

# sappi

Inspired by life



## living with sappi

**INTEGRATED REPORT**  
for the year ended September 2014

# about this report

Our Integrated Report for the year ended September 2014 aims to provide a succinct assessment of our strategy in relation to the key opportunities and risks in our markets, our performance against financial and non-financial objectives, and our priorities and expectations for the year ahead.

The scope of this report includes all our operations, as set out on pages 16 to 17. 

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.

## Board approval

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Integrated Report and to the best of its knowledge and belief, the Sappi Limited integrated report for 2014 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 integrated report and authorised it for release on 12 December 2014.

## 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.

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 Johannesburg 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 (SETS) 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 de-listing 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 model relevant to the disclosure in this report, and for the independent auditor's report, please refer to pages 57 to 58 and 91, respectively. 

For important information relating to forward looking statements, refer to the inside back cover. We present this 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 118.





For quick access on your mobile to the Sappi online report scan this QR code.




 INTERACTIVE PRINT	 Download the free Layar App	 Scan this page	 Discover interactive content
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For quick access to the CEO year end results video, scan this Layar icon where it appears.

## Navigation aids

-  Online information
-  Further reading

## Sappi's 3Ps

-  Prosperity
-  People
-  Planet

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

## Financial results and sustainability reports

Latest financial results:

[www.sappi.com/latestfinancialresults](http://www.sappi.com/latestfinancialresults)

Integrated report and group annual financial statements:

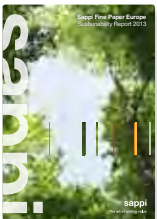
[www.sappi.com/annualreport](http://www.sappi.com/annualreport)



Quarterly results announcements and analyst presentations: [www.sappi.com/quarterlyresults](http://www.sappi.com/quarterlyresults)



Group sustainability report: [www.sappi.com/groupsustainability](http://www.sappi.com/groupsustainability)



## Regional sustainability reports:

In 2014, our European operations published an update to their 2013 report, while our North American and Southern African operations published comprehensive reports.

[www.sappi.com/2014sdrlimited](http://www.sappi.com/2014sdrlimited)  
(available December 2014)

[www.sappi.com/2014sdreurope](http://www.sappi.com/2014sdreurope)  
(available February 2015)

[www.sappi.com/2014sdrnorthamerica](http://www.sappi.com/2014sdrnorthamerica)  
(available February 2015)

[www.sappi.com/2014sdrsouthernafrica](http://www.sappi.com/2014sdrsouthernafrica)  
(available December 2014)

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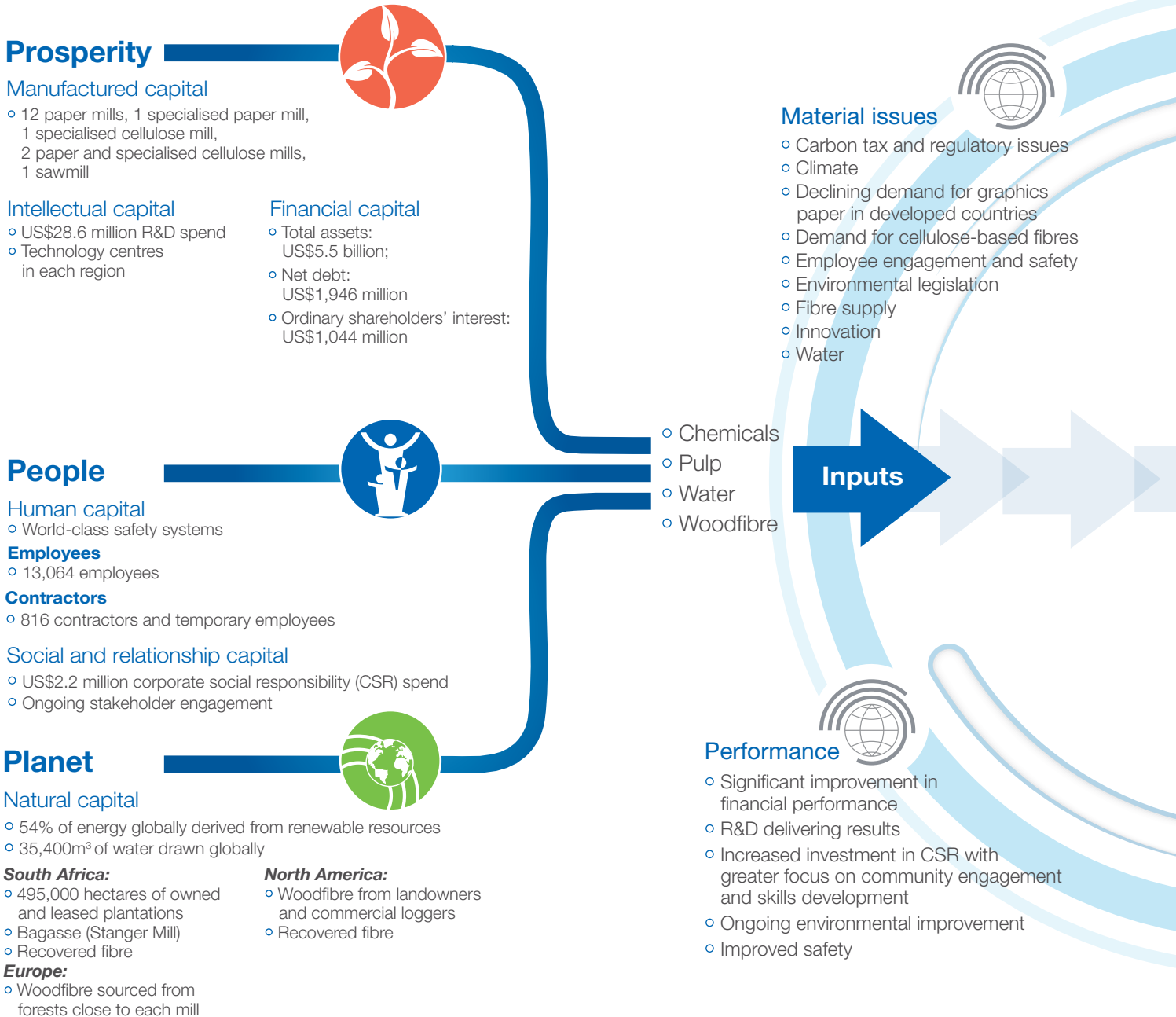
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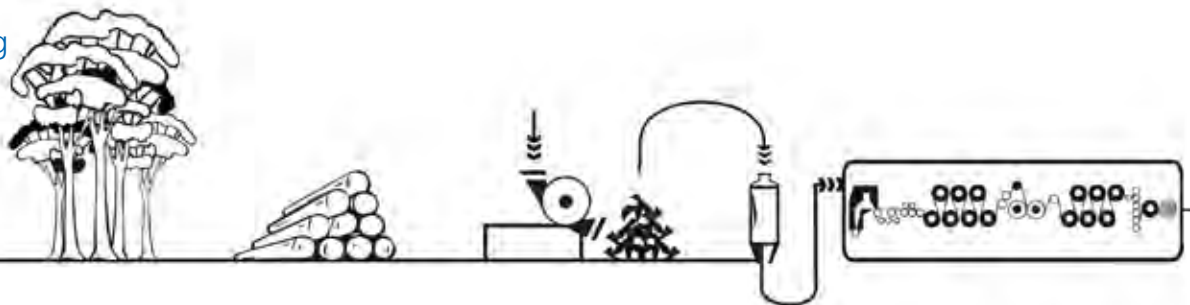
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# sustainable business model

**Our 3Ps:** we have aligned the six capitals model with our long-established approach to sustainable development – the 3Ps of Prosperity, People and Planet.

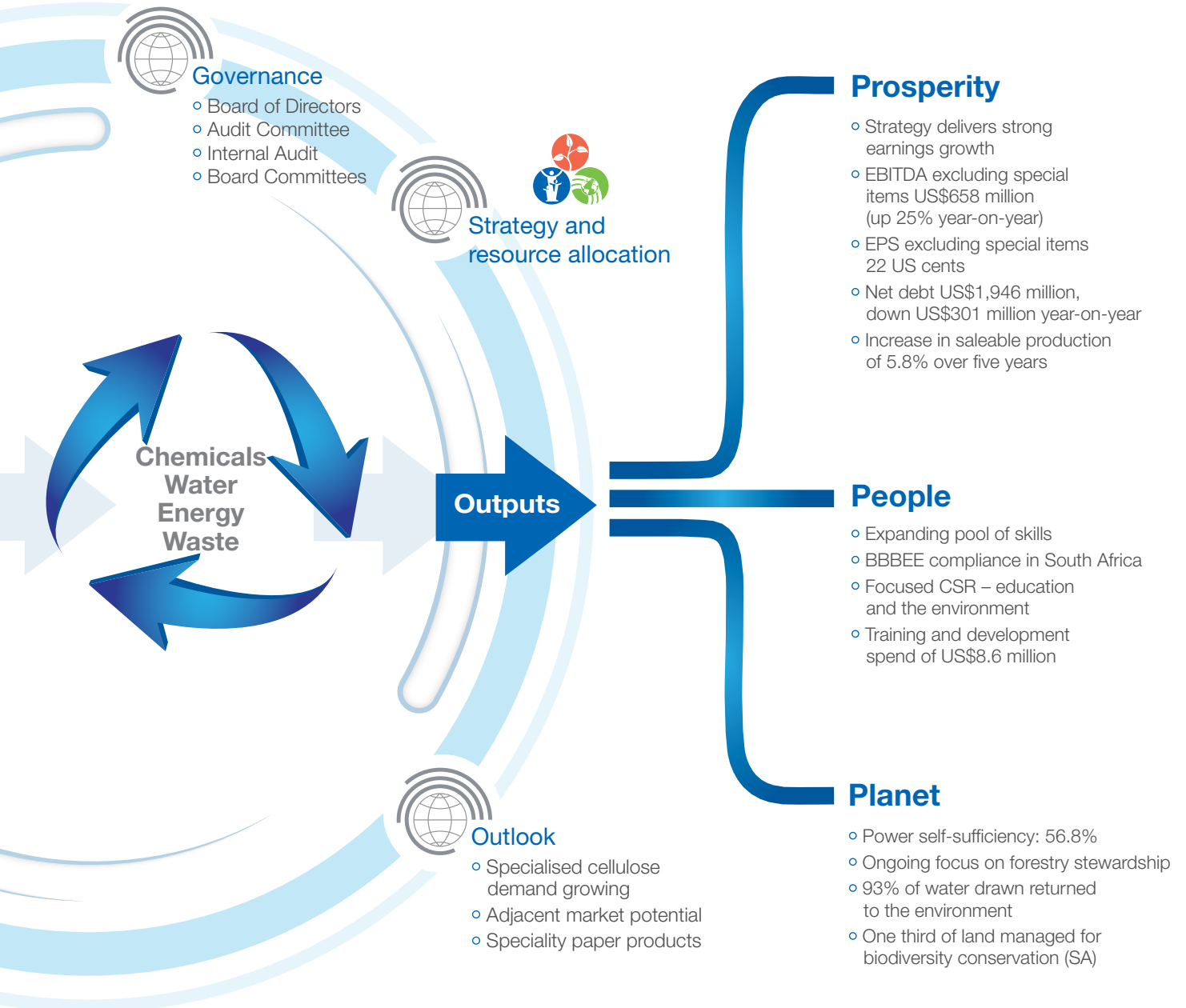


The papermaking and specialised cellulose (dissolving wood pulp) processes

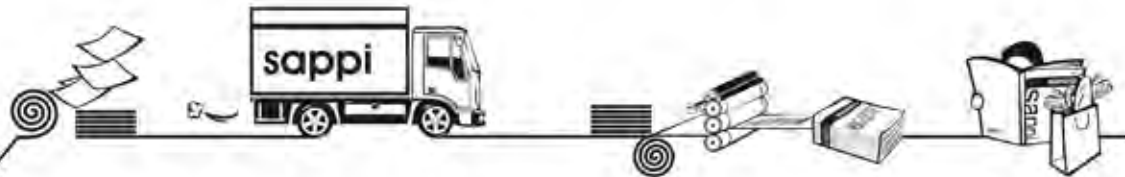


At the heart of our sustainable business model is a natural, renewable resource – woodfibre.

## Outcomes



### Papermaking



### Dissolving wood pulp



# delivery in 2014

## Major themes and actions 2014

## Major achievements 2014

### Grow

existing high margin businesses

- Successful specialised cellulose capacity roll out
- Increased group EBITDA excluding special items by 25%

### Optimise

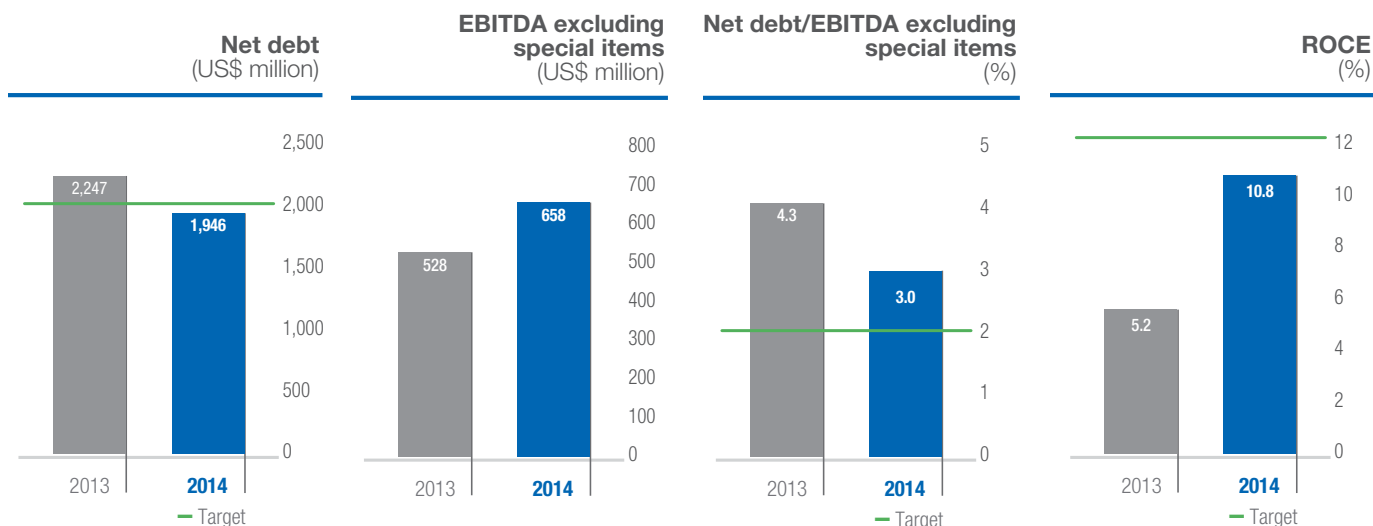
the profitability of the graphic paper business and maximise cash generation

- European graphic paper capacity reduction and improved profitability
- Ongoing cost reductions aiming to remain the lowest cost producer
- Sale of Usutu – generating US\$97 million cash
- Net debt below US\$2 billion

### Develop

complementary industrial businesses

- Successful speciality paper conversion
- Strong packaging paper performance in South Africa



# our strategy in 2015

**Our goal** is to actively transform Sappi into a growing and profitable diversified woodfibre group focused on specialised cellulose, cash generative and profitable paper businesses and other high margin industrial products which will provide value to our customers and wealth to our people and shareholders.

**No radical change in direction in the next two years while preparing for renewed growth**

## Achieve cost advantages

- Continuously improving operational performance
- Optimising energy usage in mills
- Maximising global procurement efficiencies

## Rationalise declining businesses

- Continuously balance graphic paper supply and demand in all regions
- Convert paper machines where possible to higher margin paper business

## Grow through moderate investments

- Growing paper packaging grades
- Growing specialised cellulose product portfolio
- Extracting value from waste

## Generate cash to strengthen balance sheet

- Restructuring debt
- Optimising working capital
- Selling non-core assets

## Accelerate growth in adjacent businesses from a strong base

- Evaluating opportunities in specialised cellulose, packaging and complementary industrial products

# our performance in 2014

Net debt  
**US\$1,946**  
million

Specific emissions  
reduction of  
**12.8% over five years**

EBITDA excluding  
special items  
**US\$568**  
million

**The performance of the group in the past year was pleasing, with our investments in the specialised cellulose business increasing our exposure to higher margin and higher growth markets and contributing significantly to our improved year-on-year performance.**

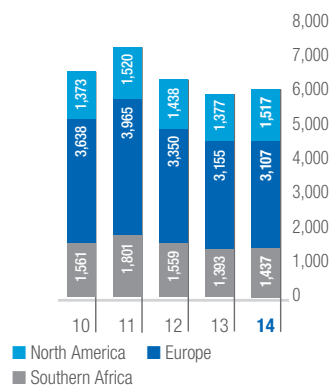
Our European graphic paper business steadily improved during the course of the year, with an intense focus on cost reduction and the execution of our strategy in Europe to deliver sustainable margins starting to deliver the results we expect.

Our North American graphic paper business experienced a difficult year. Industry prices for coated woodfree paper reels declined by as much as 9% over the course of the first nine months, and an extremely cold winter and subsequent

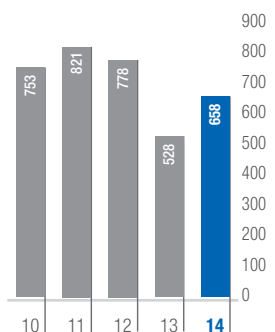
wet start to the spring resulted in higher energy and wood costs. We were also impacted by an unplanned shut at each of the Somerset and Cloquet Mills. With a US\$40 per ton price increase realised in July, actions to reduce fixed costs and a normalisation of many of our variable costs, we began to see a return to the expected levels of performance during the last quarter.

The Southern African business had an excellent year, with the expanded dissolving wood pulp and restructured paper packaging businesses both improving on their prior year performance. Cost containment has been excellent throughout this business and healthy demand and increased pricing levels have contributed to the good returns in this business in the past year.

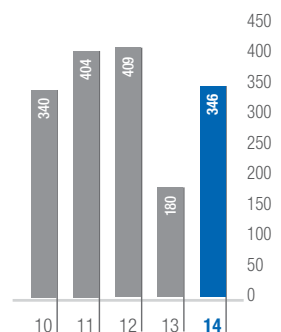
**Sales**  
(US\$ million)



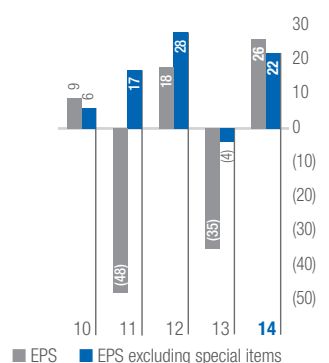
**EBITDA excluding special items**  
(US\$ million)



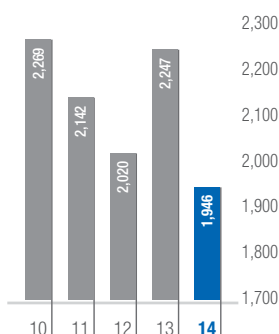
**Operating profit excluding special items**  
(US\$ million)



**EPS and EPS excluding special items**  
(US cents)



**Net debt**  
(US\$ million)

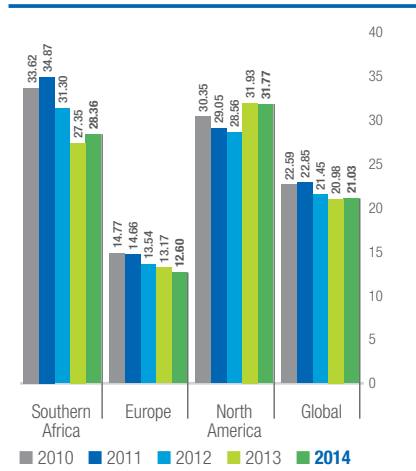




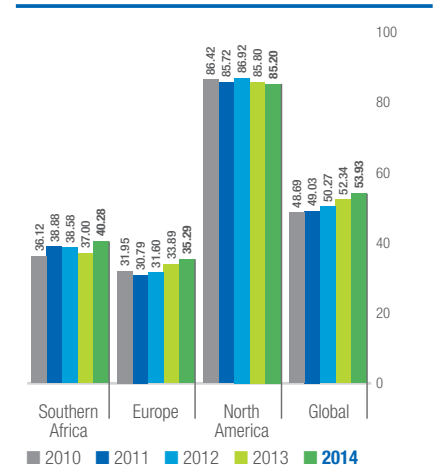
The improved operational performance of the group as a whole and the reduction in capital expenditure following the completion of the two pulp conversion projects at Cloquet and Ngodwana in 2013 led to a decrease in net debt of US\$301 million to US\$1,946 million, meeting our stated aim to reduce net debt to below US\$2 billion by the year-end.

We continue to focus on improving energy efficiency in order to both reduce emissions and lower costs, as well as increasing our proportion of renewable energy. Safety remains an important priority, particularly as to the severity of injuries, and this past year saw a pleasing reduction in the injury severity rate of both our own and contractor employees and no fatalities.

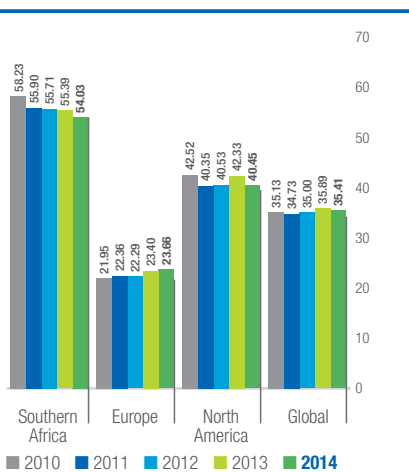
**Specific total energy**  
(GJ/adt)



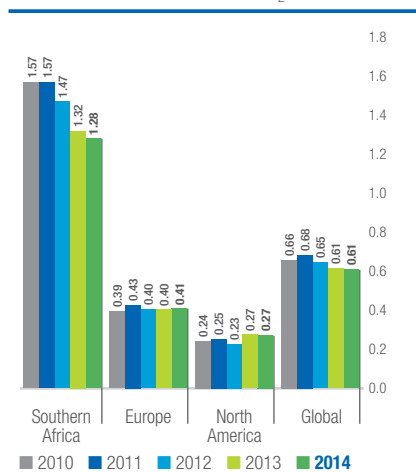
**Renewable energy**  
(%)



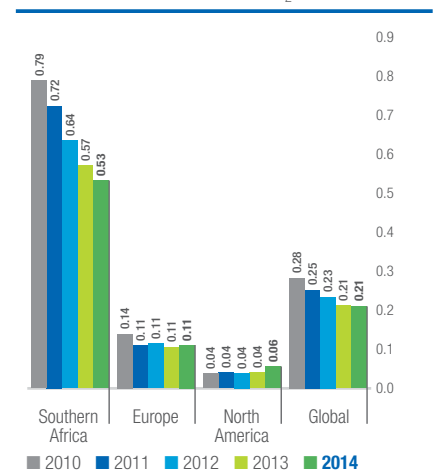
**Specific total process water extracted**  
(m<sup>3</sup>/adt)



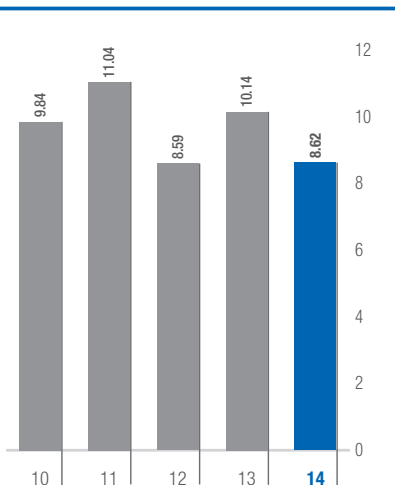
**Specific scope 1 emissions**  
(t CO<sub>2</sub>/adt)(fossil only)



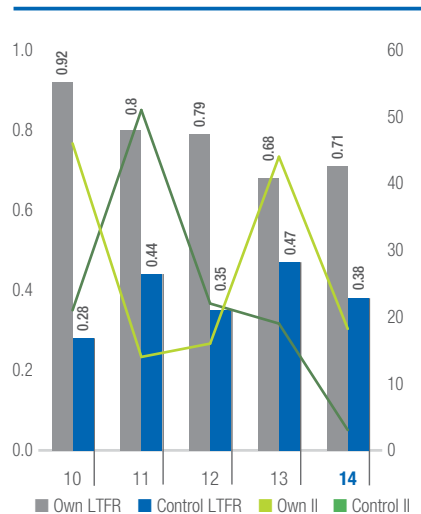
**Specific scope 2 emissions**  
(t CO<sub>2</sub>/adt)(fossil only)



**Training and development spend**  
(US\$ million)



**Lost time injury frequency rate and injury index 2010 – 2014**



# letter to the stakeholders

## from the Chairman and Chief Executive Officer

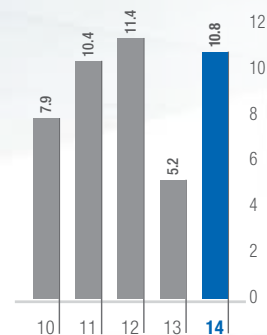
The year has been successful for Sappi and we delivered on the promises we made a year ago. All regions achieved notable successes with cost reduction and efficiency programmes, as well as with actions to boost cash generation.



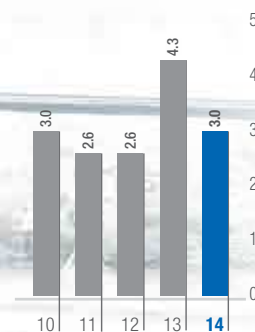
**Steve Binnie**  
Chief Executive Officer

**Danie Cronjé**  
Chairman

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



Net debt to EBITDA excluding special items (times)



See instructions on inside front cover

## Operating review

The year has been successful for Sappi and we delivered on the promises we made a year ago. The business has returned to bottom-line profitability and EBITDA excluding special items increased by 25% to US\$658 million. We have reduced debt below our target of US\$2 billion.

All regions achieved notable successes with cost reduction and efficiency programmes, as well as with actions to boost cash generation. In 2013 we utilised cash of US\$247 million, but in 2014 we turned this around to generate US\$243 million. This included the sale of non-core assets at Usutu forests and the disposal of Nijmegen Mill. Our European and South African businesses had significantly improved results, and our North American business ended the year strongly after a tough start.

Our European business recovered from a difficult 2013, mainly as a result of cost cutting initiatives and efficiency gains. Industry demand for coated woodfree paper was better than anticipated, but the coated mechanical markets continued to struggle. Towards the end of the year, we disposed of our Nijmegen Mill and this will assist us in achieving further fixed cost reductions in the year ahead. The conversion of Alfeld PM2 to speciality paper grades was completed in the first quarter. By year-end, this business had made significant strides in qualifying products with customers and had generated increased order flow. This should add further impetus to European profits in the future.

In North America, we experienced significant downward pressure on pricing due to extremely competitive market conditions. There were a number of once-off negative impacts, including a very cold winter, which increased energy, logistics and wood costs. Both Cloquet and Somerset pulp mills were impacted by an unplanned stoppage during the year. Although dissolving wood pulp productivity

at Cloquet was very good, lower prices impacted the financial performance. With depressed Chinese dissolving wood pulp prices not expected to recover in the short term, we plan to take advantage of the mill's ability to swing production periodically and produce kraft pulp for our own consumption. The business returned to profitability in the last quarter as a result of increased prices for coated reels products, and other actions taken to reduce costs. Accordingly, we remain optimistic that this business can continue to improve margins in the year ahead.

The Southern African paper business had an excellent year. A significant number of actions have been taken to reduce costs, improve efficiencies and narrow the product offering. Local demand for packaging grades was stronger as a result of the reduced competitiveness of competing imported products. In addition, we were able to raise prices in order to offset those cost components that were affected by a weaker Rand/Dollar exchange rate. We will be making additional investments in our packaging business and reducing our exposure to graphic paper in the coming year to further improve the profitability of the business.

This was the first full year of operation after the conversion of the pulp mills at Cloquet and Ngodwana in 2013. The ramp up of production and the weaker Rand/Dollar exchange rate, led to a 34% increase in EBITDA excluding special items from our specialised cellulose business. In 2014 this business delivered 46% of the group EBITDA excluding special items, and 70% of the group's operating profit excluding special items. Dollar-based prices of dissolving wood pulp declined throughout the year, and we expect further pricing pressure in the coming year.

However, we are confident that as a result of our low cost competitive position and the margin relief provided by the generally weaker Rand/Dollar exchange rate, we will be able to maintain good margins in this business in the coming year.

Our European and South African businesses had significantly improved results, and our North American business ended the year strongly after a tough start.

Safety of our people is a priority for us and we work hard to create a culture and an environment which minimise injuries. Most importantly, there were no fatalities in the past year.

## Strategic review

During the course of the year, we refined our strategy and still remain firmly focused on improving profitability, cash generation and growth. Our strategy encompasses three main objectives:

- **Achieve cost advantages** – We will continue to work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages.
- **Rationalise declining businesses** – Recognising the decreasing demand for graphic paper, we will manage our production capacity to strengthen our position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
- **Moderate investments in growth opportunities** – We will make further investments in existing areas with strong growth potential, including pulp, speciality grades and packaging papers.

In accomplishing these objectives, we will generate cash to strengthen the balance sheet in order to reduce risk and improve our strategic flexibility. This in turn will allow us to accelerate growth in adjacent businesses from a stronger base.

# letter to the stakeholders

## from the Chairman and Chief Executive Officer continued

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

### Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to improving margins, particularly in the graphic paper business, where lower demand and prices have placed pressure on revenue levels. The past year saw the implementation of a number of cost reduction initiatives in all three of our operating regions. In North America, the investment in natural gas energy at the Somerset Mill and the 5% reduction in workforce will enable the business to improve margins going forward.

In Europe, we have ongoing and wide ranging cost saving and efficiency programmes in place. We are also investing in a multi-fuel boiler and turbine at the Kirkniemi Mill to lower energy costs.

We continue to optimise our product portfolio in South Africa to focus on those categories where we have a cost competitive position.

At the group level, we have identified opportunities to lower procurement and logistics costs. We are also investigating the possible benefits of groupwide shared service centres.

### Optimise and rationalise declining businesses

Graphic paper demand in Europe and North America has been in decline since 2009. Maintaining operating rates and lowering costs, in order to maximise cash generation, has long been our strategy in these markets. In North America, our cost competitive manufacturing facilities, consistent and reliable supply chains and our excellent service to our customers, has allowed us to increase market share and maintain volumes throughout this period of decline.

In Europe, our response has been to steadily exit higher cost production capacity, and to transfer paper production to the remaining paper mills in Europe. For example, during 2014 we disposed of the Nijmegen Mill, thereby reducing fixed costs and lowering the average production cost. The key is to anticipate future declines in graphic paper demand and react timeously to these. We are also investing in the pulp mill and PM11 at our largest and lowest-cost coated woodfree mill, Gratkorn, in order to widen the product range capabilities of the mill. This will allow for further fixed costs savings in future.

In South Africa, graphic paper production is not viable given the scale of the local market, and office papers are currently not cost competitive. We will therefore be rationalising the product portfolio in South Africa, ceasing the production of coated papers, moving office paper production to an integrated mill and producing more locally sourced, waste-based packaging papers.

### Moderate investments in growth opportunities

Reducing our debt in order to lower risk and improve returns to shareholders has been the primary focus over the past year, and will continue to be so in the future. However, we are constantly looking for opportunities to make moderate investment in growth areas that promise improved margins and returns.

The investment in the conversion of a coated woodfree paper machine to speciality packaging grades at Alfeld Mill has had a prolonged start-up curve as we ran more than 1,000 trials to qualify our products with customers. The profitability of this machine is now improving rapidly and we will increase our footprint in this higher margin and growing segment of the market.

The heightened focus on packaging in South Africa, particularly on light-weight, waste-based packaging papers is a further example of our investment into growing markets. Concerns about climate change, recycling and the environment are encouraging growth in this packaging segment.

Over the next two years, we will also be investigating and evaluating the various opportunities available to us in near and adjacent businesses that rely on forest products for their inputs. These may include further opportunities in dissolving wood pulp and cellulose, as well as paper-based packaging.

As mentioned previously, strengthening the balance sheet is an important prerequisite in order for Sappi to make moderate investment in growth businesses. To this end, we sold the Usutu forestry operations for approximately US\$97 million, and could potentially sell further softwood plantations in South Africa that are surplus to our requirements.

At the group level we are also focused on optimising our working capital management, containing capex to below US\$300 million, and repaying and refinancing debt when possible in order to lower risk and interest costs. At current market levels an opportunity exists to substantially lower the interest expense related to our European bonds.

### Looking forward

Markets will remain challenging, both for graphic paper, where demand is expected to continue to decline, and for dissolving wood pulp due to current pricing pressures. In the dissolving wood pulp market demand remains robust. Dollar prices have weakened post the financial year due to pressure from lower cotton prices and the continued oversupply of dissolving wood pulp and viscose staple fibre production capacity.

Cloquet Mill will likely take advantage of its ability to swing between dissolving wood pulp and hardwood paper pulp production to optimise margins for the US business. Volumes with key dissolving wood pulp customers will not be impacted by any such optimisation. We will continue to focus on cost management in order to maintain our current margins for our overall specialised cellulose business.

Currency movements affect margins in our European and Southern African businesses, having both transactional and translational impacts. A weaker Rand and Euro in relation to the US Dollar both support local and export pricing for these businesses, historically more than offsetting any input cost impact of the weaker currency.

Capital expenditure in 2015 is expected to be in line with that of 2014, and focused largely on the investments at our Kirkniemi and Gratkorn Mills.

Based on current market conditions, we believe that EBITDA excluding special items in the 2015 financial year will be broadly similar to that of 2014. The expected improvement in the underlying operational performance of the paper businesses will be offset by lower Dollar dissolving wood pulp pricing and the impact of the projects at Gratkorn and Somerset.

We are considering utilising our increased cash balances to repay and refinance a portion of our debt in order to lower future costs. We typically experience a cash outflow in our first fiscal quarter and this will lead to an increase in net debt as at the end of December 2014. Nevertheless, we expect to reduce our net debt further over the course of the year and to reduce our financial leverage towards our target of two times net debt to EBITDA.

#### Appreciation

Our wide groupings of stakeholders contributed in many ways to our development and performance in the past year. We are appreciative of their ideas, constructive criticism and support which guided our thinking and actions.

To our customers who have supported us in all of our different markets, and with whom we continue to work together in order to provide relevant products and services which provide sustainable value to all parties, we thank you.

Our employees have continued to demonstrate belief in our strategy and were very supportive in the transition to the new leadership. The initiative and resourcefulness of our people make it

possible to believe that we can continue to improve the underlying performance of the group in 2015. We also thank them for their dedication and hard work.

