accounted for 80% of the bonus calculation, with the remaining 20% being based on individual performance during the course of the year.

The bonus payment opportunity available to executive directors and Executive Committee members is as follows:

	On-target bonus	Stretch target
Executive director	85% of base salary	116% of base salary
Regional CEO	70% of base salary	95% of base salary
Other prescribed officers (ie Executive Committee members)	65% of base salary	88.5% of base salary

A performance threshold of 85% of EBITDA for the group is required before any bonus can be paid to participants in the group scheme.

Furthermore, if a region does not achieve the 85% bonus threshold target, no bonus is paid to participants in the region irrespective of overall group performance. The group and all other regions met the performance threshold which entitled them to a bonus payment for fiscal 2016.

The group's performance for the 2017 financial year:

Performance criteria	Target	2017 Actual achievement
EBITDA	48	59.4
Working capital	24	27.8
Safety	8	–
Total	80	87.2

Mr Binnie will receive a bonus award of US\$440,139 and Mr Pearce will receive a bonus award of US\$283,986 to be paid in December 2017.

The terms and conditions of the annual incentive scheme for executive directors and Executive Committee members affords the company the right to seek redress and recoup from an individual where for any reason the board determines, within a 12-month period of such payment, that the performance goals (whether for the participant or for the group) were in fact not achieved following the restatement of financial results or otherwise.

Changes to the short-term incentive scheme

There were no changes to the 2017 Management Incentive Scheme (MIS) rules compared to 2016.

Remuneration Report continued

Long-term incentive

The Sappi PSP provides for annual awards of conditional performance shares which are subject to meeting performance targets measured over a four-year period. These awards will only vest if Sappi's performance, relative to a peer group of 16 other industry-related companies is ranked at median or above the median.

The performance criteria are relative total shareholder return (TSR) and relative cash flow return on net assets (CFRONA).

The peer group for the 2017 PSP award will consist of the following 16 industry-related companies:

- Fortress Paper
- Lenzing
- Rayonier Advance Materials
- Ahlstrom-Munksjö
- Borrogaard
- Domtar
- West Rock
- Norske-Skog
- UPM-Kymmene
- Holmen
- Metsä Board
- Verso
- Mondi Plc
- International Paper
- Stora Enso, and
- Resolute Forest Products.

Performance Share Plan (PSP)

The vesting schedule for 2013 allocation for both TSR and CFRONA:

Position	Vesting
1 – 5	100%
6 – 7	75%
8 – 9	50%
10 – 17	0%

For the four-year period ended September 2017, Sappi's performance relative to the peer group measured on TSR was ranked first out of 16 companies, which meant that 100% TSR component shares vested on the due date in December 2017.

The determination of the vesting of the shares was provided by Mercer Kepler, an independent third party.

Sappi's performance relative to the peer group measured on CFRONA for the same period resulted in 100% of this portion of the awards vesting, as Sappi's performance was ranked in second place. The determination of the vesting of this portion of the shares was verified by KPMG auditors.

In aggregate, therefore 100% of the total 2013 awards vested.

Mr Binnie was awarded two sets of conditional awards that mature in 2017, one in December 2013 and one in July 2014. Of the 310,000 conditional performance plan shares, 310,000 will vest in December 2017.

In December 2013, Mr Pearce was granted 33,000 conditional performance plan shares of which 33,000 will vest in December 2017.

The historical vesting of PSP awards:

Share awards	2013 %	2014 %	2015 %	2016 %	2017 %
TSR	0	0	0	100	100
CFRONA	75	100	100	100	100
Aggregate	37.5	50	50	100	100

Mr Binnie was awarded 162,000 conditional performance plan shares in December 2016 in line with the plan rules.

Mr Pearce was awarded 75,000 conditional performance plan shares in December 2016, in line with the plan rules.

Changes to the long-term incentive scheme

The committee also approved the linear vesting schedule for the 2015 allocations which will be applicable from the 2019 and onwards vesting. This will have the impact that at median performance, 25% of vesting will happen. The vesting schedule is as follows:

Position	Vesting
1 – 5	100%
6	80%
7	65%
8	45%
9	25%
10 – 17	0%



Employee Share Ownership Plan (Broad-based Black Economic Empowerment)

The Employee Share Ownership Plan (Sefate) was established in 2009 to meet the requirements of Broad-based Black Economic Empowerment established in the Forestry Sector Charter and in line with the codes set out by the South African Department of Trade and Industry.

There are two schemes which make up Sappi's Employee Share Ownership Plan (ESOP) and Management Share Ownership Plan (MSOP). There were 5,607 participants in the schemes at the end of September 2014. Eligible employees receive an allocation based on seniority, of 'A' ordinary shares and ordinary shares. Shares vest 40% after three years and 10% each year thereafter.

Shares may, however, only be taken up after September 2019. Employees receive the net value in shares or cash at the end of the lock-in period.

Dilution

If all outstanding options and plans' shares were to be exercised or vest as at September 2017, the resulting dilution effect would be 2.79% (2016: 3.18%) of issued ordinary share capital excluding treasury shares. To the extent possible, treasury shares will continue to be used to meet future requirements for shares arising from the exercise of options and vesting of awards.

Share ownership guidelines and restrictions

The CEO, Mr Binnie, volunteered to hold a target number of shares equal to 2x his annual base salary by December 2020. He currently holds shares to the value of approximately 130% of his annual base salary. There is no requirement for the Chief Financial Officer and the Executive Committee members to hold a specific number of shares during their employment with the company.

Remuneration disclosure of executive directors and prescribed officers Executive directors' emoluments for 2017 (US Dollar)

Executive director	Base salary	Other payments	Retirement funding and medical insurance	Annual cash bonus	Total 2017	Total 2016
SR Binnie	464,563	12,944	76,580	440,139	994,226	928,537
GT Pearce	302,683	8,295	61,090	283,986	656,054	648,452

- Base salary – the actual salary earned during 2017.
- Retirement benefits – the annual contribution paid by the company into a defined benefit fund on behalf of the members determined as a percentage of their base salary.
- Other payments – expenses allowances.
- Annual cash bonus – the actual bonus earned in 2017 based on the rules of the Management Incentive Scheme.
- Long-term incentive – conditional performance plan shares awarded in 2017 financial year which will vest in 2021.
- Local earnings are translated into the reporting currency (US Dollar) using the average exchange rate over the financial year. The average rate for SA Rand appreciated by 10.5%.

Remuneration Report continued

Prescribed officers/Executive Committee members (US Dollar)

Prescribed officers are members of the group Executive Committee. The table below sets out the remuneration for prescribed officers for 2017:

Prescribed officer	Base salary	Other payments	Retirement funding and medical insurance	Annual bonus	Total 2017	Total 2016
Officer 1	713,361	2,764	233,429	522,618	1,472,172	1,584,363
Officer 2	534,626	–	54,754	276,294	865,674	943,971
Officer 3	315,836	9,237	59,159	224,665	608,897	576,708
Officer 4	325,362	9,682	–	162,220	497,264	469,449
Officer 5	161,408	4,888	44,891	115,370	326,557	312,732
Officer 6	204,802	6,254	87,767	160,033	458,856	444,066
Officer 7	176,898	5,140	48,381	125,925	356,344	345,312

Statement by the board regarding compliance with the remuneration policy

The board annually receives a report from the Human Resources and Compensation Committee on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation.

The board endorses the Human Resources and Compensation Committee position that Sappi's remuneration policy for the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other employees in the group and external factors. It is the view of the board that this policy as detailed herein, drives business performance and value creation for all stakeholders.

Social, Ethics, Transformation and Sustainability Committee Report

Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2017. This committee is a statutory committee with a majority of independent non-executive members, whose duties are delegated to them by the board of directors. The committee conducted its affairs in compliance with a board-approved terms of reference, and discharged all its responsibilities contained therein.

The committee was established during the 2012 financial year in response to the requirements of section 72(4) of the South African Companies Act 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a social and ethics committee, to which were added the transformation and sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

During the course of the financial year, the committee formally met three times at which meetings it deliberated on all aspects relating to its terms.

Objectives of the committee

The role of the SETS Committee is to assist the board with the oversight of the company and to provide guidance to management's work in respect of its duties in the fields of social, ethics, transformation and sustainability. The committee relies on international best practice as well as the laws and regulations under which Sappi's businesses operate to ensure that the group not only complies with, but also fully implements all requirements. The committee addresses issues relating to corporate social investment, ethical conduct, diversity, transformation and empowerment initiatives and targets and ongoing sustainability practices to ensure that our business, our environment and our people can prosper on an ongoing basis. The responsibilities include monitoring the company's activities, having regard to any relevant legislation, other legal requirements and prevailing codes of best practice. The committee meets a minimum of three times each year.

Membership of the committee

The members of the SETS Committee during the 2017 financial year were:

Mr MV Moosa (Chairman from 01 March 2016)
Mr SR Binnie
Mr RJ DeKoch
Dr B Mehlomakulu (from 01 March 2017)
Mrs B Radebe (until 28 February 2017)
Dr R Thummer

Three members of the committee are independent non-executive directors, one is a non-executive director and one the Chief Executive Officer. In addition, the Chairman of the board attends committee meetings ex officio. The regional Chief Executive Officers, the Group Head Strategy and Legal, the Group Head Technology, the Group Head Human Resources, the Group Head Corporate Affairs and the Group Head Investor Relations and Sustainability attend meetings by invitation.

Committee activities reviewed and actioned during the year

- Reviewed and revised the committee terms of reference and annual work plan

- Approved the public affairs and CSR programmes and policy
- The corporate social development programme
- Sappi's standing in terms of:
 - The principles set out in the United Global Compact Principles
 - The OECD recommendations regarding corruption
 - The Employment Equity Act
 - The Broad-based Black Economic Empowerment (BBBEE) Act
- Reviewed the Code of Ethics, ethics programme and their effectiveness
- Obtained feedback from the ethics reporting hotlines
- Reviewed the South African Skills Audit as well as the training and development plan
- Reviewed the staff training progress
- Reviewed the company performance relative to the Employment Equity Act, Broad-based Black Economic Empowerment (BBBEE) Act and the company's transformation strategies
- Reviewed the Sappi Southern Africa Transformation Charter
- Reviewed Sappi's policy and standing in terms of the International Labour Organisation (ILO) protocol on decent work and working conditions
- Reviewed the group safety programmes, safety performance and actions being taken to improve the safety performance of the group
- Reviewed the Group Unfair Discrimination and Equality Policy
- Reviewed the Group Sustainability Charter and Group Environmental Policy
- Reviewed the material indicators of the group's environmental performance
- Reviewed regional sustainability performance against goals for 2017
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2017
- In-depth review of the ethics mandate of the committee with reference to King IV and the Companies Act
- In-depth review of water risks and management for the group, and
- Reviewed the SETS Committee Report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

Conclusion

The committee confirms that the group gives its social, ethics, transformation and sustainability responsibilities the necessary attention. Appropriate policies and programmes are in place to contribute to social and economic development, ethical behaviour of staff towards colleagues and other stakeholders, fair labour practices, environmental responsibility and good customer relations.

There were no substantive areas of non-compliance with legislation and regulation, nor non-adherence with codes of best practice applicable to the areas within the committee's mandate that were brought to the committee's attention. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

MV Moosa

Chairman
Social, Ethics, Transformation and Sustainability Committee

Risk management

Philosophy

The Sappi group has an established culture of managing key risks. It has a significant number of embedded processes, resources and structures in place to address risk management requirements. These range from its internal audit systems, insurance, IT security, compliance and governance processes, quality management and a range of other line management interventions.

The Group Risk Management Policy is aimed at enhancing value for all of Sappi's stakeholders. In the broadest sense, effective risk management ensures continuity of operations, service delivery, achievement of objectives (strategic and otherwise), and the protection of the interests of the group. To achieve objectives, the risk management process is aligned with and compatible with Sappi's strategy. This policy takes into account the recommendations set out in ISO standard 31000 (a guidance only standard) – 'Risk management – Principles and guidelines', as well as King IV.

The Sappi Limited board of directors is responsible for the governance of risk. The Sappi Limited Audit Committee, in its capacity as a board committee, is tasked with assisting the board in carrying out its risk management responsibilities at the group level. Notwithstanding the above, the responsibility for the implementation of risk management processes rests with the line management in each region, division and operation/ business unit.

