

sappi

Inspired by life

Annual Integrated Report 2015



about this report

Our Annual Integrated Report for the year ended September 2015 provides both an assessment of our strategy and delivery as well as an introduction of our revised strategic direction, mission and vision along with our new value statement (as of June 2015). The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead.

 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 Annual Integrated Report and to the best of its knowledge and belief, the Sappi Limited Annual Integrated Report for 2015 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 08 December 2015.

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 JSE Securities Exchange (JSE).

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social, Ethics, Transformation and Sustainability (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 delisting from the New York Stock Exchange in 2013, we no longer publish an annual report on Form 20-F. For information on the combined assurance model relevant to the disclosure in this report, and for the independent auditor's report, please refer to pages 58 and 95, respectively.

 For important information relating to forward-looking statements, refer to the inside back cover. We present this Annual Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 118.



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Regional sustainability reports:

In 2015, our North American operations published an update to their 2014 report, while our European and Southern African operations published comprehensive reports.

www.sappi.com/2015sdrlimited
(available December 2015)

www.sappi.com/2015sdreurope
(available February 2015)

www.sappi.com/2015sdrnorthamerica
(available February 2015)

www.sappi.com/2015sdrsouthernafrica
(available December 2015)



Cover

Sappi's strategic direction has evolved during the reporting period, signalling very strongly the diversified nature as well as the global interconnectivity of our business. In addition, our success will be built on our ability to collaborate and partner with all our stakeholder groupings. The use of the full colour spectrum as well as of the facets is a design signal to emphasise these points.



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



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

Annual Integrated Report and Group Annual Financial Statements:
www.sappi.com/annualreport

Quarterly results announcements and analyst presentations:
www.sappi.com/quarterlyresults

Group Sustainability Report:
www.sappi.com/groupsustainability

Navigation aids

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Sappi's 3Ps

- Prosperity
- People
- Planet

our sustainable business model

Inputs



Prosperity

Manufactured capital

- 12 paper mills*
- 2 DWP and paper mills
- 1 speciality paper mill
- 1 DWP mill
- 1 sawmill

Intellectual capital

- US\$28 million R&D spend
- 2 nanocellulose patents granted in 2015
- Technology centres in each region

Financial capital

- Total assets: US\$4.9 billion
- Net debt: US\$1,771 million
- Ordinary shareholders' interest: US\$1,015 million

* The sales of two mills were finalised in November 2015.



People

Human capital

- Almost 12,800 employees
- Training and development spend: US\$8.2 million

Social and relationship capital

- Ongoing stakeholder engagement
- CSR spend: US\$2.8 million

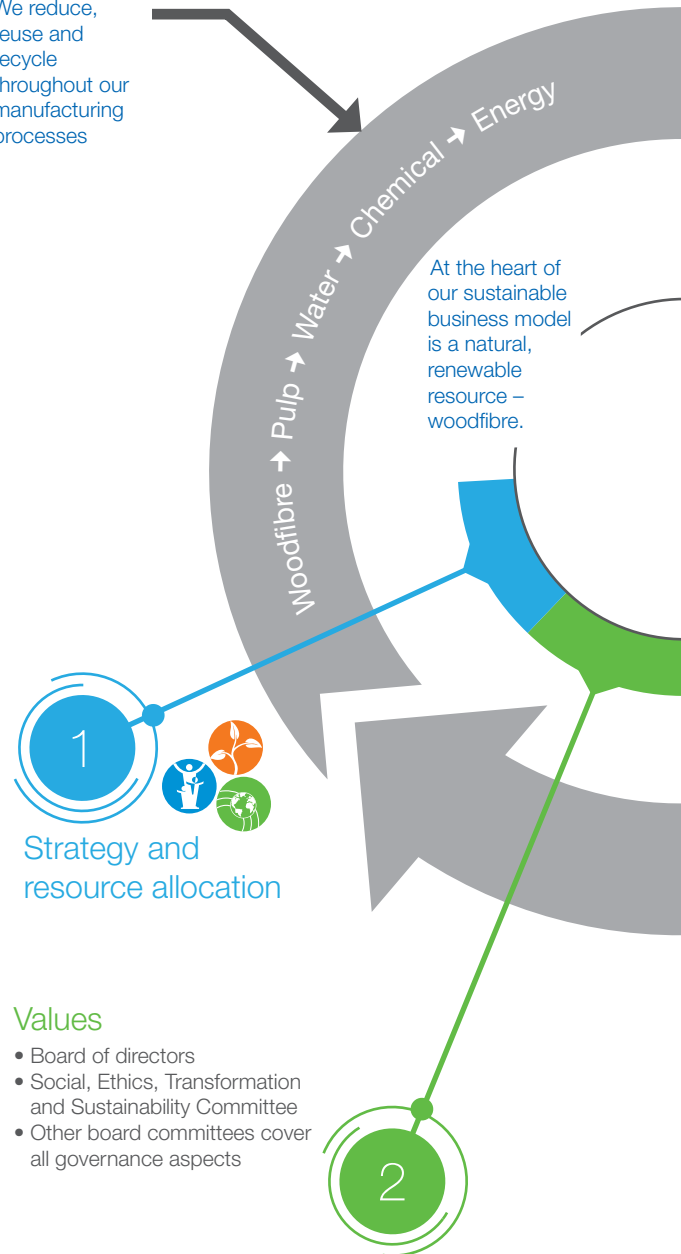


Planet

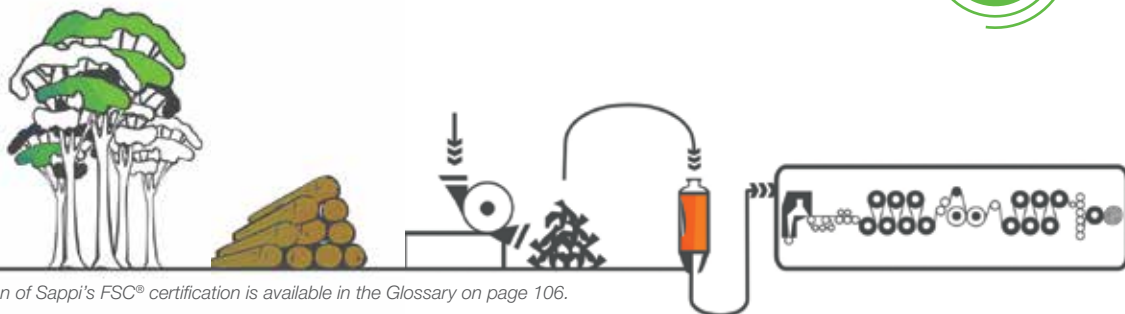
Natural capital

- 52.4% renewable energy generated
- 5.7 million bone dry metric tons total fibre
- Specific process water extracted 34.77m³/adt
- 492,000 owned and leased plantations in SA – 100% FSC® certified

We reduce, reuse and recycle throughout our manufacturing processes



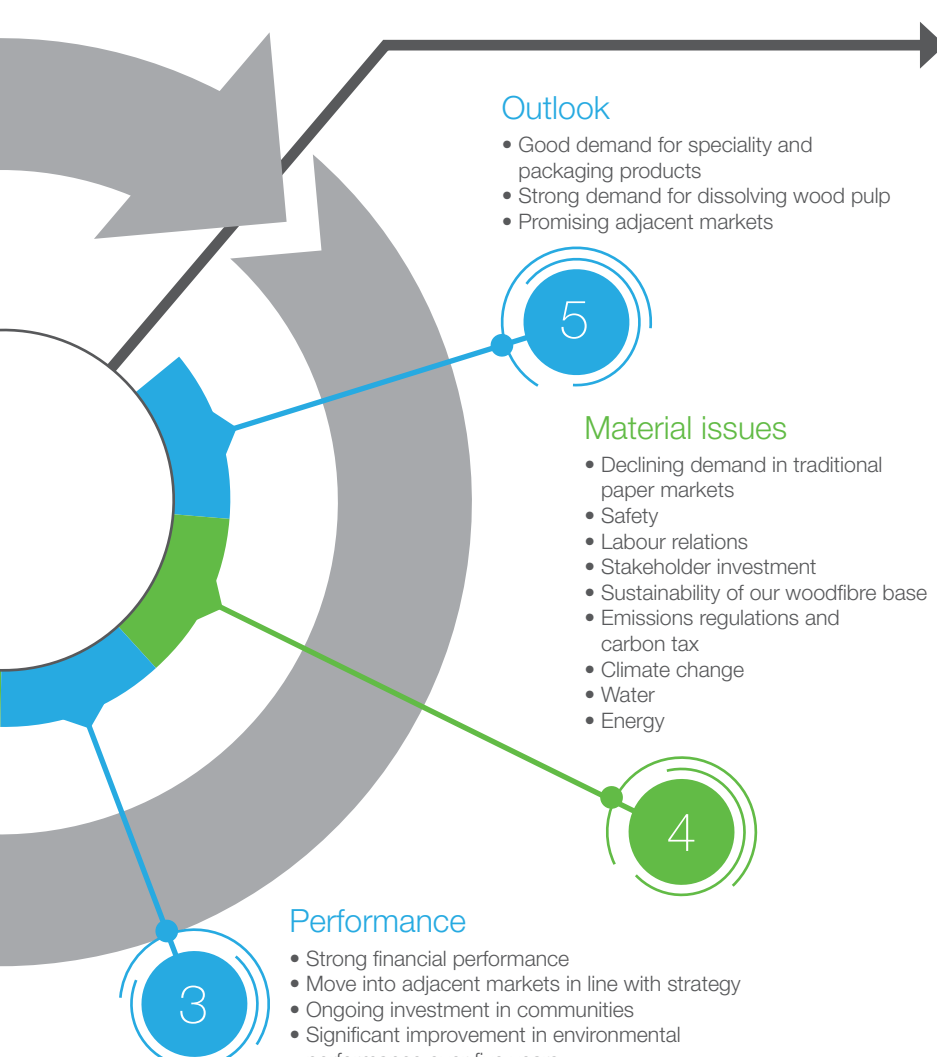
The papermaking and specialised cellulose (dissolving wood pulp) processes



* Further information of Sappi's FSC® certification is available in the Glossary on page 106.

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

While all the capitals play a role in our ability to create value, the emphasis and importance of each capital shifts over time. Currently, natural capital, financial capital and intellectual capital are the most important in our drive to position Sappi as a profitable and cash-generative diversified woodfibre group – focused on dissolving wood pulp, paper and products in adjacent fields.



Outlook

- Good demand for speciality and packaging products
- Strong demand for dissolving wood pulp
- Promising adjacent markets



Material issues

- Declining demand in traditional paper markets
- Safety
- Labour relations
- Stakeholder investment
- Sustainability of our woodfibre base
- Emissions regulations and carbon tax
- Climate change
- Water
- Energy



Performance

- Strong financial performance
- Move into adjacent markets in line with strategy
- Ongoing investment in communities
- Significant improvement in environmental performance over five years



Outcomes

Prosperity

- EBITDA: US\$625 million (excluding special items)
- To employees as salaries, wages and other benefits: US\$908 million
- Reinvested to grow the business: US\$413 million
- To lenders of capital as interest: US\$196 million
- To government as taxation: US\$72 million

People

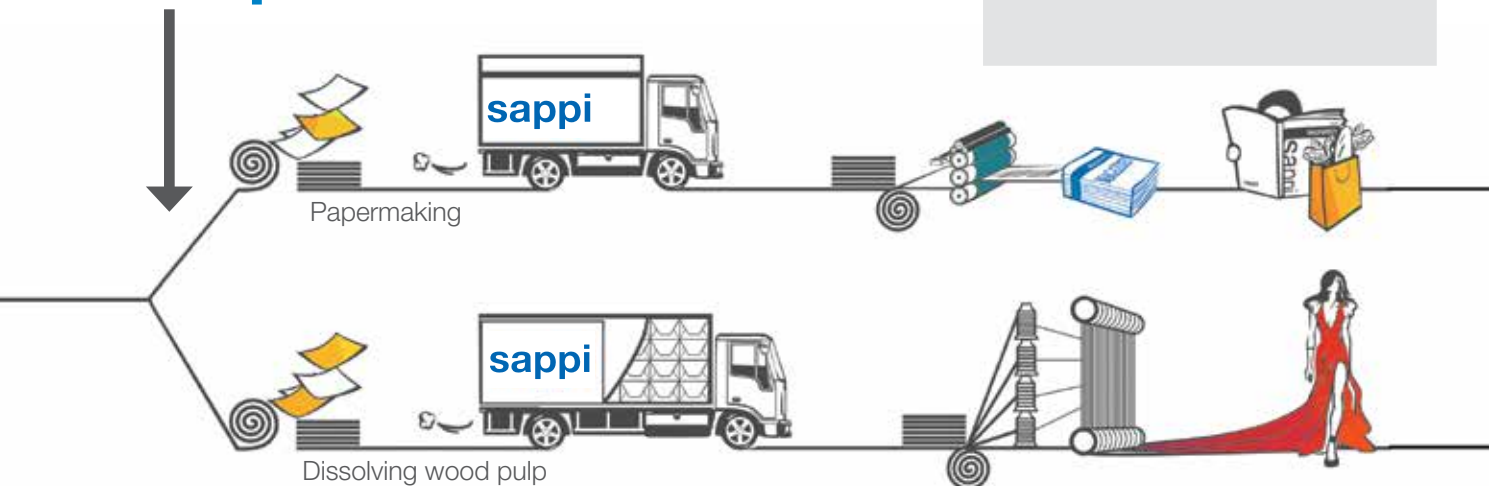
- LTIFR for own employees declines to 0.56
- However, three contractor fatalities
- Equipping our people to deliver on our strategy
- Focused CSR – community upliftment and environmental conservation
- Socio-economic development in rural areas
- Value-added products

Planet

- 93% of water returned to the environment
- 52.4% renewable energy, generated of which 73% own black liquor
- 79% of fibre used certified
- One third of land managed for biodiversity conservation in SA contribute to expanding forests in Europe and North America

Outputs

Our products pages 25 to 27.



our strategy

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

Delivery in 2015

Achieve

Achieve cost advantages

- Successful investments in cost reduction projects in Europe and North America
- Continuously improving cost advantages in multiple areas of business including procurement, logistics, variable cost and fixed cost
- Various cost reduction projects in specialised cellulose

Rationalise

Rationalise declining businesses

- Optimised graphic paper production in all regions
- Reduced packaging grades in South Africa

Grow

Grow through moderate investments

- Accelerated growth in speciality packaging in Europe
- Advancement in packaging grades in South Africa
- Further developing speciality packaging grades in North America

Generate

Generate cash to strengthen balance sheet

- Successful bond refinance during 2015
- Disposal of Enstra and Cape Kraft Mills generating approximately ZAR600 million
- Strong cash generation through optimised working capital
- Reduced net debt by US\$175 million to US\$1,771 million

Accelerate

Accelerate growth in adjacent businesses from a strong base

- Established a biorefining business unit
- Commencement of the construction of nanocellulose pilot plant
- Ongoing evaluation of energy opportunities

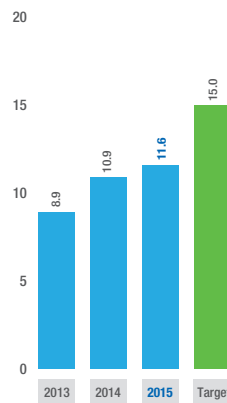
sappi
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Actions in 2016

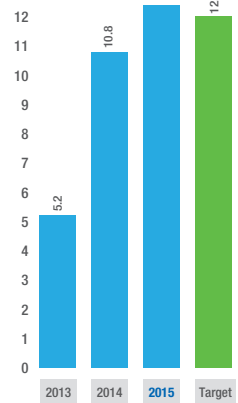
- Improve operational and machine efficiencies
 - Maximise global procurement benefits
 - Optimise business processes
- Where possible, convert paper machines to higher margin businesses
 - Continuously balance paper supply and demand in all regions
- Expand paper packaging grades
 - Enhance specialised cellulose product portfolio
 - Extract value from biorefinery stream
- Optimise working capital
 - Sell non-core assets
 - Restructure debt
- Continually explore growth opportunities

Financial targets

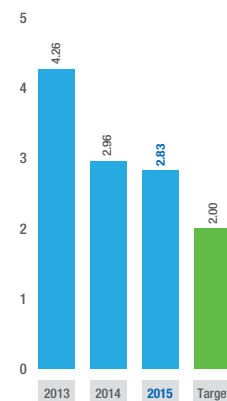
EBITDA margin (%)



ROCE (%)



Net debt/EBITDA (times)



our performance in 2015

Net debt

US\$1.771
million

EBITDA performance

US\$625
million

Energy efficiency improved

12.5%
over five years

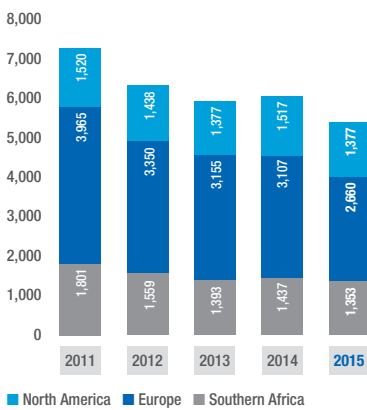
The execution of our strategy delivered significantly higher earnings in 2015. We invested capital in lowering our cost base at a number of key mills during the year, reduced our debt and refinanced higher cost debt in order to lower our future debt service costs. The previous investments in specialised cellulose and speciality packaging paper delivered strong performances in the year.

Our European graphic paper business showed an improved underlying operating performance and both the major, successfully completed, capital projects at Gratkorn and Kirkniemi Mills

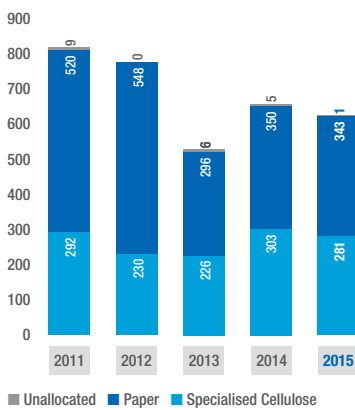
will deliver lower costs and an improved environmental performance in the future. The speciality packaging business made further improvements in sales volumes and margin growth during the year.

The North American business experienced another difficult year, with the stronger US Dollar in particular having a marked effect on graphic paper trade flows in the US and realised sales prices for casting release paper exports to Europe. High purchased paper pulp and wood costs negatively impacted input costs, but lower energy and chemical costs offset this somewhat.

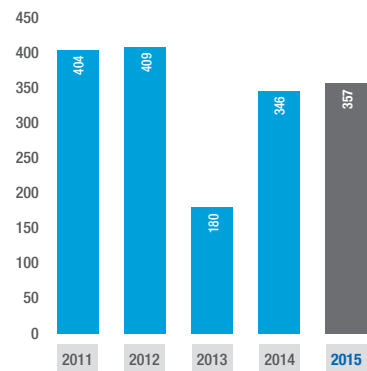
Sales
(US\$ million)



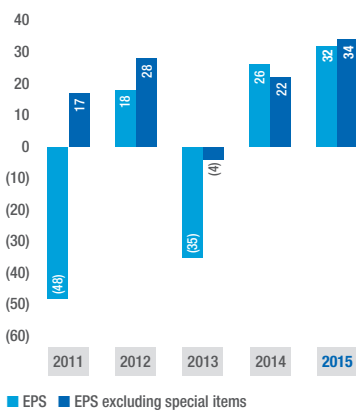
EBITDA excluding special items
(US\$ million)



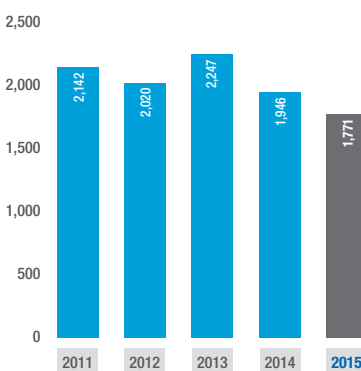
Operating profit excluding special items
(US\$ million)



EPS and EPS excluding special items
(US cents)



Net debt
(US\$ million)



■ EPS ■ EPS excluding special items

Our South African business had another excellent year, benefiting from a materially weaker Rand/US Dollar exchange rate and strong demand for our virgin fibre packaging grades and dissolving wood pulp.

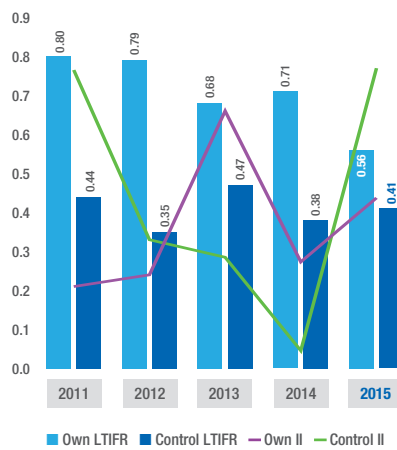
Net debt decreased by US\$175 million in the past year, and the refinancing of our 2018 and 2019 bonds at significantly lower interest rates has seen our net finance cost reduce substantially. We continue to focus on further debt reduction in order to achieve our target of two times a net debt to EBITDA.

Energy efficiency is our key environmental performance indicator, and for the first time, we have introduced a group specific energy efficiency target. Energy efficiency brings both reduced costs, lower emissions and, since one of the key levers in improving energy efficiency is minimising water use, it has added environmental benefits too.