Our gratitude goes to the board for their continued commitment to the group, their valuable insights and encouragement.

We expect to reduce our net debt further over the course of the year and to reduce our financial leverage towards our target of two times net debt to EBITDA.

Ralph Boëttger, who led the group through some difficult times, elected to relinquish his position as CEO due to serious illness. Over the years, Ralph was passionate about transforming Sappi and made great strides towards achieving this objective. Unfortunately, he has left at a time when his

work was still incomplete, but his legacy will still be with us. We thank him for his inspirational leadership and wish him well for the future.

In conclusion, we value the support which our shareholders provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the Annual General Meeting on 11 February 2015.

**Steve Binnie**  
Chief Executive Officer

**Danie Cronjé**  
Chairman

# q&a with the ceo

Hard work, commitment, dedication and going the extra mile are character traits regularly displayed by people at Sappi. Looking further, the company has great assets, leading market positions and clear opportunities to diversify and grow.



**Steve Binnie**  
Chief Executive Officer

**Q: Steve, you are now five months into your new role as CEO, what are your immediate observations?**

**A:** At my first staff event as CEO, I commented that Sappi is a great company, which makes it truly an honour and privilege, but also humbling to be given this opportunity. Originally I came to Sappi because it is an iconic brand, a well-known business with good long-term prospects and new opportunities for future growth. Having been at Sappi for two years there were many things that attracted me to the CEO role. We've been through tough times, but there's a high level of optimism that prevails across the business. Hard work, commitment, dedication and going the extra mile are character traits regularly displayed by people at Sappi. What continues to impress me, visiting our operations, is the positivity of the people. Despite the challenges of the past few years, people are still keen to look for new ideas and opportunities. Also, I'm really excited by the depth and quality of staff. There are a lot of smart people working on the technical and operational side, and this bodes well for our future. Looking further, the company has great assets, leading market positions and clear opportunities to diversify and grow.

**Q: What factors are influencing the pricing and demand trends in the dissolving wood pulp market and how do these affect the outlook for your specialised cellulose business?**

**A:** The primary end-use for our dissolving wood pulp (DWP) is the textile market, traditionally dominated by polyester and cotton. Viscose Staple Fibre (VSF), the textile produced from DWP, competes for market share with cotton as these two cellulose-based textiles offer moisture management properties necessary in textile blends containing polyester. Intense competition within the VSF market and lower cotton prices over the course of the year have led to lower VSF prices and hence reduced profitability for VSF

producers. This has led to pressure on DWP producers to lower their prices in order to maintain volumes. Demand growth for VSF, and therefore DWP, continues to be linked to the growth in the overall textile market. In the past year this has led to growth of approximately 5% over the prior year. Our mills remained fully sold over the past year, and our long-term supply contracts and excellent relationships with our customers give us confidence that we can continue to keep our mills fully occupied. Our priority is to steer through the short-term challenges, preserve our market leadership position and maintain strong relationships with key customers.

**Q: What do you see as the strengths of Sappi and what makes you believe you can overcome the challenges of a paper market in decline?**

**A:** The talented people who work for Sappi give me lots of confidence that we can be successful. Our clear and focused strategy will also ensure that the entire team is aligned. Cash flow is the number one priority and will guide all investment, capital allocation and asset suitability decisions. Sappi generates significant cash each year and this provides flexibility to withstand the negative impacts from declining paper demand and allows moderate investments in growth businesses. We also have a suite of world-class assets such as Saiccor, Ngodwana, Gratkorn, Kirkniemi, Somerset and Cloquet Mills and importantly our forests in South Africa.

Our market leadership position and low-cost DWP mills will enable Sappi to steer through the short-term pricing pressures and also provide a platform to grow the business in the long term.

More specifically to the challenges of a paper market in decline, we have a strong cost position in North America and have the flexibility in Europe to respond to the market, irrespective of how that may develop, over the next few years. This flexibility lies in the number of mills and

paper machines we have, the range of products we produce and the innovation and applications we have brought to bear in reducing our costs.

**Q: What concerns you in the year ahead?**

**A:** While we have a very good cost position in DWP, it is apparent that cotton and viscose prices are, and may continue for some time to be, unsustainably low. This has placed enormous pressure on our DWP customers, leading to declining Dollar prices for DWP over the past year. We expect further price pressure in the coming year, with the result that the manufacture of some paper pulp for own consumption becomes more profitable than DWP, particularly at the Cloquet pulp mill. While this offers an opportunity to improve the profitability of our North American business, it does mean that overall EBITDA margins for the specialised cellulose business are likely to be closer to 25% rather than 30% as they have been for much of the past few years. These are acceptable margins, and fully justify our investment in the expansion of our DWP capacity. Demand fundamentals remain favourable, and we believe that the longer term outlook for this important part of our business remains excellent.

The volatility of exchange rates will also be a factor for our global business. Fortunately, in the short-term we anticipate a stronger Dollar with a weaker Euro and Rand. This will benefit both Sappi's profitability and indebtedness and will help cushion the impact from lower Dollar DWP prices.

Lastly, in a heavy manufacturing industry, safety of our employees and contractors remains a priority, and making sure all of the people who work on our sites get home safely each evening is a constant focus.

**Q: How does managing a business sustainably differ from managing just for profit? What are the similarities?**

**A:** In order to manage a business sustainably you clearly need to consider a wider range of factors than purely financial, and you also need to consider a broader range of stakeholders, beyond just your shareholders. The time interval over which the company's impacts and contributions should be measured is also much longer than just the current quarter or financial year. Maximising financial and social returns over a prolonged period with the minimum of cost to, or impact on, the environment and people is what we strive for. The similarities lie in that once you extend the time horizon, you usually find that by managing sustainably you are maximising profit.

**Q: How did you arrive at the target of net debt to EBITDA of two times? Why not lower, or higher?**

**A:** Paper companies have historically had relatively high levels of debt, partially because of the high cost of pulp and paper manufacturing assets, but also as the cash generated from operations made the cost and funding of debt attractive relative to equity. With the decline in demand for graphic paper products over the last six years, the resultant cost of exiting high cost paper manufacturing capacity and the decline in revenues from the paper business, high levels of debt are no longer desirable nor can they be justified. Equally

important though, is investment into higher growth and higher margin businesses in order to generate returns for shareholders and to pursue sustainable investment opportunities in the forest products and related markets.

In order to manage a business sustainably you also need to consider a broader range of stakeholders, beyond just your shareholders.

The net debt to EBITDA target of two times allows for moderate investments in growth within two to three years while also substantially reducing the cost of debt and reducing the risk to the business of being both operationally and financially geared.

**Q: What trends are shaping the graphic paper markets at present?**

**A:** Firstly, in North America you have industry consolidation throughout the value chain, with the merger of paper manufacturers, merchants as well as printers and publishers. Secondly, there is a continuing wave of paper mill closures in both North America and Europe to address industry overcapacity. Both of these trends help drive lower overall costs in an effort to address low margins in the industry. Lastly, and this may be a short or long-lived phenomenon, is the shift in currencies we have seen over the past three months. This influences raw material costs, competitiveness of the different currency regions and in the graphic paper industry has also historically had a marked effect on paper pricing. In general, we prefer a stronger Dollar compared to the Rand and Euro across our mix of businesses.



# Living with paper

and cellulose





→ Paper is used in thousands of applications every day – tough enough to withstand acid or soft enough to use on a baby's skin

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→ Sappi helped launch two new branches (in Brazil and South Africa) of the Two Sides campaign which fights anti-paper messaging

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→ Paper offers us a sensory experience no other communication medium can replicate

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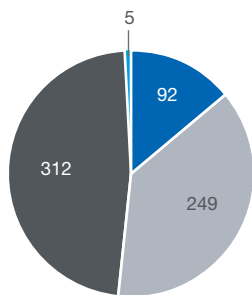
→ Integrated communication campaigns using a combination of print and digital communications, increase revenue four times and profits six times over non-integrated campaigns\*

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\* "Creating Value through Orchestrated Marketing Campaigns," by David Daniels, The Relevancy Group, LLC

# our businesses

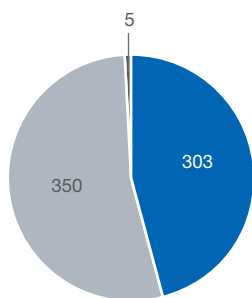
Sappi is a global company focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 100 countries. We produce approximately 5.7 million tons per year of paper, 2.4 million tonnes per year of paper pulp and 1.3 million tonnes per year of dissolving wood pulp.



**EBITDA excluding special items**

2014: US\$658 million

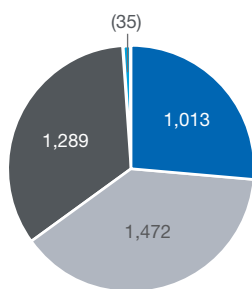
- North America
- Europe
- Southern Africa
- Unallocated and eliminations



**EBITDA excluding special items by product**

2014: US\$658 million

- Specialised cellulose
- Paper
- Unallocated and eliminations



**Segmental assets**

2014: US\$3,739 million

- North America
- Europe
- Southern Africa
- Unallocated and eliminations

**25%**  
of group sales

## sappi North America

- 1 Paper mill
- 1 Speciality paper mill
- 1 Paper and specialised cellulose mill
- 4 Sales offices

Our dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products in the Southern Africa region.

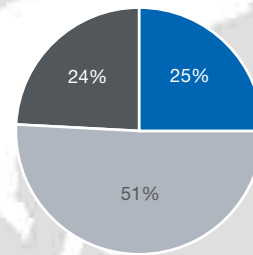
The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.



**sappi**  
**Europe**  
7 Paper mills  
16 Sales offices

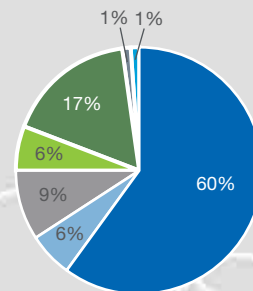


**sappi**  
**Southern Africa**  
4 Paper mills  
1 Paper and specialised cellulose mill  
1 Specialised cellulose mill  
1 Sawmill  
4 Sales offices  
495,000 ha forests



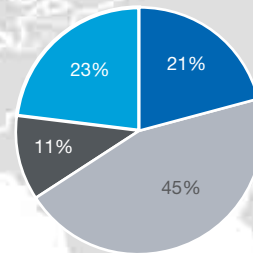
**Sales by source**  
2014: US\$6,061 million

- North America
- Europe
- Southern Africa



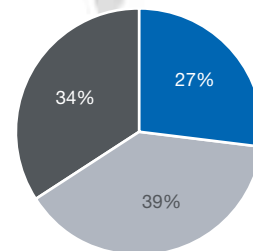
**Sales by product**  
2014: US\$6,061 million

- Coated paper
- Uncoated paper
- Speciality paper
- Commodity paper
- Dissolving wood pulp
- Paper pulp
- Other



**Sales by destination**  
2014: US\$6,061 million

- North America
- Europe
- Southern Africa
- Asia and other



**Net operating assets**  
2014: US\$3,774 million

- North America
- Europe
- Southern Africa

Excludes US\$35 million net liability relating to corporate

**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** Bogota, Hong Kong, Johannesburg, Mexico City, Nairobi, Sao Paulo, Singapore, Shanghai, Sydney, Vienna

**Logistics offices** Durban, New York

# our businesses continued

## Europe and North America

Printed communication remains effective, cost-efficient and powerful in delivering messages to and eliciting actions from target audiences. Printers use Sappi's coated graphic paper because of its reliable quality, excellent service and the technical support we provide.

Publishers, advertising agencies, designers and corporate end-users benefit from Sappi's innovations, sustainable practices and quality products when choosing our paper for their calendars, catalogues, brochures, books, premium magazines, direct mailings and annual reports.

Converters and end-use customers rely on our coated and uncoated speciality paper, such as paper used in flexible packaging and release paper used in the manufacture of synthetic leather and decorative laminate products.

Sappi also produces dissolving wood pulp in North America, a product made from wood and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, cellophane wrap for sweets and flowers, pharmaceutical and household products, and make-up such as lipstick. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production from our mill at Cloquet.

Our range of uncoated graphic and business papers, our technical support services and research and development facilities, as well as our excellent service and close interaction with our customers across the globe, ensures that we help our customers meet their business objectives.

The Sappi group, including Southern Africa, is approximately 97% economically integrated in terms of pulp purchases and sales. On a regional basis, we purchase slightly less than half of the pulp requirements in Europe, are net sellers of pulp in North America and net sellers in Southern Africa.

### Europe

The performance of the European business improved throughout 2014 as a multitude of cost cutting and efficiency programmes led to increased margins despite the ongoing decline in graphic paper demand as a result of the weak local economy and substitution towards digital media. The return to an operating profit, and the achievement of an EBITDA excluding special items margin of more than 10% during the fourth quarter was pleasing against this market backdrop.

Variable costs decreased by 4% compared to the prior year. This was as a result of the various actions and generally lower commodity prices, and fixed costs were 6% lower.

Sales volumes were 2% lower than last year despite increased speciality sales volumes from the expanded Alfeld Mill, and were particularly adversely affected by the coated mechanical markets, for which shipments declined by 5% over the course of the financial year. Sales volumes were also impacted by the disposal of Nijmegen Mill at the end of the third fiscal quarter and the transition agreement that allowed the new owner of the mill to produce 52,000 tons of coated woodfree paper. The transition volume was largely complete by the end of the financial year and the coated woodfree paper volumes produced by Nijmegen Mill will be allocated to our remaining mills going forward.

Net sales prices of coated paper declined by 3 – 4% compared to the prior year. A price increase was, however, announced for coated woodfree paper volumes for new orders placed in September and early indications are that some price relief can be expected in the new financial year. Prices in Europe and the export market have historically been correlated to the Euro/ Dollar exchange rate, with a weaker Euro supporting paper prices in the woodfree papers' sector.

The conversion of PM2 at Alfeld Mill was completed in the first fiscal quarter and

has reduced our exposure to the declining coated woodfree market and allowed us to increase sales into the growing and higher margin speciality paper segment. The qualification for and growth into the speciality segment was slower than originally planned, but the last quarter of the financial year saw significant progress made in increasing sales volumes, lowering costs and improved quality. We expect this mill to contribute towards further improvement in the operating performance of the business in the coming year.

The €120 million investment in our world-class mills at Gratkorn and Kirkniemi to substantially lower the cost base have commenced and will allow us to move towards our stated aim of being the lowest cost coated graphic producer in Europe. We also continue to look for further areas of improvement and towards the end of the year announced the restructuring of various positions at several mills and overhead departments to further reduce costs, and the charges related to these actions have been taken in the current year. During the year the Shared Service Centre in Krakow was further expanded to take over a number of procurement and planning functions. This move created further cost savings and efficiency improvements.

### North America

The North American business ended the year positively after a challenging first nine months. The cold winter and subsequent wet spring impacted not only energy costs, but also wood costs in the regions in which we operate, as the usual wood inventory build during the winter and early spring was not possible, leading to wood supply constraints throughout the year. Also, our Cloquet and Somerset pulp mills each experienced an unplanned stoppage during the year due to unforeseen mechanical and operational issues.

The increased purchases of hardwood paper pulp as a result of the conversion to dissolving wood pulp at the Cloquet pulp mill placed additional cost pressures

on the coated paper business. This was not fully offset by the dissolving wood pulp sales due to lower prices, along with the imposition of anti-dumping duties by Chinese authorities on all Canadian, US and Brazilian dissolving wood pulp producers, which meant that Cloquet had to supply non-Chinese customers, thereby incurring additional costs for logistics associated with doing so.

Lastly, and most importantly, overcapacity in the US coated reels market led to significant price decreases on coated woodfree reels during fiscal 2014. Uncertainty relative to the consolidation and potential consolidation at the distributor, printer and producer levels may have also contributed to the pricing decline, which was only arrested in the fourth quarter after a US\$40 per ton price increase was implemented in July.

The casting release business had a mixed year. The Chinese market was weaker throughout the year than expected, but most other markets were better. Overall volumes were slightly lower than those in 2013, though prices were slightly better.

### Looking forward

Demand for coated paper in our major markets is expected to continue to be impacted by the secular demand impact of electronic media as well as the general economic environment and advertising spend. While we, like others in the industry, continue to address excess coated graphic paper capacity, it is likely that the current oversupply situation will persist for some time to come as the cost of closing capacity is particularly onerous in many countries, particularly where the ability to transition volumes to remaining mills is not possible or feasible. We continue therefore to base our forecasts and strategies on declining demand of around 2% and 5% in the North American and European markets respectively, and that prices over time will continue to come under pressure unless currency movements assist. We will therefore continue to lower costs, improve efficiencies and reduce high cost capacity over time, particularly in Europe.

Hardwood pulp prices in Dollars declined throughout the year as new hardwood paper pulp capacity was brought to market, but prices have stabilised over the most recent period and may rise in the

short term. Over the full year we expect Dollar prices for hardwood and softwood (NBSK) to remain flat compared to 2014. The weaker Euro/Dollar exchange rate does place pressure on our European business which purchases approximately half of its pulp requirements. We will be producing some hardwood paper pulp for our own requirements at Cloquet Mill in the coming year, and this will help improve the margins of the US paper business.

We expect the European business to benefit from further cost reductions, through the disposal of the Nijmegen Mill and the improved performance of the Alfeld Mill in the coming year. This will more than offset the negative impact of the extended downtime required at Gratkorn Mill to complete the upgrade to the recovery boiler and PM11.

A further price increase for coated woodfree reel products in our North American business was announced in October 2014. This, along with continued focus on costs, should allow this business to improve margins and operating profit in 2015.



# our businesses continued

## Europe and North America continued

### Europe



Mills	Products produced	Capacity ('000 tons per annum)		Employees
		Paper	Pulp	
Alfeld Mill	Bleached chemical pulp for own consumption		120	
	Coated and uncoated speciality paper, uncoated woodfree paper <sup>(1)</sup>	270		
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		140	
	Coated woodfree paper	275		
Gratkorn Mill	Bleached chemical pulp for own consumption		250	
	Coated woodfree paper	1,000		
Kirkiemi Mill	Bleached mechanical pulp for own consumption		330	
	Coated mechanical paper	760		
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		170	
	Coated mechanical paper, coated woodfree paper	510		
Maastricht Mill	Coated woodfree paper	280		
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		160	
	Coated woodfree paper, uncoated woodfree paper	445		
<b>Total Europe</b>		<b>3,540</b>	<b>1,170</b>	<b>5,246</b>

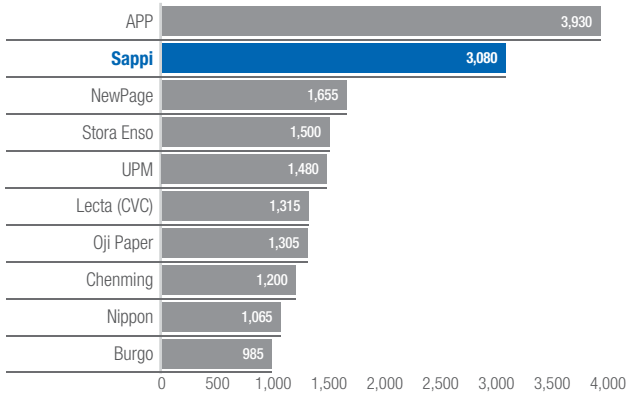
<sup>(1)</sup> We have converted our PM2 at the Alfeld Mill from coated woodfree production to speciality packaging paper production. This conversion resulted in a reduction of 150,000 tons per annum of coated woodfree production capacity and the addition of 100,000 tons per annum of speciality packaging paper production.

### North America



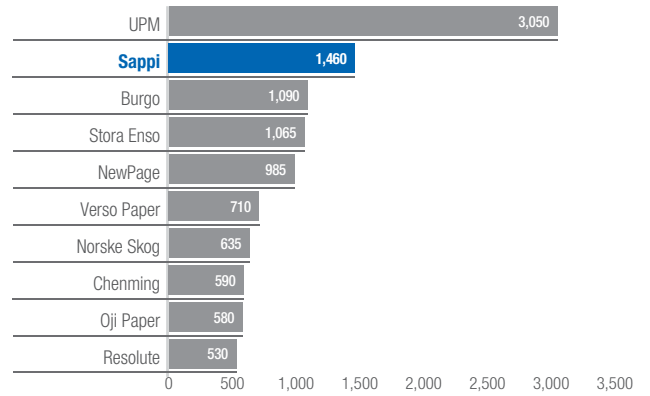
Mills	Products produced	Capacity ('000 tons per annum)		Employees
		Paper	Pulp	
Cloquet Mill	Dissolving wood pulp		330	
	Coated woodfree paper	330		
Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525	
	Coated woodfree paper	790		
Westbrook Mill	Coated speciality paper	40		
<b>Total North America</b>		<b>1,160</b>	<b>855</b>	<b>2,097</b>

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



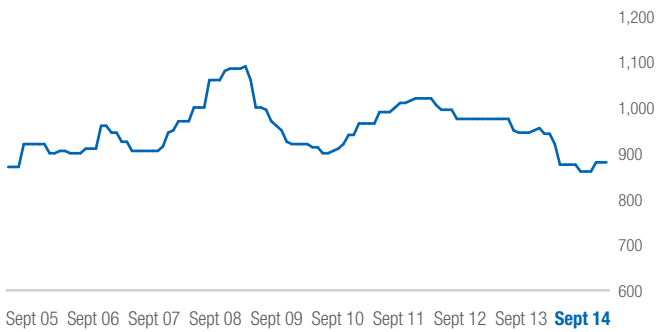
Source: EMGE World Graphics Paper Report, September 2014

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



Source: EMGE World Graphics Paper Report, September 2014

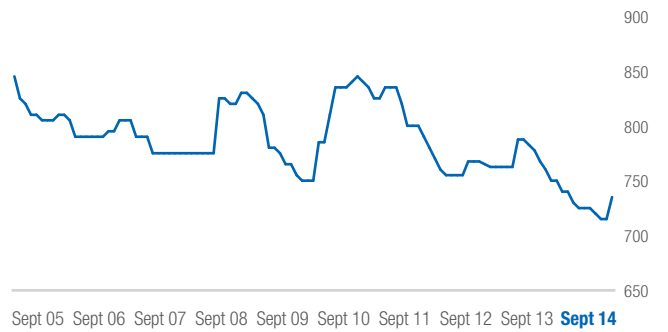
**Coated free sheet #3 60lb rolls**  
(US\$/short ton\*)



Sept 05 Sept 06 Sept 07 Sept 08 Sept 09 Sept 10 Sept 11 Sept 12 Sept 13 **Sept 14**

\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: RISI

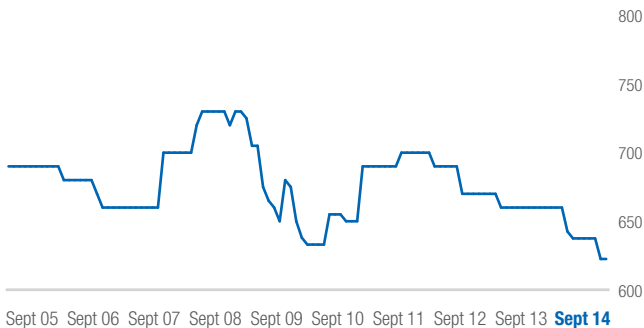
**Coated woodfree prices – 100g/m<sup>2</sup> sheets Germany**  
(Euro/metric ton\*)



Sept 05 Sept 06 Sept 07 Sept 08 Sept 09 Sept 10 Sept 11 Sept 12 Sept 13 **Sept 14**

\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: RISI

**Lightweight coated 60g/m<sup>2</sup> offset reels**  
(Euro/metric ton\*)



Sept 05 Sept 06 Sept 07 Sept 08 Sept 09 Sept 10 Sept 11 Sept 12 Sept 13 **Sept 14**

\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: RISI

# our businesses continued

## Southern Africa

Sappi has a tradition of innovating and developing new products to meet local demand for newsprint, coated and uncoated fine paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper (bag grades for sugar and the fast food industry).

Sappi also produces dissolving wood pulp, a product made from wood from our plantations, and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, cellophane wrap for sweets and flowers, pharmaceutical and household products, and make-up such as lipstick. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in South Africa.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations on 495,000 hectares. This equates to more than 29 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council™ (FSC™)\* and ISO 9000 certified. Approximately 140,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

We have identified investment in low-cost wood as both a growth driver and a strategic resource in order to supply our operations and to secure our margins in competitive commodity markets, such as dissolving wood pulp. To this end we continue to work with local government

and communities to accelerate afforestation in KwaZulu-Natal and the northern region of the Eastern Cape. This development not only provides one of the only sources of income and jobs to these local communities, but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps. Where plantations and wood resources do not fit in with our current strategy in Southern Africa we may look to unlock value via disposal.

The past winter was the most difficult fire season in recent years, with dry and abnormally warm weather prevalent in our main forestry regions. A total of 2,575 hectares of plantation were lost to fire in 2014, compared to an average of 626 hectares during the past five years. We continue to invest in protecting our plantations against fire, using modern identification, alarm and response technology, as well as continued engagement with the communities in and around our plantations. Our staff continue to play key roles in the provincial and local fire protection associations.

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

The specialised cellulose business in South Africa comprises our Saiccor Mill and the newly built fibre line 3 at Ngodwana Mill, which commenced dissolving wood pulp production in July 2013. It was an excellent year for this expanded business, with sales volumes up by 20% year-on-year and average net sales prices up 12% in Rand due to a generally weakening Rand/Dollar exchange rate over the course of the year.

Dollar dissolving wood pulp prices declined throughout the year as a result of pressure from lower cotton and viscose prices, and continued oversupply of dissolving wood pulp and viscose staple fibre production capacity. Historically, our dissolving wood pulp prices are linked to the Dollar European NBSK pulp list price plus a suitable premium. During the course of this year the formula-linked pricing contracts were for the most part renegotiated towards short-term fixed prices based on spot pricing, and this is likely to continue for the foreseeable future. This reflects not only the oversupplied dissolving wood pulp market, but also the pressure our customers are under due to declining prices for their viscose staple fibre products.

The Southern African paper packaging business extended the improvement seen towards the end of the last financial year, with improved volume demand, higher pricing and further simplification leading to a much improved result for the reorganised business.

Cost pressures continue to weigh on the graphic paper segment of our business in South Africa and during the year we made the decision to decrease our exposure to the graphic paper market, particularly for coated papers, and to utilise the capacity to make lower grammage packaging papers using recycled fibre.

\* FSC – C012316 certified originate from own plantations as well as on the Sappi Grant Scheme (FSC – C017054) with other logs from controlled sources.



We have a strong focus on social responsibility in South Africa. This is an economic imperative in the region. Our plantations and most of our mills are located in rural areas and we therefore have an important influence on development in these areas. We continue to make progress on each of the elements of our Broad-based Black Economic Empowerment (BBBEE) scorecard, although we continue to grapple with improving diversity fast enough at middle and senior management levels.

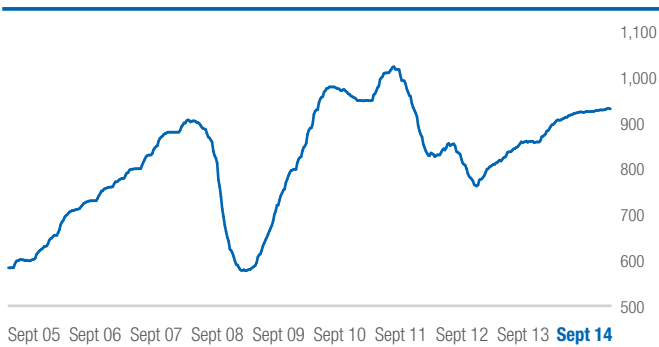
Full details of our education, training, health and environmental initiatives can be found on our website [www.sappi.com](http://www.sappi.com).

### The year ahead

We expect that the current pressure on dissolving wood pulp prices will continue into the new financial year. Maintaining the margins in the specialised cellulose business in South Africa will therefore be dependent on containing costs and on the Rand/Dollar exchange rate, as virtually 100% of our dissolving wood pulp production is exported. We believe that despite the pressures in the viscose staple fibre market, demand will continue to grow in the coming year, albeit possibly at a lower growth rate than seen for much of the past few years.

We expect our paper business to continue to improve its performance in the coming year, and believe that the reduced exposure to the graphic paper business and growth in recycled waste-based packaging will contribute to improved earnings in the coming financial year.

**NBSK Europe**  
(US\$/metric ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown. Source: FOEX PIX Pulp Price Index

**Unbleached kraft linerboard – 175g/m<sup>2</sup> CIF Germany**  
(US\$/metric ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown. Source: FOEX PIX Pulp Price Index



# our businesses continued

## Southern Africa continued

### Forests



Plantations	Products produced	Capacity (‘000 tons per annum)			Employees
		Hectares	Tons	m <sup>3</sup>	
KwaZulu-Natal	Plantations (pulpwood and sawlogs) (tons)**	227	11,303		
Mpumalanga	Plantations (pulpwood and sawlogs) (tons)**	268	18,047		
Sawmill – Lomati	Sawn timber (m <sup>3</sup> )			102	
<b>Total Sappi Forests</b>		<b>495</b>	<b>29,350</b>	<b>102</b>	

### Dissolving wood pulp



Mills	Products produced	Capacity (‘000 tons per annum)		Employees
		Paper	Pulp	
Saiccor Mill	Dissolving wood pulp		800	
Ngodwana Mill	Dissolving wood pulp		210	
<b>Total Specialised Cellulose</b>			<b>1,010</b>	

### Paper and paper packaging



Mills	Products produced	Capacity (‘000 tons per annum)		Employees
		Paper	Pulp	
Cape Kraft Mill	Waste-based linerboard and corrugating medium	60		
Enstra Mill	Uncoated woodfree and business paper	200		
Ngodwana Mill	Unbleached chemical pulp for own consumption		200	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	230		
Stanger Mill	Newsprint	140		
	Bleached bagasse pulp for own consumption		60	
Tugela Mill	Coated woodfree paper and tissue paper	110		
	Neutral sulfite semi-chemical pulp for own consumption		130	
Sappi ReFibre*	Corrugating medium	210		
	Waste paper collection and recycling for own consumption		250	
<b>Total paper and paper packaging</b>		<b>950</b>	<b>750</b>	
<b>Total Southern Africa</b>		<b>950</b>	<b>1,760</b>	<b>5,486</b>

\* Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.

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

# our products

## Woodfree paper →

made from pulp produced in a chemical process

### Coated paper



### Uncoated paper



### Speciality paper



#### Description and typical uses

Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines. Customers are typically large paper merchants.

Uses include business forms, business stationery, tissue and photocopy paper as well as cut-size, preprint and office paper. Certain brands are used for books, brochures and magazines. Customers are typically large paper merchants.

Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (eg artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets. Customers cover a wide range of industries dependent on the particular product.

#### Demand trends

This market is driven by the main end-users, which tend to be the more expensive magazines and direct mail. These end-users are vulnerable to economic uncertainties and business and consumer confidence. As they are highly dependent on advertising expenditures, coated woodfree paper is the first to react to changes (up or down) in economic indicators. Demand for coated woodfree paper is expected to continue to decline in mature markets, yet grow in developing economies with the net effect being positive over the long term.

Demand for uncoated woodfree paper is expected to remain flat. Adoption of paperless solutions by financial institutions as well as hospitals and healthcare offices is expected to continue as companies seek to cut costs while environmental groups advocate for less paper usage. Like other graphic paper grades, demand is expected to fall in mature markets, yet grow in emerging economies.

Flexible paper packaging demand is driven by steady consumption growth in the healthy food and drink markets. Paper-based packaging is widely regarded as a sustainable solution. Markets are characterised by small volumes, very little standardisation, but high levels of customisation.

Release paper demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.

#### Our markets in 2014

Demand for coated woodfree paper fell in our European markets by approximately 2.2% from fiscal 2013. Globally, demand fell by only 0.04%.

The uncoated woodfree market was stable in fiscal 2014, registering a modest increase of 0.8% from fiscal 2013. Our European volumes were up 1%.

Demand continues to show promise, particularly in the rate of uptake of new products into this market. Our Alfeld Mill completed its conversion and is working with customers to customise and optimise their various offerings. We sold less casting/release paper into China this year, but the shortfall in that market was made up by firm demand in orders from other parts of the world.

#### Share of Sappi sales

47%

6%

9%

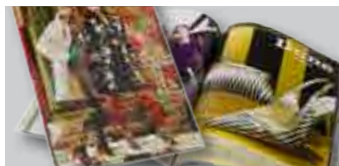
# our products continued

## Mechanical paper →

made from pulp produced in a mechanical process

## Packaging products →

### Coated paper



### Newsprint paper



### Packaging paper



#### Description of typical uses

A coated mechanical fibre-based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp. Customers are typically large merchants and large printers and publishers in the case of many weekly magazine titles.

Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.

Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sackkraft (multi-walled shipping sacks) and machine glazed kraft (grocer's bags). Can be coated to enhance barrier and aesthetics properties. Customers are typically converters of the packaging paper.

#### Demand trends

Demand for coated mechanical paper continues to face headwinds from competing grades of paper, and the continued shift in advertising-spend away from paper towards electronic forms of advertising.

Demand is highly dependent on newspaper circulation and retail advertising. Advertising spend in electronic media continues to grow worldwide with many newsprint titles going to a 'digital-only' format. This has led to demand declines in global markets.

Packaging demand is driven by population growth, higher standards of living, urbanisation and globalisation. Paper packaging is seen as playing an increasingly important role in an environmentally conscious world.

#### Our markets in 2014

Demand for coated mechanical papers continues to decline at a faster rate than that for coated woodfree papers. There is heightened competition this year between coated mechanical papers and super-calendared papers as a result of a narrowing of the price differential between the grades. Capacity closures were announced throughout the year in both Europe and North America.

Demand for newsprint in Southern Africa continues to decline at an estimated 6% per annum in the face of increased access by consumers to digital media coupled with flat advertising revenue. Despite this negative trend, our newsprint sales volumes were up 12% as local competitors shut capacity during the year.

A strong fruit and vegetable crop from the South African agricultural sector boosted sales volumes for our packaging paper. Orders also increased from industrial businesses. Pricing for our products ended the year higher than last year.

#### Share of Sappi sales

13%

6%

## Pulp →

### Paper pulp



### Dissolving wood pulp



## Timber/other products

### Sawn timber



#### Description of typical uses

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

Dissolving wood pulp is a highly purified form of cellulose extracted from wood through specialised cellulose chemistry that is intended primarily for the manufacture of viscose staple fibres, solvent spun fibre, and filament as well as for conversion into chemical derivatives of cellulose. Dissolving wood pulp is also known in the industry as specialised cellulose.