Group internal audit provides independent assurance on the risk management process.

For an analysis of the principal financial risks to which Sappi is exposed, please see note 31 contained in the Group Annual Financial Statements, which is available on the group's website at www.sappi.com.



For a detailed discussion of the group's risk factors, please see the separate 2017 Risk Management Report, which is available on the group's website at www.sappi.com.



Top 10 key risks

1. **We operate in a cyclical industry and as such, global economic conditions may cause substantial fluctuations in our results.**

Our products are significantly affected by cyclical changes in industry capacity and output levels as well as by the impact on demand from changes in the world economy. Because of supply and demand imbalances in the industry, these markets historically have been cyclical with volatile prices. In addition, turmoil in the world economy has historically led to sharp reductions in volume and pressure on prices in many of our markets. We are continuously taking action to improve efficiencies and reduce costs in all aspects of our business. We will continue to monitor the supply/demand balance, which might require us to impair operating assets and/or implement further capacity closures.

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.**

There is a trend towards consolidation in the pulp and paper industry creating larger, more focused companies. We continue to drive good customer service, innovation and efficient manufacturing and logistics. We are focused on improving the performance and competitiveness of our businesses. We continue to drive down costs across all our businesses.

3. **We require a significant amount of financing to fund our business and service our debt. 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, research and development requirements and to make payments on our debt principally depends on cash available from our operating performance, credit facilities and other debt arrangements.



Our year-end cash balance and our committed revolving credit facilities provide us with adequate headroom to fund our short-term requirements. Our extended debt maturity profile indicates no material short-term refinancing requirements. We are also focusing on profit improvement in our operations by reducing fixed and variable costs, spending capital prudently and managing working capital levels.

During the third quarter we repaid the 2017 US\$400 million bonds utilising our existing cash resources. This will lower the ongoing net interest charge by approximately US\$21 million per annum.

4. New technologies or changes in consumer preferences may have a material adverse effect on our business.

Trends in advertising, electronic data transmission and storage, the internet and mobile devices continue to have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Digital alternatives to many traditional paper applications, including print publishing and advertising and the storage, duplication, transmission and consumption of written information more generally, are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising on the internet, mobile phones and other electronic devices, which tend to be less expensive. We have been and are implementing strategic initiatives to improve profitability, including restructuring and other cost-saving projects, measures to enhance productivity, as well as an expansion of our higher-margin specialty businesses. Our entrenched leading market share and low production cost, positions us well to take advantage of the growth in the dissolving wood pulp market and to continue generating good margins.

During the year, we strengthened our biotech division and bolstered our biorefining expertise through the acquisition of the Xylex® and Versalac® technologies

owned by Plaxica Limited. This acquisition is another definitive step towards building a meaningful bioproduct business in executing our 2020Vision.

We invested in our specialties and packaging papers business through the acquisition of the barrier film technology of Rockwell Solutions Limited, a well-known producer of heat sealable, peelable lidding films. Gaining access to the technology of Rockwell Solutions enables Sappi to accelerate the development of our own solutions and will allow us to offer our customers an even wider range of barrier coated packaging solutions.

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

Our aim is to minimise our impact on the environment. The principles of ISO 14000, Forest Stewardship Council® (FSC®), SFI®, PEFC™ and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, wastewater discharges and waste generation. (For further detail, see the *Sustainability* section on page 32.) However, we are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We closely monitor the potential for changes in pollution control laws, including GHG emissions requirements, and take action with respect to our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in a sustainable manner.

6. 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.

We are exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging

Risk management continued

being applied thereafter. External hedging techniques consist primarily of foreign exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval). For further detail, see note 31 contained in the Group Annual Financial Statements, which are available online at www.sappi.com.



7. The inability to obtain energy, raw materials or water at reasonable prices, or at all, could adversely affect our operations.

We require substantial amounts of wood, chemicals, energy and water for our production activities. The prices for and availability of these items may be subject to change, curtailment or shortages. To mitigate the risk, we are improving procurement methods, finding alternative lower-cost fuels and raw materials, minimising waste, improving manufacturing and logistics efficiencies and implementing energy reduction initiatives, such as increasing renewable energy, promoting cogeneration, investigating biofuel opportunities, promoting water-efficient production processes and infrastructure upgrades.

8. A limited number of customers account for a significant amount of our sales. Therefore, should adverse changes in economic market conditions have a negative impact on them, it could materially adversely affect our results of operations and financial position.

We sell a significant portion of our products to several significant customers. During FY2017, however, no single customer individually represented more than 10% of our total sales. 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. We are, on a continuous basis, working to expand and diversify our customer base.

9. 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 become subject to material cost increases or additional work rules imposed by agreements with labour unions, which could increase expenses in absolute terms and/or as a percentage of net sales. A concerted effort is being made across all our regions to interact and engage with our union representatives and organised labour on a frequent basis and to work on building constructive work relationships.

10. Injuries and fatalities.

We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. The health and safety of our own employees and contractors remain a top priority. We minimise on-the-job injuries and fatalities by:

- Performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board
- Group and industry-wide sharing of all incidents and associated mitigating steps, thereby helping to ensure that all our regions remain in the top 10% quartile for our industry
- Enforcing compliance with behaviour-based safety (BBS) principles
- Providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors, and
- Encouraging a reporting culture of near miss incidents.

Insurance

The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption incidents. All production units are subject to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management.

The risk mitigation programmes are coordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from incidents. Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is US\$24 million (€20.5 million) with the annual aggregate set at US\$39 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full replacement value is not readily available.

A loss limit cover of US\$886 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Risk appetite and tolerance

Sappi has a board-approved framework for risk appetite and tolerance.

Risk appetite is the total exposed amount that Sappi wishes to undertake on the basis of risk return trade-offs for one or more desired and expected outcomes. This is the quantum of risk that the board believes will provide an adequate margin of safety within the company's risk capacity while still enabling the achievement of the strategic objectives.

Risk tolerance is the amount of uncertainty Sappi is prepared to accept in total or, more narrowly, within a certain business unit, a particular risk category or for a specific initiative/risk. This is the maximum level of loss or reduced earnings that can be absorbed without compromising key objectives, eg return on investment.



Chief Financial Officer's Report

Glen Pearce



As we continue on our 2020Vision journey, we have moved into an exciting new phase. **We are satisfied with the level of our gearing on the balance sheet and it enables us to focus on investing for growth.**

Net profit for the year increased by 6% to

US\$338 million

EBITDA increased by 6% to

US\$785 million

Dividend declared

15 US cents

Net debt declined to

US\$1,322 million

Section 1

Financial highlights

(US\$ million)	2017	2016	% change
Sales	5,296	5,141	3
EBITDA excluding special items	785	739	6
Operating profit excluding special items	526	487	8
Profit (loss) for the year	338	319	6
EBITDA excluding special items to sales (%)	14.8	14.4	n/a
Operating profit excluding special items to sales (%)	9.9	9.5	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	18.0	17.5	n/a
Net cash generated	108	359	(70)
Net debt	1,322	1,408	(6)
Basic earnings (loss) per share (US cents)	63	60	5

We provided the foundation for future measured expansion, in targeted growth product segments, during fiscal 2017. The announcement of the conversion of coated graphic capacity to speciality products, and the debottlenecking of dissolving wood pulp production supported our 2020Vision. The global cost control initiative exceeded expectations and good cash generation enabled us to repay the US\$400 million 2017 bonds with available cash reserves. External economic factors which have a significant influence on the business were unfavourable and include a stronger Rand and higher paper pulp costs. Increased consolidated sales volumes and effective cost control measures reversed the unfavourable external factors contributing to margin improvement and an increase in EBITDA.

Consolidated net selling prices per ton improved by 1% on the back of increased dissolving wood pulp prices and a favourable mix. The improvement was tempered by reduced net selling prices of coated graphic product in Europe and North America. Sales volumes increased by 2% as we increased market share in our traditional coated graphic markets and grew the specialities segment. Variable cost per ton increased due to higher purchased pulp costs, particularly during the latter half of the year and a stronger Rand. Cost cutting initiatives across all regions reduced the full impact of fixed-cost increases. EBITDA margins excluding special items increased from 14.4% to 14.8%, and along with increased volumes resulted in EBITDA excluding special items improving to US\$785 million.

Finance costs were 66% of the prior period as the benefits of repaying debt takes effect. The additional profitability has increased the tax charge to US\$108 million at a rate of 24% of profit before taxation. Profit for the year increased to US\$338 million (LY = US\$319 million) with earnings per share excluding special items improving from 57 US cents to 64 US cents. A dividend of 15 US cents per share has been declared at a four times earnings cover.

Cash generation for the year of US\$108 million (LY = US\$359 million) includes a dividend payment of US\$59 million, tax payments of US\$100 million and increased capital expenditure of US\$357 million.

Segment reporting

Our reporting is based on the geographical location of our businesses, ie Europe, North America and Southern Africa.

The dissolving wood pulp business has become increasingly important to the group. As such, selected product line information in the form of dissolving wood pulp and paper is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented to assist our stakeholders in obtaining a complete understanding of our business.

Exchange rates and their impact on the group's results

The group reports its results in US Dollar and, as such, the main foreign exchange rates used in the preparation of the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2017	2016	2017	2016
€1 = US\$	1.1055	1.1111	1.1814	1.1226
US\$1 = ZAR	13.3813	14.7879	13.5561	13.7139

Two of our three geographic business units (Europe and Southern Africa) have home or 'functional' currencies of Euro and Rand respectively. The results and cash flows of these two non-US Dollar units are translated into US Dollar at the average exchange rate for the reporting period in order to arrive at the consolidated US Dollar results and cash flows. When exchange rates differ from one period to the next, the impact of translation from the functional currency to reporting currency can be significant.

Chief Financial Officer's Report continued

Section 2

Financial performance – Group

The discussion in this section focuses on the group financial performance in 2017 compared with 2016. A detailed discussion, in local currencies, of each of our three operating regions follows in section 3.

Income statement

Our group financial results can be summarised as follows:

(Metric tons '000)	2017	2016	% change
Sales volume	7,410	7,253	2
	US\$ million	US\$ million	% change
Sales revenue	5,296	5,141	3
Variable manufacturing and delivery costs	(3,147)	(3,061)	3
Fixed costs	(1,601)	(1,571)	2
Sundry items ⁽¹⁾	(22)	(22)	–
Operating profit excluding special items	526	487	8
Special items	–	57	(100)
Operating profit	526	544	(3)
Net finance costs	(80)	(121)	(34)
Taxation	(108)	(104)	4
Net profit	338	319	7
EPS excluding special items (US cents)	64	57	12

⁽¹⁾ Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.

Sales volume

In 2017, sales volume increased by 157,000 tons, or 2%, compared with 2016. The regional contributions to sales volume are shown below:

Sales volume (Metric tons '000)	2017	2016	% change
North America	1,359	1,329	2
Europe	3,343	3,252	3
Southern Africa	2,708	2,672	1
Group	7,410	7,253	2
<i>Paper and pulp (excluding dissolving wood pulp)</i>	5,124	5,096	1
<i>Dissolving wood pulp</i>	1,184	1,111	7
<i>Forestry</i>	1,102	1,046	5

In North America, the increased coated paper market share, growth in the specialties and packaging papers products and the additional dissolving wood pulp volumes, improved total sales volumes by 2% to 1,359,000 tons.

European volumes increased by 3% with good growth in the coated woodfree and specialties and packaging papers product segments. The mechanical coated business has been under sustained pressure as sales volumes reduced.

Volumes in Southern Africa increased by 1%. During the prior fiscal period, dissolving wood pulp volumes were negatively impacted by production problems and the effects of a drought, which were not repeated in the current fiscal. This was offset by a reduction in paper sales volumes following the discontinuation of waste paper sales to the Enstra Mill (sold in the previous period).

Optimising our capacity utilisation is a key focus area of the business and was successfully achieved across all regions.