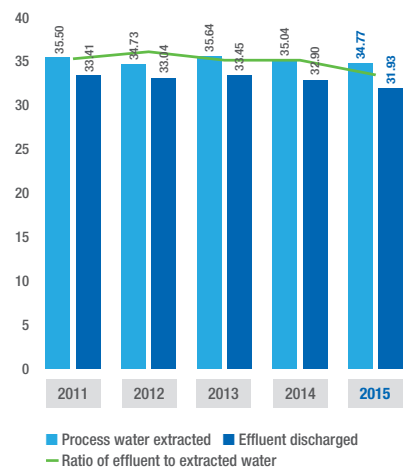
Disappointingly, we suffered three contractor fatalities in our forestry operations in South Africa this past year. Although forestry operations can be inherently risky, fatalities and injuries to contractors or staff are unacceptable and receive attention at the highest levels in order to continuously improve procedures and behaviours.

Whilst we saw a 9% improvement in our safety statistics, we regrettably have to report the fatalities of three forestry contractor employees in the past year. We will continue to focus on entrenching a strong safety culture with the ultimate aim of ensuring zero harm.

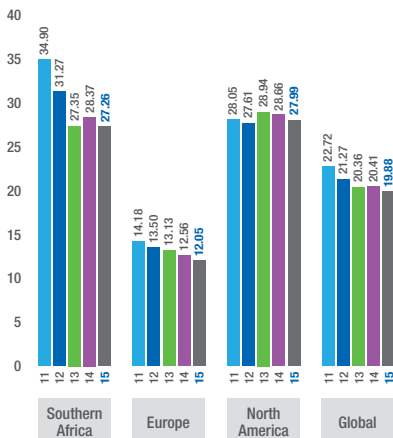
Lost Time Injury Frequency Rate (LTIFR) 2011 – 2015



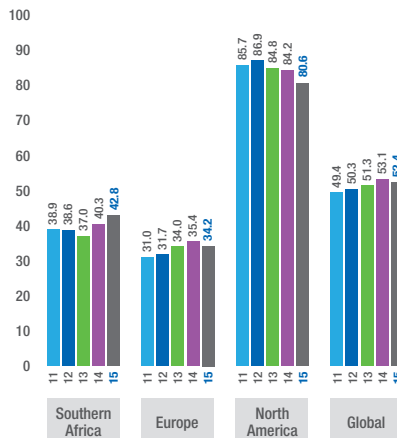
Process water and water returned (m³/adt)



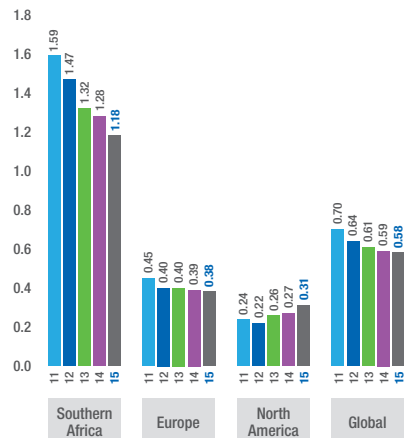
Energy intensity (GJ/adt) (STE)



Renewable energy to total energy (%)



Direct GHG emissions (Scope 1) (tCO₂/adt)



group overview

Group EBITDA
substantial
increase by
2020

vision

Sappi will be a diversified woodfibre group targeting significant growth in EBITDA through an expanded product portfolio with increased margins, providing enhanced rewards to all its stakeholders.

Our **2020Vision**, our game plan for the medium term, sets various aspirational targets and goals.

Reward

We will ensure that the economies, regions and environments in which we operate benefit from our presence. We will provide enhanced rewards for our shareholders, our employees and our other stakeholders.

People

We will continue to invest in future talent and challenge and invest in our people so that they are able to seize opportunities. We create opportunities and make resources available to enable our people to grow intellectually and bring new ideas to fruition. We will also continue to invest in and support our communities.



Developing new products and markets from wood chemistry

Leadership

We will support our existing leadership teams and individuals who show promise to be tomorrow's leaders in developing agile and adaptive mind-sets that enable us to meet and embrace change and be responsive to the future demands in all our roles. We will work to obtain enhanced margins across all businesses.

Manufacturing

We will continue to improve operational and machine efficiencies. We will work to increase the knowledge-based value of our products which will enable us to use raw materials more efficiently and reduce our energy needs.

Research and development

We will focus our R&D on developing and commercialising: packaging and speciality paper products, enhancing our specialised cellulose business, energy opportunities, exploring the micro and nanoscale potential of woodfibre and biorefining – extracting biochemicals locked up in wood.

letter to shareholders from the Chairman and CEO



Danie Cronjé, Chairman

Operating review

2015 was a successful year for Sappi, with each of our regional businesses delivering improved operating performance compared to the prior year and a further significant reduction in net debt. Numerous actions were undertaken to drive the execution of our strategy and we are well placed for accelerated growth in 2016.

Net profit for the year increased by 24% to US\$167 million. Major currency movements during the year had a mixed impact on operational performance, and negatively affected the translation of our European business results by US\$36 million. As a consequence, EBITDA excluding special items, was US\$33 million lower at US\$625 million. Additionally, the once-off impact of major capital projects undertaken in Europe and North America reduced our profits by US\$36 million.

The persistent focus on cost reduction and efficiency programmes contributed to cash generation of US\$145 million. Net debt declined to US\$1,771 million, and as a result of the refinancing of our 2018 and 2019 bonds at significantly lower interest rates, we have made major strides in reducing our cost of debt.

We believe that a culture that prioritises safety for our own staff and our contractors at all times is vital to reduce the risk of injury. Whilst we saw a 9% improvement in our safety statistics, we regrettably have to report the fatalities of three forestry contractor employees in the past year. We will continue to focus on entrenching a strong safety culture with the ultimate aim of ensuring zero harm.

Our European business delivered improved Euro returns in the past year compared to 2014, despite two major capital projects that had once-off impacts of US\$25 million and substantial increases in wood pulp input costs. The weaker Euro/US Dollar exchange rate boosted export prices and margins. Furthermore, the continued improvement in the performance of our speciality packaging paper business contributed to the progress. Industry demand for coated woodfree paper was better than anticipated, but the weaker coated mechanical market performed much as we had expected. The pressure from rising paper pulp costs and improved industry operating rates in coated woodfree paper facilitated some price increases, with additional price rises announced after the year-end.

We started the year anticipating that our North American business would recover from a disappointing 2014. However, a much stronger US Dollar negatively impacted global coated paper trade flows from April onwards, leading to a surge in imports and a deterioration in exports. Another severe winter in the US Northeast perpetuated higher wood prices and also impacted production and distribution from our Somerset Mill. The casting release paper business was affected by weaker demand from China and a stronger US Dollar which put pressure on margins for sales to Europe. While the strong US Dollar continues to burden our North American business, we have already seen some improvement in their operating performance in the fourth quarter. Wood costs are starting to decline, volumes have recovered somewhat in the coated paper business, and a renewed



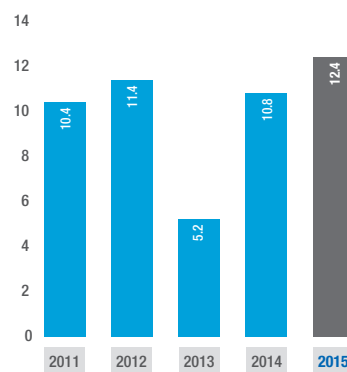
Steve Binnie, Chief Executive Officer

focus on variable and fixed costs is helping to improve margins. The Cloquet pulp Mill produced both dissolving wood pulp and paper pulp for internal consumption in the past year in order to maximise the profitability of the region in a period of high paper pulp prices and relatively depressed dissolving wood pulp prices.

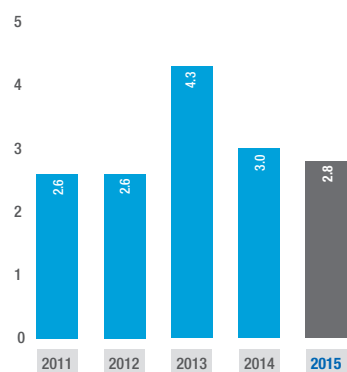
The Southern African paper business produced another excellent year, with record profitability. Sales demand was strong and average net sales prices rose during the year, assisted by the weaker Rand/US Dollar exchange rate, leading to increased margins. Variable and fixed costs were well controlled and on average increased at a rate below that of local inflation. In July we announced the sale of both our Enstra and Cape Kraft Mills in line with our strategy to focus on the virgin fibre packaging business in South Africa. In the coming year we will be making further investments to improve energy self-sufficiency and general efficiency improvements at our key mills.

Our specialised cellulose business was once again the main contributor to the group's success, delivering 45% of the group's EBITDA excluding special items at an average margin of 31%. The Rand/US Dollar weakness supported the margins at our South African mills and preserved their low-cost competitive position. As mentioned previously, we took the decision to reduce dissolving wood pulp production at our Cloquet pulp Mill to approximately two thirds of capacity in order to produce own-make paper pulp for our paper machines at that site. This was as a result of high paper pulp prices and dissolving wood pulp prices that had been under pressure for much of 2014. Spot dissolving wood pulp prices in China have been

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



Net debt to EBITDA excluding special items (times)



letter to shareholders continued

rising steadily in the second half of the financial year, and are now 10% higher than in January 2015. With hardwood paper pulp prices having seemingly peaked, the opportunity exists to produce more dissolving world pulp at our Cloquet Mill should dissolving wood pulp prices increase further.

Strategic review

As we make good progress towards our strategic target of a net debt to EBITDA of two times, it was felt that the strategic goals and targets should be extended beyond that critical milestone. Our strategic 2020Vision was developed during the course of the year, and whilst the core focus remains on improving profitability, cash generation and growth, we can now turn our attention to more specific growth targets and aspirations over the next five years.

Our strategy encompasses the following five main objectives:

- **Achieve cost advantages** – We will work to achieve lower fixed and variable costs, increase efficiencies and invest for cost advantages.
- **Rationalise declining businesses** – Recognising the decreasing demand for graphic paper, we will manage our capacity to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation.
- **Grow through moderate investments** – We will make smaller investments in existing areas with strong potential growth, including pulp, speciality grades and packaging papers.
- **Generate cash to further strengthen the balance sheet** – This will reduce risk and improve our strategic flexibility.
- **Accelerate growth in adjacent businesses from a strong base** – We will look for opportunities for growth in fields close to our current businesses or processes.

Initiatives and actions undertaken to support our strategic objectives include:

Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to improving margins, particularly in the graphic paper business, where declining demand places pressure on revenues. The past year saw the completion of a number of major capital projects in particular to reduce energy costs. In North America, we completed the conversion of the lime kiln to natural gas, whilst in Europe we have completed the multi-fuel power boiler at our Kirkniemi Mill.

In the coming year, we will be investing in a number of energy initiatives in South Africa to increase our self-sufficiency and lower costs, along with a further investment at our Somerset Mill in North America in the paper mill heat recovery systems.

At a group level we have initiated a number of projects to lower procurement and logistics costs and will inform the stakeholders of our targets and progress in this regard during the course of 2016. We also continue to seek additional benefits from our 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, continued to be our strategy in these markets. In Europe, our disposal of the Nijmegen Mill in 2014 and actions taken by a number of paper producers to reduce excess capacity has helped maintain industry operating rates in coated woodfree papers despite declining demand. In addition, we have benefited from the conversion by Metsä Board of the Husum coated paper Mill to packaging grades. The coated paper previously produced at this mill on behalf of Sappi has been transferred to our European mills and has helped improve our coated mechanical paper operating rates. During the year, we completed the investment in the Gratkorn PM11 and pulp Mill in order to widen the product range capabilities.

In a difficult North American market, our cost competitive manufacturing facilities, consistent and reliable supply chains and excellent service to customers, have allowed us to increase market share. The focus in the year ahead is to maximise mill production and lower the cost base.

Our coating expertise and the growing specialities packaging market has led us to reallocate some of our coated woodfree production in both Europe and North America to various grades of speciality packaging paper, without significant capital required. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both regions.

In South Africa, we have exited the waste-based packaging paper business through the sale of our Enstra and Cape Kraft Mills and by moving the office paper produced at the Enstra Mill to our integrated Stanger Mill.

Grow through moderate investments

While we continue to focus on debt reduction and deleveraging in the short term, we are constantly looking for opportunities to make moderate investments in growth areas that may achieve improved margins and returns. The speciality packaging paper market is characterised by a number of smaller producers with growing demand and reasonable margins, we will look to strengthen this business in the coming years.

In South Africa, we have long-term competitive advantages in virgin fibre packaging grades, and will over the next two years be making further investments at Ngodwana and Tugela Mills, in order to increase capacity and entrench our leadership position. Also, over the next two years, initiatives are planned at Ngodwana and Saiccor Mills which will boost production of dissolving wood pulp. Concerns about climate change, recycling and the environment are resulting in encouraging growth in paper-based packaging.

Generate cash to strengthen the balance sheet

Strengthening the balance sheet is an important prerequisite in order for Sappi to make moderate investments in near and adjacent businesses. To this end we have sold our non-core recycled packaging mills in South Africa for ZAR600 million.

At group level we are also focused on optimising our working capital management, containing capex to US\$250 million, and repaying and refinancing debt when possible in order to lower gearing and interest costs.

Accelerate growth in adjacent businesses from a strong base

As we approach our stated aim to reduce our net debt to EBITDA to two times, we have focused more on new business development. Sappi has a proud history of research and development (R&D), and the global trend and need for more renewable materials offers an opportunity to develop new products and markets for products derived from wood chemistry. We have appointed a team to drive the commercialisation of R&D projects as well as seek collaboration and partnerships with other companies. Within the next five years we believe that new business could constitute as much as 10% of the group's EBITDA.

Looking forward

Dissolving wood pulp markets have improved considerably this year as a result of higher pricing and improved operating rates for viscose staple fibre in China. Higher hardwood paper pulp prices are also impacting dissolving wood pulp supply as some swing producers continue to manufacture paper pulp rather than dissolving wood pulp.

Graphic paper markets in Europe are slightly better than anticipated, albeit they are still expected to decline.

Production at our mills is full and export pricing is benefiting from a weaker Euro. However, the business faces pressure from higher pulp prices. In North America, the strong US Dollar continues to impact graphic paper trade flows negatively.

Based on current market conditions, and assuming current exchange rates, we believe that EBITDA excluding special items in the 2016 financial year will be higher than 2015. As a result of lower expected interest costs, offset somewhat by increased tax charges, we expect strong growth in our earnings per share excluding special items.

Capital expenditure during 2016 is expected to be in line with 2015 and is focused largely on energy and debottlenecking projects in South Africa together with the annual maintenance at the mills.

Depending on market conditions, we are considering utilising some of our cash reserves to repay and refinance a portion of our debt in order to lower our future interest costs. We expect

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

Appreciation

Our diverse stakeholders are key contributors to our development and success in the past year. Together with them, we will continue to work to achieve sustainable and profitable growth in the years ahead. We are appreciative of their ideas, constructive criticism and cooperation.

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

Particular thanks are due to our employees, and their demonstrated commitment to our strategy, delivering the improved operating performance under some difficult graphic paper market conditions. The initiative and resourcefulness of our people has made it possible to raise our targets and we look to the coming year with ever improving prospects.

We thank the board and executives for their continued commitment to the group and their valuable input during the year.

Dr Danie Cronjé, Chairman of the board for the past eight years, has guided the group through some difficult periods and provided valuable support, ideas and direction in that time. "I thank him for his leadership, and in his retirement from the board wish him well for the future." – Steve Binnie. Sir Nigel Rudd, the lead independent director, will succeed Dr Cronjé as independent Chairman of the company with effect from 01 March 2016.

We welcome the appointment of Mr Rob Jan Renders as independent non-executive director to the board of directors of Sappi Limited with effect from 01 October 2015. Mr Renders brings extensive experience, particularly in the packaging industry, to the board.

In conclusion, we value the support which our shareholders have provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the Annual General Meeting on 10 February 2016.

Steve Binnie
Chief Executive Officer

Danie Cronjé
Chairman



q & a with the CEO

Steve Binnie

“Is your industry in structural decline or only certain segments thereof? How do you grow in a declining market?”

Our industry at its core is about benefiting woodfibre. Far from being in decline, overall demand is strong and new products emerge to meet ever-expanding customer demands. This trend is linked to both the properties which our products bring as well as how they can support the move to using more renewable materials. Having said this, it is clear that in the coated graphic paper segment, demand has reduced over the past decade. While we do not see this trend reversing, we do anticipate a flattening of the curve as demand stabilises. The initial rush to digital communication was overdone and consumers and companies are returning to printed communication now that they better understand the unique role that each element plays in a comprehensive communication strategy. The graphic paper segment still constitutes more than half of our assets, and is critically important in generating the cash we utilise to reduce our debt and invest in new projects. Our leadership position in this segment and focus on cost reduction will allow us to increase our margins in this declining graphic paper market.

“You have recently completed some large-scale capital projects in Europe and North America. Can you help us understand how those projects fit into your overall strategy?”

A key driver of our strategy is to achieve cost advantages and savings through improved operational efficiencies and optimised business processes. The recently completed projects will deliver sustained cost advantages and help improve the competitiveness of these mills. In Europe, the Kirkniemi multi-fuel power boiler will lower the energy cost of the mill and give us more flexibility as to fuel source. The project was completed six months early and the savings will be seen from the 2016 financial year. At our Gratkorn Mill, we completed two projects; the rebuild of the recovery boiler and a paper machine upgrade. The recovery boiler rebuild

ensures low-cost integrated pulp for our paper machines. The upgrade of the paper machine allows us to serve our customers with a more diverse product offering, which in turn improves flexibility across our entire asset portfolio. In the US, the natural gas conversion at our Somerset Mill will result in access to less expensive and less carbon intensive fuel to run the plant, which further reduces the mill's already low-cost position in the industry.

“This year we saw sharp declines in demand for coated paper in North America, with a lesser decline in Europe. What does Sappi's coated paper business look like in five years' time in each region?”

While we saw sharp declines in shipments from our North American operations, these were largely on the back of fewer exports due to the strengthening US Dollar. As a result, our NA operations are not as competitive in traditional export markets relative to European or Asian producers, whose currencies and cost bases dropped over the course of the financial year. Otherwise, apparent consumption of coated paper is falling in line with our forecasts. Looking forward, we will continue to match supply to demand in both Europe and North America. We will focus on reducing costs through operational efficiency, improved procurement and process innovation, maintaining our strong cash generation.

“You must be pleased with the success you have had in reducing your net debt level, as well as reducing the cost thereof. What is your targeted net debt level? And what happens once it is reached?”

Our net debt level has reduced approximately US\$1 billion from the peak in 2009. We are pleased with this progress but believe that more can and should be achieved. With respect to our recent refinancing efforts, our timing has been good. We have lowered the cost of debt and this is enhancing our earnings. Sales of various non-core assets have further reduced the debt and simplified our operations. Our target is a net debt to EBITDA ratio of two times. Over the next few years, we will continue to focus on having a cleaner

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 160 countries.

Our dissolving wood pulp products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer and household 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 is 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 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 co-ordinates our shipping and logistical functions for exports from these regions.

Sales offices

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

Logistics offices

Durban, New York

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 160 countries.

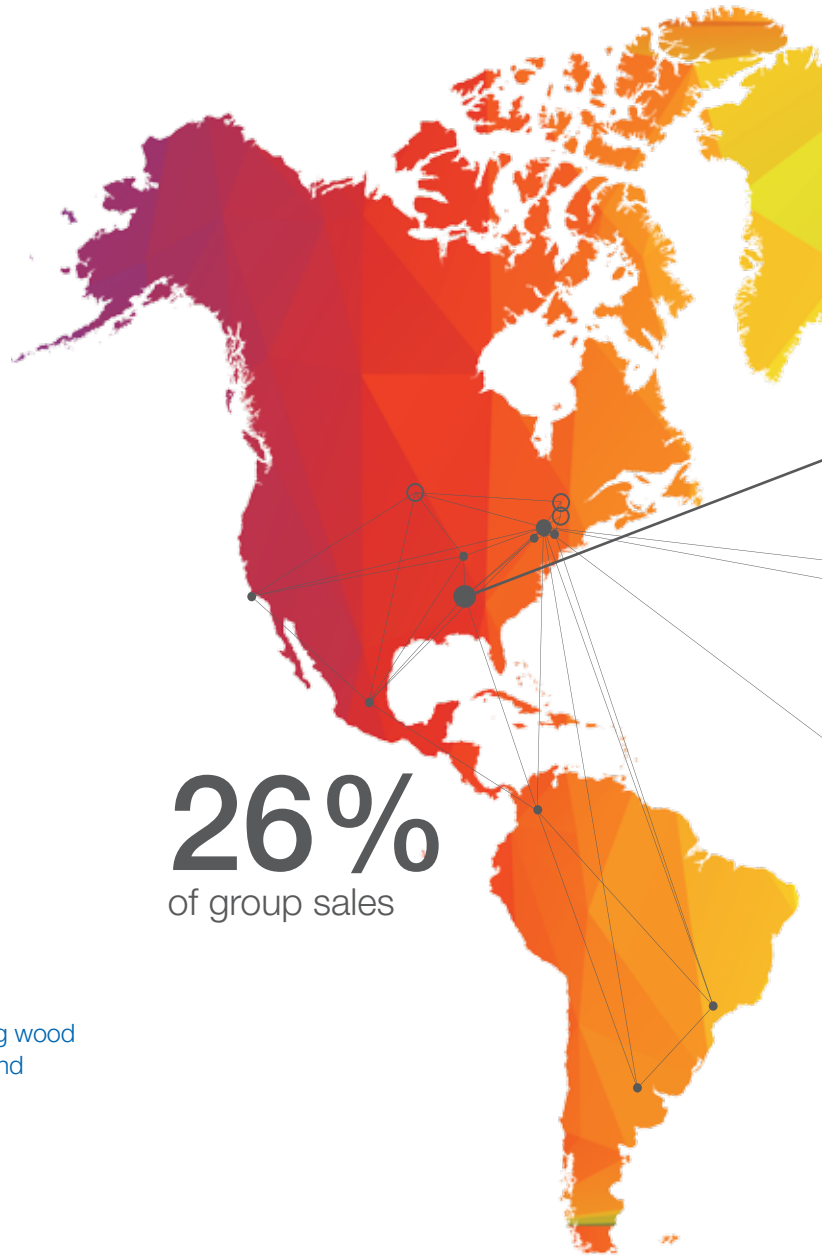
We produce approximately

5.6 million tons per year of paper,

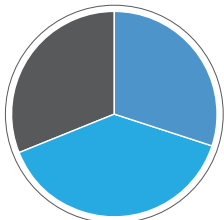
2.5 million tons per year of paper pulp and

1.3 million tons per year of dissolving wood pulp.