Sawn timber for construction and furniture manufacturing purposes.

#### Demand trends

With gradually improving global demand for packaging paper, tissue paper and other paper-based products, demand for paper pulp is expected to remain steady.

Dissolving wood pulp has a wide range of applications with varying end-uses and demand characteristics. Demand for dissolving pulp used for textiles is both the largest market and the fastest growing, while other end-market applications are smaller in size, with slower growth rates.

The housing market continues its recovery in South Africa. We expect continued firm demand for construction lumber and wood for furniture pieces.

#### Our markets in 2014

Global demand for paper pulp was firm this year, coming mostly from China. Prices for softwood pulp rose throughout the year due to strong demand from packaging paper producers and very little capacity growth. Hardwood prices, however, declined as new low-cost capacity ramped up and non-integrated printing and writing paper producers closed capacity.

2014 marked the first full financial year of our newly expanded Specialised Cellulose business. Tons sold increased over 50% from FY2013 as we diversified our key customer and geographic sales mix into our target segments. Global demand for dissolving wood pulp continued to grow at over 5% through the year versus last year. Falling sales prices for viscose, lower prices for competing fibres, such as cotton and polyester, and additional capacity into the dissolving wood pulp market, however, forced us to reduce the selling prices for our dissolving wood pulp to our customers. Through this cycle, we continue to service key customers with unmatched quality and consistency at such a large scale.

Demand for our timber products increased 7% from last year as we saw increased orders from both legacy customers as well as from an expanded customer base.

#### Share of Sappi sales

18%

1%

# Living with

# WOODS



renewable energy

recreational land use

rural development

# fibore

→ Sappi is developing new revenue streams for lignin, waste biomass and biorenewable chemicals

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→ 54% of Sappi's energy is derived from renewable resources

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→ 93% of water used by Sappi globally is returned to the environment after treatment

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→ Mountain bike trails on Sappi land have been voted #1 and #2 in South Africa

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# our key relationships

Our key stakeholders are parties who can affect or be affected by our activities, objectives and policies. We engage with those stakeholders who have the most material impact on our ability to implement our business strategy and achieve our goals, as well as those who are most affected by our activities. Building relationships with them in a spirit of trust and mutual respect helps ensure alignment with our strategic goals, creates value and promotes our overall sustainability.

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. All of these engagement activities help us to identify and address issues of mutual interest, thereby facilitating our licence to operate and enhancing our organisational effectiveness. We see such engagement as an ongoing dynamic process able to respond to the changing nature of issues and 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.

Sappi's main stakeholder groupings, per our stakeholder engagement policy, are reflected below, together with selected examples of engagement undertaken during the reporting period.

## Employees

### Our stakeholder group, management approach and areas of mutual interest

#### Management approach

Our focus is on building a skilled, engaged workforce where diversity is encouraged and valued, and people are provided with ongoing development opportunities so that they can fulfil their full potential.

In so doing, we enhance productivity and our ability to service global markets.

#### 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.

### 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
- Various forums (SA)
  - National Employment Equity and Learning Forum
  - Shop Steward Forum
  - 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
- In addition to the global Technical Innovation Awards, there are regional recognition awards: EU: the annual Coryphaena award; NA: the quarterly Risk Taking and Ingenuity awards; SA: the Excellence in Achievement (EAA) awards. Globally, there is also the Sappi Limited Chief Executive's Award.
- Ongoing training and development initiatives, with training targets in each region.
- Targeted training and engagement programmes in each region regarding sustainability.





## Employees continued

Key issues  
and engagement  
in 2014**Reinforcement of a strong ethical culture**

The refreshed Code of Ethics (the Code) was rolled out across the group:

**Europe**

The European team rolled-out the Code and group values by using flyers, posters and inclusion in employee induction or welcome programmes. The re-launch was seen as positive, generating very good discussions about the manner in which Sappi conducts business.

Staff reinforced the absolute necessity for management teams to act as role models.

The Sappi Performance Engine was rolled out via all internal communications means and included many workshops with employees and presentations and training for employees.

**North America**

The Code was rolled out in North America during the first half of FY2014. Due to region-specific regulatory requirements which demand a greater level of detail on certain compliance topics, we also rolled out an Addendum (the Addendum). In addition to reinforcing the Sappi Limited values, the Addendum highlights compliance areas such as safety, environmental compliance, record-keeping, competition, corruption and fraud.

Salaried employees were asked to attest that they had received and agreed to read and be bound by both documents and any policies referred to in the documents.

**South Africa**

The region initiated discussions and introduced an interactive Code of Ethics board game. The discussions included 15 – 20 minute sessions covering topics relating to our core values and sustainability facilitated through the interactive game which triggers discussion relating to possible ethical questions in the workplace. 39 facilitators from the mills were trained in conducting discussions and facilitating the board game.

**Sappi Trading**

All staff members were given the Code brochures and Value posters are displayed in all Sappi Trading offices. The Our Pledge poster was signed by staff in all regions to demonstrate commitment to the Code.

**Remuneration and working hours**

Overall, FY2014 was characterised by amicable, but tough negotiations and relatively good relationships with organised labour across the regions.

**Personal and career development**

In FY2014, training hours per employee across the group were as follows: South Africa: 96 hours, North America: 74 hours, Sappi Trading: 45.45 hours, Europe: 21.08 hours, group average: 59 hours.

**Regional-specific issues raised through the 2013 employment engagement survey have led to action plans in each region:****Europe**

- Reduced non-added value activities and focused resources on what adds the most value.
- Increased use of Continuous Improvement problem solving tools and techniques to make decision making process more robust.
- Further embedded Plan, Do, Check, Act (PDCA) thinking.

**North America**

- A regional team was created in May 2014 and worked on employee recognition. The team focused on employee on-boarding, standardising service awards, and creating a culture of recognition.
- A regional team was created in June 2014 and developed a robust communication programme to be rolled out in FY2015.
- The region continues to investigate various personal financial training options.

**South Africa**

- Increased the momentum on delivering the Code of Ethics board game across all business units.
- Integrated the recruitment and talent management process to yield better quality candidates and the sourcing of talented candidates.
- Improved communication across the region on all matters pertaining to employment at Sappi.

**Sappi Trading**

- Drove Continuous Improvement in all areas of the business to enhance operational efficiency.
- Further promoted safety, wellbeing and recognitions.
- Conducted presentations on Sappi strategy to enable employees to make contributions aligned with business objectives.



# our key relationships continued

## Unions

### Our stakeholder group, management approach and areas of mutual interest

#### Management approach

Given today's extremely 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 64% of our workforce is represented by unions, with 74% covered by collective bargaining agreements.

#### 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, the company relies on local unions to help with safety and wellness initiatives, together with various forms of community outreach.

### Ongoing avenues of engagement

**South Africa:** 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.

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 Partnership Forum.

**North America:** 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.

**Europe:** 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 which differ from country to country.

The European Works Council meetings take place twice a year and representatives meet with Sappi Europe leadership to share information and consult on topics of interest, including market developments, macro-economic effects, industry changes and organisational restructuring. Within the collective labour framework, Sappi is represented by industry employer representatives.

### Key issues and engagement in 2014

#### Remuneration and working hours

Overall, FY2014 was characterised by amicable, but tough negotiations and relatively good relationships with organised labour across the regions.

#### Strategy execution

In **Europe**, following a process of consultations regarding the future of Nijmegen Mill, Sappi Nijmegen BV, the central works council of Sappi Netherlands and the works council of Sappi Nijmegen entered into a consultation process which ultimately resulted in the mill not closing but rather ownership being transferred to AIAC Group.

In **South Africa**, shortly after the reporting period, we participated in the National Labour Relations Indaba convened by the Deputy President which discussed priority issues including jobs and growth, social stability, a minimum wage and collective bargaining.



Communities

**Our stakeholder group, management approach and areas of mutual interest**

**Management approach**

Having a mutually respectful relationship with the communities in which our business is situated is critical to our success. Our engagement ranges across the three pillars of sustainability, namely Prosperity – our contribution to each other; People – our support for social cohesion and community needs; Planet – working to reduce our combined impact thereby securing the sustainability of the natural resources and ecosystems on which our business depends.

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 water usage and quality, effluent quality and air emissions, employment, job creation and business opportunities, economic and social impacts/contributions and community support.

**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.

We also 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. (See the 2014 North American and Southern Africa SDRs – Links on page 1 of this report).

**North America:** Numerous community programmes are supported around our mills with an emphasis on youth education. The business also continues to invest in Ideas That Matter, a competition-based grant programme aimed at helping designers create and implement print projects for charitable causes.

**South Africa:** Local farmer and community forums regarding our forestry communities.

**Key issues and engagement in 2014**

**All regions:** Of particular relevance to local communities were the investment projects at our Cloquet, Westbrook, Somerset, Kirkniemi, Gratkorn, Ngodwana and Saiccor Mills and their positive impacts during the construction phase and thereafter, as well as the local benefits of these projects.

**Europe:** Stockstadt Mill celebrated 115 years in existence with the local community.

All mills in Europe publish annual EMAS reports regarding environmental performance.

In Finland we supported an initiative to promote the forest products industry to local school children.

Our Kirkniemi Mill initiated the ‘safest workplace in Lohja’ challenge in 2014 which has already attracted 20 companies with over 7,000 employees to increase safety throughout their companies and the community.

**South Africa:** A community engagement programme was launched to improve relations and better understand community development needs with selected forestry communities in the southern region of KwaZulu-Natal. This project will be further reported on in next year’s report.

Details of other activities can be found in the regional sustainability reports – See Links on page 1 



# our key relationships continued

## Customers

### Our stakeholder group, management approach and areas of mutual interest

#### 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 a rapidly changing world. 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.

Information and campaigns to promote print as a communication medium.

Information and campaigns to promote paper and paper packaging.

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.

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.

**Global:** Targeted communication campaigns help to promote the value of paper-based communication and supports the efforts of marketers and communicators in their search for responsible choices. Examples include support for the Two Sides organisations in Europe, North America, South America, South Africa and Australia and the Print Power campaign in Europe.

Online, print education and technical platforms include:

**Europe:** The Sappi Houston online knowledge platform.

**North America:** Environmental Quotient (eQ) and Education, Training and Consulting (ETC).

**South Africa:** Our paper and paper pulp product offerings are supported by strong technical teams at each mill and the Technology Centre in Pretoria.

Technical support through:

**Global:** A series of technical brochures is available on our website [www.sappi.com](http://www.sappi.com). We annually host customer and investor visits to the mills.

**Europe and South 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.

**North America:** We use GreenBlue's Environmental Performance Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill-by-mill basis.

**Specialised Cellulose:** Technical Centres of Excellence located at Saiccor and Cloquet Mills.

### Key issues and engagement in 2014

In **Europe**, changes in market dynamics for the coated graphic sheets business led us in some countries to adjust our go-to-market strategy and to shift from a focus on end-user sales via merchants to a direct model of end-user sales, called Sappi & You. Together with this our e-Commerce platform was upgraded to let the direct customers order paper and track their orders and invoices online.

The business joined forces with Swiss Karton + Papier AG (KAPAG) to extend the print and packaging supply chain in France for the Algro Design and Algro Duo product families. The business chose the Igepa group to become a preferred stockist partner for the Magno range of coated graphic papers in Germany.

In 2015, the region will launch a new Eco Effectiveness campaign.

**Globally:** We secured our market leading position and responded to customer requests for additional dissolving wood pulp through our conversion projects at the Ngodwana Mill (210,000tpa) and the Cloquet Mill (330,000tpa).

We launched new products in each region, detailed on page 40 of this report.

R&D developments of benefit to customers are detailed on page 39 of this report.

Sappi participated in the CDP Supply Chain survey and the Forest Footprint Disclosure survey at the request of some of our customers.



## Industry bodies

## Our stakeholder group, management approach and areas of mutual interest

**Management approach**

We partner with industry and business bodies 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 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 is a member of various industry and business associations in each region.

**Europe**

- Confederation of European Paper Industries (CEPI)
- Eurograph
- 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
- European Joint Undertaking on Bio-based Industries.

**North America**

- American Forests and Paper Association (AF&PA);
- Sustainable Packaging Coalition (SPC),
- Paper and Paper Packaging Board
- Agenda 2020
- SmartWay
- TAPPI.

**South Africa**

- Paper Manufacturers' Association of South Africa (PAMSA)
- Manufacturing Circle
- Forestry South Africa
- TAPPSA.

Sappi Forests 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 are also members of the internationally collaborative programme BiCEP (Biological Control of Eucalyptus Pests) (<http://bicep.net.au/>) at the Australian Centre for Industrial and Agricultural Research (ACIAR).

We also belong to the Eucalyptus Genome Network (EUCAGEN) based at the University of Pretoria.

Sappi is a founding member of the Two Sides campaign in Europe, Australia, South Africa, Brazil and the USA.



# our key relationships continued

## Industry bodies continued

### Key issues and engagement in 2014

**Europe:** European-made products are often subjected to considerable costs, which imported products need not meet.

Phasing out of provisions against carbon leakage and free allocation of carbon credits post 2021.

The removal of support for co-firing of wood in coal plants which only produce electricity.

CEPI together with the other European Paper Industry associations started the project 'Get Back on Track!' <http://www.getbackontrack.info/>

We joined forces with industry partners to develop an emerging bio-economy sector.

**North America:** The US Department of Agriculture established the Paper & Paper-based Packaging Check-off Board to shape a new promotional programme intended to maintain and expand markets for paper and paper-based packaging. Sappi was appointed to the first board.

The AF&PA has engaged the Environmental Protection Agency (EPA) on their drafting of an accounting framework for biogenic carbon dioxide (CO<sub>2</sub>) emissions. Subsequent to year-end, the EPA released the accounting framework and policy memorandum which now recognises the pulp and paper industry's sustainable use of manufacturing residuals as carbon neutral.

The Agenda 2020 Technology Alliance promotes the development of new technologies for the paper and forest industry through collaborative R&D programmes financed in part with public funds. The technology roadmap for this programme covers the following areas:

Reducing energy consumption and carbon emissions – Reducing water intake in mills – Assuring supplies of sustainably-grown wood – Getting more value from woody biomass – Enabling new products and product features – Improving re-use of waste paper and wood products.

Since 2009, Sappi North America has participated in the US Environmental Protection Agency's (EPA) SmartWay® Transport Partnership aimed at helping businesses move goods in the cleanest, most efficient way possible.

Sappi is a TAPPI 100 gold sponsor celebrating a century of technical innovation ([www.tappi100years.org](http://www.tappi100years.org)).

**South Africa:** We have engaged the National Treasury via our industry representative, the Paper Manufacturers Association of South Africa (PAMSA), to motivate the carbon tax design to incorporate rebates for carbon sequestration.

Through our membership of the Manufacturing Circle, we supported the Buy Back South Africa campaign launched in November 2013 to promote support for locally manufactured products.

Sappi Southern Africa supported the launch of the Two Sides organisation in South Africa in September 2014.

**Sappi Trading** supported the launch of the Two Sides organisation in Brazil during September 2014.

Our engagement processes as regards carbon-related taxes and energy issues in each region and the outcomes thereof in 2014 are detailed on pages 46 to 47 of this Integrated Report. 

## Investors

### Our stakeholder group, management approach and areas of mutual interest

#### 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 the company strategy.

Return on investment.

Transparent information about risks and opportunities.

Sound governance.

### 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. The Chairman also engages with shareholders on relevant issues.

We also do ad-hoc mill visits and road shows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website [www.sappi.com](http://www.sappi.com). 

We publish our Integrated Report and sustainability reports 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.



**Investors** continued

**Key issues and engagement in 2014**

The major conversion and expansion projects for dissolving wood pulp at our Cloquet and Ngodwana Mills and speciality paper at our Alfeld Mill.

Progress with the restructuring of the company.

Progress with actions to return the group to acceptable levels of profitability and turn around the paper businesses.

**South Africa:** We concluded the sale of our Usutu Forest Products Company to Swaziland's Montigny Investments for US\$97 million. We also announced our intention to sell 30,000ha of surplus to requirement softwood plantations in South Africa for around US\$70 million.

We were again included as a member of the JSE SRI Index (Johannesburg Securities Exchange Socially Responsible Investment Index).

In 2014, we achieved a disclosure score of 91% in the Carbon Disclosure Project (CDP).

Our engagement with environment, sustainability and governance (ESG) managers from investors and analyst companies increased during the course of 2014.

**Suppliers and contractors**

**Our stakeholder group, management approach and areas of mutual interest**

**Management approach**

We are committed to establishing mutually respectful relationships with our suppliers and encouraging them to join our commitment to the 3Ps. We aim to build long-term value partnerships.

We work with our contractors to ensure that they follow Sappi safety systems and rules.

**Areas of mutual interest**

Transparent information.

Forest certification.

Increased value and decreased costs.

Security of fibre supply, income generation and job creation.

**Ongoing avenues of engagement**

The procurement executives from each region coordinate at global level to improve relations with suppliers and provide benefits to all parties through better understanding of the requirements of the Sappi group.

In North America and South Africa, our foresters work extensively with contractors and communities.

In Europe, a joint sourcing partnership has been established with Svenska Cellulosa Aktiebolaget (SCA) which assists in negotiating better terms with timber and other suppliers.

**Key issues and engagement in 2014**

**Development of entrepreneurial skills (South Africa)**

Sappi in association with the South African Institute of Entrepreneurship (SAIE) developed three training modules to specifically assist larger community projects with the management of their plantations

- Forest Biz: gives growers an insight as to what can be expected in their own forestry businesses.
- Enterprise Development Training: aimed at introducing growers to very simply accounting practices, financial planning and record keeping.
- Trust CPA – Leadership and Management: focuses on leadership development within Community Trusts and Communal Property Associations and covers the different legal structures, roles and responsibilities of Communal Property Institutes.

We are also developing a 'Business in a Box' toolkit to assist our small grower initiative 'Project Grow' participants with the effective management of their projects. The aim of the toolkit is to provide growers with all the necessary process flows, forms and templates to effectively manage their own forestry business.

**Help with forest management (North America)**

Sappi North America's Sustainable Forestry Programme comprises a team of trained forest professionals, including licensed foresters, dedicated to assisting woodlot owners in the State of Maine develop, manage and harvest their woodlands.

Services offered include:

- Help with timber harvests to meet landowner objectives and maximise returns.
- Development of forest management plans, assistance with wildlife management and aesthetics.

**Alignment with Sappi's strong ethical culture**

Contracts contain the requirement for vendors to adhere to the Code and Sappi values.



# our key relationships continued

## Civil society (media)

### Our stakeholder group, management approach and areas of mutual interest

#### Management approach

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.

We engage with civil society organisations on issues of mutual interest.

We are members of key organisations relevant to our operations.

#### Areas of mutual interest

Business developments.

The future of our industry.

Our impacts on our communities.

Our work to protect the environment.

### Ongoing avenues of engagement

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.

### Key issues and engagement in 2014

Sappi participated as a member in the General Assembly of the Forest Stewardship Council® (FSC®)\*, held in September 2014.

All mills in Europe publish annual EMAS reports regarding environmental performance.

In **Europe and North America**, we maintain close engagement directly and through our industry body CEPI with the FSC®\* and WWF International. In **Europe** also 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®. As such we actively engage with these organisations through a variety of working groups and committee activities.

In South Africa, Sappi is a member of the local WWF organisation as well as FSC™ and provides support across a number of projects to Birdlife South Africa.

## Government and regulatory bodies

### Our stakeholder group, management approach and areas of mutual interest

#### 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.

### Key issues and engagement in 2014

Please refer to the content under industry bodies.

Local competitiveness.

**South Africa:** We obtained anti-dumping duties on uncoated paper from the International Trade Administration Commission of South Africa against cheap imported uncoated paper products. This was done to protect local employment as well as all those businesses that are dependent on our paper mills.

\* See definition on page 106.





# our key material issues

The issues set out on the following pages are sustainability-related challenges that we believe may have a material impact on our performance as a business either by directly impacting our ability to operate profitably, or by affecting our reputation and the trust stakeholders have in Sappi.

## Prosperity

### Paper markets

**Material issue:** Declining demand for graphics paper in the face of accelerating competition from digital media.

**Our position:** We mitigate the risk through targeted research and development (R&D) and greater product diversification, including an increased focus on dissolving wood pulp (DWP).

**Our response:** Enhancing our competitive advantage through research and development (R&D) and meeting evolving customer needs.

### R&D

Continued investment in our assets and technology through R&D, helps to ensure that Sappi remains a globally competitive, sustainable business, in touch with the needs and challenges of a rapidly changing world.

We continually review our global technology strategy to ensure it is aligned to the significant changes in our business environment. We focus on the refinement and development of woodfibre-based

products, reduction of atmospheric emissions, optimisation of energy, resource recovery and the beneficiation of waste. R&D is aimed at achieving cost advantages, cost reduction, asset optimisation and new market development.

Our strategy aligns technology and R&D expertise across three continents and the different sectors of the business. This centrally coordinated approach to R&D allows us to pool and leverage our expertise across the regions to ensure that our solutions remain relevant to the needs of our customers in more than 100 countries across the globe.

### Exciter I and II

Our total R&D spend in 2014 was US\$28.6 million including US\$8 million related to our Exciter programme. The latter is focused on creating breakthrough technological competency, which will allow us to develop new and improved products and processes to drive market differentiation and create new business opportunities. The value delivered from our Exciter programme for FY2014 was US\$22.3 million bringing the total value delivered from this programme since FY2005 to US\$159.6 million.

Work takes place in two areas: core business (Exciter I) and adjacent and new business (Exciter II).

Exciter I is focused on cost reduction and developing new technologies to drive down production costs and improve operating margins. Supporting these global initiatives are two Centres of Excellence, one for

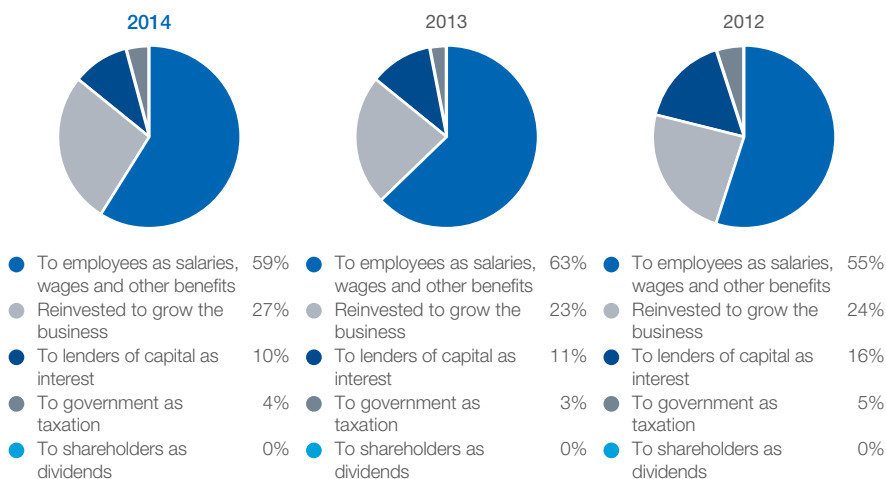
pulping and bleaching and one focused on stock preparation and coating. An example of breakthrough technologies under investigation includes the use of ultrasonication – the process of breaking up agglomerated particles by subjecting them to a series of high and low-pressure sound waves – as an alternative to mechanical refining processes, which may lead not only to energy savings, but also to more effectively refined fibres for our papermaking processes.

Exciter II projects are focused on the development of products for new and adjacent markets that will generate new revenue streams for Sappi. Activities in this area include the investigation of various conversion technologies for lignin, pulp streams and waste biomass which include: the extraction of sugars from pulping streams to produce biorenewable chemicals; the pyrolysis of lignin to produce bio-oil, biochar and producer gas; and using high organic-containing condensate streams for anaerobic digestion to produce methane.

Another key area of investigation is nanocellulose; a new forest products material which we believe will play a role in Sappi's future suite of products, both as a product in itself and in its applications. Extracted from wood fibres, nanocellulose has a number of unique optical, barrier and strength properties. Unlike other lightweight, high-strength materials based on fossil fuels, it is completely renewable, making it desirable as a new material for various industrial applications.

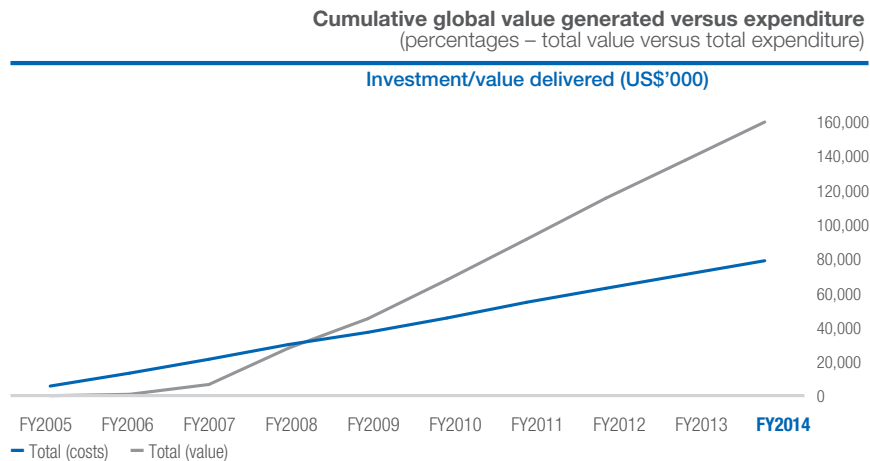
We have successfully developed a low cost, patented cellulose nanofibril (CNF) process in cooperation with a leading research institution. Grades produced will be optimally suitable for application in lighter and stronger fibre-reinforced composites and plastics, food and pharmaceutical applications, and as rheology modifiers, as well as in barrier and other paper and coating applications. We are planning the construction of a pilot production plant towards the end of 2015.

Value added distributed among our stakeholders and reinvested in the business (US\$ million)



# our key material issues continued

## Cumulative global value generated by Exciter I and II vs expenditure (total value vs total expenditure)



### Meeting evolving customer needs

Our focus is on creating, developing and marketing products that are relevant to our customers' evolving needs. We launched new products in each region during 2014.

### Sappi North America

- A new addition to the Opus stable, Opus DX, is a cross platform digital cut sheet for both dry and liquid toner digital production colour presses. Opus DX is a blue-white sheet, with high brightness for outstanding image transfer.
- A new trio of Somerset 7pt covers was launched to serve the growing direct mail market. The new line-up of Somerset Web Gloss, Satin, and Matte provides competitive advantages in stiffness, smoothness, and printability in addition to excellent performance on press. The new products have received high marks from all customer segments for proving high-quality alternatives at an affordable price.
- The Release Papers division launched a new 'Lace' pattern within the Ultracast line of offerings. Our Lace texture was launched just as the trend began building momentum in fashion globally. Our success with Lace strengthens our belief in the importance of trend forecasting as a key tool in bringing the right patterns to market at the right time.
- Since 1954, we have been making LusterPrint, a grease resistant paper with an outstanding print surface.

FDA-compliant for direct food contact and engineered with high strength characteristics, LusterPrint has become the market leader in multi-wall bags used for pet food. In 2014, we announced the formation of a new packaging business unit within North America.

- We will be leveraging our R&D capabilities in both North America and Europe to develop new products and extend our range of packaging grades.

A Direct Marketing Association study showed that direct mail advertising gives businesses, on average, a 12 to 1 return on their investment.

<http://chooseprint.org/PDR.html>

### Sappi Europe

The €60 million upgrade of PM2 at Alfeld Mill in Germany, which came online during Quarter 1, 2014, has enabled us to review, expand and upgrade our specialities portfolio in response to rapidly evolving market demands. Recent developments include:

- Additions to the Algro Sol® DN release liners portfolio: Mostly suited for office and stationery use, tape and industrial applications, the expanded range targets new markets including pressure sensitive adhesives.
- Algro® Vitess, a flexible packaging grade which is coated on one side and offers high whiteness, brightness and

dimensional stability. Designed for both flexographic and gravure printing, the grade is available in weights of 50g/m<sup>2</sup> to 120g/m<sup>2</sup>. The reverse side of Algro® Vitess has been designed to offer very good anchoring properties for both adhesive and extrusion laminations. It is suitable for a wide range of packaging applications, including dry food products, confectionery, tea, coffee and pharmaceutical products.

- Algro® Guard M, gravure printed primary packaging for pouches, sachets, bags and wrappers and Leine® Guard M barrier paper grades for inner bags. Developed in partnership with BASF and Eurofins, both substrates are designed to address concerns about migration of mineral oil into food from packaging manufactured from recycled paper. The substrates enable brand owners to use their current recycled fibre-based folding boxes, shelf ready packs and transport boxes while protecting the food inside for a minimum of 18 months with inner bags, pouches and sachets made from Sappi papers.

The PM2 at Alfeld Mill is the world's fastest machine for one-side coated speciality papers.

In FY2014, in support of core business, we developed a glossy paper grade with minimal calendaring at Stockstadt Mill. This meets two needs: increased market demand for glossy paper with higher bulk and our ongoing target to reduce costs and simplify processes. The paper, available in two grades – Gloss 90 and Gloss 91 – is produced without using an off-machine calendar. The grades have been successfully trialled at other Sappi mills in Europe.

### Sappi Southern Africa

Rising transport costs and a focus on carbon footprint have driven a trend towards lightweight packaging. To meet this trend, in 2014, we launched Ultraflute, a new lightweight semi-chemical fluting. The high percentage of virgin fibre in the product enhances its strength properties, resulting in sturdier boxes and improved stackability. These attributes, together with high humidity performance, enhance durability throughout the supply chain.

## Dissolving wood pulp (DWP) markets

**Material issue:** Overcapacity in global DWP supply.

**Our position:** All three of our mills producing DWP fall within the lowest 10% of the competitor cost curves published by independent consultancies. This, together with our high levels of quality and ability to service customers through our DWP Centre of Excellence, positions us as a supplier of choice. We believe the market for our DWP will continue to grow going forward.

**Our response:** Positioning for growth.

Despite the prevailing over-supply in the DP market, our confidence in this market segment and its ongoing growth is high, based on the following:

→ **Global GDP growth, global population growth and increasing affluence, particularly in Asia**

According to a report by the OECD Development Centre<sup>(1)</sup>:

- The global middleclass population is set to boom to 3.2 billion people by 2020 and to 4.9 billion by 2030, with most of the growth coming from Asia.
- Global middle class spend is expected to grow to US\$35 trillion per year by 2020 and to US\$56 trillion per year by 2030 with Asian spend at US\$15 trillion and US\$33 trillion per year by 2020 and 2030 respectively.
- These trends are important for Sappi because the bulk of our dissolving wood pulp (DWP) is sold into Asian markets. Increasing affluence and population levels will accelerate the need for more comfortable clothing.

→ **Breathability properties**

The bulk of Sappi's DWP is sold into the viscose staple fibre (VSF) segment. VSF is a cellulosic-based fibre which makes it breathable and comfortable to wear as opposed to petroleum-based fibres which are less comfortable.

→ **Substitution of competing fibres**

- Derived from woodfibre grown in sustainably managed forests and

plantations, VSF has a long-term sustainable future when compared with fibres produced from finite resources such as fossil fuels.

- VSF is also a substitute for cotton in many applications, with cotton being highly dependent on the availability of arable land and also being far more susceptible to capricious weather conditions. In the future, a decline in arable land is forecast, accompanied by a simultaneous rise in the global population. This in turn will lead to increasing demand for available land to be used to grow competing agricultural and food crops rather than cotton. Conversely, plantation trees can be planted in less ideal locations, which do not compete with other food-planting or building-development locations.

→ **Environmental considerations**

- The sustainably managed plantations and forests from which we source the woodfibre used for our DWP depend solely on rainwater – unlike many other crops. For example, 73% of the global cotton harvest comes from irrigated land.
- In addition, we use minimal pesticides and insecticides. Any such usage is strictly controlled in terms of forest certification systems. This cannot always be said of other crops.
- The yield for each hectare of woodfibre is two to three times higher than that of cotton.

## People

### Employee profile

**Material issue:** Diversity

**Our position:** We recognise that diversity facilitates interaction with different cultures, colleagues and customers in an increasingly globalised marketplace. By creating an inclusive culture representative of a diversity of people, thoughts and ideas, we enhance our ability to operate in global markets.

**Our response:** Promoting inclusion and productivity.

We are committed to valuing and promoting diversity and inclusion so that all employees can develop their full potential, irrespective of their gender, ethnicity, disability, age, religion, belief or sexual orientation. Women tend to be under-represented in our workforce due to the nature of operations – a demanding manufacturing environment which involves shift work. In 2014, of our 13,064 permanent employees, a total of 16.84% were women, a figure which is within the industry benchmark.

**Please note: Broad-based Black Economic Empowerment (BBBEE) is a key material issue and is discussed in our 2014 Sappi Southern Africa regional sustainability report.**

### Labour relations

**Material issue:** Sound labour relations are the foundation of business.

**Our position:** We promote freedom of association across the group and engage extensively with representative trade unions in each region.

**Our response:** Maintaining positive relationships.

Globally, 64% of our workforce is unionised, with 74% belonging to a bargaining unit. In FY2014, we enjoyed relatively good relationships with organised labour in all regions:

- In South Africa, the new forestry minimum wages gazetted by the Minister of Labour were implemented at the beginning of April. In the pulp and paper sector, agreement was reached on an 8% increase on basic wages and 9.5% on shift allowances. In the sawmilling sector, there was five-day strike action before reaching an agreement. However, our Lomati Sawmill did not participate in the strike.
- In Europe, where we manage relationships with 13 different unions, wage and salary negotiations in some countries will be concluded during the course of FY2015. At this point in time there do not appear to be any material issues.

<sup>(1)</sup> Kharas, H: *The emerging middle class in developing countries, working paper no 285, January 2010, available at: <http://www.oecd.org/dev/44457738.pdf>*

# our key material issues continued

→ In North America, hourly employees are represented by 11 collective bargaining agreements with several different unions. Production unit employees, who comprise the majority of our employees, are represented by the United Steelworkers' Union (USW). New contracts were ratified with this union at Somerset Mill and the Allentown Sheeting Facility during fiscal 2014 while as at the end of November, negotiations with USW at Westbrook and Cloquet Mills were ongoing.

## Training and development

**Material issue:** Training and development are pivotal in retaining employees, building loyalty and enhancing competitive advantage.

**Our position:** Our aim is to provide successful learning solutions that enable individuals, groups and the organisation to improve performance, learn new skills, adapt to change and meet groupwide business objectives.