Sales volume to capacity (%)	2017	2016
North America	97	96
Europe	94	92
Southern Africa	95	96
Group	95	94

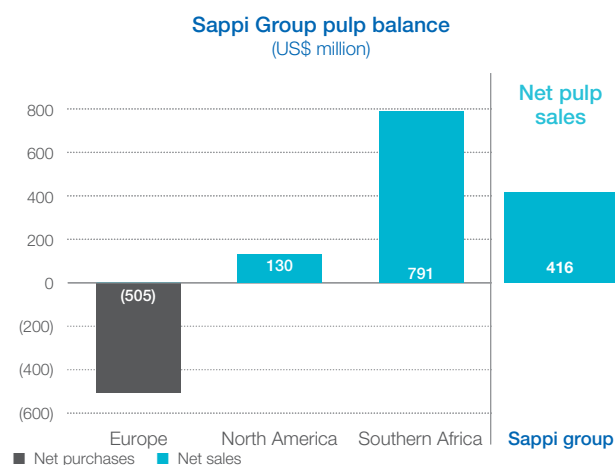
Sales revenue

Sales revenue increased by 3% from US\$5.1 billion in 2016 to US\$5.3 billion in 2017. The increase was due to the higher sales volumes discussed above, higher sales prices and improved sales mix.

Variable and delivery costs

Variable and delivery costs increased by US\$86 million, or 3%, from 2016. Higher sales volumes and an increase in purchased pulp and chemical prices contributed to the increase in costs.

The net paper and dissolving wood pulp purchases and sales of the Sappi group are detailed in the graph below.



The table below reflects the breakdown of variable and delivery costs by type.

Variable manufacturing and delivery costs (US\$ million)	2017	2016	% change
Wood	603	624	(3)
Energy	372	355	5
Chemicals	787	726	8
Pulp and other	944	925	2
Delivery	441	431	2
Group	3,147	3,061	3

Fixed costs

Fixed costs increased by US\$30 million, or 2%, from fiscal 2016. This increase was mainly due to the stronger Rand resulting in an increase in US Dollar costs. Excluding the currency impact fixed cost decreased by US\$3 million. This achievement is further evidence of the efforts to lower costs and improve efficiencies across the group.

Details of the make-up of fixed costs are provided in the table below.

Fixed costs (US\$ million)	2017	2016	% change
Personnel	930	894	4
Maintenance	212	201	5
Depreciation	255	250	2
Other	204	226	(10)
Group	1,601	1,571	2

Chief Financial Officer's Report continued

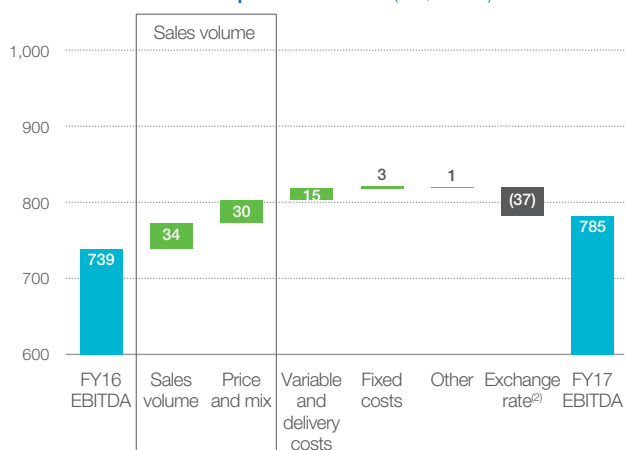
Financial performance – Group continued

EBITDA and operating profit excluding special items

The group benefited from improved results of the North American, European and Southern African businesses. The results were, however, negatively impacted by the stronger Rand. EBITDA excluding special items increased to US\$785 million, 6% higher than the US\$739 million achieved in 2016. Similarly, operating profit excluding special items improved from US\$487 million last year to US\$526 million in 2017.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales volumes, higher sales prices, improved sales mix, a reduction in variable costs and a reduction in fixed costs which were partially offset by unfavourable exchange rate movements.

**Reconciliation of EBITDA excluding special items:
2017 compared to 2016⁽¹⁾ (US\$ million)**



⁽¹⁾ All variances were calculated excluding Forestry.

⁽²⁾ 'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.

The tables below show the EBITDA and operating profit excluding special items of the business for both 2017 and 2016 and the margins of each.

EBITDA excluding special items by region (US\$ million)	2017	2016
North America	126	124
Europe	262	261
Southern Africa	396	352
Corporate and other	1	2
Group	785	739

EBITDA margin by region (%)

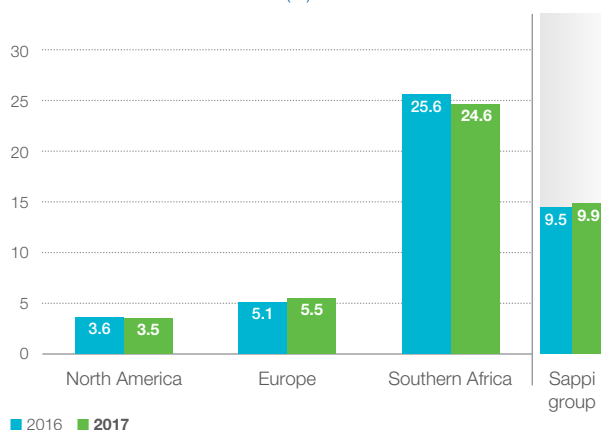


EBITDA excluding special items by product category (US\$ million)	2017	2016
Specialised cellulose (dissolving wood pulp)	386	339
Paper	398	398
Other	1	2
Group	785	739



Operating profit excluding special items by region (US\$ million)	2017	2016
North America	47	49
Europe	140	131
Southern Africa	337	305
Corporate and other	2	2
Group	526	487

Operating profit margin by region (%)



Operating profit excluding special items by product category (US\$ million)	2017	2016
Specialised cellulose (dissolving wood pulp)	334	294
Paper	190	191
Other	2	2
Group	526	487

The charts below illustrate that although the paper business only provides 36% of the operating profit, it contributes 51% of the group's EBITDA excluding special items. Consequently, it still generates the majority of cash for Sappi and remains an important strategic component of our business.

Operating profit excluding special items by product (%)



EBITDA excluding special items by product (%)



For information regarding the financial performance of the regions, please refer to section 3 of this report.

Chief Financial Officer's Report continued

Financial performance – Group continued

Key operating targets

Our financial targets and performance against them are dealt with in *Our strategy* section on pages 8 and 9.

Special items

Special items consist of those items which management believes are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2017 and 2016 is reflected in the table below:

Special items – gain (US\$ million)	2017	2016
Plantation price fair value adjustment	21	64
Net restructuring provisions	(1)	(4)
Profit on disposal and written off assets	(2)	15
Asset impairments	(6)	(2)
Employee benefit liability settlement	–	8
Black economic empowerment charge	(1)	(1)
Fire, flood, storm and other events	(11)	(23)
Total	–	57

The net impact of special items in 2017 was US\$nil. The major components are described below:

- A positive non-cash US\$21 million plantation price fair value adjustment was recognised following increases to the market price of timber
- Asset impairments of US\$6 million were recorded in Europe and Southern Africa related to certain intangible assets and capitalised project costs, and
- Fire, flood, storm and other events includes fire and cossid moth damaged timber in Southern Africa of US\$5 million and the cost of turbine failures at our Alfeld and Stockstadt Mills of US\$4 million each.

Finance costs

(US\$ million)	2017	2016
Net interest expense	92	124
Net foreign exchange gains	(12)	(2)
Net fair value (gain) loss on financial instruments	–	(1)
Total	80	121

Finance costs are significantly lower than the prior period. The repayment of the US\$400 million public bonds during the call window period in April 2017 from available cash resources and the refinancing of debt last year contributed to the reduced charge.

Taxation

A regional breakdown of the tax charge is provided below.

(US\$ million)	Profit before tax	Tax (charge) relief	Effective tax rate %
Europe	56	2	3
North America	33	(10)	(31)
Southern Africa	357	(100)	(28)
Total	446	(108)	(24)

In Europe, the total tax relief of US\$2 million consists of a deferred tax relief and a current tax charge. The deferred tax relief is caused mainly by the recognition of a US\$16 million tax asset in The Netherlands.

The North American effective tax rate approximates 31% and is lower than the statutory rate of 38% due to the impact of non-taxable items.

The Southern African tax rate of 28% is equivalent to the statutory tax rate of 28%.

Net profit, earnings per share and dividends

After taking into account finance costs and taxation, our net profit and earnings per share for 2017, with comparatives for 2016, were as follows:

(US\$ million)	2017	2016
Operating profit	526	544
Finance costs	80	121
Profit before taxation	446	423
Taxation	108	104
Profit for the period	338	319
Weighted average number of shares in issue (millions)	533.9	529.4
Basic earnings per share (US cents)	63	60

The directors have decided to declare a dividend of 15 US cents representing a four times earnings cover adjusted for non-cash items and a 36% improvement on the 11 US cents declared last year. The group aims to declare ongoing annual dividends, and over time achieve a long-term average to dividends ratio of three to one.

Section 3

Financial performance – Regional

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

North America

(Metric tons '000)	2017			2016	% change	
Sales volume	1,359			1,329	2	
	US\$ million 2017	US\$ million 2016	% change	US\$ per ton 2017	US\$ per ton 2016	% change
Sales	1,360	1,367	(1)	1,001	1,029	(3)
Variable manufacturing and delivery costs	(814)	(822)	(1)	(599)	(619)	(3)
Contribution	546	545	0	402	410	(2)
Fixed costs	(485)	(486)	(0)	(357)	(366)	(2)
Sundry costs and consolidation entries	(14)	(10)	40	(10)	(7)	43
Operating profit excluding special items	47	49	(4)	35	37	(5)
EBITDA excluding special items	126	124	2	93	93	0

The North American operations showed resilience in the face of reducing coated paper market demand by increasing market share. Net selling prices of coated paper were under pressure due to market overcapacity, and although there was some recovery in the final quarter, selling prices were still some 4% lower than the previous year. Dissolving wood pulp selling prices increased by 6% and reduced the impact of the lower coated prices.

Improved usage variances and lower wood and energy costs resulted in variable costs per ton reducing by 3%. The reduction in variable costs per ton was lower than the selling price reduction, but good fixed cost control and higher volumes improved fixed cost absorption rates resulting in EBITDA margins remaining in line with the previous year.

Europe

(Metric tons '000)	2017			2016	% change	
Sales volume	3,343			3,252	3	
	€ million 2017	€ million 2016	% change	€ per ton 2017	€ per ton 2016	% change
Sales	2,320	2,324	(0)	694	715	(3)
Variable manufacturing and delivery costs	(1,509)	(1,490)	1	(451)	(458)	(2)
Contribution	811	834	(3)	243	257	(5)
Fixed costs	(673)	(692)	(3)	(201)	(213)	(6)
Sundry costs and consolidation entries	(11)	(24)	(54)	(4)	(8)	(50)
Operating profit excluding special items	127	118	8	38	36	6
EBITDA excluding special items	239	235	2	71	72	(1)

The growth in specialities and packaging papers volumes and increased woodfree coated volumes to export markets, more than compensated for the reduced mechanical coated volumes. Pricing pressure across all segments reduced net selling prices by 3%.

Variable costs were well controlled with energy and wood costs reducing favourably. There were substantial improvements in production efficiencies which contributed to the lower variable costs. Fixed costs were well controlled and reduced by 3% relative to the previous period. Consequently the EBITDA margin of the region remained in line with the previous year at 10%.

Chief Financial Officer's Report continued

Financial performance – Regional continued

Southern Africa

Southern Africa

(Metric tons '000)	2017	2016	% change			
Sales volume	1,606	1,626	(1)			
	ZAR million 2017	ZAR million 2016	% change	ZAR per ton 2017	ZAR per ton 2016	% change
Sales*	17,489	16,799	4	10,890	10,331	5
Variable manufacturing and delivery costs	(9,769)	(9,449)	3	(6,083)	(5,811)	5
Contribution	7,720	7,350	5	4,807	4,520	6
Fixed costs	(4,991)	(4,688)	6	(3,108)	(2,883)	8
Sundry costs and consolidation entries	1,781	1,848	(4)	1,109	1,137	(2)
Operating profit excluding special items	4,510	4,510	0	2,808	2,774	1
EBITDA excluding special items	5,299	5,205	2	3,300	3,201	3

* Excludes forestry.