We have almost 12,800 employees worldwide.



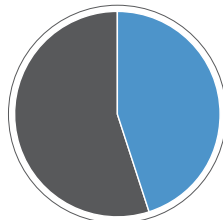
26%
of group sales



US\$3,399 million

Segmental assets

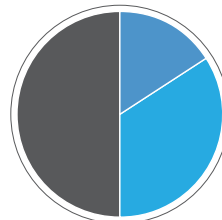
- North America – 30%
- Europe – 39%
- Southern Africa – 31%



US\$625 million

EBITDA excluding special items by product

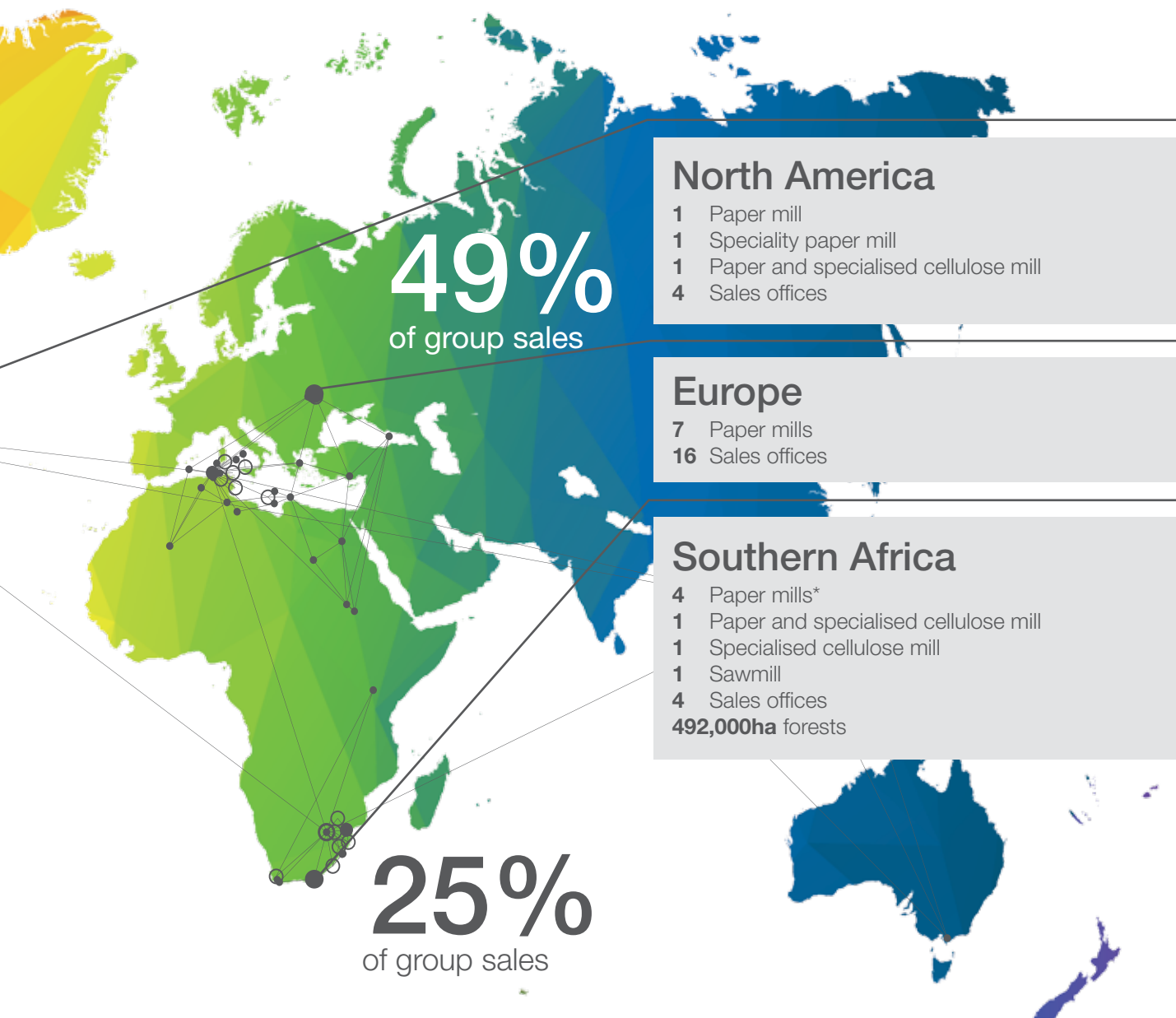
- Specialised cellulose – 45%
- Paper – 55%



US\$625 million

EBITDA excluding special items

- North America – 16%
- Europe – 34%
- Southern Africa – 50%



North America

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

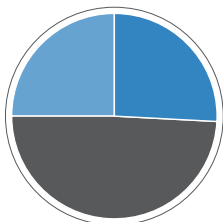
Europe

- 7 Paper mills
- 16 Sales offices

Southern Africa

- 4 Paper mills*
- 1 Paper and specialised cellulose mill
- 1 Specialised cellulose mill
- 1 Sawmill
- 4 Sales offices
- 492,000ha forests

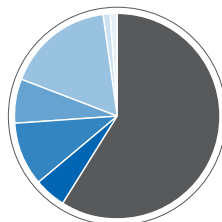
* Sappi's Enstra and Cape Kraft Mills sales were finalised in October and November 2015, respectively.



US\$5,390 million

Sales by source[#]

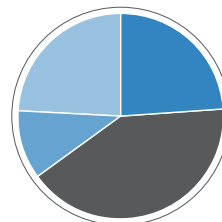
- North America – 26%
- Europe – 49%
- Southern Africa – 25%



US\$5,390 million

Sales by product[#]

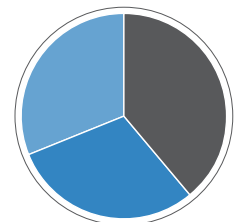
- Coated paper – 59%
- Uncoated paper – 5%
- Speciality paper – 10%
- Commodity paper – 7%
- Dissolving wood pulp – 17%
- Paper pulp – 1%
- Other – 1%



US\$5,390 million

Sales by destination[#]

- North America – 24%
- Europe – 41%
- Southern Africa – 11%
- Asia and other – 24%



US\$3,386 million

Net operating assets[†]

- North America – 30%
- Europe – 39%
- Southern Africa – 31%

[#] For the period ended September 2015.
[†] As at September 2015.

our businesses continued

Europe and North America

Brand managers are increasingly balancing the accessibility and immediacy of online media with the permanence, engaging nature and elegance of print. The roles and expectations of the two media have evolved over the last decade and with it, consumer behaviour. People look online for product news, reviews, store hours and best buys. With print, they perceive the brand tactilely, making a more direct personal connection between company and customer. Print feels more engaging, more cognisant that it is 'speaking' to the individual. It reinforces the message of quality and pride in craftsmanship. The more luxurious and expensive the product, the more likely a printed piece will be part of the marketing campaign. These lasting documents are an easy way to build loyalty and trust.

Publishers, advertising agencies, designers and corporate end-users benefit from Sappi's innovations, resources, 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 for food and other fast moving consumer goods. Demand for speciality packaging is growing as a result of the superior printing quality that paper offers compared to plastic. They also appreciate paper's haptic* potential: they want the packaging to be an all-round sensory experience. Furthermore, the versatility of paper packaging is an additional benefit. You can fold it in many ways, you can print inside and out; and you can customise the marketing message with digital print. Environmental awareness, governmental regulation and customer demand are all helping to make this an exciting growth part of our business. Casting release paper is used in the manufacture of synthetic leather and decorative laminate products, creating texture that make designs come to life.

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

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 assist our customers to 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 and are net sellers of pulp in North America and in Southern Africa.

Europe

The strong financial performance from our European business in 2014 carried over into our fiscal 2015 year. The benefits of our efficiency programmes, a more direct go-to-market strategy and the actions we are undertaking to optimise our core businesses are delivering an improved underlying operating performance. Demand for our coated graphic paper products continues to decline, albeit at a slower rate than predicted, and paper pulp input costs rose throughout the year. Despite these difficult market conditions, operating profit excluding special items margins were slightly higher than those achieved last year.

The impact of the weakening Euro had conflicting impacts on our European business. Sales prices for our products in export markets improved in Euros, and were higher than those of the local market. The exchange rate had a negative impact this year in the procurement of some imported raw materials, particularly paper pulp. In addition, US Dollar prices for hardwood paper pulp rose throughout the year. However, as a result of the higher export demand, good operating rates at our mills and input cost pressures from paper pulp, we were able to raise prices for all of our paper grades in the fourth quarter.

In 2015, we undertook a number of strategic actions and investments. The investments at our Gratkorn and Kirkniemi Mills were completed during the year and will further entrench our already competitive cost position. During the fourth quarter we also benefited from the transfer of volumes from the Husum Mill – a mill from which we previously sold the output on an agency basis. Approximately 100,000 tons of annual production was transferred to our coated mechanical mills in Europe and will improve their operating rates in the coming year. As expected, the market for coated graphic paper declined this year, lowering our sales volumes into these markets. This was offset by volume growth from our speciality packaging paper business where margins are



*Haptic – please refer to the Glossary on page 106.

better, and where industry fundamentals are more favourable. We intend to maintain our focus on rationalising our declining businesses and continuously balancing supply and demand in all regions.

As we balance our graphic paper capacity with that of the market, we also aim to increase our presence in the growing speciality packaging markets, where we have a competitive advantage in our coated technologies. The Alfeld Mill continued to increase production and broaden their customer base in the Speciality Packaging sector, whilst raising average prices. The Maastricht Mill started limited production of folding boxboard and the production of our display liner product was moved from the Alfeld to the Ehingen Mill. Sappi's strategy includes seeking growth opportunities by producing innovative performance materials from renewable resources. In March this year, we announced the construction of a nanocellulose pilot plant in The Netherlands. This plant will determine the viability of our production process and the commercial applications for nanocellulose, which we believe has a potential market in a wide range of commercial and industrial applications.

North America

This was a tough year for our North American business. In the first half of the year, our North American business suffered from historically extreme winter weather conditions. This had a severe negative impact on economic activity, particularly the transport of goods, for the entire Northeast region of the United States. At Somerset Mill, the impact was on production, the procurement of key raw materials, logistics, and energy usage. As a result, wood costs remained high this year, but this impact was more than offset by favourable chemical and energy costs as well as the benefit of reduced purchases of hardwood market pulp. Included in the results for the year was an extended annual maintenance shut at the Somerset Mill in the first quarter, which negatively impacted contribution by US\$10 million. The shut was successfully completed on time and within budget and the benefits were realised during the remainder of the year. For the year, variable costs were down 4%.

This year also saw a drop in the value of the Euro and Asian currencies relative to the US Dollar. This currency shift impacted global coated paper trade flows. Our coated paper export volumes slumped, imports increased, and local prices for coated paper came under pressure after two successive price hikes that had been implemented in July 2014 and January 2015.

Due to relatively low prices for DWP, and higher hardwood paper pulp prices, we began campaigning the Cloquet pulp Mill to supply sufficient paper-grade pulp for its paper machines. Approximately two thirds of production is still utilised to manufacture DWP. Operating the mill in this manner has lowered our paper production costs and maintained our strategic position with our key DWP customers.

For our casting release paper business, a price increase during the year and a more favourable geographic mix of sales were more than offset by weak demand in China and an unfavourable US Dollar/Euro exchange rate on our European sales.

Looking forward

Demand for coated paper in our major markets is expected to continue to face headwinds from the decline in advertising dollars devoted to print. Our strategy remains to focus on strict cost control, improving efficiencies and to continuously evaluate our options for our graphic paper machines as we seek to optimise the sustainable cash generation from our paper businesses.

As previously mentioned, we expect the benefits of the Gratkorn and Kirknemi Mills' capital projects to contribute positively to our European business in 2016. Furthermore, the Husum Mill volume transfer will improve our margins in our coated mechanical business. The benefits of higher selling prices in our local markets should offset higher hardwood paper pulp prices.

North America achieved a strong recovery in the fourth financial quarter. There have been announcements of capacity closures in the coated paper market in North America and this should contribute to improved operating rates for our mills in 2016. Prices for viscose staple fibre, the product produced from our DWP, are rising and should further improve the profitability of that business. Lower chemical, energy and declining wood costs are expected to keep our costs low.

The initial rush to digital communication was overdone and consumers and companies are returning to printed communication now that they better understand the unique role that each element plays in a comprehensive communication strategy.

our businesses continued

Europe and North America continued



Kirkniemi Mill

Europe

Capacity⁽¹⁾
(‘000 tons per annum)

Mills	Products produced	Paper	Pulp	Employees
Alfeld Mill	Bleached chemical pulp for own consumption		120	
	Coated and uncoated speciality paper, uncoated woodfree paper	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		
Kirkniemi 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		
Total Europe		3,540	1,170	5,131



Cloquet Mill

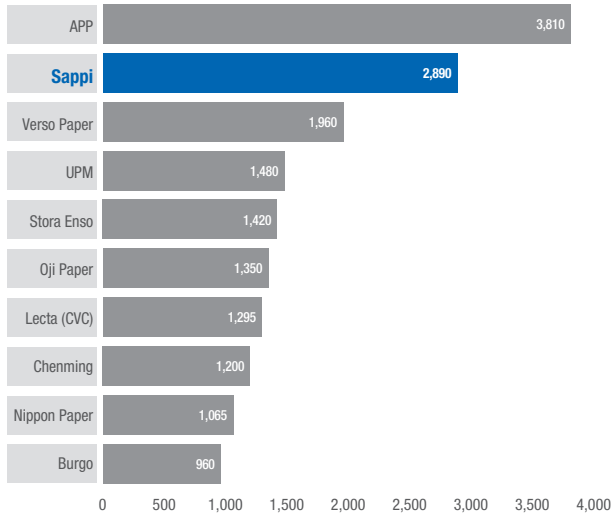
North America

Capacity⁽¹⁾
(‘000 tons per annum)

Mills	Products produced	Paper	Pulp	Employees
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		
Total North America		1,160	855	2,060

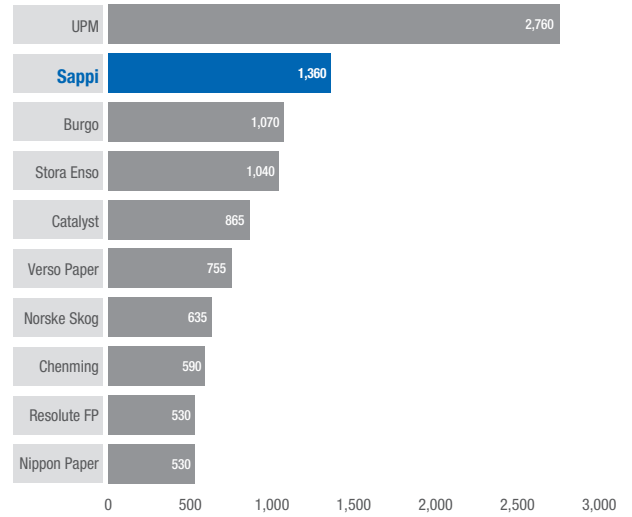
⁽¹⁾ Capacity at maximum continuous run rate.

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



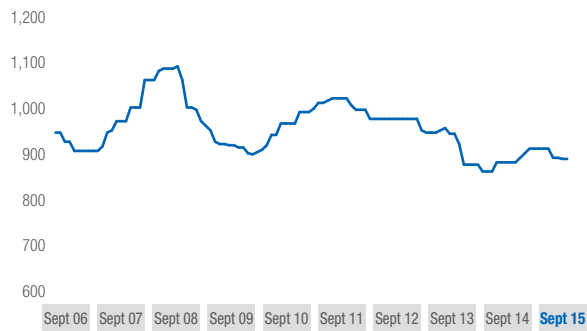
Source: EMGE World Graphics Paper Report, September 2015

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



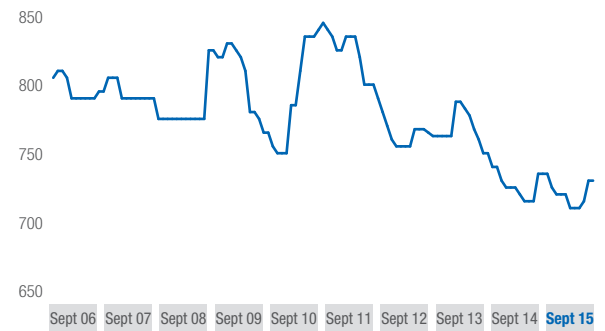
Source: EMGE World Graphics Paper Report, September 2015

Coated free sheet #3, rolls, 60lb/90g
(US\$/short ton*)



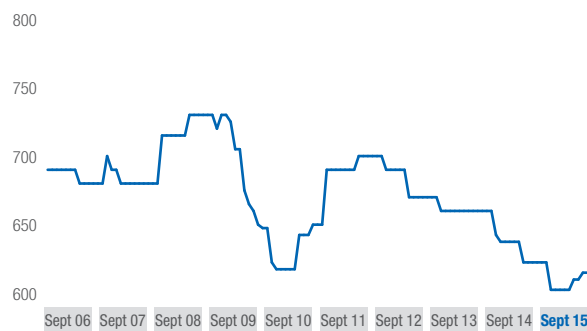
* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: RISI

Coated woodfree prices – 100g/m² sheets Germany
(Euro/metric ton*)



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

Lightweight coated 60g/m² offset reels
(Euro/metric ton*)



* 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). Due to the sale of our Cape Kraft and Enstra Mills at the end of the reporting period (discussed elsewhere in this report) we have now exited the recycled packaging grades and security and speciality paper grades.

Sappi also produces DWP, a product made from wood from our plantations, which is sold to customers who use the product to manufacture a diverse range of consumer products. We are the world's largest manufacturer of DWP 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 committed commercial timber plantations of 492,000 hectares. This equates to approximately 30 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 DWP. 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 plantation industry in South Africa faces an increasing threat from pests and diseases. Sappi Forests, a leader in research and development (R&D), continues 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), and the upgrade of the Ngodwana Nursery, provides Sappi Forests with the required facilities to rapidly deploy the improved genetic planting stock to mitigate these threats.

Fluctuations in exchange rates can, and do, have material impacts on our business and this is particularly true of the Rand/US Dollar exchange rate. The cost-base for our South African operations is largely Rand-based whereas most sales prices are linked to international US Dollar pricing. This year, the Rand weakened approximately 24% relative to the US Dollar compared to last year.

For our South African DWP mills, Saiccor and Ngodwana, volumes and Rand-based prices were higher than those of the prior year. DWP sales volumes were lower than last year from our Cloquet Mill, in North America, due to paper pulp campaigns we undertook to maximise profitability at the mill.

US Dollar DWP prices declined from last year into the first half of fiscal 2015 as a result of pressure from lower cotton and viscose prices, and continued oversupply of DWP and viscose staple fibre (VSF) production capacity. China increased its focus on environmental regulation, which forced the closure of VSF capacity that did not meet current standards. Subsequently, US Dollar-based prices for DWP rose through the latter half of our financial year as a result of tightening VSF supply and the resultant increase in VSF prices. These higher selling prices together with a weakening Rand led to an improved performance from last year.

The South African paper business delivered an improved performance due to the effective control of fixed and variable costs as well as improved pricing for packaging grades. Demand increased for our virgin fibre packaging grades due to strong fruit export sales from the agriculture sector. We realised higher average prices this year versus the last, and we intend to make further investments in our virgin fibre packaging business in the coming years.

As part of our strategy to rationalise declining business, focus on business where we have a competitive advantage and strengthen our balance sheet, we entered into agreements to sell both our Enstra and Cape Kraft Mills. After the end of the financial year, we received approval from the Competition Commission and both transactions were realised in October and November 2015, respectively.

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.

The year ahead

DWP markets have improved considerably in the second half of this year as a result of higher pricing and improved operating rates for VSF in China. Higher hardwood pulp prices are also impacting DWP supply as some swing producers continue to manufacture paper pulp rather than DWP.