**Our response:** Viewing training and development as a strategic business tool.

We have established training targets in each region (detailed in our 2014 group sustainability report) which are based on identified training needs. While training takes place across all levels and all regions of the organisation, in the year under review South Africa accounted for the highest number of training hours. In 2014, globally we spent US\$8.6 million on training and development, an average of US\$658 per employee. Training in terms of number of hours per employee has increased steadily, from 49 hours in 2012 to 56.4 hours in 2013 and 59 hours in 2014.

## Employee engagement

**Material issue:** Engaged employees are more invested in organisations, impacting directly on staff morale, productivity and profitability.

**Our position:** We conduct surveys every two years in order to assess levels of engagement across Sappi. Our objective is to have a fulfilled and engaged workforce that delivers on our key business drivers.

**Our response:** Benchmarking and analysing our performance.

In contrast with previous years, where we measured connectedness to Sappi, the employee engagement survey conducted in FY2013 asked respondents to rate various aspects of their experience of working at Sappi. We felt that this approach would give us a more accurate understanding of issues and challenges. The survey is discussed in more detail in our 2014 group sustainable development report.

## Safety

**Material issue:** Unsafe and unhealthy working conditions and behaviour affect service delivery, quality, health, worker productivity and retention.

**Our position:** We view safety as a priority and a responsibility – not just of management, but of every employee and contractor employee working at Sappi.

**Our response:** Prioritising safety.

We make safety a priority across the group by ensuring that it is a cultural mindset and practical reality. While management is accountable for safety and demonstrates leadership through personal example, all our people are expected to take personal responsibility for working safely by following policies and procedures, identifying hazards and acting when they see unsafe behaviour. Our behaviour-based safety programmes continue to help us reach our safety targets.

Our mutual effort has paid off: In 2014 there was a noticeable improvement in work-related incidents and near misses being reported, investigated and analysed to prevent recurrence. In terms of investigations and analysis, the emphasis has continued to be on root causes, as opposed to the apportionment of blame.

We are pleased to report that there were zero fatal accidents in 2014. Believing that all our people should go home safely to their families at the end of every day, we will work even harder to continue this positive environment going forward. Our objective remains zero injuries at each and every facility.

Our commitment to safety is reinforced by our annual Global Safety Awareness Day. This year's theme, *Walk the talk*,

encouraged all staff members, from senior managers to the lowest level employees, to do more than just talk about safety and act in a way that shows they are conscious of safety at all times.

## Communities

**Material issue:** Communities can positively or negatively influence our licence to operate.

**Our position:** We see communities as key stakeholders and work to involve them in areas of mutual interest – being on the alert for fires on or near to landholdings in South Africa is just one example. Our corporate social responsibility (CSR) initiatives are focused on the communities where we have an impact through our operations.

**Our response:** Creating sustained impact.

We have prioritised education, environment, health and welfare as well as community engagement projects. Our preference is for multi-year programmes which create sustained impact in our communities. The majority of Sappi's CSR spend takes place in South Africa, given the development needs of the country.

A growing body of international evidence shows that language and cognitive development are especially important during the first six months to three years of life and that the more stimulating the early environment, the more a child develops and learns. Significantly, findings also indicate that early learning experiences determine health, education and economic participation for life.

Against this backdrop, in 2014 we launched a three-year Early Childhood Development (ECD) project in KwaZulu-Natal. We partnered with Training and Resources in Early Education (TREE), a non-profit organisation (NPO) to train 25 women from Sappi communities in KwaZulu-Natal as ECD practitioners. TREE assists adults (mostly women) from disadvantaged communities to provide young children with access to qualified ECD.



In Mpumalanga, we are working with our long-standing partner, Penreach, an NPO with 20 years' experience in ECD. Penreach provides educational interventions and solutions in under-resourced schools in rural communities and is establishing an ECD Centre of Excellence in Sappi's Elandshoek community. In the first phase of this five-year project, ECD practitioners are being trained in a four-year module at two schools in the community.

Our education spend in terms of CSR in the country accounts for approximately 30% of the total.

We continued to support six Protec branches in Sappi communities (mathematics and science classes for over 1,000 students in grades 10, 11 and 12) as well as the KwaDukuza and Umjindi Resource Centres which are essentially digital 'villages'.

Community support makes up 64% of our CSR spend in South Africa, involving a wide variety of activities, including membership of Business Against Crime and ad hoc paper donations as well as numerous mountain biking events which use Sappi properties in our communities.

CSR spend increased in each region from 2013, particularly in South Africa, where spend more than doubled in the year under review. In the reporting year, we updated our reporting scope to include not only direct cash contributions to CSR, but also the value of operational activities which have a clear community benefit, such as the maintenance of rural road infrastructure, as well as investments in forestry communities and villages which amounted to approximately ZAR7 million in 2014.

Total	2013	2014
Europe	€100,400	€107,429
North America	US\$444,000	US\$619,686
South Africa	ZAR8,1 million	ZAR23 million

## Planet

### Energy, emissions and recovered materials

**Material issue:** Energy security and costs are issues for businesses across the world. So too, in the light of concerns about global warming, are carbon dioxide (CO<sub>2</sub>) emissions.

**Our position:** As pulp and paper production is highly energy intensive, the cost and availability of energy is a key consideration for Sappi.

**Our response:** Managing our energy usage.

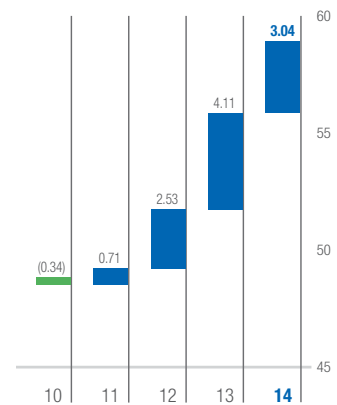
While we are seeing a downward trend in energy costs as a percentage of cost of sales due to actions we have taken, energy is still one of our key inputs, together with woodfibre, chemicals and water. Aggressively managing our energy usage and increasing energy efficiency positively impact on our profitability and our environmental performance in terms of reduced emissions and carbon footprint.

We have a major advantage over other industrial companies in our high use of renewable energy, derived from black liquor, sludges and biomass. In 2014, globally, our use of renewable energy in our mills – mostly black liquor – increased to approximately 54%, reflecting an increase of 10.8% over five years. Over the same time period, enhanced energy efficiency and greater use of own renewable fuels resulted in a global decrease of 16.5% in terms of specific purchased energy and in energy costs as a percentage of cost of sales coming down in all regions.

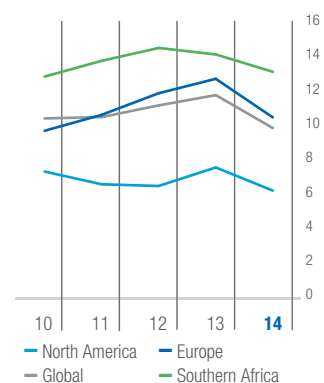
- Over five years
- 10.8% increase in renewable energy
- 6.9% decrease in total specific energy
- 16.5% in specific purchased energy

Energy costs as a percentage of cost of sales reducing.

### Change in global renewable energy (%)

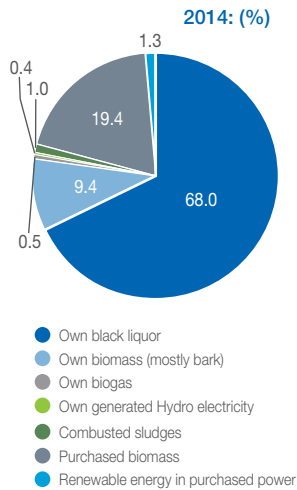


### Purchased energy costs as a percentage of cost of sales (COS)(%)



# our key material issues continued

**Global renewable energy breakdown**



**Our response:** Reducing emissions  
The positive trends in energy usage in 2014 were reflected in our emissions performance. Fossil fuel derived Scope 1 emissions have reduced by 7.5% over five years, while fossil fuel derived Scope 2 emissions have reduced by 25.6% over the same period.

**Our response:** Recovering waste  
The amount of solid waste we send to landfill continues to decline – the result of a concerted focus not just on recovery, but also on adding value to waste. (See page 39 of this report for details of our investigation of various conversion technologies for lignin, pulp streams and waste biomass.) Please also refer to the 2014 Sappi Southern Africa and Sappi North America sustainability reports for further details.

Year-on-year, the amount of solid waste sent to landfill decreased by 7%, which we achieved by increasing the recovery and re-use of materials. As indicated in the graph alongside, a significant portion of waste (28.2%) is combusted for heat generation, while 21% is allocated to environmentally beneficial re-use – lime used for agricultural purposes being one example – and 12% sold as secondary material.

## Fibre supply

**Material issue:** Climate change is impacting on forests and plantations around the world, while concerns about carbon footprint are driving a move towards increased use of woodfibre as a fuel and building material.

**Our position:** The implications of a constrained fibre source would have dramatic consequences for our business.

**Our response:** Enhancing the security of our woodfibre base.

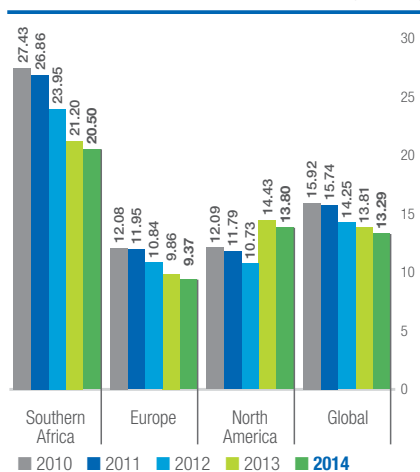
## South Africa

Optimising our woodfibre supply is a key objective for Sappi in Southern Africa. We achieve this through our tree improvement programme, promoting access to the timber farming industry and by mitigating climate change risks.

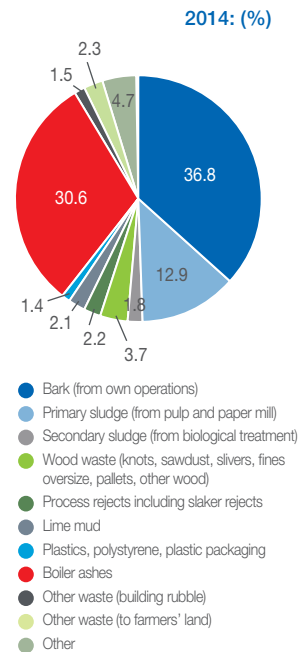
### → Tree improvement

In 2014, we continued with programmes to breed for specific pulping characteristics and enhanced yields.  
A key development in the year under review was the development of a new *Eucalyptus* cutting propagation method. Clonal deployment represents the ultimate means of capturing the genetic gain of the *Eucalyptus* hybrids, recognised for their fast-growth, disease tolerance and volume production. One of the major hurdles to clonal deployment has been production efficiency driven by the percentage of cuttings which produce roots. Initially this was at 50% but following a prolonged drought in the region, this decreased to below 30% which prompted research into a new means of *Eucalyptus* cutting production.

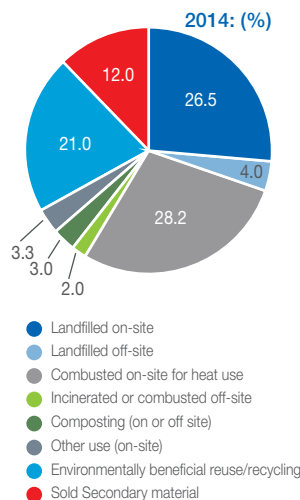
**Specific purchased energy (GJ/adt)**



**Global breakdown of solid waste types in Sappi**



**Global breakdown of solid waste by disposal method**



A new cutting system and the implementation of novel hydroponic sand bed technology resulted in rooting efficiencies increasing from 30% to in excess of 80%. This in turn has led to significant savings and a positive impact on the sustainability of our fibre base. The development is particularly important in view of the fact that, given the conversion of Ngodwana Mill to produce 210,000 tons per annum of DWP, we will be using more hardwood (*Eucalyptus*) going forward.



#### → Promoting access to the timber farming industry

Encouraging entry into the industry and helping to develop tree farmers consolidates the industry and aligns with the South African government's focus on rural development.

We recently expanded our small grower initiative, Project Grow, beyond the borders of KwaZulu-Natal province to the Eastern Cape. In 2014, Project Grow farmers supplied us with 11% of our hardwood fibre intake, valued at ZAR169 million. (For further details please refer to our Project Grow FAQ, available on [www.sappi.com](http://www.sappi.com)) 

In addition, we are working with communities in the Eastern Cape to help them obtain water-use licences for the establishment of new plantations. To date, we have assisted several communities in the Eastern Cape in obtaining a total of 7,654ha of water-use licences, including 3,108ha of new licences awarded during 2014 financial year. We are also assisting recipients of water-use licences to secure grant funding from government.

We are also active in the land reform area. We are assisting several land reform beneficiaries (communities) with the management of their plantations, and have signed supply agreements with 34 land reform/restoration projects totalling 4,710ha planted.

With regard to funding, Sappi has compiled business plans for most of these projects and submitted the business plans to government to secure recapitalisation and development funding. We are also in the process of negotiating with suitable funding agencies to secure funding at a reduced interest rate. In association with the South African Institute of Entrepreneurship (SAIE), we have developed specific training initiatives to assist with the management of these projects. (Refer to the stakeholder section on page 37 of this report  for further details.)

# our key material issues continued

## → Mitigating climate change

While woodfibre, in common with other agricultural crops, can be negatively impacted by climate change, we mitigate this risk by maintaining a broad genetic base. For example, currently the Sappi breeding programme has one of the most extensive collections of *Eucalyptus dunnii* material in the world, comprising more than 700 individual families from 20 different regions in Australia. This valuable resource gives Sappi breeders the genetic flexibility to identify the most suitable material for our end-uses in terms of growth and fibre properties. This gene pool will also allow for some protection against pests and diseases that could challenge the species in the future.

Maintaining a broad genetic base allows us to respond to new challenges such as pests, disease and climate change while providing continuous genetic improvement over the long term.

## → Managing our plantations for biodiversity

Our plantations are diverse biological systems comprised of a variety of genetically diverse tree species that rely on biotic processes being sustained. We actively manage our plantations to enhance these beneficial processes and restrict harmful influences like pests and disease. It is seldom that more than 65% of the land is planted; approximately

30% of our land is managed for the conservation of natural habitats (including indigenous forests) and the biodiversity they contain.

Management takes place in terms of FSC™\*, an internationally accepted, independently verified forest certification system which makes provision for biodiversity management.

### Europe and North America

In these regions, fibre is sourced from forest owners close to each operation, with whom we have long-standing relationships. In these regions, we mitigate fibre supply risk through a combination of approaches which include both short- and long-term wood supply agreements and shareholdings in wood sourcing cooperatives. Eucalyptus-based market pulp from Latin America has become a more important part of our fibre supply.

### Forest certification

**Key material issue:** Sustainable forest management is increasingly important, given ongoing deforestation of endangered tropical forests and concomitant global warming.

**Our position:** We use internationally acknowledged, independently audited third-party forest certification systems in each region.

**Our response:** Increasing our usage of certified fibre.

The percentage of certified fibre procured for our mills in each region is as follows: South Africa: 82%, Europe: 74.1%, North America: 66%. The balance is procured from known and controlled sources. In South Africa and North America, we work with landowners to increase certification. In South Africa, 100% of our owned and leased plantations are certified by the FSC™\*.

### Carbon tax

**Material issue:** Global moves to address climate change in the form of a tax on carbon are accelerating as governments seek to reduce greenhouse gas emissions. Australia has abandoned proposed carbon taxes and other governments might follow suit, but the issue remains a potential risk in all the regions where Sappi operates.

**Our position:** While we acknowledge that our manufacturing operations are energy intensive, our view is that this is mitigated by the fact that our key input material – woodfibre – is a renewable material grown in sustainably managed forests and plantations which absorb carbon dioxide (CO<sub>2</sub>). We continue to track legislation related to climate change and are opposed to legislation that does not recognise biogenic energy sources as carbon neutral.

**Our response:** Mitigating global warming.

During the process of photosynthesis, trees use energy from the sunlight to convert CO<sub>2</sub> into organic compounds (foods) essential for their growth storing carbon and releasing oxygen in the process. The forests and plantations from which we source fibre thus help to mitigate the impacts of global warming.

In addition, our industry uses a high proportion of renewable energy. At Sappi, our use of renewable energy has been steadily increasing over time and stood at 54% globally in FY2014, mainly from our own biofuels – black liquor.

### South Africa

We expect carbon tax legislation to be introduced in 2016 and its introduction poses a potential risk going forward for Sappi Southern Africa. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa

\* See definition on page 106.





(PAMSA), to motivate the carbon tax design to incorporate rebates for carbon sequestration.

Sappi's process starts with the planting of trees and our total supply chain is carbon neutral. In addition, PAMSA is driving the development of a local factor to input into the carbon accounting method that applies to the unique circumstances of plantation forestry in South Africa. The initiative is being developed in conjunction with the Department of Environmental Affairs and local research institutions, and is supported by a portion of the grant allocated to sector research and development, supplied by the Department of Science and Technology.

As a PAMSA member, we are actively driving the development of the methodology which is subject to approval from the Department of Environmental Affairs. The department will then make a recommendation to National Treasury on the extent to which paper companies can counter their fossil fuel-based greenhouse gas emissions with plantation carbon absorptions. This research is likely only to be completed by the end of 2015.

Should National Treasury accept PAMSA's premise that the pulp and paper industry's absorptions exceed its emissions; the industry might be available to avail itself of carbon emission abatements – as distinct from offsets.

### North America

Over the last few years, the US Environmental Protection Agency (EPA) has been drafting an accounting framework for biogenic carbon dioxide (CO<sub>2</sub>) emissions. There were concerns that the framework might fail to distinguish biogenic emissions – resulting directly from the combustion or decomposition of biologically-based materials other than fossil fuels and mineral sources of carbon – from fossil fuel emissions. The American Forest & Paper Association's (AF&PA) view has been that the following should be taken into account:

- Energy from biomass residues from both manufacturing mills and forests should be acknowledged for reducing greenhouse gas emissions. These wood residues would have released CO<sub>2</sub> to the atmosphere anyway if they had not been used to displace fossil fuels.

- Biomass used to create energy should be treated as carbon neutral where the growth rate of forests is greater than or equal to harvest levels.
- Public policies should not construct artificial mandates or incentives which disrupt the nation's existing efficient and balanced forest biomass markets.
- Public policies should recognise that sustainably managed forests and forest products sequester and store carbon and reduce greenhouse gases.

In June 2014, the US Supreme Court sided with the AF&PA in requiring the EPA to revise its approach. Subsequent to year-end, the EPA released the accounting framework and policy memorandum. This recognises the pulp and paper industry's sustainable use of manufacturing residuals as carbon neutral – a decision Sappi has welcomed.

When biomass such as wood is combusted for energy, it releases carbon dioxide that it had absorbed during growth back into the atmosphere. When biomass is replanted (plantations) or regenerated (forests), it once again absorbs carbon dioxide. In contrast, the combustion of fossil fuel is not carbon neutral.

### Europe

The European Union Emission Trading Scheme (EU ETS) covers carbon dioxide emissions from six sectors of heavy industry, including pulp and paper. Companies covered by the scheme may emit only a certain quota of carbon dioxide each year, and are issued with carbon permits for every ton of the quota. They can trade these permits with each other. In successive phases of the scheme, the quota is reduced continuously every year so that the emitting company either reduces their emissions accordingly or has to purchase emission rights on the market.

The plan is to phase out provisions against carbon leakage and free allocation between 2021 to 2030. This will result in significantly increased direct costs and costs passed through in electricity prices for heavy industries.

Both Sappi and the Confederation of European Paper Industries (CEPI) belong to the Alliance of Energy Intensive

Industries (AEII). The latter has published an open letter to the heads of State and Governments of the EU Member States, the European Parliament, the Council of the European Union and the European Commission regarding the phase out provisions, saying that this will affect even the most efficient installations in Europe.

The AEII's view, to which we subscribe, is that the 2030 climate and energy framework must guarantee predictability for industry by setting the principles for measures against carbon and investment leakage now and that European industries need a stable and long-term legislative framework that effectively combines EU climate ambition with EU industrial competitiveness.

### Water

**Material issue:** The Worldwide Fund for Nature (WWF) states that at the current consumption rate, by 2025, two-thirds of the world's population may face water shortages.

**Our position:** Water shortages in the regions from which we source fibre could significantly affect fibre supply and our production processes.

**Our response:** Using water responsibly.

Globally, we return 93% of the water we extract from the environment back into the environment after it has been treated and cleaned. Of the 7% balance, approximately 4% exits the mill in the form of product, while the remaining 3% is lost to evaporation.

The nature of the pulping process makes it difficult to improve on this figure which is why this year we have rather included details of total specific water usage (see page 7 of this report). While we have made some progress in reducing water usage in South Africa – important given the fact that is a water-stressed country, we acknowledge that we need to improve. We have achieved a positive reduction in effluent concentrations by reducing chemical oxygen demand (COD) and total suspended solids (TSS) – two key indicators of water discharge quality – by 11.6% and 16.4% respectively over the last five years.

# Living with cellophane and paper



viscose textiles

cellophane

pharmaceutical and household products

# ose

→ Demand for viscose products made from dissolving wood pulp is being driven by increased spend from the emerging global middle-class

→ Sappi has announced the building in 2015 of a nanocellulose pilot plant

→ Viscose products are in high demand because of their moisture absorbency and breathability properties

→ Our source of cellulose, woodfibre is sustainable and renewable

food packaging

decor and linen

release paper for laminate flooring and furniture

# our leadership

## Non-executive and executive management

### 1. Dr Daniël Christiaan Cronjé (Danie) (68)

(Independent Chairman)

Qualifications: BCom (Hons), MCom, DCom

Nationality: South African

Appointed: January 2008

#### Sappi board committee memberships:

- Nomination and Governance Committee (Chairman)
- Attends Audit Committee meetings Human Resources and Compensation Committee meetings and Social, Ethics, Transformation and Sustainability Committee meetings ex officio

#### Skills, expertise and experience:

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

### 2. Godefridus Peter Franciscus Beurskens (Frits) (67)

(Independent)

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

Nationality: Dutch

Appointed: October 2011

#### Sappi board committee memberships:

- Audit Committee
- Audit Committee of Sappi Europe (Chairman)

#### Other board and organisation memberships:

- Board director of Smurfit Kappa Group plc
- Member of a number of supervisory boards of Dutch companies/foundations
- Advisory roles in the paper industry

#### Skills, expertise and experience:

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

### 3. Robert John DeKoch (Bob) (62)

(Independent)

Qualifications: BA (Chemistry), MBA

Nationality: American

Appointed: March 2013

#### Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee

#### Other board and organisation memberships:

- The Boldt Company (President)
- Palmer Johnson Power Systems
- New North, Inc (Chairman)
- The Building for Kids

#### Skills, expertise and experience:

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

### 4. Michael Anthony Fallon (Mike) (56)

(Independent)

Qualifications: BSc (Hons) (First Class)

Nationality: British

Appointed: September 2011

#### Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee

#### Skills, expertise and experience:

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

### 5. Dr Deenadayalen Konar (Len) (60)

(Independent)

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

Nationality: South African

Appointed: March 2002

#### Sappi board committee memberships:

- Audit Committee (Chairman)
- Nomination and Governance Committee

#### Other board and organisation memberships:

- Exxaro Resources Limited (Chairman)
- Illovo Sugar Limited
- Lonmin plc
- Alexander Forbes Group Holdings Limited
- Mustek Limited (Chairman)
- Steinhoff International Holdings Limited (Chairman)

#### Skills, expertise and experience:

Previously Professor and Head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South African and the SA Institute of Directors, past member and Chairman of the External Audit Committee of the International Monetary Fund and member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (Co-chairman).

### 6. Nkateko Peter Mageza (Peter) (60)

(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
- Eqstra Holdings Limited (Chairman)
- 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.



**7. John David McKenzie (Jock) (67)**

(Independent)

**Qualifications:** BSc Chemical Engineering (cum laude), MA  
**Nationality:** South African  
**Appointed:** September 2007

**Sappi board committee memberships:**

- Human Resources and Compensation Committee
- Social, Ethics, Transformation and Sustainability Committee (Chairman)

**Other board and organisation memberships:**

- Capitec Bank
- Coronation Fund Managers
- University of Cape Town Foundation (Chairman)
- Rondebosch Schools Education Trust (Chairman)
- Carleton Lloyd Education Trust (Chairman)

**Skills, expertise and experience:**

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

**8. Mohammed Valli Moosa (Valli) (57)**

(Non-independent)

**Qualifications:** BSc (Mathematics)  
**Nationality:** South African  
**Appointed:** August 2010

**Sappi board committee memberships:**

- Social, Ethics, Transformation and Sustainability Committee

**Other board and organisation memberships:**

- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Lereko Investments Proprietary Limited (Deputy Chairman)
- Various other associate companies of Lereko Investments Proprietary Limited
- Sanlam Limited
- Sun International Limited (Chairman)
- WWF-SA (Chairman)

**Skills, expertise and experience:**

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

**9. Sir Nigel Rudd (68)**

(Lead independent director)

**Qualifications:** DL, Chartered Accountant  
**Nationality:** British  
**Appointed:** April 2006

**Sappi board committee memberships:**

- Human Resources and Compensation Committee (Chairman)
- Nomination and Governance Committee

**Other board and organisation memberships:**

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

**Skills, expertise and experience:**

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

**10. Dr Rudolf Thummer (67)**

(Independent)

**Qualifications:** Dr Techn, Dipl-Ing  
**Nationality:** Austrian  
**Appointed:** February 2010

**Sappi board committee memberships:**

- Social, Ethics, Transformation and Sustainability Committee

**Skills, expertise and experience:**

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

**11. Karen Rohn Osar (65)**

(Independent)

**Qualifications:** MBA, Finance  
**Nationality:** American  
**Appointed:** May 2007

**Sappi board committee memberships:**

- Audit Committee

**Other board and organisation memberships:**

- Innophos Holdings, Inc. (also Chairperson of Audit Committee)
- Webster Financial Corporation (also Chairperson of Audit Committee)

**Skills, expertise and experience:**

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

**12. Bridgette Radebe (54)**

(Independent)

**Qualifications:** BA (Pol Sc and Socio)  
**Nationality:** South African  
**Appointed:** May 2004

**Sappi board committee memberships:**

- Social, Ethics, Transformation and Sustainability Committee

**Other board and organisation memberships:**

- Mmakau Mining Proprietary Limited (Executive Chairperson)
- South African Mining Development Association (President)
- New Africa Mining Fund (Founder and Board Trustee)

**Skills, expertise and experience:**

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



# our leadership continued

## Executive directors

### 1. Stephen Robert Binnie (Steve) (47)

(Executive Director and Chief Executive Officer)

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

Nationality: British

Appointed: September 2012

Sappi board committee memberships:

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

Skills, expertise and experience:

Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014. He joined Sappi in July 2012 as Chief Financial Officer designate and was appointed Chief Financial Officer and Executive Director from 01 September 2012. Prior to joining Sappi, he held various senior finance roles and was previously Chief Financial Officer of Edcon Proprietary Limited for 10 years after having been in a senior finance role at Investec Bank Limited for four years.

### 2. Glen Thomas Pearce (51)

(Executive Director and 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

Skills, expertise and experience:

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

## Executive management

### 1. Mark Gardner (59)

(President and Chief Executive Officer of Sappi North America)

Qualifications: BSc (Industrial Technology)

Mr Gardner was named President and Chief Executive Officer of Sappi North America (SNA) in 2007 and is responsible for leading all Sappi operations in the region.

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

### 2. Alexander van Coller Thiel (Alex) (53)

(Chief Executive Officer of Sappi Southern Africa)

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

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003, he became the Director Logistics, reporting to the Chief Executive Officer of Sappi Europe.



He was appointed as Group Head Procurement, Sappi Limited in January 2008 and Integration Executive, in charge of the integration of the acquired M-real business into Sappi's operations in September 2008. He led a project to redefine and implement Sappi's 'go-to-market' strategy in Europe from October 2009. Mr Thiel was appointed Chief Executive Officer of Sappi Southern Africa with effect from 01 December 2010.

### 3. Berend John Wiersum (Berry) (59)

(Chief Executive Officer of Sappi Europe)

Qualifications: MA (Medieval and Modern History)

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

### 4. Gary Bowles (54)

(Executive Vice President Specialised Cellulose)

Qualifications: BSc Electrical Eng, PMD, EDP

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

### 5. Andrea Rossi (60)

(Group Head Technology)

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

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

### 6. Lucia Adele Swartz (57)

(Group Head Human Resources)

Qualifications: BA, Dip HR, AMP

Ms Swartz joined Sappi in May 2002 in her current position. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as Human Resources Director, Global Functions based in New York. In addition to her role as Group Head Human Resources she has operational responsibility for the Sappi Southern Africa human resources function. Ms Swartz is a long-standing member of the Executive Committee and is a member of the subsidiary boards of Sappi Europe, Sappi North America and Sappi Southern Africa.

### 7. Maarten van Hoven (41)

(Group Head Strategy and Legal)

Qualifications: BProc, LLM (International Business Law)

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



# corporate governance

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III) and applies the various principles. A summary of how Sappi applies the King III principles is provided on the group's website ([www.sappi.com](http://www.sappi.com)).

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 major policies and strategies and is responsible for managing risk.

For further information about the board and the board charter please refer to [www.sappi.com](http://www.sappi.com).

The composition of the board and attendance at board meetings and board committee meetings is set out in the following table:

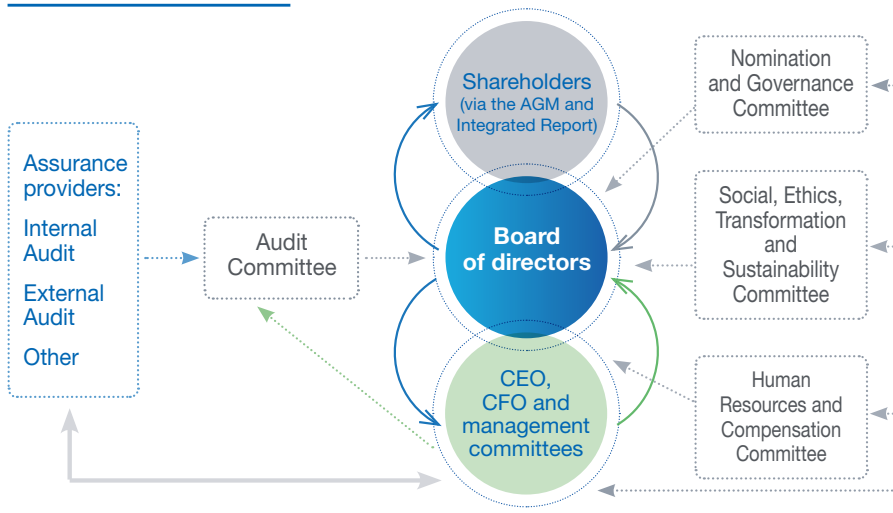
Name	Status	Board committees									
		Board	Audit	Nomination and Governance	Human Resources and Compensation	Social, Ethics, Transformation and Sustainability (SETS)					
RJ Boëttger	Chief Executive Officer – until 30/06/2014	3/3	B	4/4	B	3/3	B	4/4	✓	3/3	
SR Binnie <sup>(1)</sup>	Chief Financial Officer – until 30/06/2014	3/3	B	4/4							
	Chief Executive Officer – from 01/07/2014	2/2	B	1/1	B	1/1	B	2/2	✓	1/1	
GT Pearce	Chief Financial Officer – from 01/07/2014	2/2	B	1/1							
DC Cronjé	Independent non-executive, chairman	5/5	E	4/5	✓ C	4/4	E	5/6	E	3/4	
GPF Beurskens	Independent non-executive	5/5	✓	5/5							
RJ DeKoch	Independent non-executive	4/5							✓	3/4	
MA Fallon	Independent non-executive	5/5	✓	5/5			✓	6/6			
D Konar	Independent non-executive	5/5	✓ C	5/5	✓	4/4					
JD McKenzie	Independent non-executive	5/5					✓	6/6	✓ C	4/4	
NP Mageza	Independent non-executive	5/5	✓	5/5			✓	6/6			
MV Moosa	Non-executive	5/5							✓	4/4	
KR Osar	Independent non-executive	4/5	✓	3/5							
B Radebe	Independent non-executive	5/5							✓	3/4	
Sir Nigel Rudd	Lead independent director	5/5			✓	4/4	✓ C	6/6			
R Thummer	Independent non-executive	5/5							✓	4/4	

<sup>(1)</sup> Mr SR Binnie was appointed to the SETS Committee with effect from 01 July 2014, in place of Mr RJ Boëttger.

✓ 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.



## Sappi board committees



### Induction and training of directors

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


### 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. The board committees are as follows:

#### 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
- 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 Integrated Report
- reviewing compliance with the group's Code of Ethics and external regulatory requirements
- oversight of the external auditor's qualifications, experience and performance
- oversight of the performance of the internal audit function, and
- oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit Committee report on pages 92 to 93. 

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and its chairman. The external and internal auditors met privately with the Audit Committee during 2014.

Regional Audit Committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the group's Audit Committee, to which they report on a regular basis. The regional committees each met four times during 2014.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2014.

#### 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, 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 by an external evaluator in 2014 following internal evaluations in 2012 and 2013. The results of the 2014 externally-facilitated evaluation established that all the board and board committees functioned well and that the score in all cases ranked in the top quartile of scores of companies for which the external evaluator had performed appraisals.

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

Regional Human Resources and Compensation Committees meet on an ad-hoc basis to execute HR strategy and implement policy at a regional level.

#### Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises four independent non-executive directors, a non-executive director 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

# corporate governance continued

management, good corporate citizenship, labour and employment as well as its contribution to social and economic development and, with regards to the group's South African subsidiaries, the strategic business priority 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 30 to 47  for a summary of the group's initiatives at [www.sappi.com](http://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. The structure is set out below:

## 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 regards 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 group risk management team reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process throughout the group.

## 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 have been 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. IT management is improving the quantification of IT project spend and related value to the business, as well as information about disaster recovery plans, and IT risks, in its reporting to the Audit Committee.