The average rate of the Rand strengthened by 10% for the year and had a negative impact on the results of the Southern African operations. Growth in dissolving wood pulp sales volumes of 8% were offset by the discontinuation of waste paper sales volumes resulting in total volumes reducing by 1%. Net selling prices of dissolving wood pulp increased in US Dollar terms, but reduced in local currency. Increased paper prices and an improved mix caused total net selling prices to increase. Wood, energy and chemical cost increases caused variable costs per ton to increase by 5%. Inflationary pressure on personnel and maintenance costs increased fixed costs by 6%. The net result of the above is an increase in EBITDA to ZAR5,299 million with annual operating profit of ZAR4,510 million remaining in line with last year.

The region's capital expenditure focused on debottlenecking processes and increasing our energy self-sufficiency during the year.

Major sensitivities

Some of the more important factors which impact the group's EBITDA excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below.

Sensitivities	Change	Europe € million	North America US\$ million	Southern Africa ZAR million	Translation impact US\$ million*	Group US\$ million
Net selling prices	1%	24	14	187	–	55
Dissolving wood pulp prices	US\$10	–	2	133	–	12
Variable costs	1%	13	7	91	–	29
Sales volume	1%	8	5	84	–	21
Fixed costs	1%	6	4	47	–	14
Paper pulp price	US\$10	6	2	11	–	9
ZAR/US\$ (weakening)	10 cents	–	–	82	(2)	3
EUR/US\$ (weakening)	10 cents	–	(4)	–	(24)	(28)

* Based on currency impact on translation of EBITDA.

The table demonstrates that EBITDA excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not take into account potential management interventions to mitigate negative impacts or enhance benefits.



Section 4

Cash flow

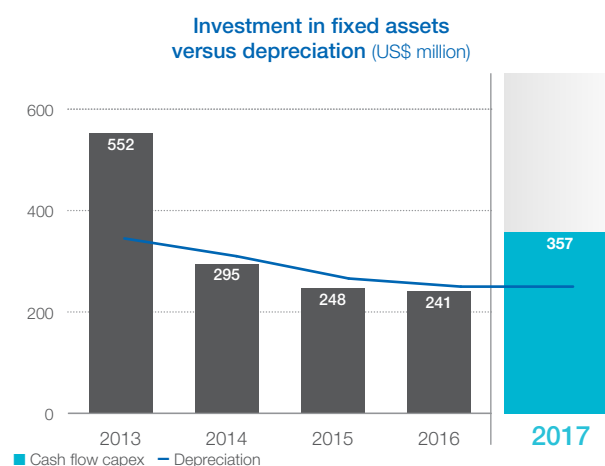
In the table below, we present the group's cash flow statement for 2017 and 2016 in a summarised format.

(US\$ million)	2017	2016
Operating profit excluding special items	526	487
Depreciation and amortisation	259	252
EBITDA excluding special items	785	739
Contributions to post-employment benefits	(43)	(51)
Other non-cash items	6	5
Cash generated from operations	748	693
Movement in working capital	(27)	4
Finance costs	(81)	(91)
Taxation	(100)	(56)
Dividend paid	(59)	–
Capital expenditure	(357)	(241)
Net proceeds on disposal of assets	4	44
Acquisition of subsidiary	(11)	–
Other	(9)	6
Net cash generated	108	359

Net cash generated of US\$108 million was lower than the previous year of US\$359 million despite cash generated from operations of US\$748 million being higher than the prior year of US\$693 million. Higher working capital movements, increased cash taxes, the resumption of the dividends and increases in capital expenditure account for the reduced cash generated.

The increased capital expenditure was due to various upgrade and conversion projects throughout the group. The debottlenecking of dissolving wood pulp production at Ngodwana and Saiccor Mills, and the initial costs for the conversion of coated graphic capacity to speciality paper production in Europe and North America, are included in the total expenditure of US\$357 million for the year.

The group acquired a flexible packaging company, Rockwell Solutions, in the United Kingdom resulting in an outflow of US\$11 million.



Chief Financial Officer's Report continued

Section 5

Balance sheet

Summarised balance sheet

(US\$ million)	2017	2016
Property, plant and equipment	2,681	2,501
Plantations	458	441
Net working capital	436	394
Other assets	254	284
Net post-employment liabilities	(309)	(411)
Other liabilities	(451)	(423)
Employment of capital	3,069	2,786
Equity	1,747	1,378
Net debt	1,322	1,408
Capital employed	3,069	2,786

Sappi has 16 production facilities in eight countries, capable of producing approximately 3.5 million tons of pulp and 5.4 million tons of paper.

For more information on our mills, their production capacities and products, please refer to pages 20 and 21.

During 2017, capital expenditure for property, plant and equipment was US\$357 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US\$21 billion.

Property, plant and equipment

The cost and depreciation related to our property are set out in the table below.

Book value of property, plant and equipment

(US\$ million)	2017	2016
Cost	8,681	8,130
Accumulated depreciation and impairment	6,000	5,629
Net book value	2,681	2,501

Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource as it gives us access to low-cost fibre for pulp production and ensures continuity of supply on an important raw material input source.

We currently have access to approximately 479,000 hectares of land of which approximately 340,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 64% of the wood requirements for our mills in Southern Africa.

During the year, there were increases to input costs which were offset by higher average fair value rates. These were partially offset by the damages recorded during the year. As we manage our plantations on a sustainable basis, the growth for the year was offset by timber felled during the year.

Our plantations are valued on the balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In notes 2.3.5 and 11 to the financial statements, we provide more detail on our accounting policies for plantations, how we manage our plantations as well as the major assumptions used in the calculation of fair value.

Working capital

The component parts of our working capital at the 2017 and 2016 fiscal year-ends are shown in the table below.

Net working capital

(US\$ million)	2017	2016
Inventories	636	606
Trade and other receivables	668	642
Trade and other payables	(868)	(854)
Net working capital	436	394

Optimising working capital remains a key focus area for us and appropriate targets are incorporated into the management incentive schemes for all businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital increased to US\$436 million in 2017 from US\$394 million in 2016. The material movements in working capital are discussed below:

- Inventories increased by US\$30 million, mainly due to a currency translation impact of US\$16 million and an increase in finished goods
- Receivables increased by US\$26 million, mainly due to a currency translation impact of US\$18 million and an increase in trade receivables due to the higher sales in the last quarter, and
- Payables increased by US\$14 million. After taking into consideration the currency translation impact of US\$26 million, payables decreased by US\$12 million. The decrease in payables is largely due to a reduction in interest accruals, and the reduction of restructuring provisions.



Post-employment liabilities

We operate various defined benefit pension/lump sum plans, post-employment healthcare subsidies and other employee benefits in the various countries in which we operate.

A summary of defined benefit assets and liabilities (pension and post-employment healthcare subsidies) is as follows:

Defined benefit liabilities

(US\$ million)	2017	2016
Defined benefit obligation	(1,448)	(1,525)
Fair value of plan assets	1,139	1,114
Net balance sheet liability	(309)	(411)
Cash contributions to defined benefit plans/subsidies	39	46
Income statement charge (credit) to profit or loss*	30	17
Cash contributions deemed 'catch-up'**	18	27

* The income statement charge in 2016 was lower than in 2017 due to ad hoc credits from settlements and curtailments.

** 'Catch-up' is cash contributions paid to defined benefit plans in excess of current service cost.

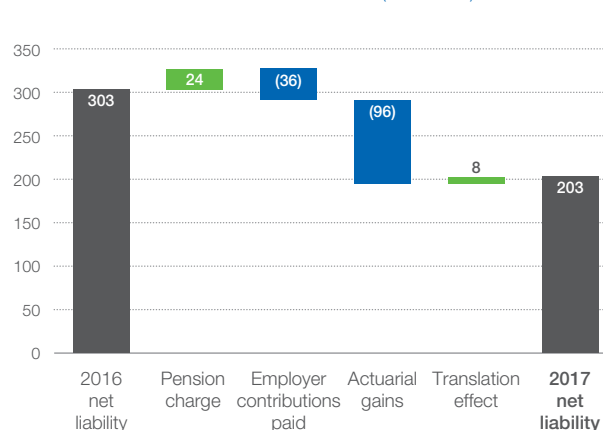
The liabilities from all our plans (funded plans and unfunded) reduced by US\$77 million compared with last year. The main cause of the overall decrease in gross liabilities was the result of higher discount rates used due to rising yields in respective bond markets, and in some regions, reductions in post-retirement longevity projections.

Fair value of plan assets rose by US\$25 million over the year due to favourable investment returns of assets in our funded plans from outperforming equity markets.

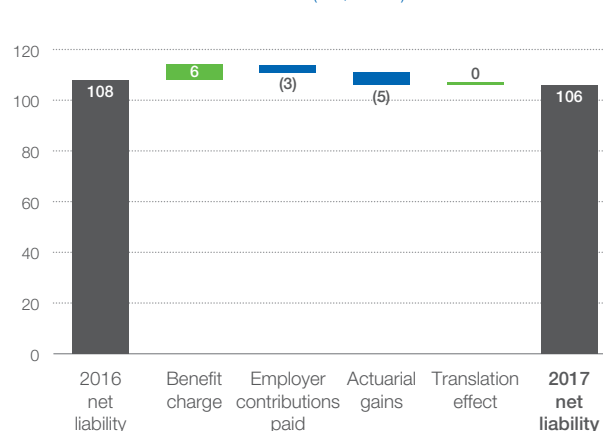
Included in the liability and asset movements above is a US\$9 million loss resulting from currency movements.

The reduction in liabilities and increase in assets both contributed to a reduction in the net overall net liability by US\$102 million as at September 2017. A reconciliation of the movement in the balance sheet over the year is shown alongside and disclosed in more detail in note 28 of the Group Annual Financial Statements.

Sappi Limited defined benefit pensions balance sheet movement (US\$ million)



Sappi Limited post-retirement medical aid subsidy balance sheet movement (US\$ million)



Equity

Year-on-year, equity increased by US\$369 million to US\$1,747 million as summarised below:

Equity reconciliation

(US\$ million)	2017
Equity as at September 2016	1,378
Profit for the year	338
Dividend paid	(59)
Share-based payments	9
Actuarial gains on post-employment benefit funds	68
Movement in hedging reserves	11
Other movements	1
Equity as at September 2017	1,747

Chief Financial Officer's Report continued

Balance sheet continued

Equity increased by US\$369 million driven largely by the profit for the year of US\$338 million and actuarial gains on post-employment benefit funds of US\$68 million, offset by the dividend of US\$59 million.

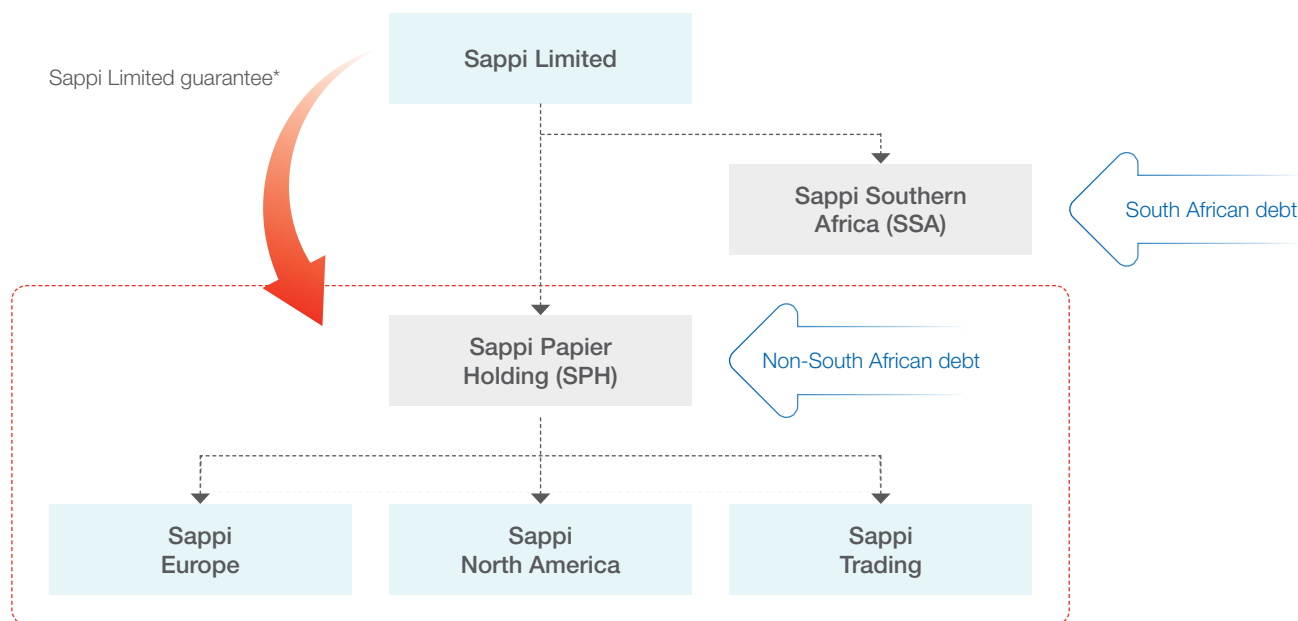
Debt

Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local Southern African market for its own funding requirements and Sappi Papier Holding GmbH (SPH), which is the international holding company, issues debt in the international money and capital markets to fund our non-Southern African businesses. SPH's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debt are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed below.