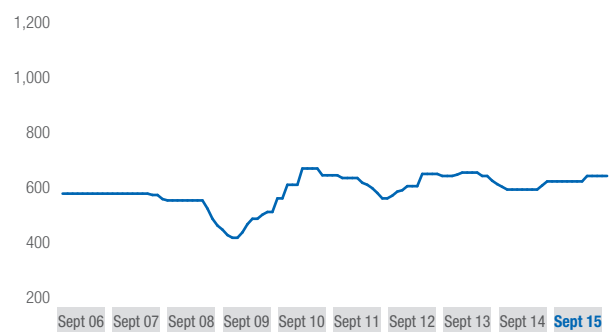
With further growth in demand for virgin fibre packaging paper and reduced exposure to lower-margin graphic paper grades, we expect margins to improve in this area. In the coming year we will be making further investments in the South African business to improve our energy self-sufficiency and in general efficiency improvements at our key mills.

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/m² CIF Germany
(EUR/metric ton*)



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

our businesses continued

Southern Africa continued



Stanger Mill

Southern Africa

Capacity⁽¹⁾
(‘000)

Plantations	Products produced	Hectares	Tons	m ³	Employees
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	230	11,165		
Mpumalanga	Plantations (pulpwood and sawlogs)**	262	17,986		
Lomati Sawmill	Sawn timber			102	
	Total Sappi Forests	492	29,151	102	

Capacity⁽¹⁾
(‘000 tons per annum)

Mills	Products produced	Paper	Pulp	Employees
Ngodwana Mill	Dissolving wood pulp		210	
Saiccor Mill	Dissolving wood pulp		800	
	Total Sappi Specialised Cellulose		1,010	

Mills	Products produced	Paper	Pulp	Employees
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		220	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	240		
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	185		
	Waste paper collection and recycling for own consumption		250	
	Total Sappi Paper and Paper Packaging	935	770	
	Total Southern Africa	935	1,780	5,126

⁽¹⁾ Capacity at maximum continuous run rate.

* Sappi's Enstra and Cape Kraft Mills sales were finalised in October and November 2015, respectively.

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

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

our products

Woodfree paper

made from pulp produced in a chemical process

• Coated 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.

Demand trends

This market is driven by the main end-uses, which tend to be the more expensive magazines and direct mail. These end-uses 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 grow in developing economies, yet decline in mature economies, with forecasts estimating a decline between zero and 1% per year.

Our markets in 2015

Our coated woodfree sales volumes were down approximately 4%, matching domestic industry trends. Globally, demand fell by 2%.

Share of Sappi sales

47%

• Uncoated paper



Description and typical uses

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.

Demand trends

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.

Our markets in 2015

The uncoated woodfree market was again stable in fiscal 2015, registering only a modest decline of 0.6% from fiscal 2014. Our European volumes were up 5%.

Share of Sappi sales

5%

• Speciality paper



Description and typical uses

Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and casting release paper for casting innovative surface textures (eg synthetic 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

Flexible paper packaging demand is driven by steady consumption growth in the healthy food and drink markets. Demand is especially high in fast moving consumer goods with the desire for more sustainable packaging solutions without sacrificing the integrity of the product. Especially in North America and Europe, there is a growing trend for smaller but more varied packaging to address demographic changes, such as smaller households, ageing population, and the relative convenience of goods compared to the competition. Paper-based packaging is widely regarded as a sustainable solution relative to plastics and styrofoam. Markets are characterised by small volumes, very little standardisation, but high levels of customisation. Casting release paper demand is expected to grow along with the textile and automotive industry, as well as into new and innovative applications.

Our markets in 2015

Demand continues to grow in this space reflecting the increasing needs from the food packaging industry responding to customer request for more sustainable and environmentally-friendly packaging solutions. Our Alfeld Mill continues to win new high-margin business with its increased capacity and expanded product portfolio. The production of speciality paper and board were extended to furnish our European mills with a centre of competence for this business established at Alfeld. Sales of casting release paper were 4% below last year due to weak demand from China, offset somewhat by sales to South America and Europe.

Share of Sappi sales

10%

our products continued

Mechanical paper

made from pulp produced in a mechanical process

• Coated paper



Description and 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.

Demand trends

Demand for coated mechanical paper is more closely linked to that of demand for magazines than coated woodfree paper. Weekly news-based magazines continue to see drops in readership, subscriptions, circulation, pagination and advertising revenue per page. Coated mechanical paper is also more prone to substitution to alternative grades as advertisers attempt to cut costs. As such, demand for coated mechanical paper is forecast to decline faster than that of coated woodfree paper.

Our markets in 2015

Our volumes were 4% lower than last year while the market contracted by 6%. This year, we began a volume transfer from the Husum Mill – a mill from which we sold its output on an agency basis – onto our assets. We expect increased utilisation rates and better margins for this business as the project continues.

Share of
Sappi sales

12%

• Newsprint paper



Description and typical uses

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

Demand trends

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.

Our markets in 2015

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.

Packaging products

• Packaging paper



Description and typical uses

Heavy- and lightweight grades of containerboard are predominantly used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Can be coated to enhance barrier and aesthetics properties. Customers are typically converters of the packaging paper.

Demand trends

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 2015

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

Share of
Sappi sales

7%

Pulp

• Paper pulp



Description and typical uses
Main raw material used in the 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 woodfibres to leave cellulose fibres. Paper made from chemical pulp is generally termed 'woodfree'. Uses include paper, paperboard and tissue.

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.

Our markets in 2015
Global demand for paper pulp was again firm this year. The price differential between softwood pulp and hardwood pulp was historically wide last year which led to furnish swaps by a host of paper producers, thus returning the spread to more normal levels. Softwood pulp prices continue to fall on increased supply. Hardwood pulp prices remain firm with Chinese demand keeping the market tight.

Share of Sappi sales
1%

• Dissolving wood pulp (DWP)



Description and typical uses
DWP 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. DWP is also known in the industry as specialised cellulose.

Demand trends
DWP has a wide range of applications with varying end-uses and demand characteristics. Demand for DWP used for textiles is both the largest market and the fastest growing, while other end-market applications are characterised by smaller volumes and lower growth rates.

Our markets in 2015
Steady growth of approximately 4% for commodity grade DWP, which constitutes almost 70% of total DWP demand, was somewhat offset by slower demand for speciality grade DWP, particularly in North America and Western Europe. The slower demand growth rate was compensated for by the tightening supply. Falling sales prices for viscose, lower prices for competing fibres, such as cotton and polyester, and additional capacity into the DWP market continued to put downward pressure on DWP prices globally with the weaker trend continuing from 2014 into the first two financial quarters of 2015. This forced us to also reduce selling prices to our customers in line with global price reductions. However, global DWP prices in the last two financial quarters of 2015 began to increase steadily once again – the higher prices resulting from a tightening of the supply of DWP as a result of a number of swing mills reverting back to producing paper grade pulps. Despite this market volatility our three mills remained fully sold throughout the year as we continue to service key customers with unmatched quality and consistency at such a large scale through the cycles.

Share of Sappi sales
17%

Timber/other products

• Timber/other products



Description and typical uses
Sawn timber for construction and furniture manufacturing purposes.

Demand trends
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 2015
The weaker currency led to fewer timber imports from countries around the world. Our volumes and prices were up versus last year.

Share of Sappi sales
1%

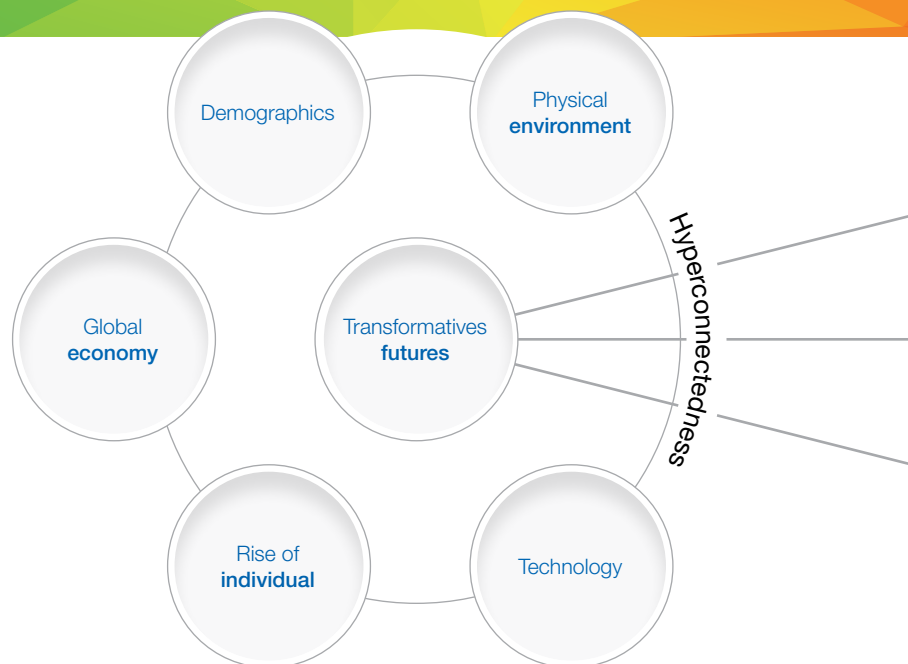
sustainability

sustainability

Committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.

Megatrends – a carbon-neutral nexus for renewal

Our emphasis on, and investments in, technological innovation places us at the forefront of moving beyond just pulp and paper as we unlock and commercialise the potential of the biochemical extractives, microfibrils, nanocellulose fibres and cellulose nanocrystals found in wood.





Alfeld Mill

**Carbon neutral
nexus**

- Climate change
- Energy
- Food security

**Forest industry
renewal**

- Biochemicals
- Bio-energy
- Biomaterials
- Nanocellulose

**Game
changers**

- Accelerated change
- Biotechnology
- Innovation economy
- Product expectations
- Short horizons

our key relationships

Proactive, constructive stakeholder engagement is at the heart of our drive to integrate sustainability into our everyday businesses processes. 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 enables more tangible business value creation, by understanding stakeholder rights, needs and expectations, integrating their inputs, as well as measuring and monitoring our activities, so as to ensure alignment with our strategic goals.

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

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

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

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

Sappi's main stakeholder groupings, per our stakeholder engagement policy, are set out on the following pages, together with selected examples of engagement undertaken during the reporting period. As a global business, with our products sold into more than 100 countries, our ability to connect with stakeholders as One Sappi, motivated by our revised mission, strategy and shared values, gives us a clear advantage and for our stakeholders a connection they can trust to add value.

→ Employees

Our stakeholder group, management approach and areas of mutual interest

Management approach:

We will continue to invest in future talent while challenging our people so that they are able to seize the opportunities presented by a changing global environment. We make resources available to enable our people to grow intellectually, fulfil their potential and bring new ideas to fruition.

Areas of mutual interest:

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

Ongoing avenues of engagement

Our group and regional CEOs engage with staff through regular site visits, presentations and discussions, suggestion lines exist at some facilities, and unions have formal channels through which they engage with management.

We encourage full engagement between managers and their staff. Other avenues of engagement include:

- Global, regional and local newsletters
- Our global intranet
- Letters, roadshows and presentations by the group CEO as well as regional CEOs
- Operating unit meetings, briefings and workshops
- 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: Europe: 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 CEO Award for Excellence.

Ongoing training and development initiatives, training targets in each region.

Targeted training and engagement programmes in each region regarding sustainability.

Value-add

- Greater levels of employee engagement
- Alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development
- Engaged employees are pivotal to the success of our business
- Enhance productivity ability to service global markets
- Build our human capital, thereby helping to enable delivery of our 2020Vision
- Build a base of the technical skills needed by our industry

Key issues and engagement in 2015

The new global Sappi **mission, strategy and values** were launched in August 2015 by the group CEO. The roll-out of this initiative was supported by a robust communications campaign which included desk drops of relevant communication material, posters, letters and articles in both global and local newsletters.

In December 2015, we will begin a process of reinforcing and entrenching the values through focus group sessions with all employees. This will be integrated, where possible, with feedback sessions on the global Employee Engagement Survey conducted in September 2015.

The global **Employee Engagement Survey** was conducted during September 2015. The results are in the process of being collated by the service provider. Initial results indicate a participation rate of 73% globally, which is 1% higher than 2013.

In FY2015, **average global training** spend per employee amounted to US\$644.

In FY2015, in **Europe**, we continued to drive the Sappi Performance Engine whereby the focus is on embedding of the PDCA mindset (Plan, Do, Check, Act) across Europe.

We also rolled out a new Eco-effectiveness campaign in this region. Part of the campaign involves personal stories from our people demonstrating their commitment to sustainability whereby they have demonstrated their personal commitment in their field. This approach has helped to bring the concept of sustainability from management levels and boardroom meetings to the shop floor.

In **North America** we continued with our EDGE (Enhancing Development and Growth through Engagement) and LEADS (Leadership Excellence and Development) programmes, while in **South Africa**, many of our high-potential employees participated in the Sappi Leadership Academy. We also operate bursary programmes and Engineers in Training and Foresters in Training programmes, and support FET (Further Education and Training) colleges.

In **North America**, as a result of several new collective bargaining agreements, more than 1,110 of the company's hourly employees will transition from a low deductible to a

high deductible health plan at the beginning of calendar 2016. The new plan design also includes a health savings account feature, with a contribution from the company to partially offset the higher deductible. We are in the process of rolling out an education campaign with respect to this change.

In **South Africa**, our employees have access to the Earth Kind Agent eLearning game which the public can access via an app for iPad and Android tablets. The game exposes the player to Sappi's sustainability information on a new, innovative platform. To date, almost 800 of our employees have played the game.

Sustainability ambassadors in Europe and North America, and brand ambassadors in South Africa have been trained.

The Lost Time Injury Frequency Rate continued to decline year-on-year, despite three tragic contractor fatalities in South Africa which we deeply regret.

→ 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 63% of our workforce is represented by unions, with 69% 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, as well as various forms of community outreach.

Ongoing avenues of engagement

In **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 and differs from country to country.

In **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.

our key relationships continued

→ Unions continued

In **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.

Value-add

- Meaningful engagement on a number of issues affecting both business and employees
- Improved relationships
- More stable labour force
- Enhanced productivity

Key issues and engagement in 2015

Overall, FY2015 was characterised by amicable, but tough negotiations and relatively good relationships with organised labour across the geographies.

In Europe the Sappi Europe Chief Executive Officer and Human Resources Director attended the biannual meetings. The main purpose of these meetings is to inform and consult on business results/market developments and pan-European organisational topics.

During FY2015, in **North America**, Sappi North America settled labour agreements with the majority of its hourly production workers through negotiations with the United Steelworkers (USW) at the Westbrook, Cloquet and Somerset Mills on economic terms consistent with the industry.

At Cloquet Mill, employees represented by the National Conference of Firemen and Oilers (NCF&O) union agreed to the new health plan design beginning in 2016. Further negotiations are on hold, pending discussions by the parties of a potential pay for skills system.

In **South Africa**, our engagement structures were reviewed and a new recognition and threshold agreement was concluded with the majority union, the Chemical, Energy, Paper, Printing, Wood and Allied Workers Union (CEPPWAWU). This agreement regulates the relationship with the Union and most importantly sets the criteria for any new trade union wishing to claim for organisational rights at any of the Sappi Southern Africa operations or business units. The other recognised trade unions, which are party to the Bargaining Council for the Wood and Paper Sector, are also covered by this agreement and enjoy certain organisational rights in Sappi Southern Africa where they have membership.

In addition, Sappi Southern Africa developed and adopted a new engagement and dialogue framework which clearly defines the terms of reference for these engagement structures, both at national and business unit level.

During FY2015, Sappi Southern Africa was able to successfully conclude their wage negotiations without industrial action in all sectors, ie forestry, pulp and paper as well as sawmilling.

A collective bargaining process review is currently under way. This is to establish whether Sappi Southern Africa should continue to be part of the central or industry-based wage negotiations in this chamber, or revert back to company or plant level negotiations, given the complexity of a central process.

We formally consulted with all recognised trade unions regarding the sale of Cape Kraft and Enstra Mills.

These consultations were in accordance with sections 189 and 197 of the Labour Relations Act 66 of 1995, as amended respectively.

Consulting parties have reached consensus to use the combination of voluntary severance packages and redeployment to other Sappi Southern Africa business units, as mitigating factors to avoid or minimise forced retrenchments. It is anticipated that the consultation process will be concluded by the end of October 2015.

→ 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. We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of conserving natural resources, uplifting people so that they are well positioned to thrive in our increasingly inter-connected world.

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 Sappi North America and 2015 Sappi Europe and Sappi Southern Africa Sustainable Development Reports).



In **South Africa**, we have established local farmer and community forums regarding our forestry communities in South Africa.

Sappi also works with local government and communities to accelerate afforestation in the northern region of the Eastern Cape. This allows Sappi to secure valuable hardwood timber resources close to Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, the company continues to identify ways to ensure access to pulpwood in the wood baskets close to key operations, by means of land or timber delivery swaps.

Value-add

- Enhance our licence to operate
- Promote socio-economic development which could in the long term lead to increased demand for our products
- Initiate real social mobilisation and change for the better

Key issues and engagement in 2015

In **Europe**, we have established extensive internship programmes at all our mills. Kirkniemi Mill offers training material for schools and all mills host schools on mill tours.

All mills offer paper and financial sponsorship to local schools, sport and hobby clubs, forest industry students, local safety/environmental organisations, and also support local charities.

In **North America**, we have long-term relationships with intern and co-op programmes and offer positions that give undergraduate and graduate students work experience at our mills and the Westbrook Technology Centre. In addition to hosting interns, we also held a two-day Career Academy whereby students interacted with Sappi employees in finance, customer service, inside sales, research, production, information technology and human resources, and also hosted a camp where Somerset Mill employees introduced high school students to engineering roles.

In **South Africa**, we were able to determine the success of a community engagement programme launched in 2014 to improve relations and better understand community development needs with selected forestry communities in the southern region of KwaZulu-Natal.

The Abashintshi (the 'changers' in Zulu) training programme involved training two young people from each of the nine communities selected in our pilot programme (18 in total).

These community change agents received one week of skills training and development each month, with a view to sharing the training with their peers.

Key to the programme is the engagement with youth, as we had previously engaged primarily with traditional leaders and councillors.

The Abashintshi were charged with implementing four key projects during 2015:

- Implement a youth life skills project (various modules dealing with decision making and choices, amongst others). The programme reached 1,800 youth across the nine communities.
- Work with each community in terms of the Asset-based Community Development (ABCD) concept. ABCD focuses on appreciating and mobilising individual and community talents, skills and assets (rather than focusing on problems and needs) and most importantly – it is a community-driven process rather than a programme driven by external parties or agencies. The aim is to get each community to identify their own assets and to mobilise internally. A pilot ABCD project in 2014 proved to be extremely successful. During 2015 the programme made over 900 contacts and a further 60 projects have been activated.
- Launch Ifa Lethu – a legacy project, whereby the elderly in the community will document their heritage and the lessons learned will be transferred to the youth in the life skills project. Over 880 people participated.
- Establish school holiday programmes. The first was held in July 2015 attended by 1,500 children.



Further details of community activities can be found in our regional sustainability reports.

→ 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 the rapidly changing world of tomorrow. We also review our go-to-market strategy where relevant to ensure that we align our interests and the interests of our end-users.

Where relevant, we will also conduct R&D and develop products to suit the specific needs of a customer.

our key relationships continued

→ Customers continued

Areas of mutual interest:

- High service levels
- Information and campaigns to promote print as a communication medium
- Information and campaigns to promote Sappi 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.

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

Sappi promotes the company and products through trade shows and exhibitions.

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, and
- **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. 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.
- **Sappi Specialised Cellulose:** Technical Centres of Excellence are located at Saiccor and Cloquet Mills.

- **Speciality papers:** Following the completion of the US\$69 million upgrade of PM2 at Alfeld Mill in 2013, the mill has now become a Sappi Centre of Excellence for speciality papers. In 2015, we expanded the Competence Centre for Speciality Papers at the mill with a new Paper Laboratory.
- **Casting release papers:** These products are primarily used to impart texture on other decorative surfaces such as synthetic fabrics and laminates. Our paper is part of the production process, not the final product, and is designed for multiple reuse. Scientists at our Westbrook Technology Centre constantly look for ways to improve casting release paper products so that reuse is maximised, with many of our release grades providing customers dozens of reuse cycles.

Value-add

- Meet customers' needs for products with an enhanced environmental profile
- Promote our customers' own sustainability journeys
- Heightened awareness of the importance of sustainability
- Keep abreast of market developments
- Meet customers' needs
- Showcase our products
- Demonstrate the power of print

Key issues and engagement in 2015

In **Europe**, Kirkniemi, Gratkorn, Maastricht, Ehingen and Alfeld Mills (SBS only) were awarded the Nordic Ecolab certification status, while Kirkniemi, Maastricht, Gratkorn and Ehingen Mills achieved Europe Ecolabel certification status.

We held the sixth annual Sappi Football Cup, which challenges our customers to show their skills in table football. Participating countries were: Austria, Belgium, Czech Republic, France, Germany, Hungary, Italy, Poland, Serbia, Slovakia, Spain, Switzerland, Turkey and the United Kingdom. Qualifying matches follow the rules issued by the International Table Soccer Federation.

Three winning teams won a ticket to the UEFA Champions League final in Berlin on 06 June 2015.

Sappi Europe encouraged customers to help support the forestry rehabilitation charity WeForest. (Further details are provided on page 44 of this report.)

We rolled out a new Eco-effectiveness campaign. Part of the campaign involves personal stories from our people demonstrating their commitment to sustainability stories in which they have demonstrated their personal commitment in their field. This approach has helped to bring the concept of sustainability from management levels and boardroom meetings to the shop floor while enabling us to also engage with our customers on these topics.