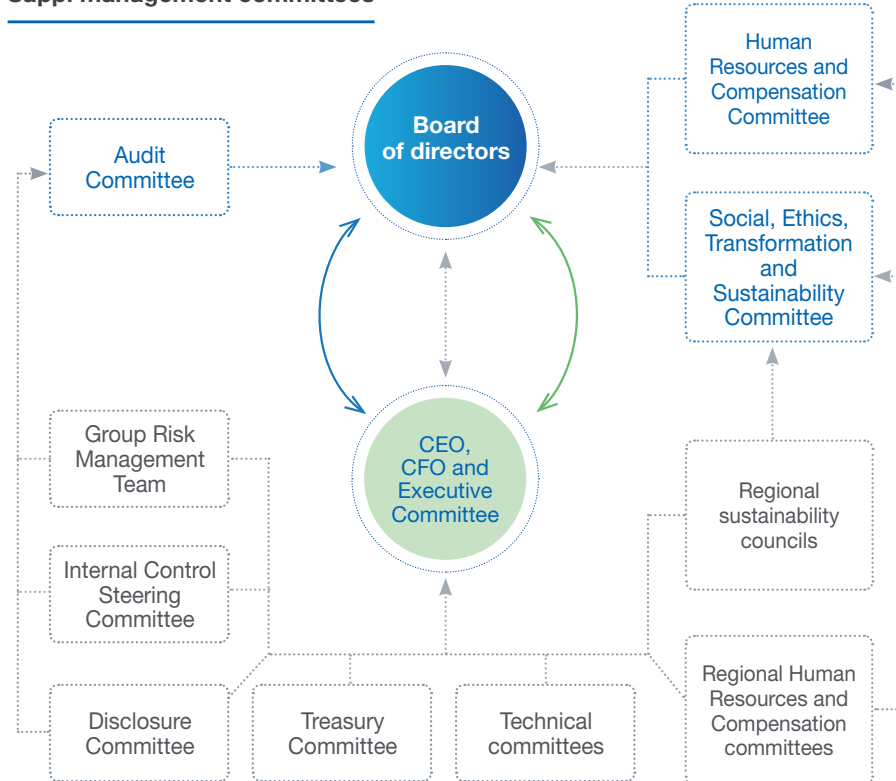
## Financial statements

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 management committees



### Sappi's internal controls and combined assurance framework

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.

The combined assurance framework is integrated with the group's risk management approach. Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls.

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 financial and operational management information, 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.

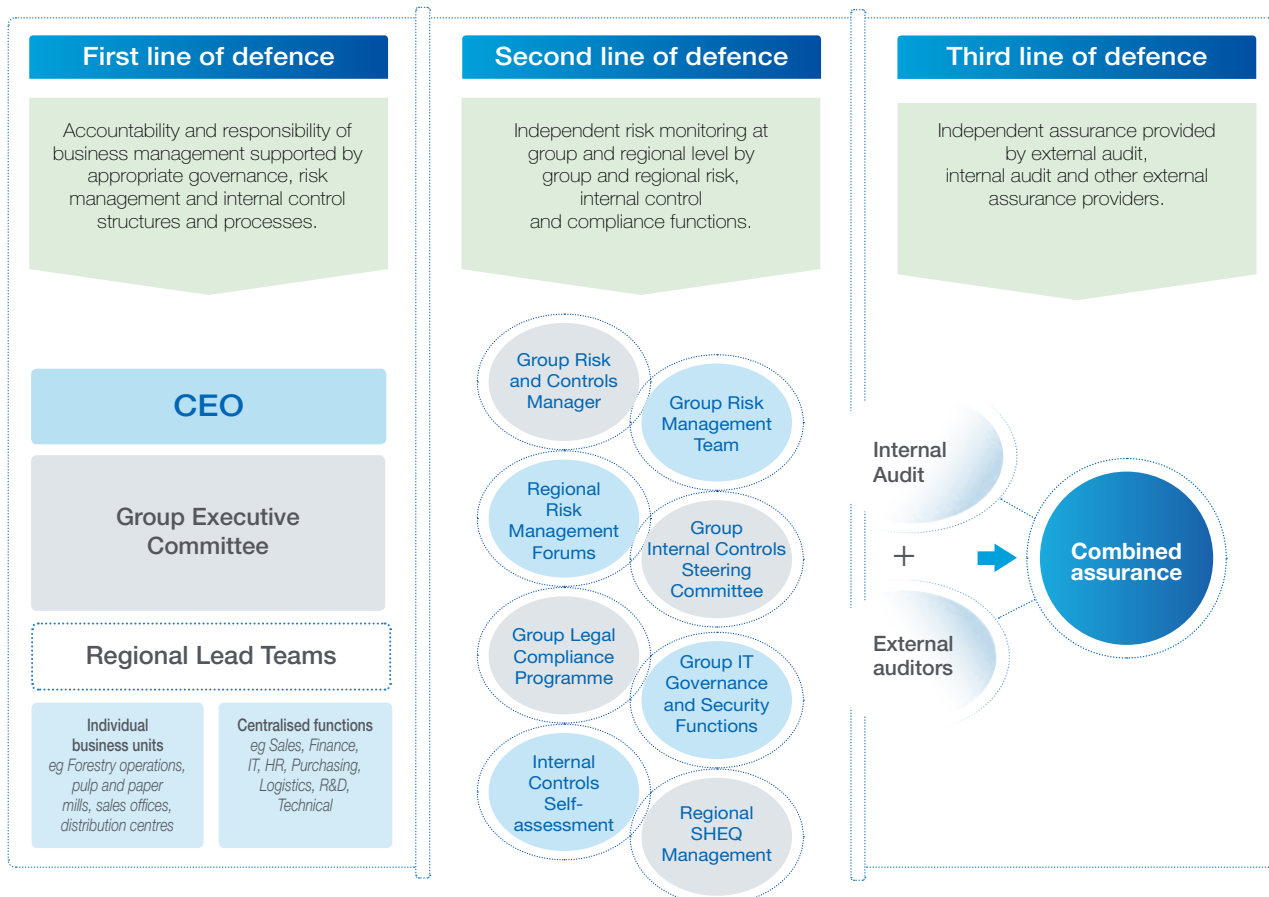
Sappi delisted from the New York Stock Exchange during the 2014 financial year. Sappi's risk and control framework has remained in place as part of Sappi's application of the King III guidelines. Sappi remains committed to maintaining the same high standard of internal control as in the past.

Feedback as to the effectiveness of the 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 at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls 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 Integrated Report, on risk management and the effectiveness of internal controls within Sappi.

Sappi's combined assurance framework comprises three lines of defence, in line with Enterprise Risk Management best practice, as set out below:

### Sappi combined assurance framework



Board and board committees (provide oversight)

# corporate governance continued

In addition to combined assurance in respect of internal controls, Sappi has also obtained assurance on the data in the Integrated Report from the following sources:

- Financial data is independently audited by Deloitte & Touche.
- 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. No external assurance was obtained on the consolidated sustainability indicators reported, although certain local data is subject to external audits. Currently we do not perceive external assurance as being a cost effective alternative to internal auditing of our indicators, particularly given our global spread of operations and the industry specific nature of many of our indicators.
- Broad-based Black Economic Empowerment performance has been

reviewed internally by management and internal audit as well as externally by Empowerdex.

## 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 systems, internal controls and accounting records. It plays a coordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and group Audit Committees. Internal Audit also consults on risks, controls and governance developments.

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 management meetings. The role of internal audit at Sappi is set out in the following diagram:

During 2014, apart from the ongoing focus on financial controls, Internal Audit undertook reviews of non-financial risk areas such as energy and water management. This coincided with its coordination of the combined assurance model and advising on other practices recommended in King III. Internal Audit maintains an internal quality assurance programme, which includes periodic external review. A full review was conducted by the Institute of Internal Auditors (IIA) in 2010 and a 'generally complies' rating was received. The next external review is scheduled for 2015. Internal Audit's in-house review in 2014 highlighted, amongst other things, the need to document the department's long-term strategic plan and to undertake an external benchmarking exercise.

## Internal audit architecture



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

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, year-end external audits and independent reviews by internal audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls 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 2014. 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 financial statements.

### Company Secretary appraisal

Based on the appraisal of the Company Secretary's effectiveness report as completed earlier in the year by the Institute of Directors Southern Africa, it was agreed to recommend to the board that the following statement be included in the company's 2014 Integrated Report, viz: *"The Company Secretary does not fulfil any executive management function and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the Company Secretary and concluded that he is sufficiently independent (ie maintained an arms-length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold his position."*



For a summary of how Sappi applies the King III Principles, please refer to [www.sappi.com](http://www.sappi.com).

### Code of Ethics

Sappi requires its directors and employees to act with excellence, integrity, respect and resourcefulness 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. The SETS Committee provides oversight for social, ethics, transformation and sustainability matters throughout the group. Refer to [www.sappi.com](http://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.

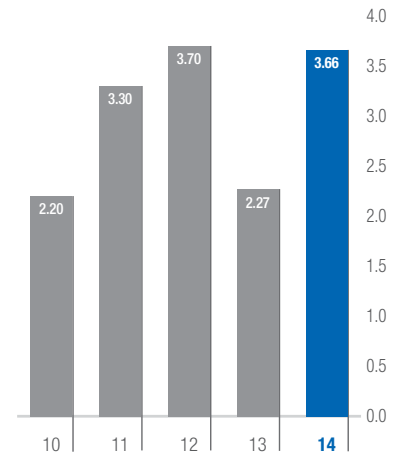
### Conflict of interests

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.

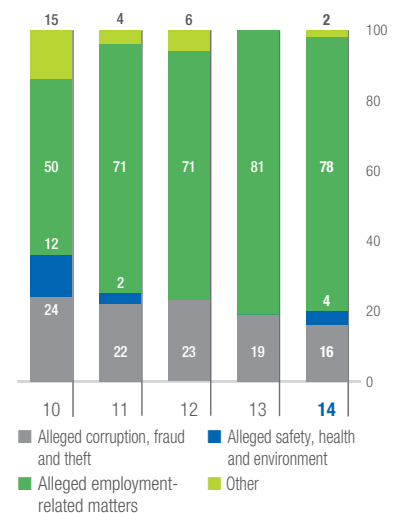
### Insider trading

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](http://www.sappi.com).

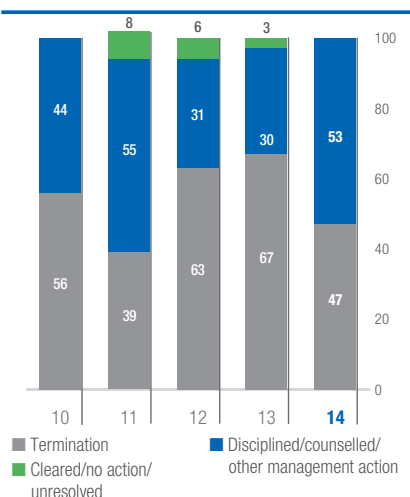
### Hotline report rate per 1,000 employees



### Analysis of hotline reports per category (%)



### Analysis of hotline report case outcomes (%)



# corporate governance continued

## **Whistle-blower 'hotlines' and follow up of tip-offs**

Whistle-blower hotlines have been implemented in all the regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. 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 received related to the Southern African region. Please refer to the whistle-blower hotline graphs for information on the number of hotline calls, the types of calls, and the outcome of the investigations. The hotline call rates, categories of calls 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 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).

# compensation report

The compensation report explains 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 on a recommendation by the Human Resources and Compensation Committee.

## 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 the King Code of Governance Principles of South Africa 2009 (King III). The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

Management, from time to time, meets with some of our largest shareholders to discuss compensation practices in the group.

## Independent advice

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

- Kepler Associates, United Kingdom
- KPMG Auditors, South Africa
- PricewaterhouseCoopers Tax Services, South Africa

## Human Resources and Compensation Committee


During the year the committee consisted of four independent non-executive directors:

- Sir Nigel Rudd – Chairman
- Mr JD McKenzie
- Mr NP Mageza
- Mr MA Fallon

The Chairman of the company, Dr DC Cronjé, attends committee meetings ex-officio while the Group Chief Executive Officer together with Group Head Human Resources, Ms LA Swartz, attend meetings by invitation. Mr RJ Boëttger attended the meetings by invitation as group Chief Executive Officer until his separation from the company at the end of June 2014. He was succeeded by Mr SR Binnie with effect from 01 July 2014.

Mr DJ O'Connor, 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 54. 

None of the committee members has any 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 of 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 and enables the attraction, retention and motivation of executives and all employees.

The key activities of the committee during 2014 are summarised as follows:

- Reviewed and approved salary increases, bonus payments and share allocations for executive directors and other key senior managers 2013/2014.
- Reviewed non-executive directors' fees for 2014 and with management's input, recommended fee levels to the Sappi Limited board for approval, and ultimately by shareholders.
- Reviewed the compensation report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the Annual General Meeting in February 2014.
- Reviewed and approved the vesting, or otherwise, of the performance share plan awards which were awarded on 09 December 2009.
- Reviewed and approved the 2014 Management Incentive Scheme awards and the performance ratings of executive directors and other key senior managers.
- Approved a separation package for the former group Chief Executive Officer, Mr RJ Boëttger.
- Approved the compensation package for Mr SR Binnie, who succeeded Mr Boëttger as Group Chief Executive Officer and Mr GT Pearce who was appointed as Group Chief Financial Officer. Mr Binnie and Mr Pearce are executive directors of the company.
- Approved the allocation of 2014 performance share plan awards to executive directors and all other eligible participants.
- Approved the 2015 Management Incentive Scheme rules and reviewed

the Share Incentive Plan rules, including changes that were proposed on both the Management Incentive Scheme and Performance Share Plan, including a review of the peer group of the Performance Share Plan.

- Reviewed and approved, in principle, the proposal to offer Sappi Southern Africa pensioners the voluntary option to have the post-retirement medical aid subsidy bought out by an insurer which will in future fund the subsidy through an annuity.
- Reviewed and approved, in principle, the proposal to transfer the Sappi Netherlands Pension Plan to a Netherlands industry-based pension plan.
- Reviewed and approved the inclusion of a transformation target as a performance criterion in the Sappi Southern Africa Management Incentive Scheme.

## 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.
- Through the Executive Management Incentive Bonus Scheme, provide for a voluntary deferral of 40% of the Chief Executive Officer's annual bonus, and 30% of the executive managers' annual bonuses, 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.

# compensation report continued

## 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
<b>Fixed</b>		
<b>Component – Base salary</b>		
<ul style="list-style-type: none"> <li>→ To reflect market value of the role, individuals' skills, contribution, experience and performance.</li> <li>→ To attract and retain key talent.</li> </ul>	<ul style="list-style-type: none"> <li>→ Paid monthly in cash.</li> <li>→ Reviewed annually with any increases to be effective from 01 January each year.</li> <li>→ 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.</li> </ul>	<ul style="list-style-type: none"> <li>→ Increases are applied in line with outcomes of performance discussions with the individuals concerned.</li> </ul>
<b>Component – Benefits</b>		
<ul style="list-style-type: none"> <li>→ To provide protection and market competitive benefits to aid recruitment and retention.</li> </ul>	<ul style="list-style-type: none"> <li>→ Private medical insurance.</li> <li>→ Income in the event of death or disability.</li> </ul> <p>These are:</p> <ul style="list-style-type: none"> <li>→ Appropriate in terms of level of seniority;</li> <li>→ Market related;</li> <li>→ Death benefit is a multiple of base salary; and</li> <li>→ Non-pensionable.</li> </ul>	<ul style="list-style-type: none"> <li>→ None</li> </ul>
<b>Component – Pension</b>		
<ul style="list-style-type: none"> <li>→ Make ongoing company contributions during employment.</li> <li>→ To provide market related benefits.</li> <li>→ Facilitate the accumulation of savings for post-retirement years.</li> </ul>	<ul style="list-style-type: none"> <li>→ Comprises defined benefit and defined contribution plans.</li> <li>→ A large number of defined benefit plans are closed to new hires.</li> <li>→ Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service.</li> <li>→ Retirement plans differ by region.</li> </ul>	<ul style="list-style-type: none"> <li>→ Executive members of defined contribution plans receive a company contribution of up to 27.7% of salary.</li> <li>→ Executive members of defined benefit plans receive company contributions of up to 42.6% 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.</li> </ul>
<b>Variable</b>		
<b>Component – Annual cash incentive</b>		
<ul style="list-style-type: none"> <li>→ Focus participants on targets relevant to the group's strategic goals.</li> <li>→ Drive performance.</li> <li>→ Motivate executives to achieve specific and stretching short-term goals.</li> <li>→ Reward individuals for their personal contribution and performance.</li> <li>→ Deferred share proportion of the annual bonus aligns interests with shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>→ All measures and objectives are reviewed and set at the beginning of the financial year.</li> <li>→ Payments are reviewed and approved at year-end by the committee based on performance against the targets.</li> <li>→ Threshold is required to be met for any bonus payment to occur.</li> <li>→ Target level of bonuses varies from 65% to 85% of base salary.</li> <li>→ Weightings for 2014 were: Operating profit (60%); Working capital (30%) and Safety (10%).</li> <li>→ Bonuses are paid in cash. The group Chief Executive Officer 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.</li> <li>→ Non-pensionable.</li> </ul>	<ul style="list-style-type: none"> <li>→ The maximum bonus for executive directors is 116% of salary.</li> <li>→ Executive Committee members and other senior managers may earn a maximum bonus of up to 95% of base salary.</li> <li>→ 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.</li> </ul>



Purpose	Operations	Opportunity
Variable		
<b>Component – Long-term share incentive plans</b>		
→ Align the interests of the executive members with those of the shareholder.	→ Conditional grants awarded annually to executive directors, executive committee members and other key senior managers of the company.	→ None
→ Reward the execution of the strategy and long-term outperformance of our competitors.	→ Cliff-vesting after four years.	
→ Encourage long-term commitment to the company.	→ Performance is measured relative to a peer group of 14 other industry-related companies.	
→ Is a wealth creation mechanism for executive members if the company outperforms the peer group.	→ The number of conditional shares allocated varies from 175,000 conditional share awards to the Chief Executive Officer, and between 50,000 and 100,000 conditional share awards to Executive Committee members.	
	→ Measures for 2014 awards were relative Total Shareholder Return (TSR) – 50% and relative Cash Flow Return on Net Assets (CFRONA) – 50%.	
<b>Component – Broad-based Black Economic Empowerment</b>		
→ Provide black managers with the opportunity to acquire equity in the company.	→ Established to meet the requirements of the Forestry Sector Charter BBBEE codes.	→ None
→ Attract, motivate and retain black managers.	→ 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.	
<b>Component – Service contracts</b>		
→ Provide an appropriate level of protection to both the executive and to Sappi.	→ Executive Committee members have notice periods of 12 months or less.	→ 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.
	→ Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures.	

### 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.

### Benchmarking

Executive compensation is benchmarked to 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 of the Johannesburg Stock Exchange.

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. In response to feedback from some shareholders, the committee agreed to management's recommendation to benchmark executive pay every alternate year.

# compensation report continued

## Compensation mix

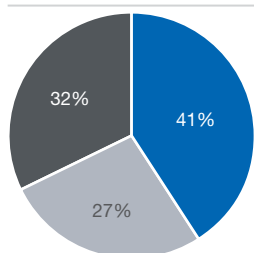
The compensation mix for executive directors and Executive Committee members is shown in the schematics below.

The term 'target' in terms of short-term incentive 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 2013 (share price at date of allocation: ZAR29.34).

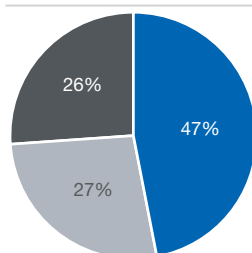
### Executive directors

(averaged) (Number of employees at 30 September 2014 = 2)



### Executive committee

(averaged) (Number of employees at 30 September 2014 = 6)



- Total guaranteed package (base salary and benefits)
- Short-term incentive (on-target)
- Face value of performance plan shares issued in December 2013

## Base salary

The Human Resources and 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 2014 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 director and Executive Committee members' increases as was the mandate for general staff, dependent on location.

Mr Boöttger received a salary increase of 6% on the South African portion of his salary, and 3% on the off-shore portion of his salary, which was below the general staff increases in South Africa. His base salary effective 01 January 2014 was US\$707,476 per annum.

Mr Binnie received a salary increase of 7% on the South African portion of his salary and 2% on the off-shore portion of his salary. Mr Binnie's salary increases were slightly higher than the average increases for both the South African and off-shore portions of his salary, and the increase reflected his performance during the course of the year. Mr Binnie's salary with effect from 01 January 2014 was US\$345,916 per annum.

At the end of June 2014, Mr Boöttger relinquished his role as Chief Executive Officer, due to reasons of ill health and Mr Binnie was appointed as his successor.

On 01 July 2014, Mr Binnie was awarded a promotional increase of 49.7% on his South African base salary portion and 13.87% on the off-shore portion of his salary. Mr Binnie's annual rate of pay with effect 01 July 2014 was US\$473,238 per annum.

Mr GT Pearce was appointed as Chief Financial Officer with effect 01 July 2014. On his appointment, Mr Pearce was paid a salary rate of US\$335,999 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 company contribution is 27.7% of base salary. Mr Boöttger was a member until 30 June 2014 at the same rate of company contribution.

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 pre-defined annual financial targets and personal objectives which are critical measures of business success.

For the 2014 financial year, the financial business performance criteria were: Operating profit (60%), Working capital (30%) and Safety (10%) – 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 chief executive officer	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 75% of operating profit budget 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 75% bonus threshold target, no

The group's performance for the 2014 financial year:

Performance criteria	Weighting	Target points	2014 actual achievement
Operating profit	60%	48	47
Working capital	30%	24	36
Safety	10%	8	8
Total		80	91

Mr Boëttger will receive a pro-rated bonus award of US\$501,857, Mr Binnie will receive a bonus award of US\$355,990 and Mr Pearce will receive a bonus award of US\$201,486 to be paid in December 2014.

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 2014 Management Incentive Scheme rules compared to 2013.

bonus is paid to participants in the region irrespective of overall group performance. With the exception of Sappi North America, the group and all other regions met the performance threshold which entitled them to a bonus payment for fiscal 2014.

The committee approved the following change to the scheme rules for the 2015 financial year:

- EBITDA will replace operating profit as a performance criterion. The weighting for EBITDA will remain the same as that of last year's operating profit being 60%.
- A performance threshold of 85% of the EBITDA budget will be required before a bonus can be paid.
- All other terms and conditions of the scheme remain unchanged.

### Long-term incentive

The Sappi Performance Share Plan 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 14 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 2014 financial year consisted of the following 14 industry-related companies:

- Domtar
- Fibria Cellulose
- Holmen
- International Paper
- Mead/Westvaco
- Metsä Board
- Mondi Plc
- Nippon Paper
- Norske Skog
- Oji Holdings
- Resolute Forest Products
- Stora Enso
- UPM-Kymmene
- Weyerhaeuser

During the course of the year the Human Resources and Compensation Committee reviewed the peer group to establish relevance and appropriateness of the group companies as a peer to Sappi. Three companies were removed from the peer group, namely Nippon Paper, Oji Holdings and Fibria Cellulose and five new companies were added namely, Fortress Paper, Lenzing, Rayonier, Tembec and Sateri. The changes to the peer group took into account the expansion of our dissolving wood pulp business and an increased number of dissolving wood pulp producers were added to the comparator group. From financial year 2015 onwards, the peer group will comprise the following 16 industry-related companies:

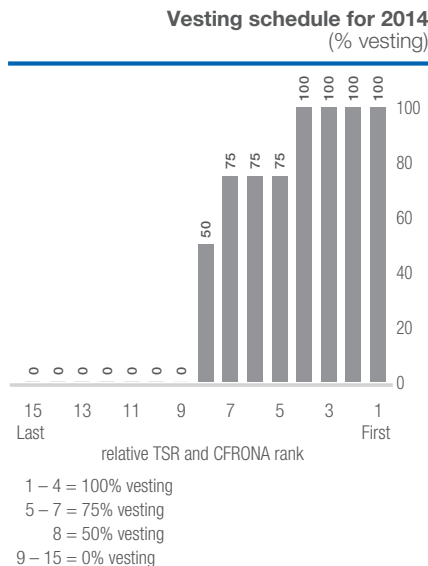
- Domtar
- Fortress Paper
- Holmen
- International Paper
- Lenzing
- Mead/Westvaco
- Metsä Board
- Mondi Plc
- Norske Skog
- Rayonier
- Resolute Forest Products
- Sateri
- Stora Enso
- Tembec
- UPM-Kymmene
- Weyerhaeuser

Due to the increase in the number of companies the vesting schedule has changed.

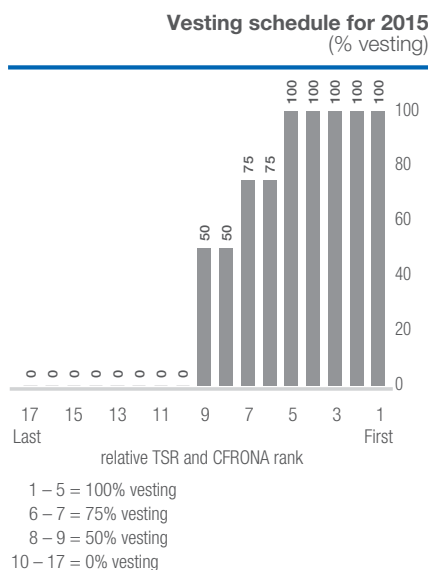
# compensation report continued

## Performance Share Plan

Vesting schedule for 2014:



Vesting schedule for 2015:



For the four-year period ending September 2013, Sappi's performance relative to the peer group measured on TSR was ranked in 12th place out of 15 companies, which meant that no TSR component shares vested on the due date in December 2013.

The determination of the vesting of the shares was provided by Kepler Associates, an independent third party. The 50% TSR portion of the total 2009 awards therefore lapsed on the due date in December 2013.

Sappi's performance relative to the peer group measured on CFRONA for the same period resulted in 75% of this portion of the

awards vesting, as Sappi's performance was ranked in 5th place. The determination of the vesting of this portion of the shares was verified by KPMG Auditors.

In aggregate, therefore 37.5% of the total 2009 awards vested.

In December 2009, Mr Boöttger was granted 195,000 conditional performance plan shares of which 73,125 vested in December 2013.

Mr Binnie joined Sappi in July 2012 and therefore did not have any shares possible for vesting in December 2013.

In December 2009, Mr Pearce was granted 51,300 conditional performance plan shares of which 19,238 vested in December 2013.

The historical vesting of Performance Share Plan awards:

Share awards	2011	2012	2013
TSR	0%	0%	0%
CFRONA	100%	75%	75%
Aggregate	50%	37.5%	37.5%

In December 2013, Mr Boöttger sold a sufficient number of shares that vested in the 2014 financial year to defray tax payable on the vested shares. Mr Boöttger did not sell any of his beneficially held shares during the year.

Mr Binnie was awarded 110,000 conditional performance plan shares in December 2013 and a further 200,000 conditional plan shares in July 2014 on his appointment to the role of Chief Executive Officer, in line with the plan rules.

Mr Pearce was awarded 33,000 conditional performance plan shares in December 2013, in his capacity then as Chief Financial Officer Sappi Europe.

Mr Boöttger was not granted any performance share plan awards in December 2013.

### 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, namely the ESOP (Employee Share Ownership Plan) and MSOP (Management Share Ownership Plan). 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 2014, the resulting dilution effect would be 3.58% (2013: 3.76%) 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

There is no explicit requirement for executive directors and Executive Committee members to hold a specific number of shares during their employment with the company.

### Separation contract

Mr Boöttger was diagnosed with a serious illness in May 2013. He received medical treatment and was advised by his medical team that he should cease work. Mr Boöttger agreed to continue in office until such time that he or the board agreed it was no longer in the best interests of the company and himself for him to remain in office.

The committee, with the approval of the board, agreed a separation package to be paid to Mr Boöttger.

Mr Boöttger left Sappi at the end of June 2014. He was paid a lump sum payment of US\$4,738,780. In determining the

separation package paid to Mr Boëttger, the committee used the company's permanently disabled policy payment practice as a guide. Mr Boëttger agreed to forfeit all unvested performance share plan awards (595,000 shares) at the date of his termination of employment with Sappi.

In December 2014, Mr Boëttger will be paid a pro-rata bonus of US\$501,587 for the nine months October 2013 to June 2014 of the financial year that he worked.

### Service contracts

Mr Boëttger had an ongoing employment contract which required nine months' notice of termination by the employee and 18 months' notice of termination by the company.

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

Mr Pearce has 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 60 years. The retirement age of Executive Committee members is generally between the ages of 60 years and 65 years, and differs by region.

## Remuneration disclosure of executive directors and prescribed officers

### Executive directors' emoluments for 2014 (US\$)

Executive director	Base salary	Retirement funding and medical insurance	Other payments	Annual cash bonus	Total 2014	Total 2013
RJ Boëttger	526,113	151,224	4,738,780	501,857	5,917,974	913,820
SR Binnie	375,121	109,229	–	355,990	840,340	450,893
GT Pearce	333,053	64,551	58,843	201,486	657,933	–

→ Base salary – the actual salary earned during 2014.

→ 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 benefits – Mr Boëttger – the value of the separation package paid to him.

Mr Pearce – the value of a relocation allowance and schooling for his children.

→ Annual cash bonus – the actual bonus earned in 2014 based on the rules of the Management Incentive Scheme.

→ Long-term incentive – conditional performance plan shares awarded in 2014 financial year which will vest in 2018.

### Prescribed officers/Executive Committee members (US\$)

Prescribed officers are members of the Group Executive Committee. The table below sets out the remuneration for prescribed officers for 2014:

Prescribed officer	Base salary	Retirement funding and medical insurance	Other payments	Annual bonus	Total 2014	Total 2013
Officer 1	837,782	138,668	3,394	525,051	1,504,895	929,929
Officer 2	494,541	49,631	–	–	544,172	714,844
Officer 3	333,243	64,124	–	281,892	679,259	651,642
Officer 4	305,845	86,863	409	217,871	610,988	401,146
Officer 5	312,760	46,104	141,185	179,854	679,903	371,021
Officer 6	163,453	51,638	–	118,682	333,773	218,305
Officer 7	226,368	100,942	341	199,020	526,671	–

# social, ethics, transformation and sustainability committee report

for the year ended September 2014

## Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2014. The SETS Committee is a statutory committee with a majority of independent non-executive members, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has 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 No 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 four 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 businesses are operated to ensure that the group not only complies with but fully implements all requirements. The committee addresses issues relating to corporate social investment, ethical conduct, 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 or prevailing codes of best practice. The committee will meet a minimum of three times per year.

## Membership of the committee

The members of the SETS Committee during the 2014 financial year were:

- Mr JD McKenzie (Chairman)
- Mr RJ Boëttger (resigned 30 June 2014)
- Mr SR Binnie (appointed 01 July 2014)
- Mr RJ DeKoch
- Mr MV Moosa
- Mrs B Radebe
- Dr R Thummer

Four 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 during the year:

- Reviewed and approved the corporate social responsibility (CSR) programmes and policy.
- Reviewed the CSR programme.
- Reviewed Sappi's standing in terms of social and economic development in terms of the goals and purposes of:
  - The principles set out in the United Global Compact Nations
  - The OECD recommendations regarding corruption
  - The Employment Equity Act, and
  - The Broad-based Black Economic Empowerment Act.
- Reviewed the roll out of the revised Code of Ethics.
- Reviewed the South African Skills Audit as well as the training and development plan.
- 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 implications for Sappi of the changes to the BBBEE Act and the revised forestry sector BBBEE codes.
- Reviewed the Sappi Southern Africa Transformation Charter.

- Reviewed Sappi's standing in terms of the International Labour Organisation protocol on decent work and working conditions.
- Reviewed the safety programmes and safety performance.
- Reviewed the group supplier and wood and fibre procurement policies.
- Reviewed the company's Sustainability Charter.
- Reviewed regional sustainability performance against goals for 2014.
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability.
- Reviewed the participation of the company in various sustainability surveys and indices.
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2014.
- Reviewed the SETS Committee report for the Integrated Report as well as sustainability information presented in the 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.

## JD McKenzie

*Chairman*

Social, Ethics, Transformation and Sustainability Committee

12 December 2014



# 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 processes, quality management, and a range of other line management interventions.

The Sappi group risk 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 Sappi's strategy and compatible with it. 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 III.

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.

For a detailed discussion of the group's risk factors please see the separate risk analysis, which is available on the group's website [www.sappi.com](http://www.sappi.com). 

## Top 10 ranked 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 continually 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 European business. We are also taking steps to improve the performance of our Southern African paper and packaging paper business. 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.

### 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 speciality 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.

### 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

\* See definition on page 106.

# risk management continued

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 note on Sustainability).

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 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](http://www.sappi.com).

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

We require substantial amounts of wood, chemicals and energy for our production activities. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment. 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 and investigating biofuel opportunities.

**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 fiscal 2014, 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. One of our strategic objectives is to extend the specialised cellulose customer base.

**9. A large percentage of our employees are unionised and wage demands 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.



# Chief Financial Officer's report – Section 1

## financial highlights



**Glen Pearce**  
Chief Financial Officer

US\$ million	2014	2013	% Change
Sales	<b>6,061</b>	5,925	2
EBITDA excluding special items	<b>658</b>	528	25
Operating profit excluding special items	<b>346</b>	180	92
Profit (loss) for the year	<b>135</b>	(182)	n/a
EBITDA excluding special items to sales (%)	<b>10.9</b>	8.9	n/a
Operating profit excluding special items to sales (%)	<b>5.7</b>	3.0	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	<b>10.8</b>	5.2	n/a
Net cash generated (utilised)	<b>243</b>	(247)	n/a
Net debt	<b>1,946</b>	2,247	(13)
Basic earnings (loss) per share (US cents)	<b>26</b>	(35)	n/a

The specialised cellulose investments completed during the previous fiscal year, realised their operating performance potential in the current year, increasing specialised cellulose sales volumes by 51%. The increase in higher margin business improved the group EBITDA margin to above 10%. Fiscal 2014 was, however, characterised by selling price pressures in the European and North American regions, offset by tenacious efforts to reduce costs and restore margins. The South African paper operations reversed the loss-making performances of previous years to record a respectable return in the current year. The focus on strengthening the balance sheet was rewarded by a reduction in net debt to US\$1,946 million, assisted by the sale of non-strategic assets in the form of the Usutu forests in Swaziland for US\$97 million.

The transitional initiatives of the prior fiscal year realised rewards in the form of improved margins despite adverse macro events. The result is an improvement in consolidated EBITDA excluding special items from US\$528 million to US\$658 million in 2014. Included in the aforementioned results is EBITDA excluding special items from the Specialised Cellulose business of US\$226 million and US\$303 million respectively.

The European and South African paper businesses showed significant improvement during the year. The European environment remains challenging and our operations have responded well by

implementing cost reduction initiatives in all areas of the business. Protracted negotiations with union representatives over the future of the Nijmegen Mill were concluded during June 2014 with the disposal of the mill to a third party. The primary markets for coated paper continue to contract, albeit at rates lower than expected. Managing capacity within the constraints of reducing demand remains a priority. The North American operations disappointed relative to previous performances following adverse selling price pressure and increases in variable costs due mainly to adverse weather conditions. Margins were restored in the final quarter of the year following a successful selling price increase.