The diagram below depicts our debt funding structure.



* Sappi Limited provides guarantees for long-term non-South African debt.

Below we highlight the main financing activities that occurred during the year:

- The SPH US\$400 million 2017 bond matured on 15 July 2017, but a call window opened at par in April 2017 and the bond was fully repaid from cash resources on 18 April 2017
- The SPH €330 million securitisation programme matures in August 2018 and in order to retain the long-term treatment of this debt the facility had to be extended before August 2017. The facility was therefore renewed in June 2017 and has a new maturity date of August 2020, and
- The announced conversion project at the Somerset Mill is being financed with a new €150 million term loan. As with other previous capital projects the facility was arranged with the Oesterreichische Kontrollbank, the Austrian development bank (OeKB). This long-term facility is structured as a seven-year term facility with drawings taking place until June 2018, in line with the progress of the project.

Structure of net debt and liquidity

We consider the liquidity position to be very good, with cash holdings exceeding short-term obligations by US\$417 million at fiscal year-end. In addition, Sappi has US\$623 million of unutilised committed credit facilities, including the revolving credit facility at SPH of €465 million (US\$549 million).

The structure of our net debt at September 2017 and 2016 is summarised below:

(US\$ million)	2017	2016
Long-term debt	1,739	1,535
Senior unsecured debt	1,436	1,732
Securitised funding	364	314
Less: Short-term portion	(61)	(511)
Net short-term debt (cash)	(417)	(127)
Overdrafts and short-term loans	72	65
Short-term portion of long-term debt	61	511
Less: Cash	(550)	(703)
Net debt	1,322	1,408

Movement in net debt

The movement of our net debt from fiscal 2016 to fiscal 2017 is explained in the table below:

(US\$ million)	2017
Net debt as at September 2016	1,408
Net cash generated	(108)
Currency and other movements	22
Net debt as at September 2017	1,322

Group debt profile

We show the major components and maturities of our net debt at September 2017 below. These are split between our debt in South Africa and our debt outside South Africa.

(US\$ million)	Interest rates (local currencies)			Maturity (Sappi fiscal years)				
				2018	2019	2020	2021	Thereafter
South African								
Bank debt	30	7.85%	Fixed*			30		
Bonds	92	7.86%	Fixed*	37		55		
Gross debt	121							
Less: Cash	(216)			(216)				
Net South African debt (cash)	(95)			(179)	–	84	–	–
Non-South African								
Securitisation (US\$)	127	1.38%	Variable			127		
Securitisation (EUR)	237	2.62%	Variable			237		
OeKB term loan 1	96	1.25%	Fixed	24	24	24	24	
OeKB term loan 2	70	2.20%	Fixed			8	8	53
Other bank debt	75	0.54%	Variable	72	0.4	0.3	0.3	1
2022 Bonds (EUR)	532	3.38%	Fixed					532
2023 Bonds (EUR)	413	4.00%	Fixed					413
2032 Bonds (US\$)	221	7.50%	Fixed					221
IFRS adjustments	(20)			(0.3)				(20)
Gross debt	1,750							
Less: Cash	(334)			(334)				
Net non-South African debt	1,416			(238)	25	396	33	1,201
Net group debt	1,322			(417)	25	481	33	1,201

* Floating rate bonds/bank loans swapped to fixed.

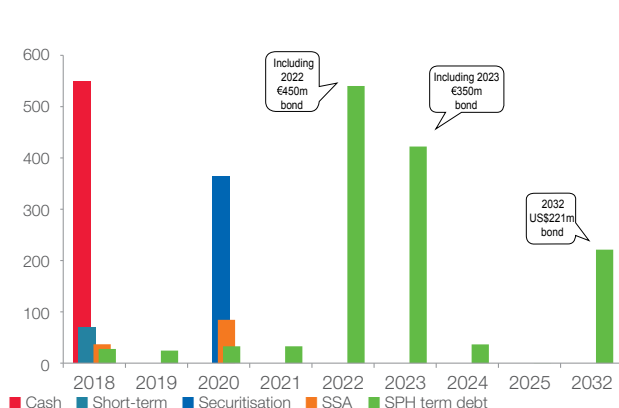
Chief Financial Officer's Report continued

Balance sheet continued

The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

A diagram of the debt maturity profile for Sappi fiscal years is shown below.

Debt maturity profile (US\$ million)



Covenants

Non-South African covenants

Financial covenants apply to US\$166 million of our non-South African bank debt, the €465 million revolving credit facility and our securitisation borrowings.

The covenants are described below and are calculated on a last four quarter basis and require that at the end of each quarter:

- The ratio of group net debt to EBITDA be not greater than 4.00-to-1 at the end of September 2016, reducing over the term of the facility to 3.75-to-1 by June 2019, and
- The ratio of group EBITDA to net interest expense be not less than 2.50-to-1 at the end of September 2016, and remain at this level over the term of the facility.

The table below shows that at September 2017 we were well in compliance with these covenants.

Non-South African covenants	2017	Covenant
Net debt to EBITDA	1.58	<4.00
EBITDA to net interest	9.24	>2.50

In addition to the financial covenants referred to above, our bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments. As regards dividend payments, in terms of the international bond indentures, any cash dividends paid may not exceed 50% of net profit excluding special items after tax and certain other adjustments, calculated on a cumulative basis.

South African covenants

Separate covenants also apply to the revolving credit facility of our Southern African business.

These covenants are calculated on a last four quarter basis and require that at the end of March and September, with regard to Sappi Southern Africa Limited and its subsidiaries:

- The ratio of net debt to equity is not at the end of March and September greater than 65%, and
- At the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2-to-1.

Below we show that for the year ended September 2017 the South African financial covenants were comfortably met.

South African covenants	2017	Covenant
Net debt to equity	Net cash	<65%
EBITDA to net interest	Net interest received	>2.00

Credit ratings

Global Credit Ratings: South African national rating

Sappi Southern Africa Limited: A+(za)/A1+(za)/Stable Outlook (June 2017)

Moody's

Sappi corporate family rating: Ba2/NP/Positive Outlook (May 2017)

SPH debt rating:

- 2022/2023 Bonds and RCF: Ba2/Positive Outlook (May 2017)
- 2032 Bonds: B1

S&P Global Ratings

Corporate credit rating: BB/B/Stable Outlook (January 2017)

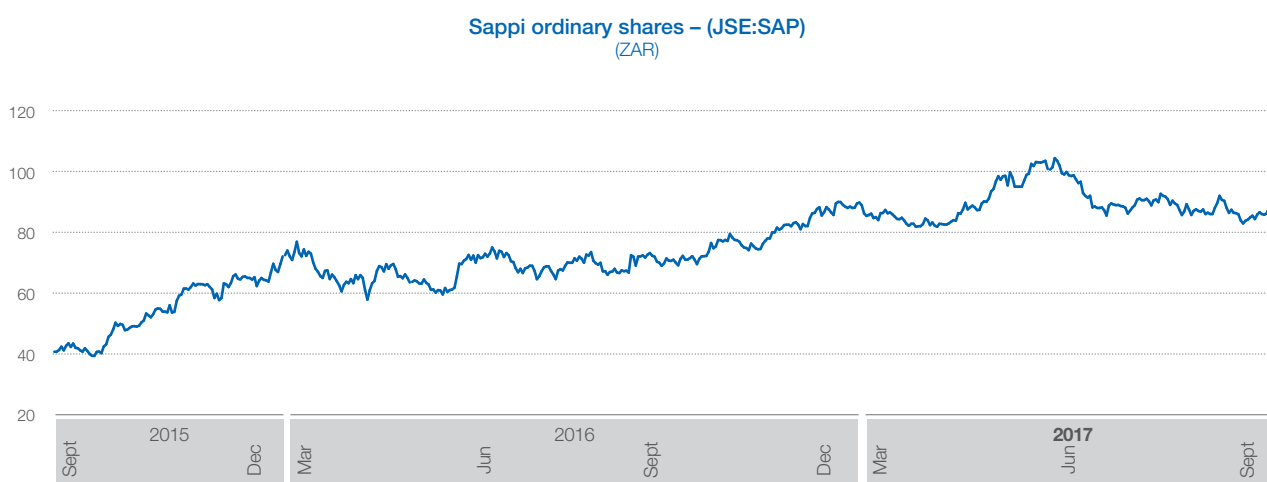
SPH Debt rating:

- 2022/2023/2032 Bonds and RCF: BB Stable Outlook (January 2017)



Section 6

Share price performance



Conclusion

Good cost management, including increased market share in our graphics segments and growth in our specialities and packaging papers and dissolving wood pulp segments, provided the necessary platform to remain on target to deliver our 2020Vision. The four main objectives of our strategy were evident during the year. We exceeded our global cost initiative targets which contributed to increasing our EBITDA margins to 14.8%. We rationalised the business by announcing the conversion of coated graphic capacity in Europe and North America to packaging paper capacity. The balance sheet was strengthened by utilising cash reserves to repay the

US\$400 million 2017 bonds, and we accelerated growth in high-margin products by initiating debottlenecking projects at Saiccor and Ngodwana Mills to increase production of dissolving wood pulp.

Strong cash generation reduced our leverage to 1.7 times net debt/EBITDA. We start fiscal 2018 on a sound platform.

GT Pearce

Chief Financial Officer

07 December 2017

Five-year review

for the year ended September 2017

(US\$ million)	2017	2016	2015	2014	2013
Income statement					
Sales	5,296	5,141	5,390	6,061	5,925
Variable manufacturing and delivery costs	3,147	3,061	3,414	3,887	3,768
Fixed costs	1,601	1,571	1,613	1,837	1,943
Sundry expenses (income) ⁽¹⁾	22	22	6	(9)	34
Operating profit excluding special items	526	487	357	346	180
Special items – (gains) losses	–	(57)	(54)	32	161
Operating profit	526	544	411	314	19
Net finance costs	80	121	182	177	186
Profit (loss) before taxation	446	423	229	137	(167)
Taxation charge	108	104	62	2	15
Profit (loss) for the year	338	319	167	135	(182)
EBITDA excluding special items	783	739	625	658	528
Balance sheet					
Total assets	5,247	5,177	4,913	5,465	5,727
Non-current assets	3,378	3,171	3,174	3,505	3,787
Current assets	1,869	2,006	1,739	1,960	1,940
Current liabilities	1,043	1,474	1,092	1,223	1,212
Shareholders' equity	1,747	1,378	1,015	1,044	1,144
Net debt	1,322	1,408	1,771	1,946	2,247
Gross interest-bearing debt	1,872	2,111	2,227	2,474	2,599
Cash	(550)	(703)	(456)	(528)	(352)
Capital employed	3,069	2,786	2,786	2,990	3,391
Cash flow					
Cash generated from operations	748	693	544	566	447
Decrease (increase) in working capital	(27)	4	(11)	34	(20)
Finance costs paid	(96)	(107)	(148)	(170)	(171)
Finance revenue received	15	16	13	8	7
Taxation paid	(100)	(56)	(16)		(17)
Cash generated from operating activities	481	550	382	437	246
Net cash generated (utilised)	108	359	145	243	(247)
Cash effects of financing activities	(279)	(130)	(127)	(36)	(8)
Capital expenditure (gross)	357	241	248	295	552
To maintain operations	140	155	175	148	116
To expand operations	217	86	73	147	436
Exchange rates					
US\$ per one EUR exchange rate – closing	1.181	1.123	1.120	1.269	1.352
US\$ per one EUR exchange rate – average (financial year)	1.106	1.111	1.150	1.358	1.312
ZAR to one US\$ exchange rate – closing	13.556	13.714	13.914	11.229	10.093
ZAR to one US\$ exchange rate – average (financial year)	13.381	14.788	11.964	10.566	9.278

⁽¹⁾ Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.