We also launched a sustainability ambassador programme at our sales offices.

In **North America**, our Sustainability Customer Council continued to provide valuable input on emerging issues. The Council comprises Sappi customers, representing multiple customer segments of the coated papers and casting release papers business, including merchants, printers, publishers, corporate paper buyers and graphic designers.

The Paper and Paper-based Packaging Check-off Board, to which Sappi belongs, launched the US\$20 million How Life Unfolds™ consumer campaign. The cross-platform campaign is designed to slow the decline in paper usage and grow demand for packaging. (www.howlifeunfolds.com).

We completed the sixth edition of our Standard series on binding techniques and held workshops beginning in April on this new material. Sappi North America also developed new print collateral on neuroscience and the haptics of paper. The piece features case studies from Apple, BMW and WWF on how they used haptics to enhance communications. The region enlisted a leading neuroscientist to present this piece at a series of conference events starting in May and continuing throughout the remainder of the year and in 2016.

We launched a dedicated packaging group in **North America** and in **Europe**, also launched a number of new products (described on page 43 of this report). Some examples of trade shows where we showcased our packaging papers from Europe and North America include Labelexpo Europe (29 Sept – 02 Oct) in Brussels, FachPack (29 Sept – 01 Oct) in Nuremberg, Packexpo in Las Vegas (28 – 30 Sept) and Graph Expo in Chicago (13 – 16 Sept).

In **South Africa**, in October 2014, we were a primary sponsor of the graphic design category in the Student Gold Pack Awards held under the auspices of the Institute of Packaging SA and we also exhibited at Propak Africa, a prestigious packaging exhibition in Cape Town. In September, we presented a paper on artificial and intelligent packaging and exhibited at the Packaging and Labelling Expo in Johannesburg.

On a global basis, we 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 Biobased Industries

North America:

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

Sappi Europe is a member of Two Sides and supports Print Power. Both of these organisations work to dispel myths about the environmental impact of print, Sappi paper and paper packaging. Sappi North America is a founding member of Two Sides US and Sappi Southern Africa supported the launch of the local Two Sides campaign in 2014.

South Africa:

- Paper Manufacturers' Association of South Africa (PAMSA)
- Business Unity South Africa
- Manufacturing Circle
- Forestry South Africa

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

Sappi Forests is a founding member of the Tree Protection Co-operative Programme (TPCP) based in the Forestry and Biotechnical Institute (FABI: 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 and to CAMCORE, an international, non-profit organisation dedicated to the conservation and utilisation of subtropical and tropical tree species.

Value-add

- Sappi is able to create and launch new products which already meet SPC criteria, which is beneficial to us on a cost basis and a sustainability basis
- Maintain and expand markets for our products
- Demonstrate the value-add of the forest products industry
- Dispel myths and promote understanding of our industry

our key relationships continued

→ Industry bodies continued

Key issues and engagement in 2015

Sappi, as a significant sponsor, supported TAPPI (the Technical Association of the Pulp and Paper Industry) celebrate its technical and scientific contributions to the pulp and paper industry over the past 100 years

In September, a number of Sappi representatives attended the World Forestry Congress which is held every six years and used the opportunity to engage at a high level and to showcase Sappi's technical expertise by sharing their expertise and best practice with peers at an international level.

In addition:

- We showcased Project Grow, our enterprise development initiative, and sponsored the attendance of a number of Project Grow beneficiaries.
- Sappi representatives presented various papers, including a paper on certification at the Institute for Commercial Forestry Research (ICFR) research. We also participated in panel discussions.
- We participated in the Forest Dialogue workshop where discussions were around the scoping of a dialogue on intensively managed planted forests and in a special stakeholder meeting with the FSC® where we discussed the implementation of the FSC's new strategy.

In **Europe**, through our industry body the Confederation of European Paper Industries (CEPI), we put forward our view that sufficient carbon leakage protection for industry is essential, especially for sectors that want to invest in low carbon technologies in Europe.

In **North America**, we continued to engage on issues like emissions and carbon taxes.

In **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.

The problem of infection and pest control on our plantations is becoming increasingly challenging. To this end, our researchers engaged with a number of experts in this field.

Our engagement processes as regards carbon-related taxes and energy issues in each region and the outcomes thereof in 2015 are detailed on pages 46 and 48 of this 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, opportunities and ESG performance

Ongoing avenues of engagement

Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. This team has direct access to the executive directors and any issues shareholders raise that would be relevant for the board are channelled through the IR team. Our Chairman also engages with shareholders on relevant issues.

We also conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Service (SENS), in the press and on our website www.sappi.com.

We publish our Annual Integrated Report and Sustainability 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.

Value-add

- Understanding of our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest

Key issues and engagement in 2015

In 2015, we were included in the FTSE/JSE Responsible Investment Index and the FTSE/JSE Responsible Investment Top 30 Index.

We achieved a score of 99C in the Carbon Disclosure Project

Our engagement with environment, sustainability and governance (ESG) managers from investors and analyst companies increased during the course of 2015.

→ 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 and to creating an environment that shares our commitment to doing business with integrity and courage, making smart decisions which we execute with speed. We aim to build long-term value partnerships.

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

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

In **Europe**, a joint sourcing partnership has been established with SCA which assists in negotiating better terms with timber and other suppliers.

In addition to Sappi's internal woodfibre certification efforts, we promote certification amongst our suppliers and outside our own operations.

Sappi North America's ongoing forest management services and supplier outreach programmes help to increase certified lands in areas that supply fibre to its mills. Sappi North America was the first pulp and paper company in North America to be granted a group forest management certificate by the FSC®. Small landowners who agree to become a member of Sappi North America's forest management group have their land certified in accordance with the FSC standard under this certificate. Sappi North America's Sustainable Forestry programme assists woodlot owners in the State of Maine to develop plans for managing and harvesting woodlands.

Launched in 1983, Project Grow, a tree-farming scheme that gives subsistence farmers the opportunity to participate in the forestry industry, creating sustainable livelihoods in rural areas, fostering economic growth and entrepreneurship. These growers range from small individual growers to larger community projects.

We have expanded Project Grow beyond the borders of KwaZulu-Natal province to the Eastern Cape. In addition, we are working with communities in the Eastern Cape to help them obtain water-use licences for the establishment of new plantations.

We are active in the land reform area and are assisting several land reform beneficiaries (communities) in the management

of their plantations, and have signed supply agreements with 34 land reform/restitution projects.

Value-add

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

Key issues and engagement in 2015

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, and
- Assistance with wildlife management and aesthetics.

In **South Africa**, a team of qualified extension officers works with our Project Grow suppliers to offer advice.

Sappi Southern Africa has established a group scheme for small and medium growers with plantations ranging from a few hundred hectares to well over 10,000ha in size. FSC certification is not yet available to micro growers, largely because of administrative and financial constraints. Under the auspices of Forestry South Africa, Sappi Southern Africa is evaluating ways of overcoming these barriers, but it may take another two years to be established.

In **South Africa** we are developing a framework and methodology for a value chain incubator/accelerator programme targeted at small, medium and micro enterprises. Our overall aim is to accelerate and diversify opportunities within the forestry value chain. The programme is being developed with input from our current contractor base.

Alignment with Sappi's strong ethical culture

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

→ 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 continue to update the media regarding our strategic shifts to extract value from woodfibre in line with future trends.

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

our key relationships continued

→ Industry bodies continued

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.

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.

We provide support for the activities of SANBI (South African National Biodiversity Institute), Birdlife SA, WWF-SA, Honorary Rangers, WESSA, as well as the UCT ADU (Animal Demography Unit) tree project and the Kruger National Park Warburgia Salutaris project.

 As fire is a key risk on our plantations, we belong to a number of fire protection associations. (See page 48 of this report for further details on how we manage fire.)

Value-add

- Opportunity to inform and educate media
- Transparent, two-way communication and opportunity for dialogue

Key issues and engagement in 2015

In **South Africa**, the Centre for Environmental Rights (CER) accused 20 companies, of which Sappi was one, of non-compliance with environmental legislation based on their review of information contained in the National Environmental Compliance and Enforcement Reports (NECER) of the Environmental Management Inspectorate (EMI) of the Department of Environment Affairs (DEA). Sappi's response to the findings of the CER can be found here (<http://cer.org.za/full-disclosure/company/sappi?correspondence>).

Sappi has taken note of the comments of the CER and for increased transparency, we will align our reporting to any mentions in the NECER. We continue to engage with authorities regarding all issues of environmental compliance.

In the recently published 2014/15 NECER (National Environmental Compliance and Enforcement Report) of the Environmental Management Inspectorate (EMI) of the Department of Environment Affairs (DEA) of the Government of

South Africa, an entry is included which makes reference to an EMI inspection which took place at Sappi Saiccor Mill during September 2014. The entry goes on to state that several non-compliances were identified and an inspection report detailing the findings of the inspection had been finalised. We have not yet received any official report resulting from the initial inspection done in 2014 from the EMI or the DEA.

→ 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.

Value-add

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

Key issues and engagement in 2015

In **North America**, as part of our ongoing obligation in terms of our hydroelectric dam licences to restore fish passage on the Presumpscot River in the State of Maine, we have been engaging with Federal and state agencies, non-government organisations and members of the public concerning the design of the fish passage at the Saccarappa hydro facility. We plan to remove the facility, and have recently filed a surrender application with the Federal Energy Regulatory Commission (FERC). As a result of the engagement process, Sappi North America has made several improvements to the fish passage design. The fish passage at the Saccarappa station must be operational by 01 May 2017.

We engage with governments and regulators in all regions on a regular basis both directly and through our industry associations on a myriad of issues which impact our operations as well as our contributions to and role in local communities. In particular, please refer to the discussion of emissions regulations and carbon tax on page 46 of this report.



global sustainability goals

In line with our 2020Vision and One Sappi strategic approach, in 2015 we have established ambitious global sustainability targets. Regional targets are aligned to these goals.

The base year is 2014, with five-year targets from 2016 to 2020. Capital spend budget over five years will be used to determine targets in various elements.

Global target	2014 base	2015	2015/2014 %	2020 goal
People				
LTIFR (combined own and contractor employees)	0.53	0.48	9% improvement	Target zero LTIFR with minimum 10% improvement year-on-year
Sustainable engagement	Not measured	74%	N/A	76%
Planet				
Energy efficiency (STE)	21.05 GJ/adt	20.18	4% improvement	5% improvement over period
Certified fibre	79%	79%	Maintained	Maintain or improve percentage
Prosperity				
ROCE	10.8%	12.4%	15% improvement	12% ROCE minimum

our key material issues

The issues set out on the following pages are challenges in our operating environment that we believe may have a material impact on our business by affecting the value we create for stakeholders.

Prosperity

Material issue: declining demand in some of our traditional markets

As outlined on page 8 of this report, our 2020Vision strategy is set to reinforce and reposition Sappi across a number of core business segments, realise their strategic importance to the group and maximise their significant cash flow generation. Our response in terms of our targeted business segments is set out below.

Paper-based packaging and specialities

Background

More than 75% of consumers say that environmentally sound packaging has an influence on the beverage brand they buy.⁽¹⁾ According to research, in 2012, the global market for paper packaging stood at US\$254.80 billion and has been growing at a compound annual growth rate of 4.4% since 2013. The report estimates that the value of the market will reach US\$344.43 billion by 2019.⁽²⁾

Our response

We are targeting earnings from our paper packaging division to be 25% of EBITDA by 2020, up from 18% today.

Our coatings expertise gives us a competitive advantage in this market and means that we can easily fulfil requirements for complicated prints, finishes and colours as well as barrier coatings.

In FY2015, in **Europe**, we launched the following speciality products:

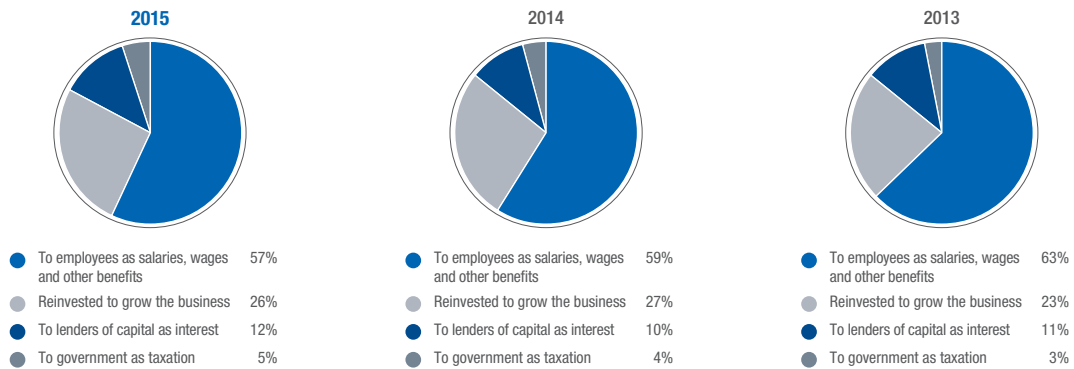
- **Algro® Thermo**, a premium-quality base paper for specialist thermal coating that offers the option to preprint text and images on both sides of the substrate with high levels of consistency. Developed for the niche market of on-demand tickets and available in weights from 100 to 193g/m², Algro Thermo is well suited for a wide range of applications, including point-of-sale systems and vouchers as well as labels for shipping and product identification.
- **atelier™**, a multi-ply board folding boxboard that broadens Sappi's offering in terms of both width and depth of coated virgin fibre cartonboards for the packaging market. atelier combines a bright-white finish with the rigidity and strength required for functionality with any type of cartonboard printing, converting, finishing or post-production handling. We successfully launched this product into the South African market.

⁽¹⁾ Tetra Pak Environment Research Survey, cited in <http://www.tetrapak.com/about/newsarchive/environment-an-increasingly-important-factor-in-consumers-purchasing-decisions>.

⁽²⁾ Paper Packaging Materials Market – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2013 – 2019 published by Transparency Market Research and quoted at: <http://www.transparencymarketresearch.com/pressrelease/paper-packaging-material.htm>.

our key material issues continued

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



In Europe, we also extended our Fusion™ range – the brand is now available in 90g/m², and targets fast food and microflute packaging. Fusion is designed specifically for use with and on corrugated board and is fully ISEGA certified for direct contact with food.

In addition, our speciality Algro® Sol silicone base papers continued to gain acceptance in global markets. An important advantage for converters using silicone base paper is the low silicone consumption that is achieved with Algro Sol paper types in the siliconisation process. The consumption values of standard carrier are normally between 1 and 1.3g/m², but Algro Sol's are below 1g/m². This means the consumption is 25% lower as compared to other standard carrier papers currently available on the market. Despite the low silicone consumption, an extremely homogeneous silicone surface is achieved. This ensures excellent removal of the self-adhesive films from the siliconised carrier paper.

Following the completion of the US\$69 million upgrade of PM2 at Alfeld Mill in 2013, the mill has now become a Sappi Centre of Excellence for speciality papers. In 2015, we expanded the Competence Centre for Speciality Papers at the mill with a new paper laboratory.

The paper laboratory will be used to conduct field quality testing with the latest in technological capabilities. The paper laboratory replaces the previously used test line in the climate lab. Its state-of-the-art technology and the broader weight measuring range (from 18 to 400g/m²) are world-class in the quality testing of speciality papers and carton boards.

In operation around the clock, every production batch is subjected to precise measurement to ensure the quality of the batch, thereby guaranteeing our customers a unique level of continuity in our papers and boards.

In **North America**, we established a focused packaging division supported by a dedicated sales team. In addition, building on the success of LusterPrint®, a grease-resistant paper used primarily in pet food packaging, we launched LusterCote®, for labels and other related end-use applications.

In **South Africa**, we continued to experience good demand for Ultraflute, our new lightweight semi-chemical fluting made with 75% virgin fibre, launched in 2014. The product is used mainly in the industrial and agricultural sectors. We also launched Ultratest, a recycled linerboard with superior strength properties.

Graphics paper

Background

In today's digitally connected world, information is increasingly consumed on computer screens and mobile phones instead of paper.

Our response

We recognise that the graphics paper market is in decline, but maintain that paper is a renewable and recyclable product that, when manufactured from woodfibre originating in responsibly managed forests and plantations like ours, is an environmentally sustainable, powerful medium.

The power of paper is highlighted by a Sappi North America promotion, Haptic* Brain, Haptic Brand: A Communicators Guide to the Neuroscience of Touch which won the sixth annual Positively Print award.

The scientific exploration on this project was conducted by a leading neuroscientist and specialist in haptics*, who extensively researched how different media shape perception and how our sense of touch impacts our experience with corporate communications and brands. The research found that paper quality significantly affects viewer response and that tactile communications, like paper, cause people to exhibit a sense of ownership of the objects they read about, influencing buying decisions.

The value of paper and the findings of this research are backed up by a compelling body of evidence from high-income countries which show that children's language development and literacy skills are facilitated by book sharing with a caregiver, beginning in infancy.⁽¹⁾

In this market segment, we continue to develop and enhance our portfolio of products to meet the needs of customers who recognise the value of print. Accordingly, in Europe, in November 2014, we upgraded our PM11 paper machine at Gratkorn Mill in order to enhance paper quality, increase the operating capability of Gratkorn's biggest paper machine and enhance the potential grammage range.

In **North America**, we launched 94 Bright Opus sheet coated paper, increasing the brightness of Opus sheets from 92 bright and strengthening the Opus sheet line which comprises Opus, Opus PS and Opus DX digital. The brighter Opus is in response to the needs of integrated marketers who want a competitive advantage. The heft and stiffness of Opus papers deliver a higher quality feel than any competitive grade at the same basis weight, and can handle tough pressroom conditions. The Opus range is optically engineered to reproduce more colours, making it easier to match press sheets to colour proofs.

In **South Africa**, we realigned our operations, concluding the sales of Enstra and Cape Kraft Mill shortly after year-end, in order to focus more intensively on our core business: virgin fibre-based paper and paper packaging products as well as dissolving wood pulp. We are also increasing our offering to our customers with a range of papers from Sappi Europe. These moves have also allowed us to focus more on export markets in line with our One Sappi strategy.

Dissolving wood pulp (DWP)

Background

Commodity-grade prices for DWP are currently low but are showing signs of improving. The recent decline in the oil price as well as the current high cotton reserve stocks in China may continue to negatively impact the price of textiles, thereby impacting the price of DWP-based textiles.

Our response

Textiles are the primary market for our DWP which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell), although we continue to supply smaller quantities into the other DWP market segments. We anticipate that the underlying demand trends are still improving. This will always be determined by the relative inter-fibre pricing dynamics but cellulosic-based fabrics do have the advantage that they breathe and are comfortable to wear and when combined in fabric blends with the wash and wear characteristics of petroleum-based fibres, produce clothing with excellent overall properties. Based on global GDP, population growth expectations and increasing affluence, particularly in Asia, we remain confident in this market segment and its continued growth.

The DWP used in our manufacturing operations not only gives us a competitive advantage but most importantly, is produced from sustainably managed wood sources: in South Africa, we apply the Chain of Custody (CoC) – FSC®-certification system, while in North America we use the CoC-FSC®, PEFC™ and SFI® systems. Certification by these internationally recognised accreditation organisations provides assurance that the woodfibre used in our DWP originates in sustainably managed forests and plantations.

Our strategic focus in this market segment includes working with key customers to support common growth, investigating adjacent and profitable end-uses and managing our capacity – our Cloquet Mill can switch between DWP and paper pulp.

Adjacent markets: nanocellulose, sugars and lignins

Nanocellulose: background

The market for nanocellulose continues to grow, driven by the trend for sustainable, lightweight, biobased products, as well as the material's exceptional physical and chemical properties. The raw material for nanocellulose, woodfibre, is abundant. Furthermore, nanocellulose is not only lightweight, it has very high tensile strength (eight times that of steel), the crystalline form is transparent, and gas impermeable and it is highly absorbent when used as a basis for aerogels or foams.

⁽¹⁾ Lonigan, CJ and Whitehurst, GJ: Child Development and Emergent Literacy, at <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8624.1998.tb06247.x/abstract>



* Haptic – for further information please see the Glossary on page 106.

our key material issues continued

Our response

In 2015, we announced our development of a patented, low-cost nanocellulose process in conjunction with Edinburgh Napier University. This process uses unique chemistry whereby wood pulp fibres can be easily broken down into nanocellulose without producing the large volumes of effluent associated with existing techniques using high amounts of energy. In addition, the chemicals used in the process can be recycled and reused without generating large amounts of effluent.

The energy-saving process will be further developed in a pilot-scale plant at Brightlands Chemelot Campus in The Netherlands which will test the manufacturing of dry redispersible Cellulose NanoFibrils (CNF).

Our CNF is sustainable, making it very desirable as a new material for various industrial and transport applications. Products produced using Sappi's CNF will be optimally suitable for conversion in lighter and stronger fibre-reinforced composites and plastics, in food and pharmaceutical applications, and in rheology modifiers as well as in barrier and other paper and coating applications. The pilot plant will be used for market development and upscaling. Our initial focus is on:

- Thickening of water-based products such as paints, foods and concrete
- Making composites which could replace glass fibres in, for example, the next generation of lighter, fuel-efficient vehicles and aeroplanes
- Producing replacements for plastic films in packaging, and
- Investigating applications including films in lithium batteries and touch screen displays, as well as biomedical applications such as wound dressings and regenerative medicine.

Sugars and lignins: background

The key components of woodfibre include cellulose, hemicellulose, lignin and extractives. Both cellulose and hemicellulose are polysaccharides containing many different sugar monomers which can be extracted from pulping streams.