Net cash generated for the year of US\$243 million included capital expenditure of US\$295 million. As a consequence of the cash generation and improved profitability, net debt to EBITDA reduced from 4.3 to 3.0 times. With the majority of the cash outlays occurring in 2013, we remain on course to achieve our long-term target of two times net debt to EBITDA. The available cash balances and debt maturity profile will provide us with opportunities in the year ahead to take advantage of the low interest rate environment to refinance the higher cost debt and reduce the group's finance charges.

### Segment reporting

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

As is required by IFRS 8 – *Operating Segments*, this is the basis on which financial and descriptive information is evaluated by our Executive Committee in deciding how to allocate resources and evaluate performance.

The Specialised Cellulose business has become increasingly important to the group. As such, selected product line information in the form of specialised cellulose 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 Dollars and the main exchange rates used in preparing the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2014	2013	2014	2013
EUR1 = US\$	<b>1.3577</b>	1.3121	<b>1.2685</b>	1.3522
US\$1 = ZAR	<b>10.5655</b>	9.2779	<b>11.2285</b>	10.0930

Two of our three geographic business units (Europe and Southern Africa) have home or 'functional' currencies other than US Dollars (our reporting currency). The revenue and cost items of the two non-US Dollar units are translated into US Dollars at the average exchange rate for the period in order to arrive at the group revenue and costs in US Dollars. When exchange rates differ from one period to the next, the impact on group revenue and costs in US Dollars can be large, but offset one another to a large extent at the net level (when netting costs against revenue).

## Section 2

# financial performance – group

The discussion in this section focuses on the group financial performance in 2014 compared with 2013. 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:

US\$ million	2014	2013	% Change
Sales volume (metric tons '000)	7,524	7,466	1
	<b>US\$ million</b>	<b>US\$ million</b>	<b>% Change</b>
<b>Sales revenue</b>	<b>6,061</b>	5,925	2
Variable manufacturing and delivery costs	(3,887)	(3,768)	3
Fixed costs	(1,837)	(1,943)	(5)
Sundry items <sup>(1)</sup>	9	(34)	n/a
<b>Operating profit excluding special items</b>	<b>346</b>	180	92
Special items	(32)	(161)	(80)
<b>Operating profit</b>	<b>314</b>	19	1,553
Finance costs	(177)	(186)	(5)
Taxation	(2)	(15)	(87)
<b>Net profit (loss)</b>	<b>135</b>	(182)	n/a
Basic earnings per share (US cents)	26	(35)	n/a

<sup>(1)</sup> 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 2014, sales volume increased by 58,000 tons, or 1%, compared with 2013. The regional contributions to sales volume are shown below:

Sales volume (metric tons '000)	2014	2013	% Change
Europe	3,303	3,367	(2)
North America	1,454	1,298	12
<i>Paper and pulp (excluding dissolving wood pulp)</i>	<b>1,151</b>	1,252	(8)
<i>Dissolving wood pulp</i>	<b>303</b>	46	559
Southern Africa	2,767	2,801	(1)
<i>Paper and pulp (excluding dissolving wood pulp)</i>	<b>810</b>	871	(7)
<i>Dissolving wood pulp</i>	<b>896</b>	748	20
<i>Forestry</i>	<b>1,061</b>	1,182	(10)
<b>Group</b>	<b>7,524</b>	7,466	1

Trading conditions in many of our markets continued to be difficult throughout the year.

Volumes in Europe were impacted adversely by the continuing drop in demand for coated paper. Speciality paper achieved strong growth and this performance reinforces our decision to convert the Alfeld coated woodfree machine to speciality paper. Production on this machine commenced during this financial year.

In North America, paper pulp sales volumes decreased significantly due to the conversion at the Cloquet Mill. The business managed to maintain coated paper sales volumes in line with last year.


Similarly, paper volumes in South Africa were lower, but offset by increased specialised cellulose volumes following the conversion at Ngodwana Mill.

European capacity utilisation was in line with last year. In North America utilisation improved slightly. In Southern Africa capacity utilisation was below last year mainly due to the ramp up of the dissolving wood pulp production.

Sales volume to capacity	2014	2013
Europe	89%	89%
North America	96%	94%
Southern Africa	87%	91%
<b>Group</b>	<b>90%</b>	91%

### Sales revenue

Sales revenue increased by 2% from US\$5.9 billion in 2013 to US\$6.1 billion in 2014. The increase was due to the higher sales volumes discussed above and an improved sales mix. Selling price pressure in North America and Europe was partially offset by price increases in South Africa.

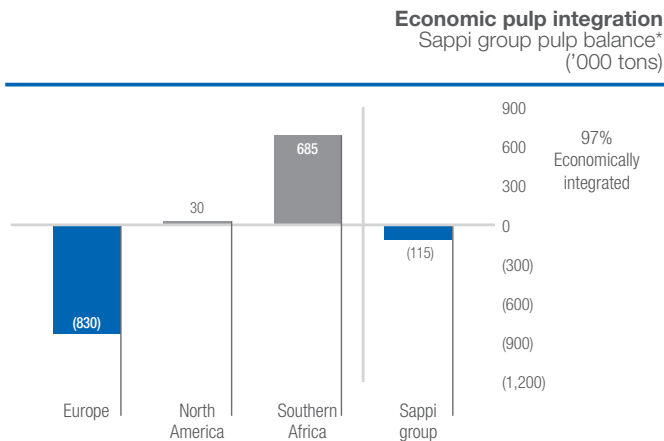
The positive exchange rate gain detailed on the bridge chart on page 73, was the result of a stronger average Euro rate  partially offset by a weaker Rand.

### Variable and delivery costs

Variable and delivery costs increased by US\$119 million, or 3%, from 2013. The increase was proportionally larger than the increase in sales volumes and reflects the increases experienced in delivery, wood and pulp costs. The procurement team was able to achieve significant cost savings in chemicals.

Pulp prices increased throughout the 2014 financial year. The Northern Bleached Softwood Kraft index (NBSK), which represents a significant portion of our external pulp purchases by value, was US\$871 per ton at the beginning of the year and had risen to US\$932 per ton at the end of the year.

Sappi is approximately 97% economically pulp integrated. See the graph below for the integration by region.



Metric tons '000	Europe	North America	Southern Africa	Sappi group
Pulp production capacity	1,170	855	1,510	3,535
Pulp requirement	(2,000)	(825)	(825)	(3,650)
<b>Net (purchases) sales</b>	<b>(830)</b>	<b>30</b>	<b>685</b>	<b>(115)</b>

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

Variable manufacturing and delivery costs (US\$ million)	2014	2013	% Change
Wood	664	641	4
Energy	529	547	(3)
Chemicals	914	946	(3)
Pulp and other	1,248	1,124	11
Delivery	532	510	4
<b>Group</b>	<b>3,887</b>	<b>3,768</b>	<b>3</b>

### Fixed costs

Fixed costs decreased by US\$106 million, or 5%, from last fiscal year. 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.

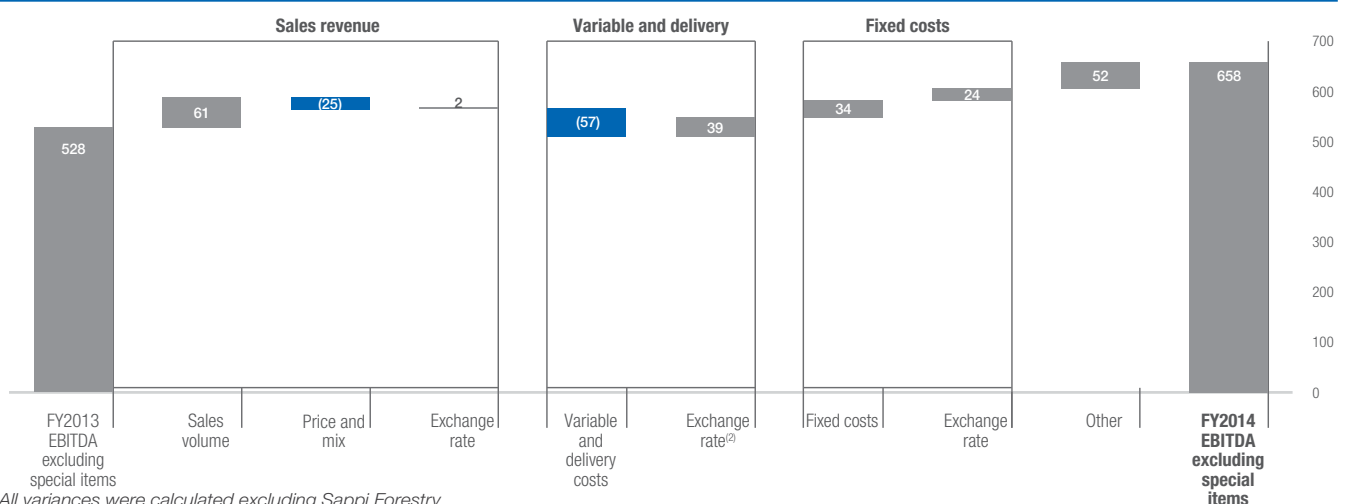
Fixed costs (US\$ million)	2014	2013	% Change
Personnel	1,050	1,056	(1)
Maintenance	238	254	(6)
Depreciation	310	345	(10)
Other	239	288	(18)
<b>Group</b>	<b>1,837</b>	<b>1,943</b>	<b>(5)</b>

### EBITDA and operating profit excluding special items

The first full year of our expanded specialised cellulose operations and the improved results of the European and South African paper operations increased margins substantially. The results were tempered by the North American paper business struggling with a reduction in selling prices and cost pressures. EBITDA excluding special items increased to US\$658 million, 25% higher than the US\$528 million achieved in 2013. Similarly, operating profit excluding special items improved from US\$180 million last year to US\$346 million in 2014.

The EBITDA bridge reflected in the graph below highlights the significant impact on profitability from higher sales volumes and fixed cost reduction. Exchange rate movements had a significant impact on both variable and fixed costs. In addition, the lower pricing in Europe and North America impacted profitability. The US\$52 million of other items reflected in the graph below mainly relates to insurance claim proceeds and pension fund settlement gains.

### Reconciliation of EBITDA excluding special items: 2014 compared to 2013<sup>(1)</sup> (US\$ million)



<sup>(1)</sup> All variances were calculated excluding Sappi Forestry.

<sup>(2)</sup> "Exchange rate" reflects the impact of changes in the average rates of translation of foreign currency results.

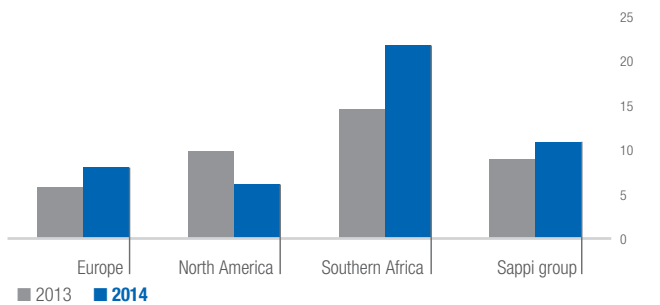
Section 2 continued

# financial performance – group continued

The tables below show the EBITDA and operating profit excluding special items of the business for both 2014 and 2013 and the margins of each.

EBITDA excluding special items by region US\$ million	2014	2013
Europe	249	183
North America	92	135
Southern Africa	312	204
Corporate and other	5	6
<b>Group</b>	<b>658</b>	<b>528</b>

EBITDA margin\* by region (%)

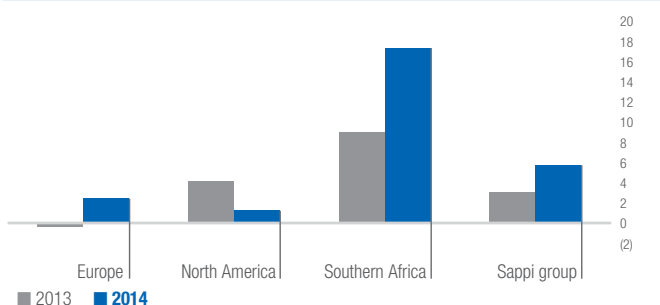


\* EBITDA excluding special items divided by sales

EBITDA excluding special items by product category US\$ million	2014	2013
Specialised cellulose (dissolving wood pulp)	303	226
Paper	350	296
Other	5	6
<b>Group</b>	<b>658</b>	<b>528</b>

Operating profit excluding special items by region US\$ million	2014	2013
Europe	75	(8)
North America	18	57
Southern Africa	248	125
Corporate and other	5	6
<b>Group</b>	<b>346</b>	<b>180</b>

Operating margin\* by region (%)

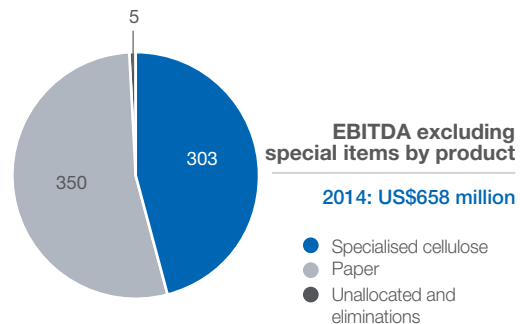
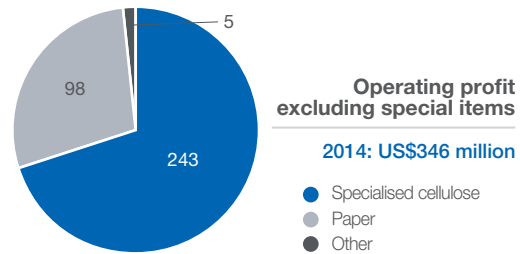


\* Operating profit excluding special items divided by sales

Operating profit excluding special items by product category  
US\$ million

	2014	2013
Specialised cellulose (dissolving wood pulp)	243	182
Paper	98	(8)
Other	5	6
<b>Group</b>	<b>346</b>	<b>180</b>

The charts below illustrate that despite the paper business only achieving a US\$98 million operating profit, it contributes 53% 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.



Europe and South Africa presented commendable improvements in EBITDA and operating income relative to last year. The European business more than set off sales price and volume reductions by aggressive cost reductions across all aspects of the business. As a consequence, the EBITDA margin improved from 6% to 8%. The South African operations took advantage of a weaker local currency in addition to optimising margin management throughout their product range, to record an impressive year-on-year improvement in EBITDA margin from 15% to 22%.

Conversely, North America was beset by decreasing sales prices and increasing costs resulting in margin squeeze and a reduction in EBITDA margin from 10% to 6%.

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

### Key operating targets

Our financial targets and performance against them are dealt with in some detail in the Letter to Shareholders on pages 8 to 11.

## Special items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2014 and 2013 is reflected in the table below:

Special items – (losses) gains US\$ million	2014	2013
Plantation price fair value movement	18	87
Net restructuring provisions and loss on disposal of assets and businesses	(23)	(99)
Impairment of goodwill	(1)	–
Asset impairments	–	(155)
Post-retirement plan amendment	–	24
Black Economic Empowerment charge	(2)	(3)
Fire, flood, storm and other events	(24)	(15)
<b>Total</b>	<b>(32)</b>	<b>(161)</b>

The net impact of special items was to reduce our net profit in 2014 by US\$32 million. The major components are described below:

- A positive non-cash US\$18 million plantation price fair value adjustment was recognised following cost decreases offset by an increase in the weighted average prices
- Cost cutting initiatives aimed at our European coated mechanical business resulted in a US\$18 million charge with an additional net US\$12 million charge taken for general cost restructures across the group
- The sale of our Nijmegen Mill and Usutu Forests resulted in a profit on disposal of US\$10 million
- A transitional agreement to sell 52,000 tons as part of the Nijmegen sale resulted in lost contribution of US\$10 million to the group. Our Tugela Mill incurred property and business interruption damage amounting to US\$9 million following its press roll failure and roof collapse.

## Finance costs

US\$ million	2014	2013
Net interest paid	185	188
Net foreign exchange gains	(7)	(1)
Net fair value gain on financial instruments	(1)	(1)
<b>Total</b>	<b>177</b>	<b>186</b>

Finance costs in financial year 2014 of US\$177 million were US\$9 million lower than last year mainly as a result of favourable foreign exchange rate movements.

## Taxation

The tax expense was reduced from US\$15 million in 2013 to US\$2 million in 2014. The group's effective tax rate was 1%. A regional breakdown of the tax charge is provided below:

Taxation US\$ million	Profit (loss) before tax	Tax (charge) relief	Effective tax rate %
Europe	(98)	3	(3)
North America	(7)	55	(786)
Southern Africa	242	(60)	(25)
<b>Group</b>	<b>137</b>	<b>(2)</b>	<b>(1)</b>

The loss before tax in Europe includes once-off expenses related to restructuring. We do not recognise tax relief on all pre-tax losses as, in our judgement, there is not sufficient certainty that we will generate adequate profits to recover the losses in the near future. We have substantial unrecognised losses in Austria, Finland, Belgium and the Netherlands which will shield any profits in those countries in the future.

The North American tax relief is due to the recognition of a deferred tax asset of US\$53 million. During 2009 and 2010, Sappi North America was eligible for the Alternative Fuel Mixture Credit subsidy (a cash credit of US\$0.50 per gallon of black liquor mixed with diesel fuel). The refundable tax credits were treated as taxable income at the time, due to a lack of any clear guidance from the tax authorities. We received formal confirmation during the year that the tax credits did not constitute taxable income, thereby increasing our net operating losses carried forward. The company believes that there will be sufficient taxable profits to utilise these net operating losses. Under US tax law, net operating losses can be carried forward for a period of 20 years.

The Southern African tax rate of 25% reflects the statutory tax rate of 28%. No tax was charged on the profit generated from the Usutu sale.

## Net profit, earnings per share and dividends

After taking into account finance costs and taxation, our net profit and earnings per share for 2014, with comparatives for 2013, were as follows:

US\$ million	2014	2013
Operating profit	314	19
Finance costs	177	186
Profit (loss) before taxation	137	(167)
Taxation	(2)	(15)
<b>Profit (loss) for the period</b>	<b>135</b>	<b>(182)</b>
Weighted average number of shares in issue (millions)	522.5	521.3
<b>Basic earnings (loss) per share (US cents)</b>	<b>26</b>	<b>(35)</b>

The directors decided not to declare a dividend until the group's financial leverage further improves towards our target of two times net debt to EBITDA.

## 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.

### Europe

	2014	2013	% Change
Sales volume (metric tons '000)	3,303	3,367	(2)

	€ million 2014	€ million 2013	% Change	€ per ton 2014	€ per ton 2013	% Change
Sales	2,288	2,405	(5)	693	714	(3)
Variable manufacturing and delivery costs	(1,533)	(1,627)	(6)	(464)	(483)	(4)
Contribution	755	778	(3)	229	231	(1)
Fixed costs	(700)	(757)	(8)	(212)	(225)	(6)
Sundry costs and consolidation entries	–	(27)	(100)	–	(8)	(100)
<b>Operating profit (loss) excluding special items</b>	<b>55</b>	(6)	n/a	<b>17</b>	(2)	n/a
<b>EBITDA excluding special items</b>	<b>183</b>	139	32	<b>55</b>	41	34

The European business continued to face declining demand, although not to the degree initially anticipated. Cost initiatives were implemented to counter the declining demand in order to maintain and improve margins. Consequently EBITDA excluding special items increased from €139 million to €183 million – an improvement of 32%.

Graphics sales volumes reduced in line with market developments at an average of approximately 3.5%. The volume development includes the impact of the disposal of the Nijmegen Mill, which was completed in the third fiscal quarter. The sale contract included a 52,000 ton transition agreement with the acquirer, which was largely completed during the fourth quarter. The benefits of reduced capacity and the carouselling of production to other Sappi mills will be fully effective in fiscal 2015. The above was offset by an increase in speciality sales volumes of 8% resulting in a net total reduction for the year of 2%. Graphic sales prices reduced by 4% in a market which is attempting to manage over-capacity and reducing demand. An improved sales mix resulting from a growth in speciality sales, restricted the total reduction in net sales per

ton to 3%. During the latter part of the fiscal year, a more direct go-to-market strategy was implemented which is expected to help restore margins in the forthcoming year closer to acceptable levels.

The price of raw materials remained relatively stable throughout the year, however, usage improvements and favourable product mix management reduced variable manufacturing and delivery costs per ton by 4%. Fixed costs were aggressively tailored to the reduced demand requirements. The benefit from the reduced Nijmegen Mill's fixed cost base was effective from the fourth quarter.

The project to convert the PM2 at the Alfeld Mill to 100,000 tons of speciality paper per annum was completed during the first fiscal quarter. Qualification of products took longer than expected and had an adverse effect on efficiency levels during the earlier part of the year. Quality acceptance and the resultant increase in order intake took place during the latter half of the year.

## North America

	2014	2013	% Change			% Change
Sales volume (metric tons '000)	1,454	1,298	12			
	<b>US\$ million 2014</b>	US\$ million 2013	% Change	<b>US\$ per ton 2014</b>	US\$ per ton 2013	% Change
Sales	1,517	1,377	10	1,043	1,061	(2)
Variable manufacturing and delivery costs	(1,024)	(846)	21	(704)	(652)	8
Contribution	493	531	(7)	339	409	(17)
Fixed costs	(464)	(474)	(2)	(319)	(365)	(13)
Sundry costs and consolidation entries	(11)	–	n/a	(8)	–	n/a
<b>Operating profit excluding special items</b>	<b>18</b>	57	(68)	<b>12</b>	44	(73)
<b>EBITDA excluding special items</b>	<b>92</b>	135	(32)	<b>63</b>	104	(39)

Significant margin squeeze defined the North American business, as selling prices came under pressure due to coated market dynamics and excess specialised cellulose global supply and costs increased in large part due to weather impacts. Total EBITDA excluding special items declined from US\$135 million in 2013 to US\$92 million this year. EBITDA margin reduced from 10% last year to 6% during 2014.

The average selling price for both coated paper and specialised cellulose declined by 2% compared to last year, while variable manufacturing costs per ton increased by 8%. Wood and energy costs were the main contributors to the increase, both being influenced by adverse weather conditions. Coated paper volumes sold were similar to last year and specialised cellulose volumes reflected a full year of production following the successful conversion to dissolving wood pulp at the Cloquet Mill during fiscal 2013.

In response to the margin squeeze, the North American region reduced fixed costs by 2%. The lower fixed costs include a reduced depreciation charge following a reassessment of the useful lives of the pulp mill equipment from 20 years to 30 years. The reduction in fixed costs did not sufficiently offset the impact of the margin squeeze and operating income for the year reduced to US\$18 million, from US\$57 million the previous year.

There were encouraging signs during the final quarter of the year including the successful announcement of price increases in the coated reels market, which took effect in July 2014. Additionally, North America coated capacity closures have recently been announced in the market, which will further improve market dynamics.

## Southern Africa

	2014	2013	% Change			% Change
Sales volume (metric tons '000)						
Pulp and paper	1,706	1,619	5			
Forestry	1,061	1,182	(10)			
<b>Total</b>	<b>2,767</b>	2,801	(1)			
	<b>ZAR million 2014</b>	ZAR million 2013	% Change	<b>ZAR per ton 2014</b>	ZAR per ton 2013	% Change
Sales	15,183	12,924	17	5,487	4,614	19
Variable manufacturing and delivery costs	(8,252)	(7,302)	13	(2,982)	(2,607)	14
Contribution	6,931	5,622	23	2,505	2,007	25
Fixed costs	(4,448)	(4,407)	1	(1,608)	(1,573)	2
Sundry income (costs) and consolidation entries	137	(55)	(349)	50	(20)	(350)
<b>Operating profit excluding special items</b>	<b>2,620</b>	1,160	126	<b>947</b>	414	129
<b>EBITDA excluding special items</b>	<b>3,296</b>	1,893	74	<b>1,191</b>	676	76

## Section 3 continued

## financial performance – regional

continued

The marked improvement in the South African business bears testament to decisions made in the past. Although the performance was assisted by a weakening currency, good cost control and margin management were worthy contributors. The region's EBITDA excluding special items for the year increased to ZAR3,296 million compared to ZAR1,893 million in 2013. EBITDA margin improved to 22% from a prior year 15% margin. The sale of the Usutu forests for ZAR1 billion added to a meaningful cash generated by the region.

Improvements in the paper and packaging business were particularly encouraging as they reversed the loss of the previous period. Although volumes were down by 7%, a better product mix and price increases resulted in margin improvement. The business did experience input cost pressures mainly in energy, imported chemicals, wood and pulp costs, as reflected in the 14% cost per ton increase in variable costs. Delivery costs were also higher by 5%. Production at the Tugela Mill was hampered by a

press roll failure as well as a roof beam incident, which resulted in a total cost of ZAR93 million. Both incidents were within the Sappi captive retention and as a result were not submitted to the reinsurance market.

The specialised cellulose sales volumes were 20% higher than last year due to the addition of the Ngodwana volumes for a full year. Selling prices in Rand terms were 12% higher than the previous year as a result of the weaker currency. Pricing in USD terms came under pressure towards the latter part of the year.

Fixed costs were well controlled, increasing in absolute terms by 1%. The restriction in the increase in fixed costs was mainly due to a reduction in the depreciation charge as mentioned above in the North American section. Excluding the benefit of the reduced depreciation charge, cash fixed costs increased by 4% during the year.

**Major sensitivities**

Some of the more important factors which impact the group's operating profit 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%	23	15	158	–	60
Dissolving wood pulp prices	1%	–	2	82	–	10
Variable costs	1%	13	8	85	–	34
Sales volume	1%	8	5	62	–	21
Fixed costs	1%	8	5	46	–	19
Paper pulp price	US\$10	5	2	17	–	10
Wood prices	1%	2	2	7	–	5
ZAR/US\$	10 cents	–	–	76	(2)	5
Euro/US\$	10 cents	–	3	–	7	10

\* Based on currency impact on translation of operating profit.

The table demonstrates that operating profit excluding special items is most sensitive to changes in the selling prices of our products.

A rise in international paper pulp prices negatively impacts the European, Southern African and North American business as these operations are net purchasers of paper pulp.

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 statement of cash flows for 2014 and 2013 in a summarised format:

US\$ million	2014	2013
Operating profit excluding special items	346	180
Depreciation and amortisation	312	348
<b>EBITDA excluding special items</b>	<b>658</b>	528
Contributions to post-employment benefits	(70)	(74)
Other non-cash items	22	7
<b>Cash generated from operations</b>	<b>566</b>	447
Movement in working capital	34	(20)
Capital expenditure	(295)	(552)
Finance costs	(162)	(164)
Taxation	(1)	(17)
Net proceeds on disposal of assets and businesses	87	53
Other	14	6
<b>Net cash generated (utilised)</b>	<b>243</b>	(247)

Sappi generated net cash of US\$243 million during 2014, following the utilisation of US\$247 million in 2013. Higher operating profits, optimisation of working capital, a reduction in tax payments and higher proceeds from the disposal of assets contributed to the improved performance.

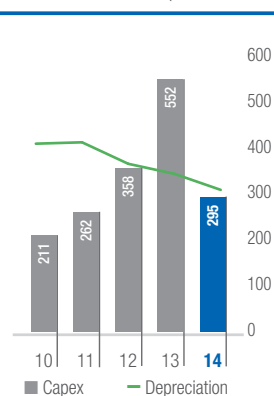
The net reduction in working capital of US\$34 million primarily arose from a reduction in inventories. Working capital management remains a high priority and is discussed in more detail in the balance sheet in Section 5.

Capital expenditure was actively managed to a level below US\$300 million. Sappi incurred US\$147 million on projects to increase capacity or improve efficiency. These projects mainly relate to our dissolving wood pulp conversions, the conversion of Alfeld Mill and some energy projects. The remainder of the expenditure was spent on projects to maintain our production facilities. We estimate our future annual maintenance capital expenditure to be approximately US\$150 million.

Cash finance costs for the year of US\$162 million were US\$2 million less than last year because of overall lower net debt levels, in particular in Southern Africa.

An objective for our group is to sell any non-core or underperforming assets. During the year the group disposed of its subsidiary, Usutu Forests Products Company Limited, for an amount of US\$97 million (ZAR1 billion) which includes a vendor loan note of US\$8 million (ZAR90 million) which is repayable over six years at prime plus 2%. The disposal group, which consisted mainly of plantations, was held within the group's South African operations. The proceeds on sale together with an improved operating performance resulted in an increase in cash and cash equivalents.

**Investment in fixed assets versus depreciation**  
(US\$ million)




## Section 5

# balance sheet

### Summarised balance sheet

US\$ million	2014	2013
Property, plant and equipment	<b>2,841</b>	3,078
Plantations	<b>430</b>	464
Net working capital	<b>390</b>	383
Other assets	<b>248</b>	358
Net post-employment liabilities	<b>(454)</b>	(409)
Other liabilities	<b>(465)</b>	(483)
<b>Employment of capital</b>	<b>2,990</b>	3,391
Equity	<b>1,044</b>	1,144
Net debt	<b>1,946</b>	2,247
<b>Capital employed</b>	<b>2,990</b>	3,391

Sappi has 16 mills in seven countries, capable of producing approximately four million tons of pulp and six million tons of paper. For more information on our mills, their production capacities and products, please refer to pages 20 and 24. 

During 2014, capital expenditure for property, plant and equipment was US\$295 million. Currency translation differences reduced the net book value by US\$172 million compared to 2013.

The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US\$22 billion.

### Property, plant and equipment

The cost, depreciation and impairments related to our property are set out in the table below.

#### Book value of property, plant and equipment


US\$ million	2014	2013
Cost	<b>8,721</b>	9,190
Accumulated depreciation and impairment	<b>5,880</b>	6,112
<b>Net book value</b>	<b>2,841</b>	3,078

### Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource which gives us access to low cost fibre for our pulp production and ensures continuity of an important raw material input source. We currently have an excess supply of softwood plantations and continue to explore opportunities to dispose of certain forests to generate additional cash.

We currently have access to approximately 357,000 hectares of plantable land of which approximately 343,000 hectares are planted with pine and eucalyptus. Our plantations provide approximately 69% of the wood requirements for our Southern Africa mills.

During the year there was a nominal price increase and, as we manage our plantations on a sustainable basis, the growth was largely offset by fellings in the year. The principal movement related to a reduction in the carrying value was due to the weaker South African Rand versus the US Dollar at year-end when translating into our reporting currency.

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 group annual  financial statements we provide more detail about our accounting policies for plantations.

### Working capital

The component parts of our working capital at the 2014 and 2013 financial year-ends are shown in the table below:

#### Net working capital

US\$ million	2014	2013
Inventories	<b>687</b>	728
Trade and other receivables	<b>731</b>	747
Trade and other payables	<b>(1,028)</b>	(1,092)
<b>Net working capital</b>	<b>390</b>	383

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\$390 million in 2014 from US\$383 million in 2013. The material movements in working capital are discussed below:

- Inventories decreased by US\$41 million, mainly due to a currency translation impact of US\$39 million
- Receivables continue to be tightly managed and reduced by US\$16 million. After taking into consideration the currency translation impact of US\$31 million receivables actually increased by US\$15 million. The increase in receivables is due to higher sales volumes and an outstanding receivable of US\$8 million relating to the sale of Usutu Forest Products Company
- The reduction in payables by US\$64 million is due to lower accruals of US\$33 million for capital projects following the completion of the specialised cellulose expansion projects and the reduction of restructuring provisions by US\$44 million as we implemented further cost containment initiatives, particularly in the European region.

### Post-employment liabilities

We operate various defined benefit pension, post-retirement medical aid and other employee benefits in the various countries in which we operate. A summary of defined benefit assets and liabilities (pension and post-retirement medical aid) is as follows:

#### Defined benefit liabilities

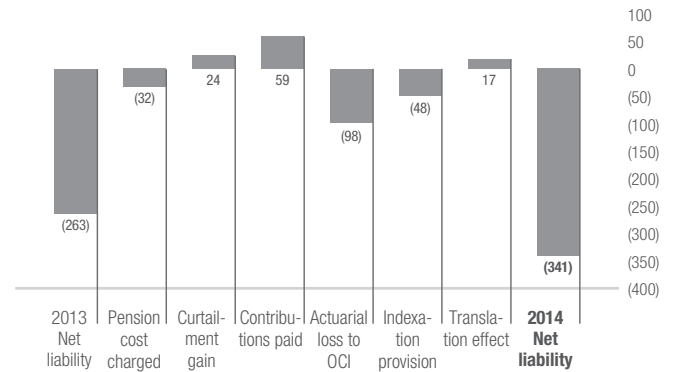
US\$ million	2014	2013
Liabilities of funded defined benefit liabilities	(1,911)	(1,672)
Assets of funded defined benefit liabilities	1,701	1,560
Net deficit on funded plans	(210)	(112)
Liabilities on unfunded plans	(244)	(297)
<b>Net balance sheet liability</b>	<b>(454)</b>	(409)
Cash contributions to defined benefit plans	65	71
Assets allocated to previously unfunded post-retirement medical aid liability	39	-
Income statement charge to defined benefit plans	44	54
Net credit from plan amendments, settlements and curtailments	(26)	(29)
Portion of cash contributions deemed 'catch-up' to prefunded plans	26	29
Portion of cash contributions deemed 'catch-up' to unfunded plans	11	14

The liabilities of our funded plans increased by US\$239 million and for our unfunded plans reduced by US\$53 million compared with last year. Combined, gross liabilities rose significantly by US\$186 million, due to the effects of lower discount rates determined from yields in respective bond markets of the regions that our plans exist (the reduction in unfunded plan liabilities is due to a US\$61 million liability reclassification to funded). The overall movement in gross liabilities also includes a US\$48 million provision for indexation allowances restored to a plan in Europe.

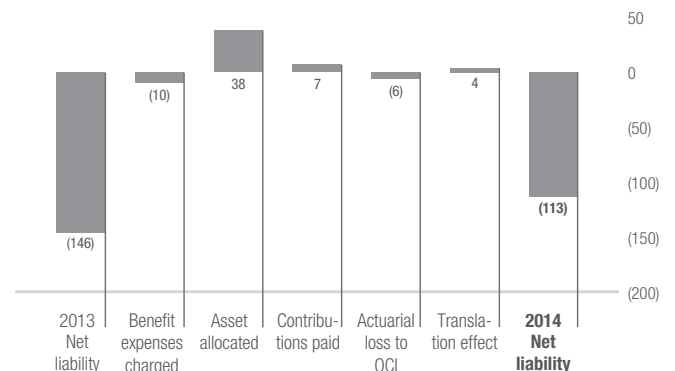
Assets increased by US\$141 million over the year. This was due to strong investment returns across all regions and the inclusion of US\$39 million of company assets to post-retirement medical aid liability in South Africa (previously treated as unfunded liabilities). Investment strategies of our funded plans include a portion of assets invested to hedge against actuarial losses of the corresponding liabilities, contributing to the strong investment returns of our plan assets over the year.