(US\$ million)	2017	2016	2015	2014	2013
Statistics					
Number of ordinary shares (millions)⁽¹⁾					
In issue at year-end	535.0	530.6	526.4	524.2	521.5
Basic weighted average number of shares in issue during the year	533.9	529.4	525.7	522.5	521.3
Per share information (US cents)					
Basic earnings (loss)	63	60	32	26	(35)
Diluted earnings (loss)	62	59	31	26	(35)
Headline earnings (loss)	64	58	32	31	(10)
Diluted headline earnings (loss)	63	57	31	31	(10)
EPS excluding special items (US cents)	64	57	34	22	(4)
Net asset value	327	260	193	199	219
Profitability ratios (%)					
Operating profit to sales	9.9	10.6	7.6	5.2	0.3
Operating profit excluding special items to sales	9.9	9.5	6.6	5.7	3.0
EBITDA excluding special items to sales	14.8	14.4	11.6	10.9	8.9
Operating profit excluding special items to capital employed (ROCE)	18.0	17.5	12.4	10.8	5.2
Net debt to EBITDA excluding special items	1.7	1.9	2.8	3.0	4.3
Interest cover	9.1	7.3	4.4	3.6	3.1
Return on average equity (ROE)	21.6	26.7	16.2	12.3	(13.6)
Debt ratios (%)					
Net debt to total capitalisation	43.1	50.5	63.6	65.1	66.3
Efficiency ratios					
Asset turnover (times)	1.0	1.0	1.1	1.1	1.0
Inventory turnover ratio	7.0	7.0	7.9	7.8	7.3
Liquidity ratios					
Current asset ratio	1.8	1.4	1.6	1.6	1.6
Trade accounts receivable days outstanding (including receivables securitised)	45	44	45	45	47
Cash interest cover (times)	8.1	5.6	3.0	3.1	2.7
Other non-financial information⁽²⁾					
Sales volumes	7,410	7,253	7,306	7,524	7,466
Number of full-time equivalent employees	12,158	12,051	12,548	13,064	13,665
Lost-time injury frequency rate (including contract employees)	0.44	0.46	0.48	0.53	0.56
Energy					
Specific net purchased energy (GJ/adt)	13.45	13.47	13.73	13.80	14.14
Renewable energy to total energy (%)	45.23	43.99	44.72	45.82	44.37
Water					
Specific process water drawn (m ³ /adt)	33.74	34.94	34.32	35.71	36.35
Specific process water returned (m ³ /adt)	31.12	31.74	31.27	32.55	33.99
Waste					
Specific total landfill (ton/adt)	0.073	0.069	0.076	0.067	0.070
Emissions					
Specific Scope 1 emissions (ton CO ₂ eq/adt)	0.62	0.63	0.62	0.62	0.65
Specific Scope 2 emissions (ton CO ₂ eq/adt)	0.24	0.27	0.26	0.27	0.26

 Refer to *Share statistics* on page 114 for other market and share-related information.

⁽¹⁾ Net of treasury shares (refer to note 18 to the Group Annual Financial Statements).

⁽²⁾ Certain energy, water, waste and emissions data for the comparative years have been restated using the latest reporting standards and measurement methodology.

 **Note:** Definitions for various terms and ratios used above are included in the *Glossary* on page 116.

Share statistics

for the year ended September 2017

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares ⁽¹⁾	% of shares in issue
1 – 5,000	5,566	81.5	3,093,227	0.6
5,001 – 10,000	223	3.3	1,678,002	0.3
10,001 – 50,000	446	6.5	11,258,624	2.1
50,001 – 100,000	190	2.8	13,865,237	2.6
100,001 – 1,000,000	324	4.7	103,771,633	19.4
Over 1,000,000	83	1.2	401,353,472	75.0
	6,832	100.0	535,020,195	100.0

⁽¹⁾ The number of shares excludes 22,182,378 treasury shares held by the group.

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.3
Sappi Limited directors and prescribed officers	0.3
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2017 was 6,821)	99.7
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States of America.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2017, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	82,034,389	15.3

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2017, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Public Investment Corporation	74,737,258	14.0
Prudential Investment Managers	51,813,987	9.7
BlackRock Inc	32,311,957	6.0
Old Mutual Plc	28,814,593	5.4
STANLIB Asset Management	27,225,483	5.1

Share statistics

	2017	2016	2015	2014	2013
Ordinary shares in issue (millions) ⁽¹⁾	535.0	530.6	526.4	524.2	521.5
Net asset value per share (US cents)	327	260	193	199	219
Number of shares traded (millions)					
JSE	630.7	544.7	351.0	296.9	323.3
New York	3.1	0.9	1.1	2.0	3.1
Value of shares traded					
JSE (ZAR million)	54,760.0	35,428.6	15,642.5	10,500.0	8,634.7
New York (US\$ million)	20.3	4.2	4.4	6.1	8.8
Percentage of issued shares traded	118.5	102.8	66.9	57.0	62.6
Market price per share					
– year-end					
JSE (South African cents)	9,206.0	7,226	4,069	4,337	2,549
New York (US cents)	681.0	522	286	385	249
– highest					
JSE (South African cents)	10,438.0	7,942	5,279	4,755	3,300
New York (US cents)	797.0	522	448	425	389
– lowest					
JSE (South African cents)	6,953.0	3,982	3,610	2,525	2,204
New York (US cents)	509.0	282	267	247	228
Earnings yield (%) ⁽²⁾	9.28	11.39	10.94	6.73	negative
Price/earnings ratio (times) ⁽²⁾	10.78	8.78	9.14	14.86	negative
Total market capitalisation (US\$ million) ⁽²⁾	3,633	2,796	1,539	2,025	1,317

⁽¹⁾ The number of shares excludes 22,182,378 treasury shares held by the group.

⁽²⁾ Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

 **Note:** Definitions for various terms and ratios used above are included in the *Glossary* on page 116.

Glossary

General definitions

AF&PA – American Forest and Paper Association.

air dry tons (ADT) – Meaning dry solids content of 90% and moisture content of 10%.

biochemicals – Enzymes, hormones, pheromones etc, which either occur naturally or are manufactured to be identical to naturally occurring substances. Biochemicals have many environment-friendly applications, such as natural pesticides that work in non-lethal ways as repellents or by disrupting the mating patterns of the pests.

biofuels – Organic material such as wood, waste and alcohol fuels, as well as gaseous and liquid fuels produced from these feedstocks when they are burned to produce energy.

biomaterials – New developments in wood processing supports the move to a biobased economy that utilises materials that are renewable and biodegradable and that do not compete with food sources.

black liquor – The spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester.

bleached pulp – Pulp that has been bleached by means of chemical additives to make it suitable for fine paper production.

casting and release paper – Embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces.

CEPI – Confederation of European Paper Industries.

chemical oxygen demand (COD) – The amount of oxygen required to break down the organic compounds in effluent.

chemical pulp – A generic term for pulp made from woodfibre that has been produced in a chemical process.

CHP – Combined heat and power.

coated mechanical – Coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material.

coated papers – Papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper.

coated woodfree – Coated paper made from chemical pulp which is made from woodfibre that has been produced in a chemical process, primarily used for high-end publications and advertising material.

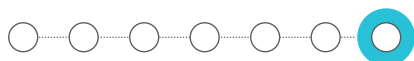
corrugating medium – Paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced.

CSI and CSR – Corporate social investment and corporate social responsibility.

CSV – Corporate shared value involves developing profitable business strategies that deliver tangible social benefits.

dissolving pulp – Highly purified chemical pulp derived primarily from wood, but also from cotton linters intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.

dissolving wood pulp – Highly purified chemical pulp derived from wood intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.



energy – Is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy.

fibre – Fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process.

fine paper – Paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper.

fmcg – Fast-moving consumer goods. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter medicines and many other consumables.

Forestry SA – Largest forestry organisation representing growers of timber in South Africa.

FSC® (Forest Stewardship Council®) – Is an independent, non-governmental, not for profit organisation established to promote the responsible management of the world's forests. Over 190 million hectares of forest are FSC®-certified, in over 80 countries worldwide. <https://ic.fsc.org/en>

full-time equivalent employee – The number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law.

greenhouse gases (GHG) – The GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

ISO – Developed by the International Standardisation Organisation (ISO), ISO 9000 is a series of standards focused on quality management systems, while the ISO 14001 series is focused on environmental performance and management.

JSE Limited – The main securities exchange in South Africa.

kraft paper – Packaging paper (bleached or unbleached) made from kraft pulp.

kraft pulp – Chemical wood pulp produced by digesting wood by means of the sulphate pulping process.

Kyoto Protocol – A document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990.

lignosulphonate – Lignosulphonate is a highly soluble lignin derivative and a product of the sulphite pulping process.

linerboard – The grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes.

liquor – White liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals.

Lost-Time Injury Frequency Rate (LTIFR) – Number of lost time injuries x 200,000 divided by man hours.

managed forest – Naturally occurring forests that are harvested commercially.

market pulp – Pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill.

mechanical pulp – Pulp produced by means of the mechanical grinding or refining of wood or woodchips.

nanocellulose – Cellulose is the main component of plant stems, leaves and roots. Traditionally, its main commercial use was in producing paper and textiles. Nanocellulose opens up opportunities for advanced, planet-friendly solutions in place of environmentally harmful products.

natural/indigenous forest – A forest of naturally regenerating native trees.

NBHK – Northern Bleached Hardwood Kraft pulp. One of the varieties of market pulp, produced from hardwood trees (ie birch or aspen) in Scandinavia, Canada and northern USA.

Glossary *continued*

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes.

newsprint – Paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper.

NGO – Non-government organisation.

NPO – Non-profit organisation.

OHSAS – Is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards.

OTC – Over-the-counter trading of shares.

packaging paper – Paper used for packaging purposes.

PAMSA – Paper Manufacturers' Association of South Africa.

PEFC™ – The Programme for the Endorsement of Forest Certification (PEFC) is an international non-profit, non-governmental organisation dedicated to promoting Sustainable Forest Management (SFM) through independent third-party certification. PEFC™ is the world's largest forest certification system with over 300 million hectares of forest area under PEFC™ standards. PEFC™ is represented in 49 countries through national organisations such as SFI in North America. <https://www.pefc.org/>

plantation – Large scale planted forests, intensively managed, highly productive and grown primarily for wood and fibre production.

PM – Paper machine.

power – The rate at which energy is used or produced.

pulpwood – Wood suitable for producing pulp – usually not of sufficient standard for saw milling.

release paper – Based paper used in the production of making release liners, the backing paper for self-adhesive labels.

sackkraft – Kraft paper used to produce multi-wall paper sacks.

Scope 1 and 2 GHG emissions – The Greenhouse Gas Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:

- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity, and
- Indirect GHG emissions are emissions from purchased electricity, steam, heat or cooling.

SFI® (Sustainable Forestry Initiative) – Is a solutions-oriented sustainability organisation that collaborates on forest-based conservation and community initiatives. The SFI® forest management standard is the largest forestry certification standard within the PEFC programme with over a hundred million hectares under management. <http://www.sfiprogram.org/>

silviculture costs – Growing and tending costs of trees in forestry operations.

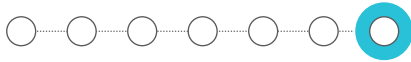
solid waste – Dry organic and inorganic waste materials.

specialised cellulose – The business within Sappi which oversees the production and marketing of dissolving wood pulp (DWP).

specialities – A generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc.

specific – When data is expressed in specific form, this means that the actual quantity consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of saleable product.

specific purchased energy – The term 'specific' indicates that the actual quantity during the year indicated, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, the parameter is air dry tons of product.