Our response

In line with our move to near and adjacent markets, the extraction of sugars from pulping streams to produce biorenewable chemicals is currently under investigation. Should it prove commercially viable, we will develop a pilot-scale plant.

We continued to investigate the extraction and utilisation of lignin from Sappi's various liquor and waste streams. Working with external experts, we have embarked on a programme to characterise the different lignin sources in Sappi and to identify new market opportunities.

In 2015 we announced an investment of US\$8.5 million to increase the lignin production capacity by 20,000 tons per annum at LignoTech South Africa, our joint venture with Borregaard. The added volume will be marketed to the joint venture company's existing applications and geographical markets. The project is expected to be completed in 2017.

Tugela Mill in South Africa has been selling lignosulphonate into the dust suppression, concrete additive, ceramic and brick-making markets since 2012. We are now looking into products suitable for biobitumen, adhesives and sealant applications. The mill recently installed drying equipment to reduce transport costs.

 Note: Bioenergy is another targeted adjacent business stream and is discussed under energy (material issue) on page 48.

Material issue: innovation

Background

As the world increasingly recognises the value of products based on woodfibre, opportunities are opening up to supply products, processes and services based on this renewable, biodegradable natural resource.

Our response

Our research and development (R&D) initiatives focus on consolidating and growing our position in our targeted markets segments (discussed earlier in this report), driving cost competitiveness and cost reduction, as well as optimising our equipment and forestry assets.

Our total R&D spend in 2015 was US\$28 million, including spend of approximately US\$8 million on our Exciter programme which focuses on core business (Exciter I) and new and adjacent business (Exciter II).

In 2015, we redesigned the process for selecting and managing Exciter I and II projects to allow for greater involvement of Sappi's non-technical managers, including the managers of Sappi's R&D centres in consultation with the regional manufacturing directors, strategic business development managers, marketing departments and mills in each region.

In compiling the Exciter II portfolio, the team uses an in-house developed risk assessment to assist with portfolio selection and to rate projects on their risk profiles versus potential return. The risk assessment rates in-house competencies such as technical knowledge, assets, sales, marketing and commercial expertise to take a project from concept to market or to a functioning new business.

In terms of products, areas of focus in the year under review were nanocellulose, paper-for-plastics, microbial coatings on paper to allow fruit and vegetables to last longer, as well as higher-strength packaging. On the mill side, the focus was on supporting the DWP projects at Ngodwana and Cloquet Mills by optimising processing conditions for the wood mixes to enhance cost efficiency. In terms of our forestry assets, work continued on the development of DNA markers for improving marker-aided selection for wood properties in hardwoods with the establishment of the required tree breeding populations, and the introduction of exciting new genetic techniques for linking genes and important wood properties such as cellulose content and lignin type, both of which influence time to process. Progress was also made in establishing useful genetic markers for disease resistance in our commercial softwoods.

People

Material issue: safety

Background

Safety is not only an ethical issue, but also a business issue which can impact productivity, costs and reputation.

Our response

We deeply regret to report that there were three contractor fatalities in 2015 in South Africa during the year under review. We view these fatalities in a very serious light and are committed to reducing the impact of injuries in our workforce by ongoing, concentrated focus on driving down the severity of accidents and a concerted focus on eliminating all accidents. While all our employees and contractors should take responsibility for their own safety and that of their colleagues, management remains accountable for safety and is expected to demonstrate leadership.

The OHSAS 18001 Safety Management System continues to be the foundation and structure for all operations, with a core element being the hazard identification and risk assessment process. This is essentially a tool for identifying task-specific

hazards and risks, quantifying the exposures and establishing risk reduction activities. The incident investigation method has provided the root-cause analysis output that drives all prevention activities. Our investigations continue to focus on root causes versus finding blame.

Despite the fatalities, the LTIFR of all regions continued the positive downward trend.

Material issue: labour relations

Background

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

Our response

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

Globally, approximately 63% of our workforce is unionised, with 69% belonging to a bargaining unit.

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

In **Europe**, approximately 77% of our employees belong to a union and are represented through Works Councils. European Works Council meetings take place twice a year at which Sappi is represented by the Chief Executive Officer and the Human Resources Director. The main purpose of the meeting is to inform and consult on business results/market developments and pan-European organisational topics.

There were no material issues in 2015.

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

During 2015, we settled labour agreements with the majority of our hourly production workers through negotiations with the United Steelworkers Union at Westbrook, Cloquet and Somerset Mills on economic terms consistent with the industry.

In **South Africa**, there were amendments to several labour laws, but these did not have a material impact on Sappi.

our key material issues continued

Approximately 51.4% of the total workforce in this region is unionised. In 2015, a new recognition and threshold agreement was concluded with the majority union, the Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union. This agreement regulates the relationship with the union and most importantly, sets the criteria for any new trade union wishing to claim for organisational rights at any of Sappi Southern Africa's (SSA's) operations or business units. The other recognised trade unions, which are party to the Bargaining Council for the Wood and Paper Sector, are also covered by this agreement and enjoy certain organisational rights in SSA where they have membership.

We also developed and adopted a new engagement and dialogue framework which clearly defines the terms of reference for these engagement structures, both at national and business unit level.

During FY2015, wage negotiations without industrial action were successfully concluded in all sectors – forestry, pulp and paper as well as sawmilling.

Formal consultations were concluded with all recognised trade unions regarding the sale of Cape Kraft and Enstra Mills, as well as the relocation of the will cutter machine from Enstra to Stanger Mill. These consultations were in accordance with sections 189 and 197 of the Labour Relations Act.

Consulting parties have reached consensus to use a combination of voluntary severance packages and redeployment to other SSA business units as mitigating factors to avoid or minimise forced retrenchments.

Material issue: investing in our stakeholders

Background

Corporate Social Responsibility (CSR) investment can enhance a company's social licence to operate, help establish customer loyalty and attract talent. Community investment is particularly important in South Africa, given that it is a developing country and that our plantations and operations are situated in rural areas where economic and social development lags behind more urbanised sectors.

Our response

In each region where we operate, we invest in three key stakeholder groups: our customers, communities and employees. While each region has its own programme, these conform to common themes which are aligned with our business needs and priorities and which include education, local community support, the environment and health and welfare. In addition, support for activities associated with access to Sappi land and conservation efforts, such as biodiversity and species mapping, mountain biking and recreational birding, continues to grow.

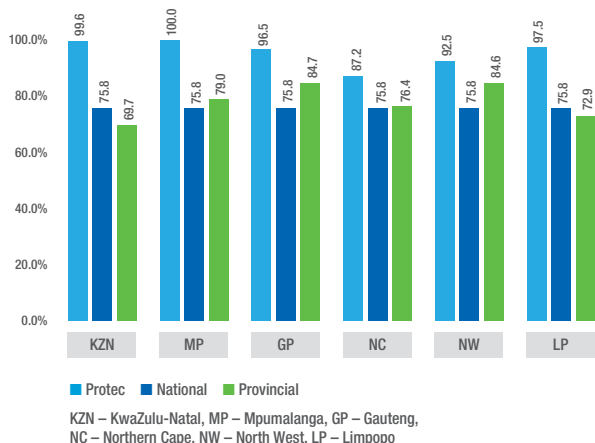
The fact that Sappi is headquartered and listed in South Africa, coupled to the significant development needs of the country, dictates a higher focus on CSR activities by Sappi in South Africa.



Our CSR initiatives in 2015 are described in more detail in our regional sustainability reports, available at www.sappi.com, but a snapshot is set out below to give an overview of these initiatives.

- As part of the recently launched regional Eco-effectiveness campaign, at the Labelexpo Europe event in September 2015, Sappi Europe encouraged customers to help support the forestry rehabilitation charity WeForest. In Khasi Hills (India), a subtropical forest area that is designated as one of the most biodiverse and unique habitats of the Indian subcontinent bioregion, social and economic forces are driving fast deforestation and forest degradation. WeForest's tree planting project promotes women's entrepreneurship and empowers the indigenous communities to build a climate-resilient landscape. The contribution by Sappi and our customers will enable WeForest to plant 4,000 trees.
- In **North America**, the Ideas that Matter (ITM) programme continues to recognise and support designers who use design as a positive force in society. Since 1999, the ITM programme has disbursed close to US\$5 million to support approximately 220 charitable causes in the USA.
- In **South Africa**, we entered the second year of our new Early Childhood Development (ECD) project in KwaZulu-Natal (across 25 sites through the TREE (Training and Resources in Early Education) organisation and in Mpumalanga, the development of an ECD Centre of Excellence at the Elandshoek community through Penreach. We have extended the ECD programme in Gauteng, with 50 practitioners in 50 ECD centres undergoing training through Jabulani Training and Development.

In 2015, we celebrated a 20-year association with PROTEC (a non-profit organisation focused on mathematics and science classes for students in the last three years of high school). We sponsor branches close to our operations in KwaZulu-Natal and Mpumalanga. In the 2014 National Curriculum Statement (NCS) examinations PROTEC students once again outperformed the average results achieved by national and provincial education departments, achieving a 96.7% average grade 12 pass and 71.1% average bachelor pass against the national averages of 75.8% and 28.3% respectively.



Results at grade 12 (matriculation) level

CSR spend by region: 2015 and anticipated spend 2016

	Spend 2015 ³	Budget 2016
Europe	EUR103.554 US\$119.000	EUR105.000 US\$112.245
North America (ITM US\$250,000)	US\$577.362 ZAR28 million	US\$580.000 ZAR27 million
South Africa	US\$2.3 million	US\$2.2 million

Planet

Material issue: woodfibre

Background

The global demand for woodfibre is expected to increase for the foreseeable future, driven partly by the trend to use renewable resources like woodfibre, rather than finite fossil fuels, for energy generation.

Given that woodfibre is a key input to our manufacturing operations, maintaining continuity of supply is integral to our sustainability as a business.

Our position

In **Europe**, in October 2014, the European Union (EU) Council of Ministers adopted a 27% renewable energy target by 2030. Unlike the 2020 mandate (20% renewable energy), the 2030 goal is an EU-wide target, not country-specific. The focus on renewable energy is impacting the European wood supply to Sappi's mills, since using wood as an energy generation source is incentivised through subsidies over the use of wood to create products – consumption of wood pellets in Europe in 2014 rose by 14% to 20 million tons, more than double levels five years ago.⁽¹⁾ The American Forest and Paper Association (AF&PA) reports that US wood pellet exports

to the EU were 2.8 million metric tons in 2013 and would probably reach 3.8 million metric tons in 2014.⁽²⁾

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

In **South Africa**, we are faced with both opportunities and challenges in terms of our fibre supply base.

- In terms of opportunity, the fact that we own, manage and lease 492,000ha of plantations gives us a competitive advantage. Our aim is to produce low-cost wood with the required pulping characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

Accordingly, we continue to investigate and classify timber species according to their respective pulping characteristics and end-pulp quality.

One example of this approach is our evaluation of a *Pinus elliottii* x *Pinus caribaea* var *hondurensis* (PECH) hybrid which was recommended for use in the production of high Kappa unbleached softwood. A successful mill trial was subsequently run with good results and an estimated timber saving of approximately US\$1 million a year. This hybrid has replaced *Pinus elliottii*, previously targeted for Sappi's warmer, low elevation sites and provides an estimated improved yield of 65% over the pure species.

Eucalyptus grandis has historically been the South African forestry industry's most important hardwood species. It has good specialised cellulose and kraft pulping characteristics, but is prone to pest and diseases like the gall-forming wasp, *Leptocybe invasa*.

In light of this, we are evaluating *Eucalyptus dunnii* as an additional hardwood timber source for the production of pre-hydrolysis kraft specialised cellulose at Ngodwana Mill. This species has pulping properties similar to *Eucalyptus grandis*, but has a higher tolerance to the current range of pests and diseases.

We are also identifying timber species for Saiccor Mill which will improve production efficiency.

- Maintaining continuity of supply from plantations owned by land reform beneficiaries is a challenge. Many land reform projects in South Africa have failed, despite the best intentions. As the World Bank has put it, "After 20 years of land reform there are some islands of success, especially in horticulture, but these exist in a sea of partial or complete failure, and the number of beneficiaries and the land area transferred is disappointingly low."⁽⁴⁾ Poor post-settlement support is one of the key reasons cited by experts.

⁽¹⁾ <http://www.agrimoney.com/news/rising-eu-wood-pellet-use-drives-surge-in-imports--7246.html>

⁽²⁾ <http://www.afandpa.org/issues/biomass-and-renewable-energy-mandates>

⁽³⁾ Exchange rates detailed on page 75 of this report.

⁽⁴⁾ Binswanger-Mkhize, H.P. From failure to success in South African land reform, *African Journal of Agricultural and Resource Economics* Volume 9 Number 4 pages 253-269 cited at: http://www.afjare.org/resources/issues/vol_9_no4/1%20%20Binswanger-Mkhize.pdf



our key material issues continued


Against this backdrop we have been approached by a large number of land reform beneficiaries to assist them with the management of the timber on their properties, post settlement. By September 2015, Sappi was involved in 44 land reform/land restitution projects (including those on existing community land or on those purchased by the current owner, totalling 18,803ha. These projects range from 28ha to the biggest project of 6,876ha planted near Lothair in Mpumalanga. A large number of these properties previously belonged to commercial farmers who had supply agreements with Sappi.

To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and have also provided assistance. This depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive Forestry Enterprise Development Agreement (FEDA). The latter is a supply agreement but also incorporates development objectives whereby Sappi provides technical and business training as well as administrative support.

Given the long time period between planting and harvesting, funding of these projects still remains one of the biggest challenges. With the assistance of the Eastern Cape Rural Development Agency, we have managed to secure jobs funding for three land claim projects in the Eastern Cape. A further three projects are being funded through the Department of Rural Development and Land Reform's RECAP programme.

- The severe drought in KwaZulu-Natal has posed a challenge. In this province, the supply of one of Stanger Mill's key inputs – bagasse – has been affected, with yields decreasing from 80 tons of sugarcane per hectare in 2009 to 30 tons per hectare in 2015⁽¹⁾. Accordingly, we are looking into the possibility of using sawdust sourced from sawmills in the vicinity of the mill as an alternative fibre source. As bagasse cooks more quickly than wood, we have been investigating optimum ways to process sawdust which has proved to be successful on a laboratory scale. Using sawdust would be an interim solution and would close an immediate fibre gap rather than be a permanent solution.

- We have taken the decision to understand the challenges and risks of GMO tree crops as our competitors in the woodfibre space have started utilising the technology and while we envisage possible environmental, social and reputational risks with GMOs, we also see them as a method to adapt our plantations to a potentially rapidly changing climate and as a renewable source of chemicals, energy and fibre.

 Note: Climate change is affecting our fibre supply and is discussed under climate change (material issue) on page 48.

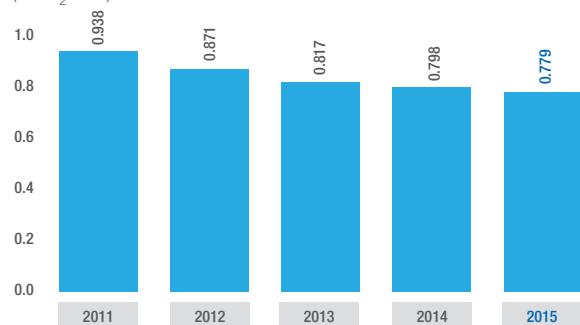
Material issue: emissions regulations and carbon tax **Background**

Against the backdrop of the pulp and paper industry's high levels of energy intensity, regulators are formulating policy aimed at curbing emissions and introducing carbon tax without due recognition of the industry's high use of renewable energy or of the important role that sustainably managed natural forests and plantations play in mitigating global warming.

Our response

The success of our industry depends, in part, on fair, consistent and predictable environmental regulations that take account of the high level of renewable energy used by our operations. In 2015, globally our generation of renewable energy (derived from black liquor, sludges and biomass) stood at 52.4% – an increase of 6.1% over five years. In addition, over five years we have achieved a reduction in absolute emissions intensity (Scope 1 and 2) of 16.9%.

Total GHG emissions intensity
(t CO₂/adt)



⁽¹⁾ <http://www.iol.co.za/news/south-africa/kwazulu-natal/kzn-crippled-by-drought-1.1933095#.Vickiyt2DSM>

In Europe:

- *Emissions regulations:* In October 2014 the European Council recognised that measures to protect energy intensive industry from carbon leakage (defined as the increase in CO₂ emissions outside the countries taking domestic mitigation action divided by the reduction in the emissions of these countries) should be maintained when revising the European Emission Trading System (EU ETS). The council concluded that the most efficient installations in sectors such as the pulp and paper industry should not face undue carbon costs that would impact their global competitiveness.

In July 2015, the European Council proposed new terms for the EU ETS. We share the view of the Confederation of European Paper Industries as well as the Alliance of Energy Intensive Industries that the proposal falls short most notably in its protection of energy intensive industries.

Together with these industry bodies, we also believe that sufficient carbon leakage protection is essential, especially for sectors that want to invest in low carbon technologies in Europe.

- *Carbon taxes:* A regionwide carbon tax was proposed by the European Commission in 2010, but has not been agreed upon by the 27 member states. However, both Finland and The Netherlands where we have operations, have instituted carbon taxes.

Tax incentives for a reduction in carbon emissions have been tabled in Europe for all industries. Sappi Europe is engaging with the relevant commissions in this regard.

In North America:

- *Emissions regulations:* In the USA, both the US Environmental Protection Agency (EPA) and the federal legislature submit numerous bills and/or proposed regulations concerning emissions, many of which are never adopted or never become law. We routinely monitor pending legislation and proposed regulations to ensure we are in a position to understand the ramifications if and when the proposed legislation or regulation goes into effect.
- The EPA has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules finalised in January 2013 known as 'Boiler MACT'. These establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers including particulate matter, hydrogen chloride, mercury and carbon monoxide. Under the rules, companies have three years to comply, but individual states have the authority to allow an additional year for compliance. The states where Sappi North America's mills are located have authorised

an additional year. Sappi's boilers currently meet most limits under the rules due to past capital investments and optimisation of fuel mix. Equipment needed for further emissions control at each of the three mills in North America is included in Sappi's capital plans as part of annual maintenance spending.

- *Carbon taxes:* There is no nationwide carbon tax levelled in the USA. The USA has submitted its Intended Nationally Determined Contribution (INDC) to the United Nations Framework on Climate Change (UNFCCC). This envisages an economy-wide target of reducing GHG emissions by 26 to 28% below the 2005 level in 2025. The nature, scope and timing of regulations to implement such a target are highly uncertain and, currently, we do not know the potential impact of potential regulations on our operations in North America.

In South Africa:

- *Emissions regulations:* In September 2015, South Africa submitted its INDC to the UNFCCC. The mitigation component of the country's INDC moves from a 'deviation from business-as-usual' form of commitment and takes the form of a peak, plateau and decline (PPD) greenhouse gas (GHG) emissions trajectory range. The trajectory range is consistent for 2025, with 42% deviation below the business-as-usual emissions growth trajectory.

- *Carbon tax:* Linked to the above is the South African Government's determination to introduce carbon tax. Shortly after year-end, the government published the Draft Carbon Tax Bill with the aim of implementing carbon tax by 01 January 2017. In addition, the Department of Environmental Affairs (DEA) and National Treasury have embarked on a process to ensure that the carbon tax is aligned with a proposed carbon budget system – a move we welcome.

The proposed carbon tax formula includes the ability to sequester which gives us a zero liability based on our current calculations. If we could not use our plantations as a carbon sink, the direct tax payable would be approximately US\$5.8 million (US\$6.4 million if landfill sites were included) based on current Scope 1 carbon emissions.

Going forward, we will work closely with the DEA on determining the 'local conversion factor' for our plantations in respect of carbon sequestration. This is critical to ensure that we are not liable for any carbon tax. We will also continue to develop and implement renewable and cogeneration energy projects to reduce indirect carbon tax and dependence on Eskom and reduce waste to landfill to reduce our potential tax liability in this area.

our key material issues continued

Material issue: climate change

Background

The World Economic Forum 2015 Global Risks Survey identifies failure of climate adaptation as one of the top four high-impact, high-likelihood risks, alongside water crises, under/unemployment and interstate conflict.

Our response

Climate change risk and opportunity factors such as regulatory, reputational, weather related (fire and pests), forest management, operational resource management (water, energy), licence to operate and customer behavioural change are assessed together with other non-climate change-related risks and are plotted biannually on a risk matrix according to the probable severity of the monetary impact and the likelihood of occurrence, to determine possible risk exposure. The risk matrix is updated biannually.

According to the US National Oceanic and Atmospheric Administration (NOAA), the average global temperature during the period from December 2014 to February 2015 was the highest on record. NOAA points out that warmer-than-average temperatures were widespread across Central America, northern and central South America, Australia, most of Africa, and much of Eurasia, including most of Russia. However, there were also colder-than-average temperatures in February across the central and eastern United States — similar to the conditions experienced in the region at the same time in 2013/14.

In all three regions where we operate, climate change could alter the frequency and intensity of forest disturbances such as insect outbreaks, invasive species, wildfires, and storms. These disturbances could reduce forest productivity and change the distribution of tree species.

In **Europe**, given our general risk mitigation strategy of sourcing pulp and woodfibre from a variety of sources and regions, we do not anticipate any material impact to our raw material supply from climate change in the short to medium term.