Since the increase in liabilities was greater than the increase in assets, the overall net liability increased by US\$45 million as at September 2014. A reconciliation of the movement in the balance sheet over the year is disclosed in note 28 of the annual financial statements.

#### Defined benefit pensions Sources of credits and debits to the balance sheet asset (US\$ million)



#### Post-retirement medical aid liability Sources of credits and debits to the balance sheet asset (US\$ million)




### Equity

Year-on-year, equity decreased by US\$100 million to US\$1,044 million as summarised below:

#### Equity reconciliation

US\$ million	2014
Equity at September 2013	1,144
Profit for the year	135
Actuarial losses on post-employment benefit funds	(152)
Exchange differences on translation of foreign operations	(71)
Movements in hedging reserves	(24)
Share-based payments	12
<b>Equity at September 2014</b>	<b>1,044</b>

More detail on the movement in equity can be found in the statement of changes in equity in the financial statements. 

### 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.

# Section 5 continued

## balance sheet continued

### Structure of net debt and liquidity

We believe the liquidity position is good, with cash holdings exceeding short-term obligations by US\$365 million at 2014 year-end. In addition, we have US\$537 million unutilised committed facilities, including a revolving credit facility in Europe of €350 million (US\$444 million).

The structure of our net debt at September 2014 and 2013 is summarised below:

US\$ million	2014	2013
<b>Long-term debt</b>	<b>2,311</b>	2,499
Secured debt	1,355	1,376
Unsecured debt	671	741
Securitisation funding	374	403
Less: Short-term portion	(89)	(21)
<b>Net short-term debt/(cash)</b>	<b>(365)</b>	(252)
Overdrafts and short-term loans	74	79
Short-term portion of long-term debt	89	21
Less: Cash	(528)	(352)
<b>Net debt</b>	<b>1,946</b>	2,247

### Movement in net debt

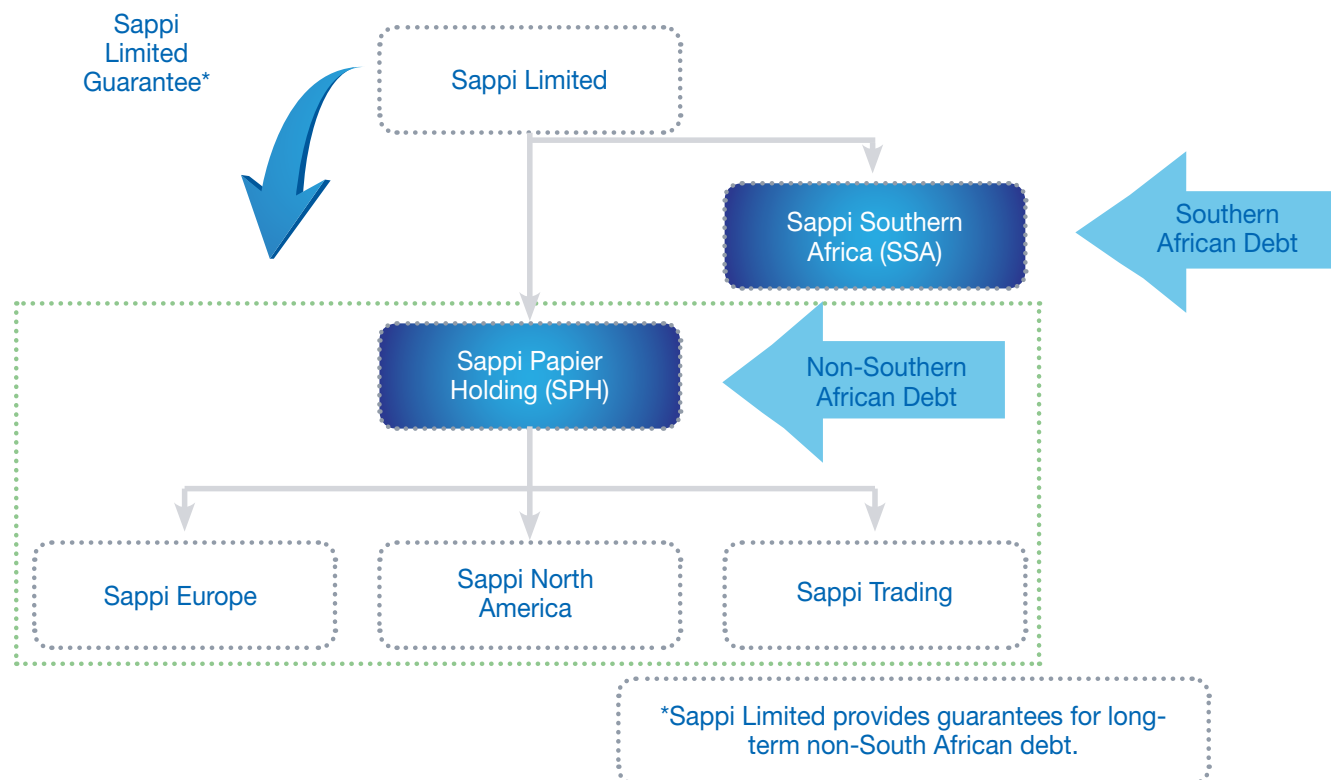
The movement of our 2014 net debt over fiscal 2013 is explained in the table below:

US\$ million	2014
Net debt at September 2013	2,247
Net cash generated in 2014	(243)
Currency translation impact	(61)
Fair value and other non-cash adjustments	2
Other	1
<b>Net debt at September 2014</b>	<b>1,946</b>

### Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local South African market for its own funding requirements and Sappi Papier Holding GmbH, which is the international holding company, issues debt in the international money and capital markets to fund our non-South African businesses. Sappi Papier Holding'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.



## Group debt profile

We show the major components and maturities of our net debt at September 2014 below. These are split between our debt in South Africa (where we have an investment grade rating) and our debt outside South Africa (where our credit rating is sub-investment grade) – see more on our 'Credit Rating' below.

US\$ million	Amount	Local interest rate weighted	Fixed/variable	Maturity (Sappi fiscal years)				
				2015	2016	2017	2018	Thereafter
<b>South Africa</b>								
Bank debt	36	7.85%	Fixed**			–		36
Bonds	244	8.04%	Fixed**	67	67	–	45	66
Gross debt	280							
Less: Cash	(183)			(183)		–		
<b>Net South Africa debt</b>	<b>97</b>			<b>(116)</b>	<b>67</b>	<b>–</b>	<b>45</b>	<b>102</b>
<b>Non-South African</b>								
Securitisation	374	2.03%	Variable		374			
OeKB loan	173	3.90%	Variable	22	22	24	104	
Other bank debt	77	0.93%	Variable	74	0.4	0.4	0.3	1.9
2017 Bonds (US\$)	400	7.75%	Fixed			400		
2018 Bonds (EUR)	317	6.63%	Fixed				317	
2019 Bonds (US\$)	300	8.38%	Fixed					300
2021 Bonds (US\$)	350	6.63%	Floating*					350
2032 Bonds	221	7.50%	Fixed					221
IFRS adjustments	(18)							
Gross debt	2,193							
Less: Cash	(345)			(345)				
<b>Net non-South Africa debt</b>	<b>1,849</b>			<b>(249)</b>	<b>397</b>	<b>425</b>	<b>421</b>	<b>873</b>
<b>Net group debt</b>	<b>1,946</b>			<b>(365)</b>	<b>464</b>	<b>425</b>	<b>465</b>	<b>975</b>

\* Fixed rate bond swapped to floating

\*\* Floating rate bonds/bank loans swapped to fixed

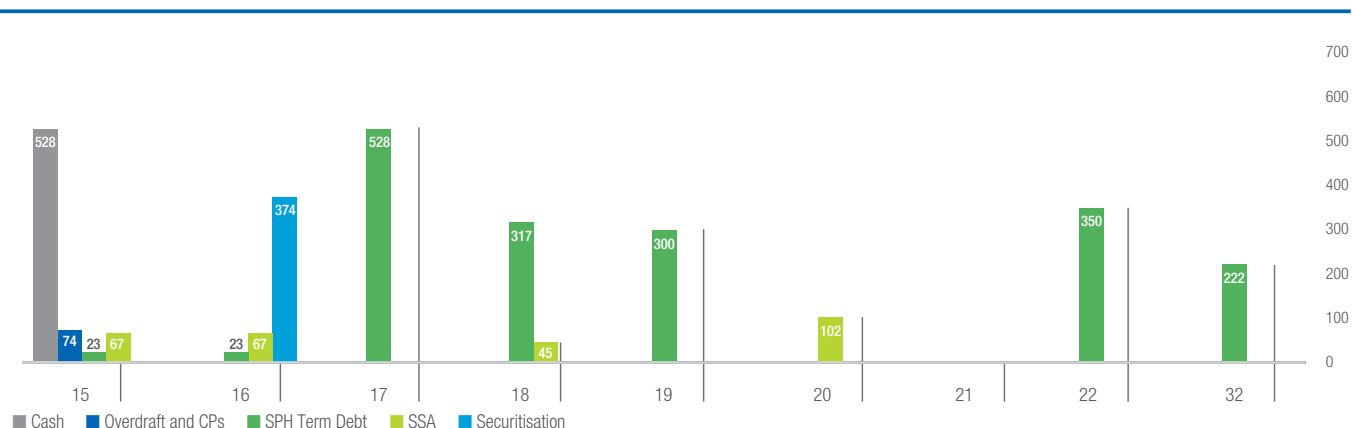
Shaded area is secured debt

The shaded debt components are secured by claims over certain of our non-South African fixed assets, inventories in North America, the pledge of shares of certain subsidiaries and upward guarantees by some of our subsidiaries.

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 is shown below:

**Debt maturity profile**  
(US\$ million)



Outside South Africa we do not have any material debt maturities until the Sappi Papier Holding securitisation programme matures in 2016. In line with previous years it is the intention to renew this programme to 2018 in the course of the 2015 financial year. The South African business has public bonds of US\$66.8 million and US\$67.2 million that will mature in 2015 and 2016 respectively. The intention is to repay the maturing 2015 bond from cash resources.

## Section 5 continued

# balance sheet continued

### Covenants

#### Non-South African covenants

Financial covenants apply to US\$173 million of our non-South African bank debt, the €350 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 4.50-to-1 at the end of September 2014, reducing over the term of the facility to 3.75-to-1 by March 2016;
- the ratio of group EBITDA to net interest expense be not less than 2.50-to-1 at the end of September 2014, and remain at this level over the term of the facility.

The table below shows that at September 2014 we were well in compliance with these covenants.

Non-South Africa covenants	2014	Covenant
Net debt to EBITDA	2.99	<4.50
EBITDA to net interest	3.66	>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, including the payment of dividends. As regards dividend payments, the group is restricted from paying cash dividends in certain circumstances, for example if the net debt to EBITDA ratio exceeds 4-to-1 or if the EBITDA to net interest is less than 2-to-1. In addition, any cash dividends paid may not exceed 50% of net profit excluding special items after tax and certain other adjustments.

#### 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 any quarter 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 2014 the South African financial covenants were comfortably met.

South African covenants	2014	Covenant
Net debt to equity	10.90%	<65%
EBITDA to net interest	12.93	>2.00

#### Credit ratings

At the date of this Integrated Report, our credit ratings were as follows:

#### Fitch: South African national rating

Sappi Southern Africa Limited A-/F1/Stable (February 2014)

#### Moody's

Sappi Corporate Credit Rating: Ba3/NP/Stable (May 2014)  
 Secured Debt Rating Ba2 (May 2014)  
 Unsecured Debt Rating B2 (May 2014)

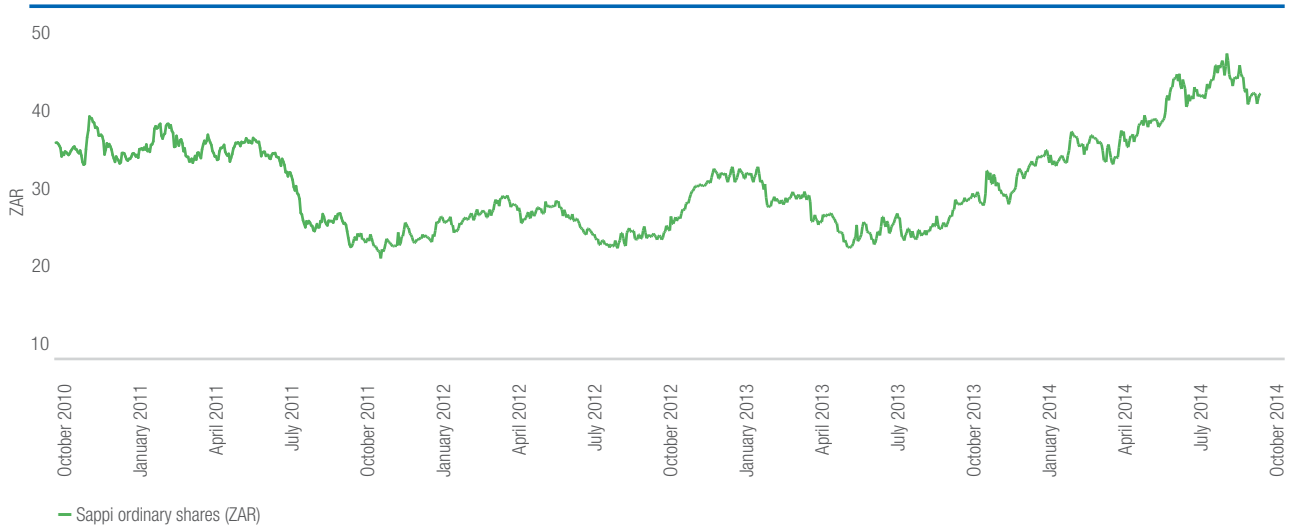
#### Standard & Poor's

Corporate Credit Rating: BB-/B/Stable (April 2014)  
 Secured Debt Rating BB (April 2014)  
 Unsecured Debt Rating B (April 2014)

## Section 6

## share price performance

Sappi share price – 01 October 2010 to 31 October 2014

**Conclusion**

The years preceding the current fiscal year, have been preoccupied with developing a strategy to manage the declining coated paper demand and exploiting revenue streams in growth businesses. Tailoring capacity to demand reductions has resulted in expensive mill closures or conversions, while investments in the Cloquet, Ngodwana and Alfeld Mills have placed the business under considerable financial strain. Fiscal 2014 was the first full year of delivering on the investment strategy, and we are pleased to report that it has met and in some cases exceeded expectations. The year ahead will have the inevitable challenges in a constantly changing environment, but the foundation has proven itself to be sound in the current fiscal period.

Capacity management and cost control will be an ongoing theme, which will in part, be dictated by macro events. Cash generation and the ability to take advantage of a historically low interest rate environment will be an area of focus in the year ahead. The debt maturity profile is well balanced to provide the group with the flexibility to achieve our short and long-term strategy.

**GT Pearce**

*Chief Financial Officer*

12 December 2014

# five year review

for the year ended September 2014

US\$ million	2014	Restated			
		2013	2012	2011	2010
<b>Income statement</b>					
Sales	<b>6,061</b>	5,925	6,347	7,286	6,572
Variable manufacturing and delivery costs	<b>3,887</b>	3,768	3,919	4,559	4,008
Fixed costs	<b>1,837</b>	1,943	1,986	2,296	2,157
Sundry expenses <sup>(1)</sup>	<b>(9)</b>	34	33	27	67
Operating profit excluding special items	<b>346</b>	180	409	404	340
Special items – losses (gains)	<b>32</b>	161	(18)	318	(2)
Operating profit	<b>314</b>	19	427	86	342
Net finance costs	<b>177</b>	186	306	327	276
Profit (loss) before taxation	<b>137</b>	(167)	121	(241)	66
Taxation charge	<b>2</b>	15	28	9	18
Profit (loss) for the year	<b>135</b>	(182)	93	(250)	48
EBITDA excluding special items	<b>658</b>	528	778	821	753
<b>Balance sheet</b>					
Total assets	<b>5,465</b>	5,727	6,168	6,308	7,184
Non-current assets	<b>3,505</b>	3,787	4,031	4,127	4,701
Current assets	<b>1,960</b>	1,940	2,137	2,181	2,483
Current liabilities	<b>1,223</b>	1,212	1,315	1,652	2,039
Shareholders' equity	<b>1,044</b>	1,144	1,525	1,478	1,896
Net debt	<b>1,946</b>	2,247	2,020	2,142	2,269
Gross interest-bearing debt	<b>2,474</b>	2,599	2,624	2,739	3,013
Cash	<b>(528)</b>	(352)	(604)	(597)	(744)
Capital employed	<b>2,990</b>	3,391	3,545	3,620	4,165
<b>Cash flow</b>					
Cash generated from operations	<b>566</b>	447	728	798	737
Decrease (increase) in working capital	<b>34</b>	(20)	(102)	(98)	(5)
Finance costs paid	<b>(170)</b>	(171)	(206)	(266)	(206)
Finance revenue received	<b>8</b>	7	11	10	12
Taxation paid	<b>(1)</b>	(17)	(20)	(38)	(9)
Cash generated from operating activities	<b>437</b>	246	411	406	529
Net cash generated (utilised)	<b>243</b>	(247)	127	163	341
Cash effects of financing activities	<b>(36)</b>	(8)	(103)	(296)	(256)
Capital expenditure (gross)	<b>295</b>	552	358	262	211
To maintain operations	<b>148</b>	116	177	213	173
To expand operations	<b>147</b>	436	181	49	38

<sup>(1)</sup> 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	Restated				
	2014	2013	2012	2011	2010
<b>Statistics</b>					
<b>Number of ordinary shares (millions)</b>					
In issue at year-end <sup>(1)</sup>	524.2	521.5	520.8	520.5	519.5
Basic weighted average number of shares in issue during the year <sup>(1)</sup>	522.5	521.3	520.8	519.9	516.7
<b>Per share information (US cents)</b>					
Basic earnings (loss)	26	(35)	18	(48)	9
Diluted earnings (loss)	26	(35)	18	(48)	9
Headline earnings (loss)	31	(10)	7	(19)	6
Diluted headline earnings (loss)	31	(10)	7	(19)	6
Net asset value	199	219	293	284	365
<b>Profitability ratios (%)</b>					
Operating profit to sales	5.2	0.3	6.7	1.2	5.2
Operating profit excluding special items to sales	5.7	3.0	6.4	5.5	5.2
EBITDA excluding special items to sales	10.9	8.9	12.3	11.3	11.5
Operating profit excluding special items to capital employed (ROCE)	10.8	5.2	11.4	10.4	7.9
Return on average equity (ROE)	12.3	(13.6)	6.2	(14.8)	2.6
<b>Debt ratios (%)</b>					
Net debt to total capitalisation	65.1	66.3	57.0	59.2	54.5
<b>Efficiency ratios</b>					
Asset turnover (times)	1.1	1.0	1.0	1.2	0.9
Inventory turnover ratio	7.8	7.3	7.6	8.6	6.9
<b>Liquidity ratios</b>					
Current asset ratio	1.6	1.6	1.6	1.3	1.2
Trade accounts receivable days outstanding (including receivables securitised)	45	47	44	43	54
Cash interest cover (times)	3.1	2.7	2.4	2.4	2.5
<b>Other non-financial information<sup>(2)</sup></b>					
Sales volumes	7,524	7,466	7,705	7,898	7,894
Number of full-time equivalent employees	13,064	13,665	14,039	14,862	15,586
Lost-time injury frequency rate (including contract employees)	0.53	0.56	0.56	0.62	0.51
<b>Energy</b>					
Specific net purchased energy (GJ/adt)	13.29	13.81	14.25	15.74	15.92
Renewable energy to total energy (%)	53.93	52.34	50.27	49.03	48.69
<b>Water</b>					
Specific process water drawn (m <sup>3</sup> /adt)	35.41	35.88	35.00	34.73	35.13
Specific process water returned (m <sup>3</sup> /adt)	33.22	33.67	33.28	32.65	33.20
<b>Waste</b>					
Specific total landfill (ton/adt)	0.071	0.073	0.075	0.081	0.076
<b>Emissions</b>					
Specific scope 1 emissions (ton CO <sub>2</sub> eq/adt)	0.61	0.61	0.65	0.68	0.66
Specific scope 2 emissions (ton CO <sub>2</sub> eq/adt)	0.21	0.21	0.23	0.25	0.28
<b>Exchange rates</b>					
Period end rate: €1 = US\$	1.2685	1.3522	1.2859	1.3386	1.3491
Average rate for the YTD: €1 = US\$	1.3577	1.3121	1.2988	1.3947	1.3658
Period end rate: US\$1 = ZAR	11.2285	10.0930	8.3096	8.0963	7.0190
Average rate for the YTD: US\$1 = ZAR	10.5655	9.2779	8.0531	6.9578	7.4917

Refer to share statistics on pages 88 and 89 for other market and share related information.

<sup>(1)</sup> Net of treasury shares (refer to note 18 to the group annual financial statements).

<sup>(2)</sup> Certain energy, water, waste and emissions data for the comparative years have been restated using latest measurement methodology.

**Note:** Definitions for various terms and ratios used above are included in the Glossary on page 106. 

# share statistics

at September 2014

## Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares <sup>(1)</sup>	% of shares in issue
1 – 5,000	4,870	80.9	3,232,216	0.6
5,001 – 10,000	211	3.5	1,600,651	0.3
10,001 – 50,000	349	5.8	8,453,665	1.6
50,001 – 100,000	149	2.5	10,650,801	2.0
100,001 – 1,000,000	353	5.9	108,136,627	20.7
Over 1,000,000	88	1.4	392,085,648	74.8
	6,020	100.0	524,159,608	100.0

<sup>(1)</sup> The number of shares excludes 17,286,615 treasury shares held by the group.

## Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.18
Group directors	0.18
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2014 was 6,012)	99.82
	100.00

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2014, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	75,909,326	14.5

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2014, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	72,757,711	13.9
Coronation Fund Managers	70,314,713	13.4
Investec Asset Management	70,224,642	13.4
Public Investment Corporation	61,989,863	11.8
Prudential Portfolio Advisors	39,311,636	7.5


Share statistics	2014	2013	2012	2011	2010
Ordinary shares in issue (millions) <sup>(1)</sup>	<b>524.2</b>	521.5	520.8	520.5	519.5
Net asset value per share (US cents)	<b>199</b>	219	293	284	365
Number of shares traded (millions)					
JSE	<b>296.9</b>	323.3	365.3	469.1	467.0
New York	<b>2.0</b>	3.1	2.8	6.3	11.3
Value of shares traded					
JSE (ZAR million)	<b>10,500.0</b>	8,634.7	9,262.9	15,786.4	14,859.9
New York (US\$ million)	<b>6.1</b>	8.8	8.9	31.1	46.4
Percentage of issued shares traded	<b>57.0</b>	62.6	70.7	91.3	92.1
Market price per share					
– year-end JSE (South African cents)	<b>4,337</b>	2,549	2,366	2,385	3,565
New York (US\$)	<b>3.85</b>	2.49	2.85	3.04	5.14
– highest JSE (South African cents)	<b>4,755</b>	3,300	2,999	3,962	3,792
New York (US\$)	<b>4.25</b>	3.89	3.73	5.95	5.14
– lowest JSE (South African cents)	<b>2,525</b>	2,204	2,092	2,107	2,539
New York (US\$)	<b>2.47</b>	2.28	2.57	2.92	3.27
Earnings yield (%) <sup>(2)</sup>	<b>6.73</b>	negative	6.32	negative	1.83
Price/earnings ratio (times) <sup>(2)</sup>	<b>14.86</b>	negative	15.82	negative	54.67
Total market capitalisation (US\$ million) <sup>(2)</sup>	<b>2,025</b>	1,317	1,484	1,535	2,639

<sup>(1)</sup> The number of shares excludes 17,286,615 treasury shares held by the group.

<sup>(2)</sup> 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 106. 

# summarised financial statements

These summarised group results comprise a summary of the audited group annual financial statements for the year ended September 2014 that were approved by the board on 12 December 2014. The preparation of the audited group annual financial statements was supervised by the Chief Financial Officer, GT Pearce CA(SA) and have been audited by the independent auditors, Deloitte & Touche, whose unmodified audit report is available for inspection at the group's registered office. The summarised group results are not the group's statutory accounts and do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarised group results, therefore, is not a substitute for reading the audited group annual financial statements, as they do not contain sufficient information to allow for a complete understanding of the results and state of affairs of the group. The audited group annual financial statements are available online at [www.sappi.com](http://www.sappi.com), or can be  obtained from the Company Secretary.

## Basis of preparation

The summarised group results are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and must contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these summarised group results are consistent with those applied in the group annual financial statements.

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# independent auditor's report

on the summarised consolidated financial statements

## To the shareholders of Sappi Limited

The accompanying summarised report set out on pages 97 to 105, which comprises the summarised consolidated balance sheet as at September 2014, the summarised consolidated income statement, summarised consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited annual consolidated financial statements of Sappi Limited for the year ended September 2014. We expressed an unmodified audit opinion on those annual consolidated financial statements in our report dated 12 December 2014. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph 'Other reports required by the Companies Act'.

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa as applicable to consolidated annual financial statements. Reading the summarised consolidated annual financial statements, therefore, is not a substitute for reading the audited annual consolidated financial statements of Sappi Limited.

## Directors' responsibility for the summarised consolidated financial statements

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements for summarised reports, set out in the Basis of preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on the summarised consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810 *Engagements to Report on Summary Financial Statements*.

## Opinion

In our opinion, the summarised consolidated financial statements derived from the audited annual consolidated financial statements of Sappi Limited for the year ended September 2014 are consistent, in all material respects, with those annual consolidated financial statements, in accordance with the requirements for summarised reports, set out in Basis of preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised consolidated financial statements.

## Other reports required by the Companies Act

The 'Other reports required by the Companies Act' paragraph in our audit report dated 12 December 2014, states that as part of our audit of the annual consolidated financial statements for the year ended September 2014, we have read the Directors' report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited annual consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

## Other matter

We have not audited future financial performance and expectations by management included in the accompanying summarised consolidated financial statements and accordingly do not express any opinion thereon.

## Deloitte & Touche Registered Auditor

Per RC Campbell  
Partner

12 December 2014  
Johannesburg  
South Africa

*National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting K Black Clients & Industries JK Mazzocco Talent & Transformation MJ Jarvis Finance M Jordan Strategy S Gwala Managed Services TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board*

A full list of partners and directors is available on request

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

# audit committee report

for the year ended September 2014

## Introduction

The Audit Committee presents its report for the financial year ended September 2014. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

## Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Companies Act), the JSE Limited Listings Requirements and King III.

Committee performance:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group and, accordingly, made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Integrated Report
  - The group annual financial statements
  - The quarterly financial results

- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved internal audit charter.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

## Membership

The membership of the committee comprised exclusively of independent Non-executive Directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(appointed in January 2004, Chairman from January 2007)
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Mr GPF Beurskens	(appointed in January 2012)
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Mr MA Fallon	(appointed in January 2012)
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Mr NP Mageza	(appointed in February 2010)
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Mrs KR Osar	(appointed in November 2007)
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Biographical details of the current members of the committee are set out on pages 50 to 51 of this Integrated Report.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Risk Executive and the external auditors are also permanent invitees to the meeting. The Chairman of the board is entitled to attend meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

## External audit

The committee has satisfied itself through enquiry that the auditor of Sappi Limited is independent as defined by the Companies Act. Meetings were held with the auditor where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has reviewed the performance of the external auditors and nominated, for approval at the Annual General Meeting, Deloitte & Touche as the external auditor for the 2015 financial year. Mr Roy Campbell is the designated auditor and, in terms of the rotation requirements of the Companies Act, he will be in his fifth year as designated auditor of the company in 2015. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

### **Integrated Report and the group annual financial statements**

The Audit Committee has evaluated this Integrated Report and the group annual financial statements for the year ended September 2014. The Audit Committee has also considered the sustainability information as disclosed in this Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The group annual financial statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended this Integrated Report and the group annual financial statements for approval to the board. The board has subsequently approved the report and the group annual financial statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the internal audit function and external auditors, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

#### **D Konar**

*Chairman of the Audit Committee*

12 December 2014

# directors' report

for the year ended September 2014

The directors have pleasure in presenting their report for the year ended September 2014.

## Nature of business

Sappi Limited, the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 100 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

## Financial results

The group generated a profit of US\$135 million for the year ended September 2014 (basic earnings of 26 US cents) compared to a US\$182 million loss (loss of 35 US cents) for the prior year.

The increase in profit can be attributed to the delivery of substantially increased specialised cellulose sales volumes of 51% following the successful completion of our dissolving wood pulp conversion projects at our Ngodwana and Cloquet mills in the prior year, the steady improvement of our European graphic paper business following an intense and continued focus on cost reduction measures and our restructured South African paper packaging businesses which delivered an improved performance on the back of healthy demand and improved pricing.

Detailed commentary on the 2014 financial results is contained in various reviews throughout this Integrated Report.

## Dividends

The directors decided not to declare a dividend until the group's financial leverage further improves towards our target of two times net debt to EBITDA.

## Going concern

The directors believe that the group has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

## Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our Corporate Governance section contained in this Integrated Report for full details and to our website for Sappi's application of the principles of King III.

## Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability report in this Integrated Report.

## Significant announcements during the year under review and subsequent to year-end

The announcements were:

- In January 2014, it was announced that Ralph Boöttger would be relinquishing his position as Chief Executive Officer (CEO) and Executive Director on 30 June 2014. Ralph, who had been with Sappi as CEO for almost seven years, had been diagnosed with a serious illness and had taken the decision to step down.
- In February 2014, it was announced that Steve Binnie, then the Chief Financial Officer (CFO) of the company, would succeed Ralph Boöttger as CEO on 01 July 2014.
- In March 2014, it was announced that Glen Pearce, then the CFO of Sappi Europe, would be appointed as CFO and join the Sappi Limited board as an Executive Director on 01 July 2014.
- In June 2014, it was announced that Sappi had reached an agreement to dispose of its Nijmegen Mill to an affiliate of American Industrial Acquisition Corporation (AIAC). In terms of the sale agreement, the mill will manufacture speciality paper and will no longer be engaged in the coated graphic paper business. A transfer plan has been arranged with current graphic paper customers.
- In July 2014, it was announced that the conditions precedent to the announced sale by Sappi of Usutu Forest Products Company Limited to Montigny Investments Limited for ZAR1 billion in July 2013 had been met. The proceeds would be used for general corporate purposes and will reduce Sappi's net debt.
- In October 2014, the group utilised its existing cash resources to redeem US\$27 million (ZAR300 million) of its US\$67 million (ZAR750 million) public bonds due April 2015.

## Liquidity and financing

At September 2014, we had liquidity comprising US\$528 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US\$163 million, and US\$537 million available from undrawn committed facilities in Europe and South Africa.



Net debt decreased to US\$1,946 million (2013: US\$2,247 million) as a result of the group's improved net cash generation of US\$243 million (2013: utilisation of US\$247 million), excellent working capital management, reduced capital expenditure and the receipt of proceeds of US\$97 million (ZAR1 billion) from the sale of our Usutu forests to end the year within our 2014 target of below US\$2 billion. Details of our non-current borrowings are set out in note 21 to the group annual financial statements.

### 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. All production and distribution units are subjected 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 uncontrolled incidents.

Asset insurance is renewed on a calendar-year basis. The self-insured retention portion for any one property damage occurrence is US\$26 million (€20.5 million) with the annual aggregate set at US\$42 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit cover of US\$951 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

### Property, plant and equipment

Following the successful completion of the group's dissolving wood pulp conversion projects at Ngodwana and Cloquet mills in the prior year, the group's capital expenditure reduced to US\$257 million from US\$575 million. In addition, there were no material impairment charges compared to US\$155 million in the prior year.

See note 10 to the group annual financial statements for full details regarding our fixed assets.

### Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties (see note 27 to the group annual financial statements).

### Directors and secretaries

The composition of the board of directors is set out in Our Leadership section in this Integrated Report. During the year, the following changes occurred:

- Mr RJ Boöttger, Chief Executive Officer, resigned from the board for reasons of ill health with effect from 30 June 2014.
- Mr SR Binnie, previously Chief Financial Officer, was appointed as Chief Executive Officer with effect from 01 July 2014.
- Mr GT Pearce was appointed as Executive Director and Chief Financial Officer with effect from 01 July 2014.

In terms of the company's Memorandum of Incorporation, it will be necessary to confirm Mr Pearce's appointment at the forthcoming Annual General Meeting where he will retire from the board at that meeting, and being eligible, has offered himself for re-election.

At the end of September 2014, there were 14 directors, two of whom were executive directors. Eleven of the 12 non-executive directors were considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee. This included a more rigorous review of the independence of the two directors who have served more than nine years on the board, viz Dr D Konar and Mrs B Radebe. The conclusion was that the independence of character and judgement of both Dr Konar and Mrs Radebe was not in any way affected or impaired by their respective lengths of service.

In terms of the company's Memorandum of Incorporation, Dr DC Cronjé, Messrs NP Mageza, JD McKenzie, MV Moosa and Sir Nigel Rudd will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, including Mr Pearce, the board recommends each of them for re-appointment.

Details of the secretaries and their business and postal addresses are set out in the administration section of this Integrated Report.

### Directors' remuneration

The remuneration and fees of the directors of Sappi Limited are set out in note 35 to the group annual financial statements.

The beneficial interests of directors in the shares of the company including conditional share awards in terms of the Plan are set in notes 36 and 37 to the group annual financial statements.

# directors' report continued

for the year ended September 2014

## **Directors' and officers' disclosure of interests in contracts**

During the period under review, no contracts were entered into in which directors and officers had an interest and which affected the business of the group.

## **Directors' liabilities**

Directors and officers of the group are covered by directors' and officers' liability insurance.

## **Special resolutions**

The following is a list of the special resolutions passed by Sappi Limited and its South African incorporated subsidiaries during the year:

### **Sappi Limited**

- Increase in non-executive directors' fees
- Authority for the provision of direct or indirect financial assistance to related or inter-related companies

### **Sappi Southern Africa Limited**

- Authority for the provision of direct or indirect financial assistance to related or inter-related companies

### **Ngodwana Energy Proprietary Limited**

- Adoption of new Memorandum of Incorporation

### **Lomati Energy Proprietary Limited**

- Adoption of new Memorandum of Incorporation

### **Umkomaas Energy Proprietary Limited**

- Adoption of new Memorandum of Incorporation

### **Tugela Energy Proprietary Limited**

- Adoption of new Memorandum of Incorporation.

## **Subsidiary companies**

Details of the company's significant subsidiaries are set out in note 38 to the group annual financial statements.