Sustainable Forestry Initiative (SFI®) – The SFI® programme is a comprehensive system of objectives and performance measures which integrate the sustained growing and harvesting of trees and the protection of plants and animals.

thermo-mechanical pulp – Pulp produced by processing woodfibres using heat and mechanical grinding or refining wood or woodchips.

ton – Term used in this report to denote a metric ton of 1,000kg.

total suspended solids (TSS) – Refers to matter suspended or dissolved in effluent.

uncoated woodfree paper – Printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface.

viscose staple fibre (VSF) – A natural fibre made from purified cellulose, primarily from dissolving wood pulp (DWP) that can be twisted to form yarn.

woodfree paper – Paper made from chemical pulp.

World Wildlife Fund (WWF) – The world's largest conservation organisation, focused on supporting biological diversity.

General financial definitions

acquisition date – The date on which control in respect of subsidiaries, joint control in respect of joint arrangements and significant influence in associates commences.

associate – An entity over which the investor has significant influence.

basic earnings per share – Net profit for the year divided by the weighted average number of shares in issue during the year.

commissioning date – The date that an item of property, plant and equipment, whether acquired or constructed, is brought into use.

compound annual growth rate – Is the mean annual growth rate of an investment over a specified period of time longer than one year.

control – An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

diluted earnings per share – Is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive.

discount rate – This is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate.

disposal date – The date on which control in respect of subsidiaries, joint arrangements and significant influence in associates ceases.

fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

financial results – Comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group.

foreign operation – An entity whose activities are based or conducted in a country or currency other than that of the reporting entity.

functional currency – The currency of the primary economic environment in which the entity operates.

group – The group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates.

Glossary *continued*

joint arrangement – Is an arrangement of which two or more parties have joint control.

joint venture – Is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

operation – A component of the group:

- That represents a separate major line of business or geographical area of operation, or
- Is distinguished separately for financial and operating purposes.

operating profit – A profit from business operations before deduction of net finance costs and taxes.

presentation currency – The currency in which the financial results of an entity are presented.

qualifying asset – An asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use.

recoverable amount – The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, expected future cash flows are discounted to their net present values using the discount rate.

related party – Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited.

segment assets – Total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).

share-based payment – A transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered.

significant influence – Is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies.

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- These measures are used by the group for internal performance analysis
- The presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies, and
- It is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

asset turnover (times) – Sales divided by total assets.

average – Averages are calculated as the sum of the opening and closing balances for the relevant period divided by two.

Black Economic Empowerment (BEE) charge –

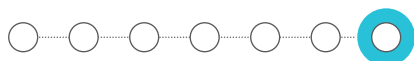
Represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in 2010 in terms of BEE legislation in South Africa.

capital employed – Shareholders' equity plus net debt.

cash interest cover – Cash generated by operations divided by finance costs less finance revenue.

current asset ratio – Current assets divided by current liabilities.

dividend yield – Dividends per share, which were declared after year-end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.



earnings yield – Earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

EBITDA excluding special items – Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.

EPS excluding special items – Earnings per share excluding special items and certain once-off finance and tax items.

fellings – The amount charged against the income statement representing the standing value of the plantations harvested.

headline earnings – As defined in Circular 2/2015, reissued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.

inventory turnover (times) – Cost of sales divided by inventory on hand at balance sheet date.

net assets – Total assets less total liabilities.

net asset value per share – Net assets divided by the number of shares in issue at balance sheet date.

net debt – Current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits).

net debt to total capitalisation – Net debt divided by capital employed.

net operating assets – Total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft).

ordinary dividend cover – Profit for the period divided by the ordinary dividend declared, multiplied by the actual number of shares in issue at year-end.

ordinary shareholders' interest per share – Shareholders' equity divided by the actual number of shares in issue at year-end.

price/earnings ratio – The financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate divided by earnings per share.

ROCE – Return on average capital employed. Operating profit excluding special items divided by average capital employed.

ROE – Return on average equity. Profit for the period divided by average shareholders' equity.

RONOA – Return on average net operating assets. Operating profit excluding special items divided by average net operating assets.

SG&A – Selling, general and administrative expenses.

special items – Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

total market capitalisation – Ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

trade receivables days outstanding (including securitised balances) – Gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year.

Notice to shareholders

Notice of Annual General Meeting

This document is important and requires your immediate attention

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration number: 1936/008963/06)
(Sappi or the Company)

The eighty-first Annual General Meeting (AGM) of Sappi will be held at Sappi's registered office, in the Oxford Room, Ground Floor, 108 Oxford Road, Rosebank, Johannesburg (entrance in 9th Street) on Wednesday, 07 February 2018 at 14:00. The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the Company for the purposes of determining which shareholders are entitled to attend and vote at the AGM is Friday, 02 February 2018.

1. Ordinary resolution number 1: Presentation of annual financial statements

Ordinary resolution number 1 is proposed to present the annual financial statements of the Company for the year ended September 2017, including the directors' report, the report of the auditors and the report of the Audit Committee.


 The complete Group Annual Financial Statements for the year ended September 2017 are available on the Sappi website: www.sappi.com.

"Resolved that the Group Annual Financial Statements for the year ended September 2017 of the Company, including the directors' report, the report of the auditors and the report of the Audit Committee, be and are hereby received and accepted."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

2. Ordinary resolution number 2: Approval and confirmation of appointment of directors appointed subsequent to the last AGM and subsequent to the financial year-end


"Resolved that the appointment of Dr B Mehlomakulu with effect from 01 March 2017 is approved and confirmed as required in terms of Sappi's Memorandum of Incorporation."

The board recommends and supports the approval and confirmation of her appointment. For Dr Mehlomakulu's  brief biographical details, refer to note 1 under 'notes' on page 128.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution, is required.

3. Ordinary resolutions numbers 3.1 to 3.3: Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation

The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them.

 For brief biographical details of those directors, refer to note 2 under 'notes' on pages 128 and 129.

It is intended that all the directors who retire by rotation will, if possible, attend the AGM, either in person or by means of video-conferencing.

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1

"Resolved that Sir Nigel Rudd is re-elected as a director of Sappi."

Ordinary resolution number 3.2

"Resolved that Mr NP Mageza is re-elected as a director of Sappi."

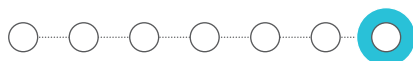
Ordinary resolution number 3.3

"Resolved that Mr MV Moosa is re-elected as a director of Sappi."

4. Ordinary resolution number 4: Election of Audit Committee members

Ordinary resolution number 4 is proposed to elect the members of the Audit Committee in terms of section 94(2) of the South African Companies Act 71 of 2008 (as amended) (the Companies Act) and the King IV Report on Corporate Governance for South Africa 2016 (King IV).

Section 94 of the Companies Act requires that, at each AGM, shareholders of the Company must elect an Audit Committee comprising at least three members.



The Nomination and Governance Committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the Audit Committee and the board considered and accepted the findings of the Nomination and Governance Committee. The board is satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King IV and that they possess the required qualifications and experience as prescribed in regulation 42 of the Companies Regulations, 2011, which requires that at least one-third of the members of a company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Brief biographical details of each member of the Audit Committee are included in the biographies of all directors on our website www.sappi.com.



"Resolved that an Audit Committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1	Dr D Konar	Chairman
4.2	Mr MA Fallon	Member
4.3	Mr NP Mageza	Member*
4.4	Mrs KR Osar	Member
4.5	Mr RJAM Renders	Member

in terms of the Companies Act, to hold office until the conclusion of the next AGM and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King IV and to perform such other duties and responsibilities as may from time to time be delegated to it by the board."

In order for these resolutions to be adopted, the support in each case of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

** Subject to his re-election as a director pursuant to ordinary resolution number 3.2*

5. Ordinary resolution number 5: Appointment of auditors

The board has evaluated the performance of KPMG Inc. and recommends their re-appointment as auditors of Sappi.

"Resolved that KPMG Inc. (with the designated registered auditor to be Mr Coenie Basson) be re-appointed as the auditors of Sappi for the financial year ending September 2018 and to remain in office until the conclusion of the next AGM."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

6. Ordinary resolutions numbers 6.1 and 6.2: The provision of Sappi Limited shares as required by the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust

The passing of resolutions 6.1 and 6.2 will enable the directors to continue to meet the share requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust (collectively the Schemes), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited (JSE). The passing of resolution 6.2 will provide directors with the ability to utilise shares repurchased from time to time by a wholly owned subsidiary of Sappi and held in treasury by such subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

The combined maximum number of shares which can be issued pursuant to the Schemes is 42,700,870 shares. As at year-end, 16,775,868 shares pursuant to offers made under the Schemes after 07 March 2005, have already been issued to, or transferred to the Schemes since the approval by shareholders of the Sappi Limited Performance Share Plan on 07 March 2005, leaving a balance of up to 31,686,412 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 13,484,755 Performance Share Plan awards which are still subject to vesting and 1,425,789 options which have not yet been exercised.

Ordinary resolution number 6.1

"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Trust ("the Plan"), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to issue those shares in terms of the Plan."


Ordinary resolution number 6.2

"Resolved as an ordinary resolution that any subsidiary of Sappi Limited be and is hereby authorised in terms of the Listings Requirements of the JSE to sell at the price at which the participant is allowed to acquire the Company's shares and to transfer to the Sappi Limited Share Incentive Trust and/or the Sappi Limited Performance Share Incentive Trust (collectively "the Schemes") those numbers of Sappi's shares to be acquired by that subsidiary from time to time (but not

Notice to shareholders continued

exceeding the maximum number of Sappi's shares available to the Schemes) as may be required by the Schemes when a participant to whom Sappi's shares will be allocated has been identified."


In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

- 7. Ordinary resolution number 7: Remuneration policy**
 "Resolved as an ordinary resolution, that the Company's Remuneration policy as contained in Section B of the  Remuneration Report on pages 78 to 84 of the Annual Integrated Report, be and is hereby endorsed by way of a non binding advisory vote."

This non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by

proxy at the AGM and entitled to exercise voting rights on the resolution is required.

- 8. Ordinary resolution number 8: Implementation report**
 "Resolved as an ordinary resolution, that the Company's Implementation report as contained in Section C of the  Remuneration Report on pages 84 to 88 of the Annual Integrated Report, be and is hereby endorsed by way of a non-binding advisory vote."

This further non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

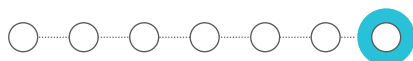
In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

- 9. Special resolution number 1: Non-executive directors' fees**
 "Resolved that, with effect from 01 October 2017 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
1. Sappi board fees⁽¹⁾		
Chairperson		
If South African resident	ZAR2,689,110*	ZAR2,823,570*
If United Kingdom resident	£302,980*	£307,520*
If United States resident	US\$453,330*	US\$461,940*
If European resident	€407,440*	€413,550*
Lead independent director		
If South African resident	ZAR587,080	ZAR616,430
If United Kingdom resident	£66,360	£67,350
If United States resident	US\$99,240	US\$101,120
If European resident	€89,240	€90,580
Other directors		
If South African resident	ZAR392,360	ZAR411,980
If United Kingdom resident	£44,200	£44,860
If United States resident	US\$66,140	US\$67,400
If European resident	€59,450	€60,340

* Inclusive of all board committee fees.

⁽¹⁾ Fees per annum unless indicated otherwise.



	From	To
2. Audit Committee fees⁽¹⁾		
Board committee		
Chairperson		
If South African resident	ZAR407,420	ZAR427,790
If United Kingdom resident	£44,880	£45,550
If United States resident	US\$68,520	US\$69,820
If European resident	€60,360	€61,270
Other members		
If South African resident	ZAR203,710	ZAR213,900
If United Kingdom resident	£22,570	£22,910
If United States resident	US\$33,420	US\$34,100
If European resident	€30,350	€30,800

⁽¹⁾ Fees per annum unless indicated otherwise.

	From	To
3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees⁽¹⁾		
Chairperson		
If South African resident	ZAR244,950	ZAR257,200
If United Kingdom resident	£26,660	£27,060
If United States resident	US\$39,150	US\$39,890
If European resident	€35,850	€36,390
Other members		
If South African resident	ZAR127,480	ZAR133,850
If United Kingdom resident	£18,690	£18,970
If United States resident	US\$23,920	US\$24,370
If European resident	€25,130	€25,510

⁽¹⁾ Fees per annum unless indicated otherwise.