In **North America**, our operations do not currently face material risks associated with climate change. We source from northern hardwood and softwood wood baskets that have not suffered under any drought conditions or from fire. We work diligently to minimise the carbon footprint of our operations by sourcing only from sustainably managed forests, using fossil fuels wisely with large reliance on carbon neutral biomass fuel, and minimising waste throughout our processes.

In **South Africa**, we are conducting forest research into species improvement in order to maximise yield under different climate change scenarios and match species more closely to sites.

Drier conditions increase the likelihood of fire on our plantations in South Africa. To mitigate this risk we have

established an improved Fire Risk Management System (FRMS) which categorises our risks and assigns a risk rating we also calculate an estimated maximum loss (EML) per area. Fire management plans are drawn up with mitigation measures to minimise these risks and reduce EMLs as much as possible. These plans are monitored throughout the fire season using our FRMS system.

Material issue: water

Background

NASA observed 37 of the world's largest aquifers over a ten-year period from 2003 to 2013 in a satellite project called GRACE (Gravity Recovery and Climate Experiment). Of the 37 aquifers studied, 21 are being depleted at an unsustainable rate – more water was removed than replaced during the decade-long study period.

Our response

Our production processes depend on water, as does woodfibre, our primary input. Globally, we return 93% of the water we extract back into the environment after it has been treated and cleaned. Of the 7% balance, approximately 4% exits the mill in the form of product, while the remaining 3% is lost to the environment. Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand by 21.8% and total suspended solids by 7.1%.⁽¹⁾

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

To mitigate the impact of low flows on the uMkomazi River, the prime source of water to Saiccor Mill, we are proceeding with a project to raise the Comrie Dam wall, upstream of Saiccor Mill. This dam was constructed in 1978 to augment supply from the uMkomazi River. Raising the dam wall by four metres would more than triple the amount of water contained in the dam, which will help ensure security of water supply in order to avoid the possibility of downtime as a result of low river flows.

Material issue: energy

Background

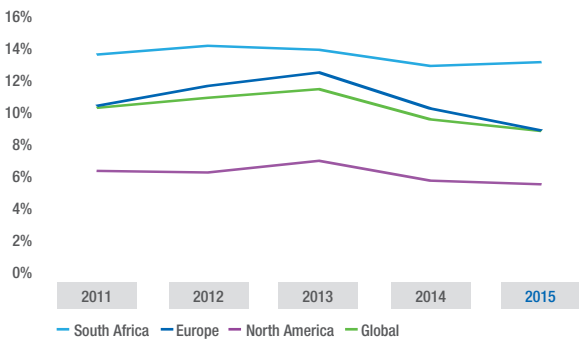
Energy is a key input for our industry. Aggressively managing energy usage leads to a reduction in carbon emissions and enhanced cost efficiencies. In South Africa, where national energy demand outstrips supply at times, energy security is also an issue.

Our response

The graph on the following page indicates that we are managing to overcome increases in energy prices. Over five years, we have achieved a reduction in specific energy consumption of 19.88% and a reduction in energy intensity of 12.5%, as well as an increase in energy self-sufficiency of 9.1%.

⁽¹⁾ Please note: Saiccor Mill has been excluded from these calculations as it is the only mill in the group to use the sulphite pulping process in the production of DWFP. (Both Ngodwana and Cloquet Mills use the prehydrolysis kraft pulping process to produce dissolving wood pulp.) Over five years, Saiccor Mill has reduced TSS and COD effluent concentrations by 30% and 20% respectively.

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



Our energy efficiency is enhanced through extensive use of cogeneration and through our ongoing drive to make process improvements and install more efficient equipment. Globally we have developed and constructed five hydro, two gas and 31 steam turbines which generate around 800MW of renewable power on 14 sites across seven countries.

In **Europe**, we opened a new biomass power plant at Kirkniemi Mill in Finland, six months ahead of schedule. The new US\$64.4 million power plant will flexibly use solid fuels such as bark from the mill's debarking process, and other wood-based fuels, as well as coal. The boiler plant has a circulating fluidised bed system and a capacity for 96MW of thermal energy.

In **North America**, over 70% of the energy used by our mills comes from renewable resources, and as a result we have the lowest reported greenhouse gas emissions amongst the major domestic coated freesheet suppliers.

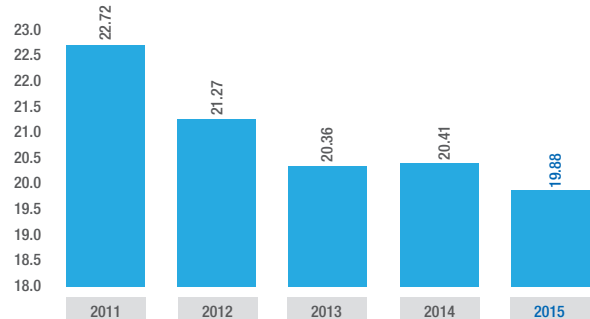
In **South Africa**, the government's Renewable Energy Independent Power Producer Programme (REIPPP) is the result of the national need to increase energy capacity and reduce carbon emissions. Sappi submitted the Energy Biomass Project Ngodwana Mill to REIPPP and was selected as preferred bidder. The project involves the supply of biomass from local plantations to Ngodwana Mill. This is then used as boiler fuel to produce steam which in turn will generate 25MW of electrical energy which will be fed into the national grid. The energy generated will be sold into the national grid from 2018. Significant ongoing value is being created due to the nature of biomass projects and the monetary and job creation spend across the project value chain; from collecting biomass in the plantations, through plant and equipment contracts, to community impact through community trusts and the economic development and socio-economic development spend as well as shareholder returns.

In many of our **European** mills, we generate renewable energy in the form of biogas. In line with our strategic focus to derive value from energy opportunities and in light of increasing energy prices, we are looking at expanding our use of anaerobic digestion technology to South Africa.

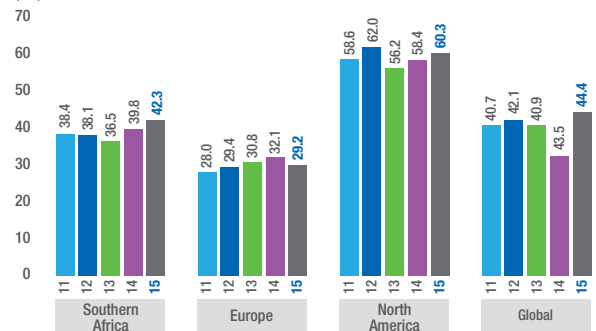
We are examining the use of anaerobic digestion as one of the technologies to treat Saiccor Mill's waste condensate. Rich in organic matter, the condensate could be treated via a process which uses organic acids to produce biogas in the form of methane. This in turn could be used to produce energy, either for internal use or external sales to the national grid. This has significant implications for the mill's energy costs, as evaluations show that the condensate has the potential to generate enough energy to replace 30 tons of coal per day. We are also evaluating the extraction of chemicals from the condensate stream.

Following bench-scale test work, we have assessed three potential technology suppliers and will be establishing a pilot scale plant in 2016.

Reduction in energy consumption (GJ /adt)



Percentage energy self-sufficiency (%)



our leadership

Non-executive and executive management

Dr Daniël Christiaan Cronjé (Danie)* (69)
(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



Godefridus Peter Franciscus Beurskens (Frits) (68)
(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)



Robert John DeKoch (Bob) (63)
(Independent)

Qualifications: BA (Chemistry), MBA
Nationality: American
Appointed: March 2013

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee



Michael Anthony Fallon (Mike) (57)
(Independent)

Qualifications: BSc (Hons) (First Class)
Nationality: British
Appointed: September 2011

Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee



Dr Deenadayalen Konar (Len) (61)
(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



Nkateko Peter Mageza (Peter) (61)
(Independent)

Qualifications: FCCA (UK)
Nationality: South African
Appointed: January 2010

Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee



* Dr Cronjé will retire as Chairman of the Sappi board at the end of February 2016. Sir Nigel Rudd will replace Dr Cronjé as Chairman from 01 March 2016.



For full leadership CVs please visit our website on www.sappi.com/regions/sa/group/Leadership

John David McKenzie (Jock) (68)
(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)



Mohammed Valli Moosa (Valli) (58)
(Non-independent)

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

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee



Robertus Johannes Antonius Maria Renders (Rob Jan) (62)
(Independent)

Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015



Sir Anthony Nigel Russell Rudd (Nigel)* (69)

(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



Dr Rudolf Thummer (68)
(Independent)

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

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee



Karen Rohn Osar (66)
(Independent)

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

Sappi board committee memberships:

- Audit Committee
- Audit Committee of Sappi North America (Chairperson)



our leadership continued

Non-executive and executive management continued

Bridgette Radebe (55)
(Independent)

Qualifications: BA (Pol Sc and Socio)

Nationality: South African

Appointed: May 2004

Sappi board committee memberships:

- Social, Ethics, Transformation and Sustainability Committee



Executive directors

Stephen Robert Binnie (Steve) (48)

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



Glen Thomas Pearce (52)

Chief Financial Officer

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

Nationality: South African

Appointed: July 2014

Sappi board committee memberships:

- Expected to attend Audit Committee meetings by invitation



Executive management

Mark Gardner (60)

President and Chief Executive Officer of Sappi North America

Qualifications: BSc (Industrial Technology)



Alexander van Collier Thiel (Alex) (54)

Chief Executive Officer of Sappi Southern Africa

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

Appointed: December 1989



Berend John Wiersum (Berry) (60)

Chief Executive Officer of Sappi Europe

Qualifications: MA (Medieval and Modern History)
Appointed: January 2007



Gary Bowles (55)

Executive Vice President Sappi Specialised Cellulose

Qualifications: BSc Electrical Eng, PMD, EDP
Appointed: November 1990



Andrea Rossi (61)

Group Head Technology

Qualifications: BSc Eng (Hons), C Eng, FCMI
Appointed: February 1989



Fergus Marupen (50)

Group Head Human Resources

Qualifications: BA (Psychology), Bed (Education Management), MBA
Appointed: March 2015



Maarten van Hoven (42)

Group Head Strategy and Legal

Qualifications: BProc, LL.M (International Business Law)
Appointed: December 2011



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.

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.

The composition of the board and attendance at board meetings and board committee meetings is set out in the following table: (Period: October 2014 to September 2015)

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

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

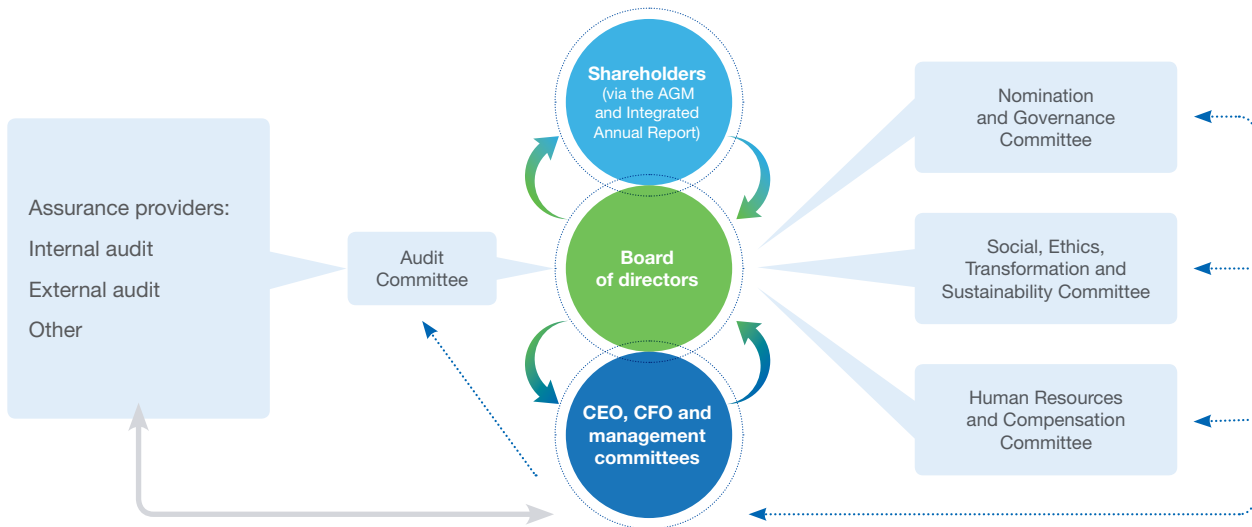
Induction and training of directors

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

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:

Sappi board committees



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 Annual Integrated Report
- reviewing compliance with the group's Code of Ethics and external regulatory requirements
- oversight of the external auditors' qualifications, experience and performance
- oversight of the performance of the internal audit function, 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 page 96.



The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit Committee during 2015.

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 2015.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2015.

Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent non-executives and 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 internally in 2015, following an external evaluation in 2014. The internal evaluation in 2015 established that all the board and board committees functioned well.

corporate governance continued

Human Resources and Compensation Committee

The Human Resources and Compensation Committee consists of four independent non-executive 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 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.

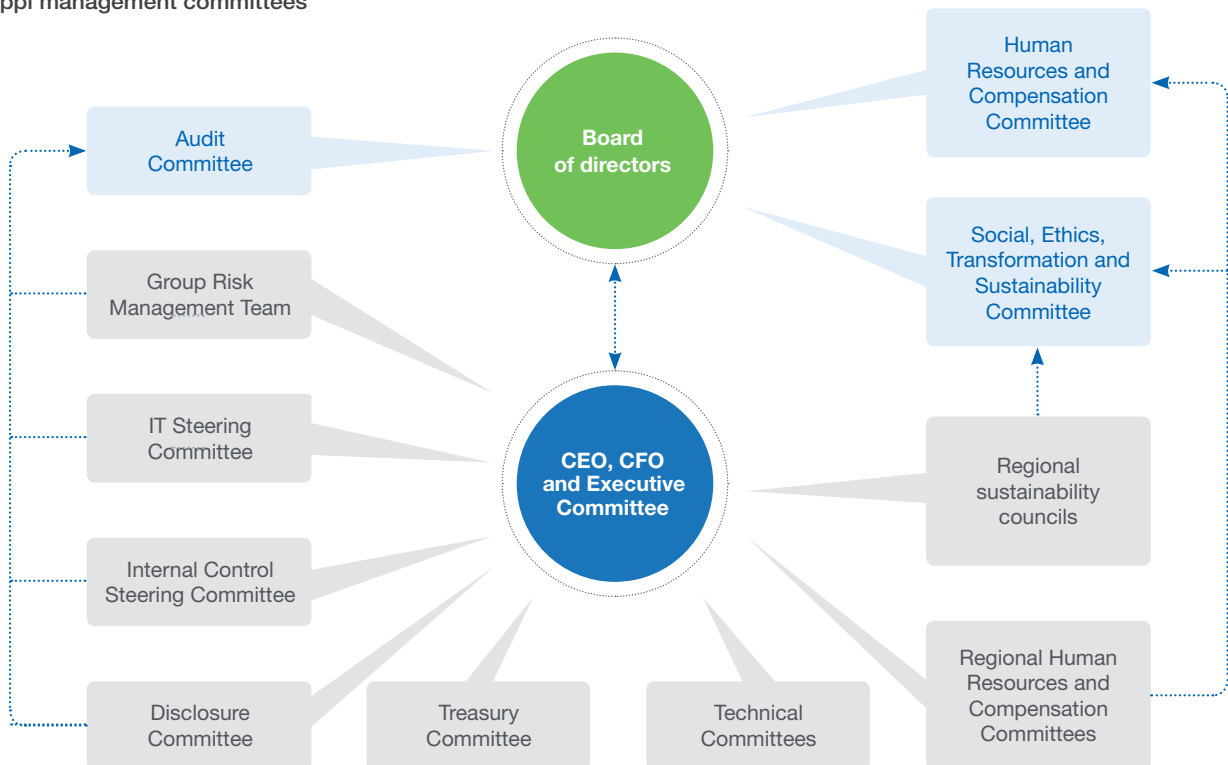
Regional sustainability councils provide strategic and operational support to the SETS Committee in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

For more information on sustainability at Sappi refer to our Sustainability report on page 28 and for a summary of the group's initiatives at www.sappi.com.

Management committees

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

Sappi management committees



Executive Committee

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

Disclosure Committee

The Disclosure Committee comprises members of the Executive Committee and senior management from various disciplines. Its objective is to review and discuss financial and other information prepared for public release. It is the ultimate decision-making body, apart from the board, with 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, co-ordinate 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 are presented to the Audit Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a groupwide risk framework supported by the use of risk management software. IT management is in the process of enhancing IT security and the IT legal compliance framework.

Financial statements

The directors are responsible for overseeing the preparation and final approval of the Group Annual Financial Statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The group's results are reviewed prior to submission to the board, as follows:

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

Sappi's internal controls and combined assurance framework

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 annual financial statements 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.

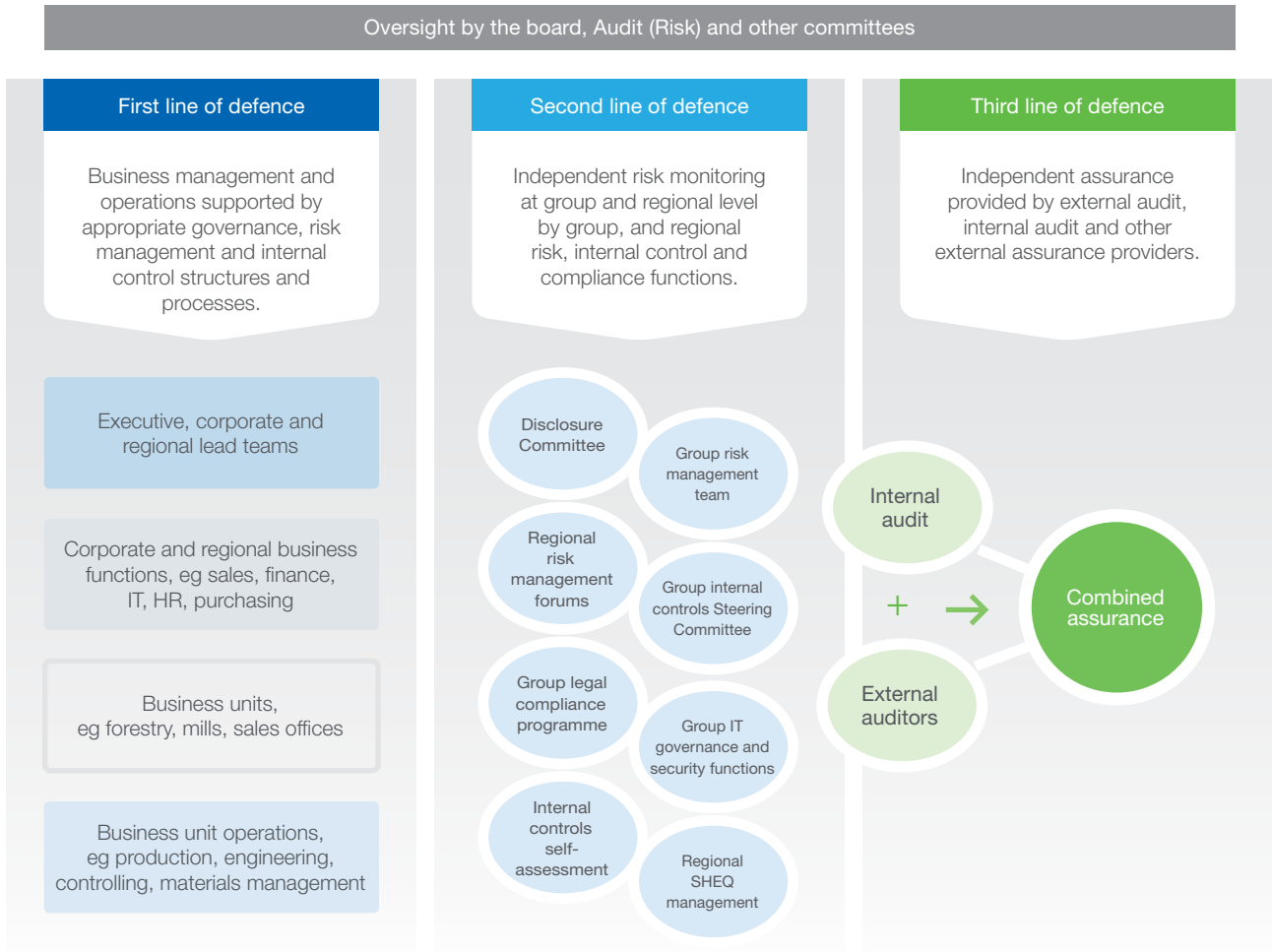
Sappi maintains a robust framework of risks and controls which assists in the application of the King III guidelines. The framework comprises both financial and non-financial controls.