# summarised group income statement

for the year ended September 2014

US\$ million	Note	Restated		
		2014	2013	2012
<b>Sales</b>		<b>6,061</b>	5,925	6,347
Cost of sales		<b>5,370</b>	5,285	5,549
Gross profit		<b>691</b>	640	798
Selling, general and administrative expenses		<b>352</b>	384	414
Other operating expenses (income)		<b>33</b>	244	(41)
Share of profit from associates and joint ventures		<b>(8)</b>	(7)	(2)
<b>Operating profit</b>	2	<b>314</b>	19	427
Net finance costs		<b>177</b>	186	306
Net interest expense		<b>185</b>	188	316
Net foreign exchange gain		<b>(7)</b>	(1)	(5)
Net fair value gain on financial instruments		<b>(1)</b>	(1)	(5)
<b>Profit (loss) before taxation</b>		<b>137</b>	(167)	121
Taxation		<b>2</b>	15	28
<b>Profit (loss) for the year</b>		<b>135</b>	(182)	93
<b>Basic earnings (loss) per share (US cents)</b>		<b>26</b>	(35)	18
Weighted average number of shares in issue (millions)		<b>522.5</b>	521.3	520.8
<b>Diluted earnings (loss) per share (US cents)</b>		<b>26</b>	(35)	18
Weighted average number of shares on fully diluted basis (millions)		<b>526.6</b>	521.3	522.2

# summarised group statement of comprehensive income

for the year ended September 2014

US\$ million	Restated		
	2014	2013	2012
Profit (loss) for the year	<b>135</b>	(182)	93
<b>Other comprehensive loss, net of tax</b>	<b>(247)</b>	(210)	(58)
<i>Item that will not be reclassified subsequently to profit or loss</i>	<b>(152)</b>	14	45
Actuarial gains (losses) on post-employment benefit funds	<b>(152)</b>	51	(71)
Tax effect on above items	<b>-</b>	(37)	116
	<b>(95)</b>	(224)	(103)
Exchange differences on translation of foreign operations	<b>(71)</b>	(225)	(60)
Movement on available-for-sale financial assets	<b>(2)</b>	-	1
Movements in hedging reserves	<b>(23)</b>	3	(47)
Tax effect on above items	<b>1</b>	(2)	3
<b>Total comprehensive (loss) income for the year</b>	<b>(112)</b>	(392)	35

# summarised group balance sheet

as at September 2014

US\$ million	Restated		
	2014	2013	2012
<b>Assets</b>			
<b>Non-current assets</b>	<b>3,505</b>	3,787	4,031
Property, plant and equipment	<b>2,841</b>	3,078	3,157
Plantations	<b>430</b>	464	555
Deferred tax assets	<b>138</b>	92	154
Other non-current assets	<b>96</b>	153	165
<b>Current assets</b>	<b>1,960</b>	1,846	2,137
Inventories	<b>687</b>	728	726
Trade and other receivables	<b>731</b>	748	800
Taxation receivable	<b>14</b>	18	7
Cash and cash equivalents	<b>528</b>	352	604
Assets held for sale	<b>–</b>	94	–
<b>Total assets</b>	<b>5,465</b>	5,727	6,168
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Ordinary shareholders' interest	<b>1,044</b>	1,144	1,525
<b>Non-current liabilities</b>	<b>3,198</b>	3,371	3,328
Interest-bearing borrowings	<b>2,311</b>	2,499	2,358
Deferred tax liabilities	<b>272</b>	267	319
Other non-current liabilities	<b>615</b>	605	651
<b>Current liabilities</b>	<b>1,223</b>	1,206	1,315
Interest-bearing borrowings	<b>163</b>	99	261
Overdrafts	<b>–</b>	1	5
Other current liabilities	<b>1,035</b>	1,094	1,023
Taxation payable	<b>25</b>	12	26
Liabilities associated with assets held for sale	<b>–</b>	6	–
<b>Total equity and liabilities</b>	<b>5,465</b>	5,727	6,168
Number of shares in issue at balance sheet date (millions)	<b>524.2</b>	521.5	520.8

## summarised group statement of cash flows

for the year ended September 2014

US\$ million	Restated		
	2014	2013	2012
<b>Profit (loss) for the year</b>	<b>135</b>	(182)	93
Adjustment for:			
Depreciation, fellings and amortisation	<b>371</b>	414	442
Taxation	<b>2</b>	15	28
Net finance costs	<b>177</b>	186	306
Defined post-employment benefits paid	<b>(70)</b>	(74)	(62)
Plantation fair value adjustments	<b>(86)</b>	(166)	(68)
Asset impairments	<b>–</b>	155	10
Net restructuring provisions and loss on disposal of assets and businesses	<b>23</b>	99	(65)
Other non-cash items	<b>14</b>	–	44
<b>Cash generated from operations</b>	<b>566</b>	447	728
Movement in working capital	<b>34</b>	(20)	(102)
Net finance costs paid	<b>(162)</b>	(164)	(195)
Taxation paid	<b>(1)</b>	(17)	(20)
<b>Cash generated from operating activities</b>	<b>437</b>	246	411
<b>Cash utilised in investing activities</b>	<b>(194)</b>	(493)	(284)
Capital expenditure <sup>(1)</sup>	<b>(295)</b>	(552)	(358)
Proceeds on disposal of non-current assets	<b>87</b>	53	71
Other movements	<b>14</b>	6	3
<b>Net cash generated (utilised)</b>	<b>243</b>	(247)	127
<b>Cash effects of financing activities</b>	<b>(36)</b>	(8)	(103)
Proceeds from interest-bearing borrowings	<b>–</b>	388	1,025
Repayment of interest-bearing borrowings	<b>(35)</b>	(389)	(1,066)
Cash costs attributable to refinancing transactions	<b>–</b>	(3)	(66)
Movement in overdrafts	<b>(1)</b>	(4)	4
<b>Net movement in cash and cash equivalents</b>	<b>207</b>	(255)	24
Cash and cash equivalents at beginning of year	<b>352</b>	604	597
Translation effects	<b>(31)</b>	3	(17)
<b>Cash and cash equivalents at end of year</b>	<b>528</b>	352	604

<sup>(1)</sup> Includes capitalised interest of US\$9 million and US\$6 million for the 2013 and 2012 financial years respectively.

## summarised group statement of changes in equity

for the year ended September 2014

US\$ million	Restated		
	2014	2013	2012
<b>Balance – beginning of year</b>	<b>1,144</b>	1,525	1,478
Total comprehensive (loss) income for the year	<b>(112)</b>	(392)	35
Transfers from the share purchase trust	<b>12</b>	3	2
Transfers of vested share options	<b>(7)</b>	(3)	(2)
Share-based payment reserve	<b>7</b>	11	12
<b>Balance – end of year</b>	<b>1,044</b>	1,144	1,525

# notes to the summarised group results

for the year ended September 2014

## 1. Restatement

### Adoption of IAS 19 (Revised) Employee Benefits

This standard, which is required to be applied retrospectively, was adopted by the group for the year ended September 2014. As a result of the change, the group now determines the net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability (asset). Previously, the group determined interest income on plan assets based on the assets' long-term rate of expected return. The group also reclassified the net interest expense (income) from operating profit (loss) to finance costs as an accounting policy choice.

The impact on profit or loss and other comprehensive loss is as follows:

US\$ million	2013			2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
<b>Condensed group income statement</b>						
Cost of sales	5,274	11	5,285	5,552	(3)	5,549
Selling, general and administrative expenses	384	–	384	417	(3)	414
Net finance costs	166	20	186	283	23	306
Taxation	25	(10)	15	34	(6)	28
(Loss) profit for the period	(161)	(21)	(182)	104	(11)	93
Basic (loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
Diluted (loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
<b>Condensed group statement of comprehensive income</b>						
<b>Items that will not be reclassified subsequently to profit or loss</b>						
Actuarial gains (losses) on post-employment benefit funds	20	31	51	(88)	17	(71)
Tax effect of above item	(27)	(10)	(37)	122	(6)	116

### Adoption of IFRS 10 Consolidated Financial Statements

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

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

The impact of this change is as follows:

US\$ million	2013			2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
<b>Condensed group balance sheet</b>						
Other non-current assets	120	33	153	124	41	165
Cash and cash equivalents	385	(33)	352	645	(41)	604
Net debt	2,214	33	2,247	1,979	41	2,020

US\$ million	2014	Restated	
		2013	2012
<b>2. Operating profit</b>			
Included in operating profit are the following items:			
Depreciation and amortisation	312	348	369
Fair value adjustment on plantations (included in cost of sales)			
Changes in volume			
Fellings	59	66	73
Growth	(68)	(79)	(83)
Plantation price fair value adjustment	(9)	(13)	(10)
	(18)	(87)	15
	(27)	(100)	5
Net restructuring provisions and loss (profit) on disposal of assets and businesses	23	99	(65)
Impairment of goodwill	1	–	–
Asset impairments	–	155	10
Post-retirement plan amendment	(21)	(24)	–
Black Economic Empowerment charge	2	3	3

US\$ million	2014	Restated	
		2013	2012
<b>3. Headline earnings (loss) per share</b>			
Headline earnings (loss) per share (US cents)	31	(10)	7
Weighted average number of shares in issue (millions)	522.5	521.3	520.8
Diluted headline earnings (loss) per share (US cents)	31	(10)	7
Weighted average number of shares on fully diluted basis (millions)	526.6	521.3	522.2
<b>Calculation of headline earnings (loss)</b>			
Profit (loss) for the year	135	(182)	93
Asset impairments	–	155	10
Loss (profit) on disposal of assets and businesses	29	2	(63)
Impairment of goodwill	1	–	–
Tax effect of above items	(1)	(27)	(2)
Headline earnings (loss)	164	(52)	38

US\$ million	2014	2013
<b>4. Capital commitments</b>		
Contracted	104	62
Approved but not contracted	126	195
	230	257

US\$ million	2014	2013
<b>5. Contingent liabilities</b>		
Guarantees and suretyships	23	33
Other contingent liabilities	26	11
	49	44

# notes to the summarised group results continued

for the year ended September 2014

## 6. Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates (pre-tax weighted average cost of capital), and volume and growth estimations.

Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value. Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Immature timber and mature timber that is to be felled in more than 12 months from the reporting date are valued using a 12 quarter rolling historical average price which, taking the length of the growth cycle of a plantation into account, is considered reasonable.

The fair value of plantations is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*.

US\$ million	2014	2013
Fair value of plantations at beginning of year	464	555
Additions	–	4
Gains arising from growth	65	79
Fire, flood, storms and related events	–	(4)
In-field inventory	(1)	1
Gain arising from fair value price changes	7	87
Harvesting – agriculture produce (fellings)	(57)	(66)
Transferred to assets held for sale	–	(93)
Translation differences	(48)	(99)
Fair value of plantations at end of year	430	464

At September 2013, plantations amounting to US\$86 million were disclosed as assets held for sale. In accordance with IAS 41 *Agriculture*, these plantations were carried at fair value. Before the disposal of the plantations in the current period, gains arising from growth amounted to US\$3 million, the price fair value adjustment amounted to US\$11 million and timber worth US\$2 million was felled in these plantations.

## 7. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available-for-sale financial assets. These have been categorised in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* per the table below.

US\$ million	Fair value hierarchy	Fair value <sup>(1)</sup>	
		2014	Restated 2013
Available-for-sale assets	Level 1	10	11
Available-for-sale assets	Level 2	–	40
Derivative financial assets	Level 2	13	21
Derivative financial liabilities	Level 2	59	101

<sup>(1)</sup> The fair value of the financial instruments are equal to their carrying value.

There have been no transfers of financial assets or financial liabilities between the categories of the fair value hierarchy.

The fair value of all external over-the-counter derivatives is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

The carrying amounts of other financial instruments which include accounts receivable, certain investments, accounts payable and current interest-bearing borrowings approximate their fair values.



## 8. Material balance sheet movements

Since the 2013 financial year-end, the ZAR and Euro have weakened just over 11% and 6% respectively to the US Dollar, the group's presentation currency, resulting in a similar decrease of the group's assets and liabilities held in the aforementioned functional currencies on translation to the presentation currency.

### **Property, plant and equipment**

The estimated useful life of the group's pulp mill equipment was extended from 20 to 30 years and, as such, the depreciation charge decreased by approximately US\$18 million on a comparative basis for the year ended September 2014.

### **Deferred tax assets**

During the year, the group received a final examination report from the US Internal Revenue Service regarding tax years under audit of the North American entity confirming that the Alternative Fuel Mixture Credit received in prior years was non-taxable. This credit was previously treated as taxable by the group. As a result, the group raised an additional deferred tax asset of US\$53 million in North America.

### **Cash and cash equivalents and assets held for sale**

The group disposed of its subsidiary, Usutu Forests Products Company Limited, for an amount of US\$97 million (ZAR1 billion) which includes a vendor loan note of US\$8 million (ZAR90 million) which is repayable over six years at prime plus 2%. The disposal group, which consisted mainly of plantations, was held within the group's South African operations. The proceeds on sale together with an improved operating performance resulted in an increase in cash and cash equivalents.

### **Interest-bearing borrowings**

Interest-bearing borrowings decreased due to the repayment of certain loans in South Africa. Additionally, US\$100 million was reclassified to short term as it falls due within the next 12 months.

### **Other non-current liabilities and other non-current assets**

The net increase in other non-current liabilities is due to actuarial losses incurred as a result of the effect of lower discount rates applied in valuing post-retirement benefit liabilities and the net effect of a once-off adjustment to a plan in Europe. This increase was offset by contributions paid, the effect of a purchase of a qualifying insurance asset, using available non-current assets, in respect of the South African post-retirement medical aid liability and, a reduction in derivative financial liabilities arising from the weakening of the Euro against the US Dollar.

### **Other current liabilities**

Other current liabilities decreased due to the payment of capital accruals related to our dissolving wood pulp projects and the utilisation of restructuring provisions. Restructuring provisions no longer required mainly related to Nijmegen Mill and were released following its sale.

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## 9. Post-balance sheet event

In October 2014, the group utilised its existing cash resources to redeem US\$27 million (ZAR300 million) of its US\$67 million (ZAR750 million) public bonds due April 2015.

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# notes to the summarised group results continued

for the year ended September 2014

US\$ million	Restated		
	2014	2013	2012
<b>10. Segment information</b>			
<b>Sales</b>			
North America	1,517	1,377	1,438
Europe	3,107	3,155	3,350
Southern Africa – Pulp and paper	1,368	1,316	1,475
Forestry	69	77	84
Total	6,061	5,925	6,347
<b>Operating profit (loss) excluding special items</b>			
North America	18	57	88
Europe	75	(8)	141
Southern Africa	248	125	182
Unallocated and eliminations <sup>(1)</sup>	5	6	(2)
Total	346	180	409
<b>Special items – losses (gains)</b>			
North America	2	(6)	7
Europe	33	142	(45)
Southern Africa	(12)	8	25
Unallocated and eliminations <sup>(1)</sup>	9	17	(5)
Total	32	161	(18)
<b>Segment operating profit (loss)</b>			
North America	16	63	81
Europe	42	(150)	186
Southern Africa	260	117	157
Unallocated and eliminations <sup>(1)</sup>	(4)	(11)	3
Total	314	19	427
<b>EBITDA excluding special items</b>			
North America	92	135	167
Europe	249	183	337
Southern Africa	312	204	275
Unallocated and eliminations <sup>(1)</sup>	5	6	(1)
Total	658	528	778
<b>Segment assets</b>			
North America	1,013	1,046	919
Europe	1,472	1,594	1,776
Southern Africa	1,289	1,556	1,646
Unallocated and eliminations <sup>(1)</sup>	(35)	(25)	20
Total	3,739	4,171	4,361

<sup>(1)</sup> Includes the group's treasury operations and the self-insurance captive.

## 10. Segment information *continued*

### Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit (loss) and profit (loss) for the period

Special items cover those items which management believes are material by nature or amount to the operating results and require separate disclosure.

US\$ million	2014	Restated	
		2013	2012
<b>EBITDA excluding special items</b>	<b>658</b>	528	778
Depreciation and amortisation	(312)	(348)	(369)
<b>Operating profit excluding special items</b>	<b>346</b>	180	409
Special items – (losses) gains	(32)	(161)	18
Plantation price fair value adjustment	18	87	(15)
Net restructuring provisions and loss (profit) on disposal of assets and businesses	(23)	(99)	65
Impairment of goodwill	(1)	–	–
Asset impairments	–	(155)	(10)
Post-retirement plan amendment	–	24	–
Black Economic Empowerment charge	(2)	(3)	(3)
Fire, flood, storm and related events	(24)	(15)	(19)
<b>Segment operating profit</b>	<b>314</b>	19	427
Net finance costs	(177)	(186)	(306)
<b>Profit (loss) before taxation</b>	<b>137</b>	(167)	121
Taxation	(2)	(15)	(28)
<b>Profit (loss) for the year</b>	<b>135</b>	(182)	93
<b>Reconciliation of segment assets to total assets</b>			
<b>Segment assets</b>	<b>3,739</b>	4,171	4,361
Deferred taxation	138	92	154
Cash and cash equivalents <sup>(1)</sup>	528	352	604
Other current liabilities	1,035	1,094	1,023
Taxation payable	25	12	26
Liabilities associated with assets held for sale	–	6	–
<b>Total assets</b>	<b>5,465</b>	5,727	6,168

<sup>(1)</sup> The comparative period has been restated for the adoption of IFRS 10 Consolidated Financial Statements by an amount of US\$33 million. Refer to note 1 for more detail.

# 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%

**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

**black liquor** – is 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

**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 wood fibre that has been produced in a chemical process

**CHP** – combined heat and power

**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 mechanical** – coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material

**coated woodfree** – coated paper made from chemical pulp which is made from wood fibre 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

**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

**Forestry SA** – largest forestry organisation representing growers of timber in South Africa

**FSC® and FSC™** – in terms of the Forest Stewardship Council® (FSC®) scheme, there are two types of certification. In order for land to achieve FSC™ endorsement, its forest management practices must meet the FSC™'s 10 principles and other assorted criteria. Logs with FSC™\* – FSC – C012316. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product. Sappi's Mills in South Africa are licenced – Cape Kraft Mill – FSC C074733, Enstra Mill – FSC C022126, Ngodwana Mill – FSC C021636, Saiccor Mill FSC C011012, Stanger Mill – FSC C019831, Tugela Mill – FSC C012468.

**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 gas (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

**Lignin** – is an organic substance that, with cellulose, forms the chief part of woody tissue.

**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

\* FSC – C012316 certified originate from own plantations as well as on the Sappi Grant Scheme (FSC – C017054) with other logs from controlled sources.

**Lost Time Injury Frequency Rate (LTIFR)** = number of Lost Time Injuries x 200,000 ÷ man hours

**Injury Index (II)** is a product of the LTIFR and the Lost Time Injury Severity Rate (LTISR) and provides an overall sense of safety within the measured unit, ie LTIFR x LTISR

**Lost Time Injury Severity Rate (LTISR)** = number of days lost to injury x 200,000 ÷ man hours

**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

**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 wood chips

**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

**NPO** – non-profit organisation

**natural/indigenous forest** – pristine areas not used commercially

**newsprint** – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

**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 world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

**plantation** – tree farms

**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** – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. The term also applies to 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
- Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity

**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

**speciality paper** – 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 tonnes 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 tonnes 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 wood fibres using heat and mechanical grinding or refining wood or wood chips

**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 that can be twisted to form yarn

**woodfree paper** – paper made from chemical pulp

**World Wide Fund for Nature (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

## glossary continued

**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

**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

**functional currency** – the currency of the primary economic environment in which the entity operates

**foreign operation** – an entity whose activities are based or conducted in a country or currency other than that of the reporting entity

**group** – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

**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; and
- is distinguished separately for financial and operating purposes

**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
- 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** – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

**Black Economic Empowerment charge** – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in the 2010 financial year

**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

**fellings** – the amount charged against the income statement representing the standing value of the plantations harvested

**headline earnings** – as defined in Circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

**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 believes are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

**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 adviser immediately.

Sappi Limited  
(Registration No 1936/008963/06)  
(‘Sappi’ or ‘the Company’)

The seventy-eighth Annual General Meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 11 February 2015 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 Annual General Meeting is Friday, 06 February 2015.

#### 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 2014, including the directors’ report, the report of the auditors and the report of the audit committee.

Abridged or summarised financial statements are contained on pages 97 to 105 of the Integrated Report. The complete annual financial statements for the year ended September 2014 are available on the Sappi website: [www.sappi.com](http://www.sappi.com)

“Resolved that the annual financial statements for the year ended September 2014 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

#### 2. Ordinary resolution number 2: Confirmation of appointment of directors appointed subsequent to the last Annual General Meeting and subsequent to the financial year-end, and re-election of those directors

##### Ordinary resolution number 2.1:

“Resolved that the appointment of Mr Glen Thomas Pearce with effect from 01 July 2014 is confirmed and as, in terms of Sappi’s Memorandum of Incorporation of Sappi, he retires from office at the conclusion of the Annual General Meeting at which this resolution is considered, he is re-elected as a director of Sappi.”

The board has evaluated the performance of Mr Pearce since his appointment to the board, and recommends and supports the confirmation of his appointment and his re-election. For Mr Pearce’s brief biographical details, refer note 1 under Notes on page 115.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

#### 3. Ordinary resolutions numbers 3.1 to 3.4: 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 note 2 under Notes on pages 115 to 116.

It is intended that all the directors who retire by rotation will, if possible, attend the Annual General Meeting, either in person or by means of videoconferencing.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required:

##### Ordinary resolution number 3.1:

“Resolved that Dr DC Cronjé 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 JD McKenzie is re-elected as a director of Sappi.”



**Ordinary resolution number 3.4:**

“Resolved that Mr MV Moosa is re-elected as a director of Sappi.”

**Ordinary resolution number 3.5:**

“Resolved that Sir Nigel Rudd 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 Report on Corporate Governance for South Africa (King III).

Section 94 of the Companies Act requires that, at each Annual General Meeting, 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 III 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.

No changes are proposed to the membership of the committee as elected in 2014.

Brief biographical details of each member of the Audit Committee are included in the biographies of all directors on pages 50 to 51 of the Integrated Report.

“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 GPF Beurskens	Member
4.3	Mr MA Fallon	Member
4.4	Mr NP Mageza	Member*
4.5	Mrs KR Osar	Member

in terms of the Companies Act, to hold office until the conclusion of the next Annual General Meeting and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King III 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 Annual General Meeting 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: Re-appointment of auditors**

The board has evaluated the performance of Deloitte & Touche and recommends and supports their re-appointment as auditors of Sappi.

“Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr RC Campbell) as the auditors of Sappi for the financial year ending September 2015 and to remain in office until the conclusion of the next Annual General Meeting.”

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

**6. Ordinary resolutions numbers 6.1 and 6.2: Provision of Sappi Shares 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 flexibility to utilise shares repurchased from time to time by a wholly owned subsidiary of Sappi and held in treasury by the 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.

In terms of the Schemes the combined maximum number of shares that can be issued pursuant to the Schemes is 42,700,870 shares (being 7.89% of the issued ordinary share capital of Sappi at 30 September 2014). As at 04 December 2014, 11,285,218 shares 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 31,415,652 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 13,151,207 Performance Share Plan awards which are still subject to vesting and 7,913,514 options which have not yet been exercised.

# notice to shareholders continued

As reported to shareholders in the 2014 notice of Annual General Meeting, with effect from the 2012 share-based award programme allocations, the Company has ceased allocating share awards which are not subject to any performance criteria. Instead only performance share plan awards are granted to all participants eligible for awards in terms of the Company's share-based incentive programmes. The Company will, however, still need to meet its obligations to deliver any shares which might arise from the vesting of share options which were made up until 2012 in terms of the Sappi Limited share incentive scheme, hence the inclusion of reference to the Sappi Limited share incentive trust in ordinary resolution number 6.2. (Maximum 7,913,514 shares)

## 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 allot and issue those shares in terms of the Plan."

## Ordinary resolution number 6.2

"Resolved as an ordinary resolution that any subsidiary of Sappi (Subsidiary) 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 acquired by that Subsidiary from time to time but not 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 Annual General Meeting 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 the compensation report on pages 61 to 67 of the 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 III.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 8. Special resolution number 1: Non-executive Directors' fees

"Resolved that, with effect from 01 October 2014 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
<b>1. Sappi Board fees<sup>(1)</sup></b>		
<b>Chairperson</b>	ZAR2,247,200*	ZAR2,393,300*
<i>* Inclusive of all Board Committee fees</i>		
<b>Lead independent director</b>		
If South African resident	ZAR490,620	ZAR522,500
If European resident	GBP62,795	GBP64,100
If USA resident	US\$91,710	US\$93,550
<b>Other directors</b>		
If South African resident	ZAR327,875	ZAR349,200
If European resident	GBP41,845	GBP42,700
If USA resident	US\$61,080	US\$62,350
	From	To
<b>2. Audit Committees<sup>(1)</sup></b>		
<b>Board Committee</b>		
<b>Chairperson</b>		
If South African resident	ZAR340,445	ZAR362,600
If European resident	GBP42,455	GBP43,350
If USA resident	US\$63,305	US\$64,600
<b>Other members</b>		
If South African resident	ZAR170,225	ZAR181,300
If European resident	GBP21,340	GBP21,800
If USA resident	US\$30,845	US\$31,500
<b>Regional Audit Committees</b>		
<b>Chairperson</b>		
If South African resident	ZAR42,900	ZAR45,700
	per meeting	per meeting
If European resident	GBP5,450	GBP5,575
	per meeting	per meeting
If USA resident	US\$7,740	US\$7,900
	per meeting	per meeting

	From	To
<b>3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees<sup>(1)</sup></b>		
<b>Chairperson</b>		
If South African resident	ZAR204,625	ZAR218,000
If European resident	GBP25,230	GBP25,750
If USA resident	US\$36,140	US\$36,900
<b>Other members</b>		
If South African resident	ZAR106,500	ZAR113,450
If European resident	GBP17,675	GBP18,050
If USA resident	US\$22,070	US\$22,550

	From	To
<b>4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/video-conference)</b>		
If South African resident	ZAR32,850	ZAR35,000
	per meeting	per meeting
If European resident	GBP4,135	GBP4,225
	per meeting	per meeting
If USA resident	US\$6,105	US\$6,230
	per meeting	per meeting

	From	To
<b>5. Travel compensation</b>		
For more than 10 flight hours return	US\$3,200	US\$3,300
	per meeting	per meeting

<sup>(1)</sup> Fees per annum unless indicated otherwise

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 2% and 6.5% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2014. The fees were last increased with effect from 01 October 2013 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

2014 onwards. Initially the December 2014 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 2014 payment will be made up in the March 2015 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

#### 9. 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

#### 10. Ordinary resolution number 8: 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 Annual General Meeting held on 11 February 2015 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

# notice to shareholders continued

## 11. 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 68.

### Proxies

A shareholder is entitled to appoint one or more proxies to attend, speak and on a poll to vote in his 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 a shareholder who holds Sappi shares in certificated form or has dematerialised his shares (ie has replaced the paper share certificates with electronic records of ownership under the JSE's electronic settlement system (Strate Limited) and is recorded in the sub-register in 'own name' dematerialised form (ie a shareholder who has specifically instructed his Central Securities Depository Participant (CSDP) or broker to hold his shares in his own name on Sappi's sub-register).

A shareholder who has dematerialised his shares and who is not registered as an 'own name' dematerialised shareholder and who wishes to:

- attend the Annual General Meeting must instruct his CSDP or broker to provide him with a letter of representation to enable him to attend such meeting; or
- vote but not to attend the Annual General Meeting, must provide his CSDP or broker with his voting instructions in terms of the relevant custody agreement between him and his CSDP or broker.

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 Annual General Meeting to be held on 11 February 2015 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 Annual General Meeting 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 118,

to be received by the transfer secretaries at least five business days prior to the Annual General Meeting 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 Annual General Meeting 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 Annual General Meeting. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions are encouraged to submit their questions in writing in advance to the group secretary by 17:00 on Friday, 06 February 2015 at:

7th floor  
48 Ameshoff Street  
Braamfontein  
Johannesburg 2001

or

PO Box 31560  
Braamfontein  
2017

or

By eMail to [Denis.OConnor@sappi.com](mailto:Denis.OConnor@sappi.com)

Sappi Southern Africa Limited

Secretaries: per DJ O'Connor  
48 Ameshoff Street  
Braamfontein, Johannesburg 2001

12 December 2014

## Notes

1. Confirmation of appointment of directors appointed since the last Annual General Meeting and subsequent to the year-end, and the re-election of these directors

**Glen Thomas Pearce**

*(Executive director and Chief Financial Officer)*

**Age:** 51

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

**Nationality:** South African

**Appointed:** July 2014

**Sappi board committee memberships**

→ Attends Audit Committee meetings by invitation.

**Skills, expertise and experience**

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

2. Directors retiring by rotation who are seeking re-election

**Dr Daniël Christiaan Cronjé (Danie)**

*(Independent Chairman)*

**Age:** 68

**Qualifications:** BCom (Hons), MCom, DCom

**Nationality:** South African

**Appointed:** January 2008

**Sappi board committee memberships**

→ Nomination and Governance Committee (Chairman)  
→ Attends Audit Committee meetings, Human Resources and Compensation Committee meetings and Social, Ethics, Transformation and Sustainability Committee Meetings ex-officio

**Other board and organisation memberships**

None

**Skills, expertise and experience**

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

**Nkateko Peter Mageza (Peter)**

*(Independent)*

**Age:** 60

**Qualifications:** FCCA (UK)

**Nationality:** South African

**Appointed:** January 2010

**Sappi board committee memberships**

→ Audit Committee  
→ Human Resources and Compensation Committee

**Other board and organisation memberships**

→ Anglo American Platinum Limited  
→ Eqstra Holdings Limited (Chairman)  
→ 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.

**John David McKenzie (Jock)**

*(Independent)*

**Age:** 67

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

**Nationality:** South African

**Appointed:** September 2007

**Sappi board committee memberships**

→ Human Resources and Compensation Committee  
→ Social, Ethics, Transformation and Sustainability Committee (Chairman)

**Other board and organisation memberships**

→ Capitec Bank  
→ Coronation Fund Managers  
→ University of Cape Town Foundation (Chairman)  
→ Rondebosch Schools Education Trust (Chairman)  
→ Carleton Lloyd Education Trust (Chairman)

**Skills, expertise and experience**

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

# notice to shareholders continued

## **Mohammed Valli Moosa (Valli)**

*(Non-executive – not independent)*

**Age:** 57

**Qualifications:** BSc (Mathematics)

**Nationality:** South African

**Appointed:** August 2010

### **Sappi board committee memberships**

→ Social, Ethics, Transformation and Sustainability Committee

### **Other board and organisation memberships**

- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Lereko Investments Proprietary Limited (Deputy Chairman)
- Various other associate companies of Lereko Investments Proprietary Limited
- Sanlam Limited
- Sun International Limited (Chairman)
- WWF – SA (Chairman)

### **Skills, expertise and experience**

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

## **Sir Nigel Rudd**

*(Lead Independent Director)*

**Age:** 68

**Qualifications:** DL, Chartered Accountant

**Nationality:** British

**Appointed:** April 2006

### **Sappi board committee memberships**

→ Human Resources and Compensation Committee (Chairman)

→ Nomination and Governance Committee

### **Other board and organisation memberships**

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

### **Skills, expertise and experience**

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

# shareholders' diary

Annual General Meeting	11 February 2015
First quarter results released	February 2015
Second quarter and half-year results released	May 2015
Third quarter results released	August 2015
Financial year-end	September 2015
Preliminary fourth quarter and year results	November 2015
Integrated report posted to shareholders and posted on website	December 2015

# administration

## **Sappi Limited**

Registration number 1936/008963/06

JSE code: SAP

ISIN code: ZAE 000006284

## **Group secretary**

Denis O'Connor

## **Secretaries**

Sappi Southern Africa Limited

48 Ameshoff Street

Braamfontein 2001

South Africa

PO Box 31560

Braamfontein 2017

South Africa

Telephone +27 (0)11 407 8111

Fax +27 (0)11 339 1881

Denis.Oconnor@sappi.com

www.sappi.com

## **Transfer secretaries**

South Africa

Computershare Investor Services Proprietary Limited

70 Marshall Street

Johannesburg 2001

PO Box 61051

Marshalltown 2107

Telephone +27 (0)11 370 5000

www.computershare.com

## **Corporate affairs**

André Oberholzer – Group Head Corporate Affairs

Telephone +27 (0)11 407 8111

Fax +27 (0)11 403 8236

Andre.Oberholzer@sappi.com

## **Investor relations**

Graeme Wild – Group Head Investor Relations and Sustainability

Telephone +27 (0)11 407 8391

Graeme.Wild@sappi.com

## **United States ADR Depository**

BNY Mellon Shareowner Services

PO Box 30170

College Station, TX 77842-3170

USA

shrrelations@cpushareownerservices.com

Telephone (US only) 1 888 BNY ADRS

Telephone (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 seventy-eighth Annual General Meeting of the members to be held at 14:00 on Wednesday, 11 February 2015 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, 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, 09 February 2015, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa.

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, 11 February 2015 or any adjournment thereof, as follows:

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2014 annual financial statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Confirmation of appointment and re-election of directors appointed since the last Annual General Meeting*			
Ordinary resolution 2.1 – Confirmation of appointment and re-election of Mr Glen Thomas Pearce 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 Dr DC Cronjé 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 JD McKenzie as a director of Sappi			
Ordinary resolution number 3.4 – Re-election of Mr MV Moosa as a director of Sappi			
Ordinary resolution number 3.5 – Re-election of Sir Nigel Rudd 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 GPF Beurskens as a member of the Audit Committee			
Ordinary resolution number 4.3 – Election of Mr MA Fallon as a member of the Audit Committee			
Ordinary resolution number 4.4 – Election of Mr NP Mageza as a member of the Audit Committee			
Ordinary resolution number 4.5 – Election of Mrs KR Osar as a member of the Audit Committee			
Ordinary resolution number 5 – Re-appointment of Deloitte & Touche as auditors of Sappi for the year ending September 2015 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			
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			
Ordinary resolution number 8 – 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 to Shareholders on pages 115 to 116.

# 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, 70 Marshall Street, Johannesburg, 2001, 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 70 Marshall Street, Johannesburg, 2001, 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, 09 February 2015.
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 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.
- 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, and 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 a global economic downturn;
- 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.

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– cover 250g/m<sup>2</sup> and text 135g/m<sup>2</sup>.

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[www.sappi.com](http://www.sappi.com)

Tel +27 (0)11 407 8111

48 Ameshoff Street  
Braamfontein  
Johannesburg  
SOUTH AFRICA