	From	To
4. Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/video-conference		
If South African resident	ZAR39,330 per meeting	ZAR41,300 per meeting
If United Kingdom resident	£4,380 per meeting	£4,450 per meeting
If United States resident	US\$6,610 per meeting	US\$6,740 per meeting
If European resident	€5,890 per meeting	€5,980 per meeting

Notice to shareholders continued

	From	To
5. Travel compensation		
<i>For more than 10 flight hours return</i>		
If South African resident	US\$3,500 per meeting	US\$3,600 per meeting
If United Kingdom resident	US\$3,500 per meeting	US\$3,600 per meeting
If United States resident	US\$3,500 per meeting	US\$3,600 per meeting
If European resident	US\$3,500 per meeting	US\$3,600 per meeting

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 1.5% and 5% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2017. The fees were last increased with effect from 01 October 2016 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The review also takes into account that the responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance developments and requirements in South Africa and elsewhere.

Non-executive directors' fees are paid quarterly (in March, June, September and December each year) and the proposed increase, if approved, will be applicable to payments to be made in December 2017 onwards. Initially the December 2017 payment will be made on the basis of the existing fee structure, and following shareholder approval of the proposed increases, the shortfall in the December 2017 payment will be made up in the March 2018 payment.

The practice has been and will continue to be that directors' fees and board committee fees are paid to non-executive directors only.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

10. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

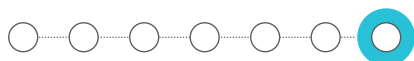
The Companies Act provides, among other things, that, except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the Company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the Company be and are hereby authorised, in accordance with the Companies Act, to authorise the Company to provide direct or indirect financial assistance to any company or corporation which is related or inter-related to the Company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.


11. Ordinary resolution number 9: Signature of documents

"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the AGM held on 07 February 2018 or any adjournment thereof."



In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

12. To receive a report from the Social, Ethics, Transformation and Sustainability Committee

 Shareholders are referred to the Social, Ethics, Transformation and Sustainability Committee Report on page 89.

Proxies

Shareholders are entitled to appoint one or more proxies to attend, speak and on a poll to vote in their stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by shareholders who hold Sappi shares in certificated form or have dematerialised their shares (i.e. have replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system ("Strate Limited") and are recorded in the sub-register in "own name" dematerialised form (i.e. shareholders who have specifically instructed their Central Securities Depository Participant ("CSDP") or broker to hold their shares in their "own name" on Sappi's sub-register). Shareholders who have dematerialised their shares and who are not registered as 'own name' dematerialised shareholders and who wish to:


- attend the AGM must instruct their CSDP or brokers to provide them with a letter of representation to enable them to attend such meeting; or
- vote, but not to attend the AGM, must provide their CSDPs or brokers with their voting instructions in terms of the relevant custody agreement between them and their CSDPs or brokers.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the AGM to be held on 07 February 2018 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the AGM by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or the shareholder's

representative or proxy, can be contacted) to so participate to the transfer secretaries, at their address as reflected on  page 130, to be received by the transfer secretaries at least five business days prior to the AGM in order for the transfer secretaries to arrange for the shareholder (or the shareholder's representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or the shareholder's representative or proxy) with details as to how to access any electronic participation to be provided. The Company reserves the right to elect not to provide for electronic participation at the AGM in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the Company will be borne by the Company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

Questions

The board encourages shareholders to attend and to ask questions at the AGM. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the Group Company Secretary by 17:00 on Friday, 02 February 2018 at:

108 Oxford Road
(Entrance in 9th Street)
Rosebank
Johannesburg
2198

or

PO Box 31560
Braamfontein
2017

or

By email to Amanda.Tregoning@sappi.com

Sappi Southern Africa Limited

Secretaries: per AJ Tregoning
108 Oxford Road
Rosebank, Johannesburg 2198

07 December 2017

Notice to shareholders continued

Notes

1. Approval and confirmation of appointment of directors appointed since the last AGM and subsequent to the year-end

Dr Bonakele Mehlomakulu (Boni) (45)
(Independent)

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

Nationality: South African

Appointed: March 2017

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee

Other board and organisation memberships:

- Hulamini Limited
- Unisa Council
- Yokogawa South Africa

Skills, expertise and experience:

Dr Boni Mehlomakulu is the Chief Executive Officer of the South African Bureau of Standards (SABS). Under her leadership the institution has undergone a significant transformation, gearing itself towards service relevance within the 21st century. As a pioneer for continuous learning, she holds a BSc (Hons) (Chemistry and Applied Chemistry), MSc (Organic Chemistry) and a PhD (Chemical Engineering) from the University of Cape Town.

Dr Mehlomakulu's career started at Sasol before joining the Department of Science and Technology in various management roles. In addition to her non-executive directorship at Sappi Limited, her external industry portfolios include being the deputy chair of Unisa Council, non-executive director of Hulamini Limited and Yokogawa South Africa, as well as a council member of the International Standards Organisation (ISO, Geneva). Past boards and directorships include PBMR Proprietary Limited, Nuclear Energy Corporation of South Africa (NECSA), Eskom Holdings SOC Limited and the Technology Innovation Agency (TIA).

2. Directors retiring by rotation who are seeking re-election

Sir Nigel Rudd (70)
(Independent Chairman)

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

Sappi board committee memberships:

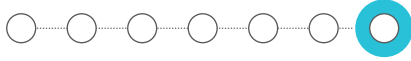
- Nomination and Governance Committee (Chairman)
- Attends Audit Committee, Human Resources and Compensation Committee and Social, Ethics, Transformation and Sustainability Committee meetings ex officio

Other board and organisation memberships:

BBA Aviation plc (Chairman)
Business Growth Fund (Chairman)
Meggitt plc (Chairman)

Skills, expertise and experience:

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



Nkateko Peter Mageza (Peter) (63)
(Independent)

Qualifications: FCCA (UK)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee

Other board and organisation memberships:

- Anglo American Platinum Limited
- Ethos Private Equity Proprietary Limited
- RCL Foods Limited (formerly Rainbow Chickens Limited)
- Remgro Limited
- MTN Group Limited

Skills, expertise and experience:

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

Mohammed Valli Moosa (Valli) (60)
(Non-independent)

Qualifications: BSc (Mathematics)

Nationality: South African

Appointed: August 2010

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee (Chairman)

Other board and organisation memberships:

- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Sanlam Limited
- Sun International Limited (Chairman)
- WWF-SA (Chairman)

Skills, expertise and experience:

Mr Moosa has held numerous leadership positions across business, government, politics and civil society in South Africa. He was South African Minister of Constitutional Development, the President of the International Union for the Conservation of Nature, and Chairman of the UN Commission for Sustainable Development, and he served as a member of the National Executive Committee of the African National Congress until 2009.

Shareholders' diary

Annual General Meeting	07 February 2018
First quarter results released	February 2018
Second quarter and half-year results released	May 2018
Third quarter results released	August 2018
Financial year-end	September 2018
Preliminary fourth quarter and year results	November 2018
Annual Integrated Report posted to shareholders and posted on website	December 2018

Administration

Sappi Limited

Registration number 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284

Group Company Secretary and Corporate Counsel

Amanda Tregoning

Secretaries

Sappi Southern Africa Limited
108 Oxford Road
Rosebank
Johannesburg 2198
South Africa

PO Box 31560
Braamfontein 2018
South Africa
Tel +27 (0)11 407 8174
Email Amanda.Tregoning@sappi.com
www.sappi.com

Transfer secretaries

South Africa
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196

PO Box 61051
Marshalltown 2107
Fax +27 (0)11 688 5238
Email proxy@computershare.co.za
Tel +27 (0)11 370 5000
www.computershare.com

Corporate affairs

André Oberholzer – Group Head Corporate Affairs
Tel +27 (0)11 407 8044
Email Andre.Oberholzer@sappi.com

Investor relations

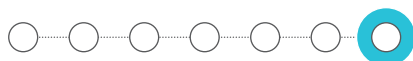
Graeme Wild – Group Head Investor Relations and Sustainability
Tel +27 (0)11 407 8391
Email Graeme.Wild@sappi.com

JSE Sponsor

UBS South Africa Proprietary Limited
64 Wierda Road East
Sandton, 2196
South Africa
Tel +27 (0)11 322 7617
Email Jacques.Botha@ubs.com

United States ADR Depositary

BNY Mellon Share Owner Services
PO Box 30170
College Station, TX 77842-3170
USA
Email shrrelations@cpushareownerservices.com
Tel (US only) 1 888 BNY ADRS
Tel (Outside the US) +1 201 680 6825
www.mybnymdr.com



Proxy form for the Annual General Meeting

Sappi Limited

(Registration number: 1936/008963/06)
(Incorporated in the Republic of South Africa)
("Sappi" or "the Company")
Issuer code: SAP
JSE code: SAP
ISIN code: ZAE000006284

For use by shareholders who:

- hold shares in certificated form; or
- hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depository system (Strate Limited of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration) (ie shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the eighty-first Annual General Meeting of the members to be held at 14:00 on Wednesday, 07 February 2018 at Sappi in the Oxford Room, Ground Floor, 108 Oxford Road, Rosebank, Johannesburg, 2198, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:00 South African time on Monday, 05 February 2018, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa or handed to the Chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the Annual General Meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We

of

being a shareholder(s) of Sappi holding

Sappi shares and entitled to vote at the abovementioned Annual General Meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the Chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the Annual General Meeting of Sappi to be held at 14:00 on Wednesday, 07 February 2018 or any adjournment thereof, as follows.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2017 annual financial statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Approval and confirmation of appointment of Dr B Mehlomakulu as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – Re-election of Sir Nigel Rudd as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr NP Mageza as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Mr MV Moosa as a director of Sappi			
Ordinary resolution number 4 – Election of Audit Committee			
Ordinary resolution number 4.1 – Election of Dr D Konar as chairman of the Audit Committee			
Ordinary resolution number 4.2 – Election of Mr MA Fallon as a member of the Audit Committee			
Ordinary resolution number 4.3 – Election of Mr NP Mageza as a member of the Audit Committee			
Ordinary resolution number 4.4 – Election of Mrs KR Osar as a member of the Audit Committee			
Ordinary resolution number 4.5 – Election of Mr RJAM Renders as a member of the Audit Committee			
Ordinary resolution number 5 – Re-appointment of KPMG Inc. as auditors of Sappi for the year ending September 2018 and until the next Annual General Meeting of Sappi			
Ordinary resolution number 6.1 – The placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Plan ("the Plan") under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 6.2 – The authority for any subsidiary of Sappi to sell and to transfer to the Sappi Limited Share Incentive Scheme and the Sappi Limited Performance Share Incentive Plan (collectively "the Schemes") such shares as may be required for the purposes of the Schemes			
Ordinary resolution number 7 – Non-binding endorsement of Remuneration policy			
Ordinary resolution number 8 – Non-binding endorsement of Implementation report			
Special resolution number 1 – Increase in non-executive directors' fees			
Special resolution number 2 – Authority for loans or other financial assistance to related or inter-related companies or corporations			
Ordinary resolution number 9 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			


Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at

on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the Annual General Meeting or any adjournment thereof.

 * Refer notes to notice of meeting on page 122.

Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the Annual General Meeting proxy form

1. A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
2. The Chairman shall be entitled to decline to accept the authority of the signatory:
 - 2.1 Under a power of attorney, or
 - 2.2 On behalf of a company,

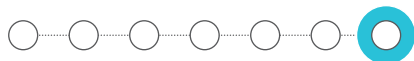
if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
4. When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 05 February 2018 or handed to the Chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.

7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.
8. The Chairman of the Annual General Meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

Summary in terms of section 58(8)(b)(i) of the SA Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation
- A shareholder may revoke a proxy appointment in writing
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder, and
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.



Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements).

Certain factors that may cause such differences include but are not limited to:

- The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- The impact on our business of adverse changes in global economic conditions
- Unanticipated production disruptions (including as a result of planned or unexpected power outages)
- Changes in environmental, tax and other laws and regulations
- Adverse changes in the markets for our products
- The emergence of new technologies and changes in consumer trends including increased preferences for digital media
- Consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- Adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems
- The impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies, and
- Currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.