Feedback as to the effectiveness of the internal controls is obtained from various assurance providers in a co-ordinated 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.

corporate governance continued

Sappi's combined assurance framework comprises three lines of defence, with oversight provided by the board and board committees. This is in keeping with enterprise risk management best practice, as set out below:



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

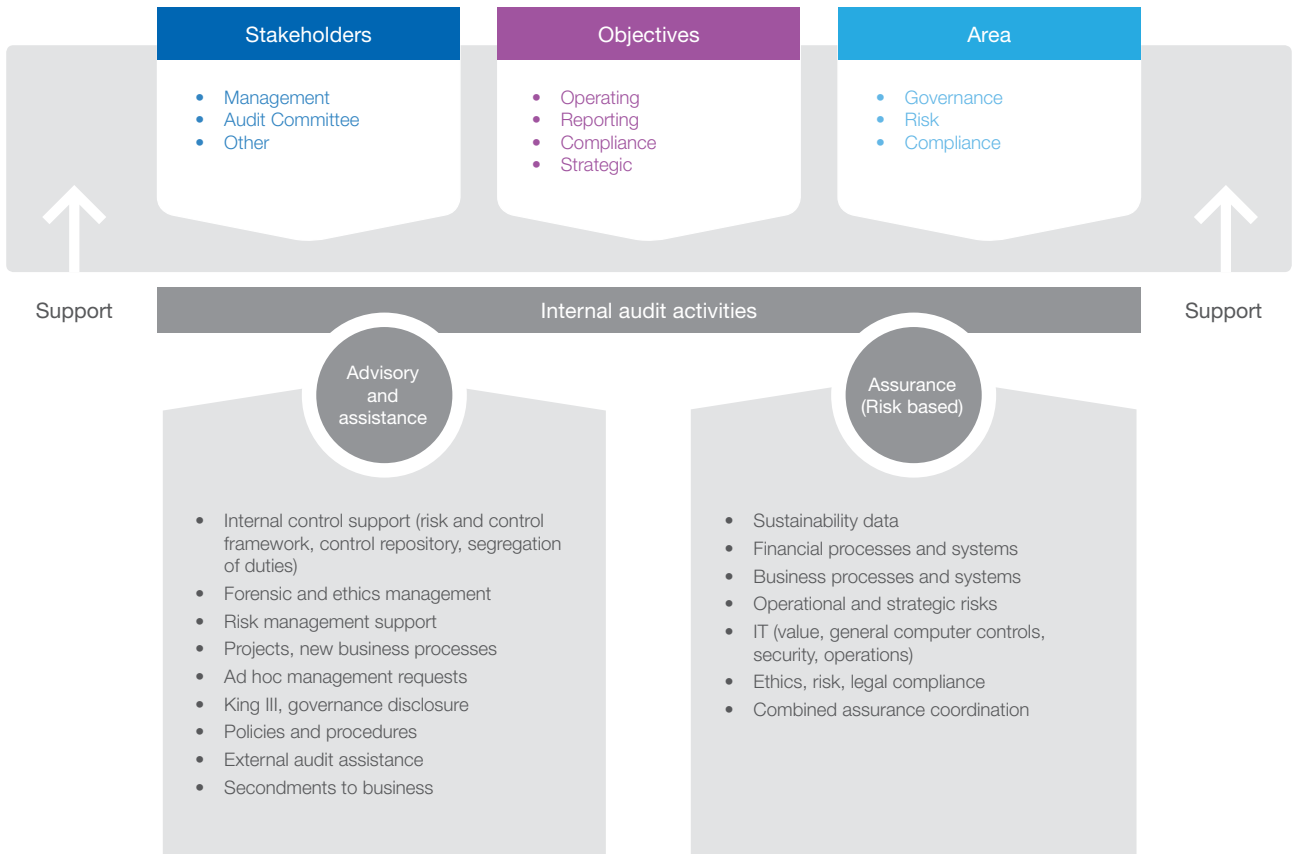
- Financial data is independently audited by Deloitte & Touche, and
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit. Specific Planet (environment) related processes are subject to review by third parties during the year. No external 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.

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 co-ordination 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:

Internal audit architecture



During 2015, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas such as energy and water management. These reviews formed part of the combined assurance model, which is co-ordinated by internal audit. Internal audit maintains an internal quality assurance programme, which includes periodic external review. An external validation was conducted by the Institute of Internal Auditors (IIA) in the fourth quarter of 2015. A Generally Conforms (GC) rating was received, which is the highest of the three levels of conformance to the IIA's standards. The IIA recommended enhancements to our approach to considering fraud risks during audit assignments as well as to the development and retention of specialist skills.

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 2015. 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

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

corporate governance continued

and has concluded that she is sufficiently independent (ie maintained an arm's-length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The Company Secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

Code of Ethics

Sappi requires its directors and employees to act with 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 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.



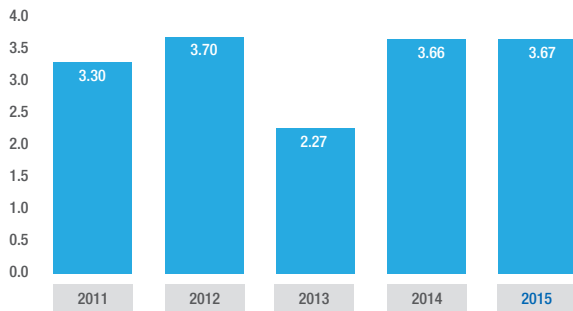
Whistle-blower hotlines and follow up of tip-offs

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 co-ordinated 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.

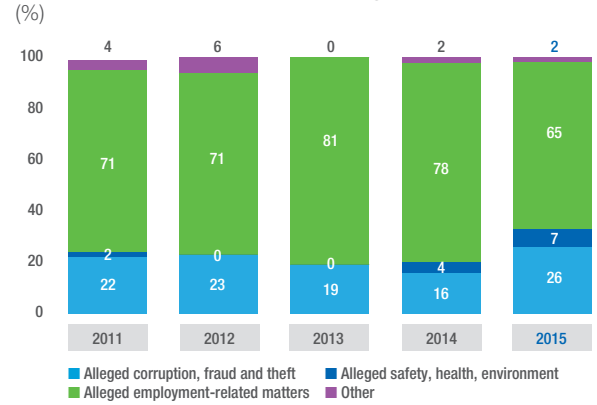
Stakeholder communication

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).

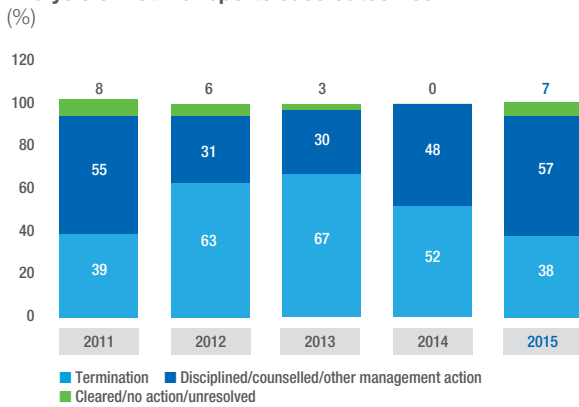
Hotline report rate per 1,000 employees



Analysis of hotline reports per category (%)



Analysis of hotline reports case outcomes (%)



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



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.

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
- Hay Group

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 Danie Cronjé, attends committee meetings ex-officio while the group Chief Executive Officer, Mr Steve Binnie together with group Head Human Resources, Mr Fergus Marupen attend meetings by invitation.

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

The Human Resources and Compensation Committee met five 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 2015 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the Performance Share Plan awards which were awarded on 03 December 2010
- Approved the allocation of 2014 Performance Share Plan awards to executive directors and all other eligible participants
- Reviewed and approved salary increases and bonus payments for executive directors and other key senior managers 2015
- Reviewed non-executive directors' fees for 2016 with management's input, recommended fee levels to the Sappi Limited board and shareholders for approval
- Approved the straight-line vesting schedule for the 2015 Performance Share Plan as recommended by the institutional investors
- 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 2015
- Approved the 2016 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan
- Approved requirement for Chief Executive Officer to hold a target number of shares, and
- Reviewed the executive succession and development plans.

Compensation strategy and policy

Our compensation packages:

- are market-related and designed to attract, retain and motivate executives and all employees to deliver on performance goals and strategy
- are simple, transparent and aligned with the interests of shareholders
- reflect the views of our investors, shareholder bodies and stakeholders
- are structured in a way that superior rewards are only paid for exceptional performance and that poor performance does not earn an incentive award
- encourage behaviour consistent with the group's risk and reward philosophy
- have an appropriate and balanced reward mix for executive directors and other executive managers based on base pay; benefits and short and long-term incentives within the context of the industry sector
- are applied consistently across the group to promote alignment and fairness; and
- through the Executive Management Incentive 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.

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	Sappi specific
Fixed		
Component – Base salary		
<ul style="list-style-type: none"> To reflect market value of the role, individuals' skills, contribution, experience and performance. To attract and retain key talent. 	<ul style="list-style-type: none"> Paid monthly in cash. Reviewed annually with any increases to be effective from 01 January each year. Base salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population. 	<ul style="list-style-type: none"> Increases are applied in line with outcomes of performance discussions with the individuals concerned.
Component – Benefits		
<ul style="list-style-type: none"> To provide protection and market competitive benefits to aid recruitment and retention. 	<ul style="list-style-type: none"> Private medical insurance. Income in the event of death or disability. <p>These are:</p> <ul style="list-style-type: none"> Appropriate in terms of level of seniority Market related Death benefit is a multiple of base salary, and Non-pensionable. 	<ul style="list-style-type: none"> None
Component – Pension		
<ul style="list-style-type: none"> Make ongoing company contributions during employment. To provide market-related benefits. Facilitate the accumulation of savings for post-retirement years. 	<ul style="list-style-type: none"> Comprises defined benefit and defined contribution plans. A large number of defined benefit plans are closed to new hires. Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service. Retirement plans differ by region. 	<ul style="list-style-type: none"> Executive members of defined contribution plans receive a company contribution of up to 27.7% of salary. 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.
Variable		
Component – Annual cash incentive		
<ul style="list-style-type: none"> Focus participants on targets relevant to the group's strategic goals. Drive performance. Motivate executives to achieve specific and stretching short-term goals. Reward individuals for their personal contribution and performance. Deferred share proportion of the annual bonus aligns interests with shareholders. 	<ul style="list-style-type: none"> All measures and objectives are reviewed and set at the beginning of the financial year. Payments are reviewed and approved at year-end by the committee based on performance against the targets. Threshold is required to be met for any bonus payment to occur. Target level of bonuses varies from 65% to 85% of base salary. Weightings for 2015 were: EBITDA – 60%; working capital – 30% and safety – 10%. 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. Non-pensionable. 	<ul style="list-style-type: none"> The maximum bonus for executive directors is 116% of salary. Executive Committee members and other senior managers may earn a maximum bonus of up to 95% of base salary. The number of shares arising from the deferred Executive Management Incentive Scheme – will be increased by 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years.

compensation report continued

Purpose	Operations	Sappi specific
Variable		
Component – Long-term share incentive plans		
<ul style="list-style-type: none"> Align the interests of the executive members with those of the shareholders. Reward the execution of the strategy and long-term outperformance of our competitors. Encourage long-term commitment to the company. Is a wealth creation mechanism for executive members if the company outperforms the peer group. 	<ul style="list-style-type: none"> Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company. Cliff vesting after four years. Performance is measured relative to a peer group of 15 other industry-related companies. The number of conditional shares allocated varies from 190,000 conditional share awards to the Chief Executive Officer, and between 50,000 and 110,000 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%. 	<ul style="list-style-type: none"> None
Component – Broad-based Black Economic Empowerment		
<ul style="list-style-type: none"> Provide black managers with the opportunity to acquire equity in the company. Attract, motivate and retain black managers. 	<ul style="list-style-type: none"> Established to meet the requirements of the Forestry Sector Charter BBBEE codes. Eligible employees receive an allocation based on seniority of 'A' ordinary shares. Shares vest 40% after three years and 10% each year thereafter. Shares can only be taken up after September 2019. Managers receive the net value in shares or cash at the end of the lock-in period. 	<ul style="list-style-type: none"> None
Component – Service contracts		
<ul style="list-style-type: none"> Provide an appropriate level of protection to both the executive and to Sappi. 	<ul style="list-style-type: none"> Executive Committee members have notice periods of 12 months or less. Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures. 	<ul style="list-style-type: none"> In circumstances where there is a significant likelihood of a transaction involving the Sappi group or a business unit, limited change in control protections may be agreed and implemented if deemed necessary for retention purposes.

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 JSE Securities 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. Executive pay is benchmarked every alternate year.

Compensation mix

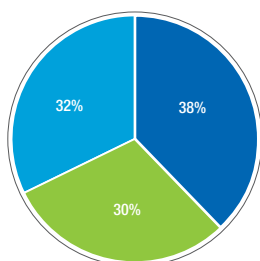
The compensation mix for executive directors and Executive Committee members is shown in the schematics below.

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 2014 (share price at date of allocation: ZAR39.19 December 2014).

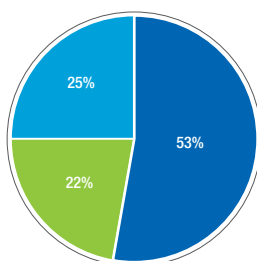
Executive directors (averaged)

(Number of employees at 30 September 2015)



Executive Committee (averaged)

(Number of employees at 30 September 2015)



- Total guaranteed package (base salary and benefits)
- Short-term incentive (on target)
- Face value of performance shares issued in December 2014

Base salary

The Compensation Committee approves 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 2015 salary increases were based on individuals' performances and contributions, internal relativities, inflation rates in the countries of operation, general market salary movement and overall affordability.

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

Mr Binnie received a salary increase of 7.5% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Binnie's salary with effect from 01 January 2015 was US\$433,014 per annum.

Mr Pearce received a salary increase of 7% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Pearce's salary with effect from 01 January 2015 was US\$303,510 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.

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 2015 financial year, the financial business performance criteria were: EBITDA (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 85% of EBITDA for the group is required before any bonus can be paid to participants in the group scheme.

compensation report continued

Furthermore, if a region does not achieve the 85% bonus threshold target, no bonus is paid to participants in the region irrespective of overall group performance. 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 2015.

The group's performance for the 2015 financial year:

Performance criteria	Weighting	Target points	2015 actual achievement
EBITDA	60%	48	39.7
Working capital	30%	24	45
Safety	10%	8	5
Total	100%	80	89.7

Mr Binnie will receive a bonus award of US\$351,842 and Mr Pearce will receive a bonus award of US\$240,923 to be paid in December 2015.

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 2015 Management Incentive Scheme (MIS) rules compared to 2014.

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 16 other industry-related companies is ranked at median or above the median.

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

The peer group for the 2015 financial year consisted of the following 16 industry-related companies:

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

- Fortress Paper
- Lenzing
- Rayonier
- Tembec
- Sateri

Performance share plan

The vesting schedule for 2011 allocation for both TSR and CFRONA:

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

For the four-year period ended September 2014, Sappi's performance relative to the peer group measured on TSR was ranked in 11th place out of 15 companies, which meant that no TSR component shares vested on the due date in December 2014.

The determination of the vesting of the shares was provided by Kepler Associates, an independent third party. The 50% TSR portion of the total 2010 awards therefore lapsed on the due date in December 2014.

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

In aggregate, therefore 50% of the total 2010 awards vested.

Mr Binnie joined Sappi in July 2012 and therefore did not have any shares possible for vesting in December 2014.

In December 2010, Mr Pearce was granted 24,150 conditional performance plan shares of which 12,075 vested in December 2014.

The historical vesting of Performance Share Plan awards:

Share awards	2011	2012	2013	2014
TSR	0%	0%	0%	0%
CFRONA	100%	75%	75%	100%
Aggregate	50%	37.5%	37.5%	50%

Mr Binnie was awarded 175,000 conditional performance plan shares in December 2014 in line with the plan rules.

Mr Pearce was awarded 85,000 conditional performance plan shares in December 2014, in line with the plan rules.

Changes to the long-term incentive scheme

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

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

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

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

There are two schemes which make up Sappi's Employee Share Ownership Plan, 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 2015, the resulting dilution effect would be 3.27% (2014: 3.58%) 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 a requirement for Chief Executive Officer to hold a target number of shares equal to two times annual base salary. This requirement is from December 2015 and the Chief Executive Office has five years until December 2020 to achieve this requirement. There is no requirement for the Chief Financial Officer and Executive Committee members to hold a specific number of shares during their employment with the company.

Service contracts

Both Mr Binnie and Mr Pearce have ongoing employment contracts which require 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 2015 (US Dollar)

Executive director	Base salary	Retirement funding and medical insurance	Other payments	Annual cash bonus	Total 2015	Total 2014
SR Binnie	433,014	128,333	12,265	351,842	925,454	840,340
GT Pearce	303,510	89,513	16,114	240,923	650,060	657,933

- Base salary – the actual salary earned during 2015
- 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 – expense allowance
- Annual cash bonus – the actual bonus earned in 2015 based on the rules of the Management Incentive Scheme

compensation report continued

Prescribed officers/Executive Committee members (US Dollar)

Prescribed officers are members of the group Executive Committee. The table below sets out the remuneration for prescribed officers for 2015:

Prescribed officer	Base salary	Retirement funding and medical insurance	Other payments	Annual bonus	Total 2015	Total 2014
Officer 1	720,488	203,344	2,875	525,808	1,452,515	1,504,895
Officer 2	505,179	51,623	–	67,472	624,274	544,172
Officer 3	315,241	87,934	7,030	221,675	631,880	679,259
Officer 4*	89,972	26,184	3,456		199,475	610,988
Officer 5	312,053	–	8,543	134,546	455,142	679,903
Officer 6	153,877	49,785	4,916	94,511	303,088	333,773
Officer 7	205,448	93,295	6,331	184,337	489,411	526,671
Officer 8**	104,229	33,346	2,882	61,797	202,254	–

* Resigned 31 January 2015.

** Started 01 March 2015.

social, ethics, transformation and sustainability committee report

for the year ended September 2015

Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2015. 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 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 2015 financial year were:

Mr JD McKenzie (Chairman)

Mr SR Binnie

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 revised the committee terms of reference and annual work plan
- Reviewed and approved the Public Affairs and CSR programmes and policy
- Reviewed the corporate social development 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 Principles
 - The OECD recommendations regarding corruption
 - The Employment Equity Act, and
 - The Broad-based Black Economic Empowerment Act.
- Reviewed the code of ethics, ethics programme and effectiveness thereof
- Reviewed the corporate values statement
- 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 transformation and environmental policies
- Reviewed the company's Sustainability Charter
- Reviewed regional sustainability performance against goals for 2015
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2015
- Reviewed Sappi Southern Africa's process water use, water quality and water risks
- Reviewed the Sappi Forests determination of their annual sustainable harvest, and
- Reviewed the SETS Committee report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

social, ethics, transformation and sustainability committee report continued

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

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.



Top 10 key risks

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

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

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

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

During the fourth quarter, we announced the sale of our South African Enstra and Cape Kraft Mills. This is in line with our strategic focus on the virgin fibre packaging business in South Africa.

3. We require a significant amount of financing to fund our business and service our debt. Our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to fund our working capital, capital expenditure, research and development requirements and to make payments on our debt principally depends on cash available from our operating performance, credit facilities, and other debt arrangements.

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

During the fourth quarter, we announced the sale of our South African Enstra and Cape Kraft Mills. Proceeds received from the sale would further reduce net debt.

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

risk management continued

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 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 our Sustainability report on page 28).



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 co-operate 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.

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

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

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

We sell a significant portion of our products to several significant customers. During fiscal 2015, 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 increases or work stoppages by our unionised employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may become subject to material cost increases or additional work rules imposed by agreements with labour unions, which could increase expenses in absolute terms and/or as a percentage of net sales. A concerted effort is being made across all our regions to interact and engage with our union representatives and organised labour on a frequent basis and to work on building constructive work relationships.

10. Injuries and fatalities

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

- performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board
- group and industry wide sharing of all incidents and associated mitigating steps thereby helping to ensure that all our regions remain in the top 10% quartile for our industry
- enforcing compliance with Behaviour Based Safety (BBS) principles, and
- providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors.

Insurance

The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption incidents. All production units are subject to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management. The risk mitigation programmes are co-ordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from incidents.

Asset insurance is renewed on a calendar-year basis. The self-insured retention portion for any one property damage occurrence is US\$23 million (EUR20.5 million) with the annual aggregate set at US\$37 million (EUR33 million). For property damage and business interruption insurance, cost-effective cover to full replacement value is not readily available. A loss limit cover of US\$840 million (EUR750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Chief Financial Officer's report – Section 1

financial highlights

Glen Pearce



US\$ million	2015	2014	% Change
Sales	5,390	6,061	(11)
EBITDA excluding special items	625	658	(5)
Operating profit excluding special items	357	346	3
Profit for the year	167	135	24
EBITDA excluding special items to sales (%)	11.6	10.9	n/a
Operating profit excluding special items to sales (%)	6.6	5.7	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	12.4	10.8	n/a
Net cash generated	145	243	(40)
Net debt	1,771	1,946	(9)
Basic earnings per share (US cents)	32	26	23

The underlying economic activity during fiscal 2015 met expectations; however, exchange rate fluctuations had a significant influence on the consolidated results of the group. The strengthening US Dollar relative to the functional currencies in our European and South African operations resulted in these regions showing moderate or no growth on consolidation, despite improved

performances in local currencies. As a consequence, foreign inbound and outbound trade flows in our three operating regions were influenced by the move in currencies forcing a realignment of previously established trading relationships.

Total revenue reduced by 11%, mainly as a result of the weaker Euro and Rand currencies relative to the US Dollar. The ongoing improvement of operational and machine efficiencies offset inflationary and economic increases in our cost structure, resulting in an overall increase in EBITDA margin from 10.9% to 11.6%. Profitability for the year was adversely affected by the lost margin impact of the paper machine and boiler upgrade at the Gratkorn Mill (US\$25 million) and the extended annual maintenance shut at the Somerset Mill (US\$10 million). Further rationalisation of the business continued as we ceased coated paper production in the South African region and substantially simplified our product offering. The above influences enabled the group to improve operating profit excluding special items by 3% to US\$357 million.

A gain, included in special items, of US\$55 million from the transfer of our Dutch pension fund to a general fund was offset by once-off refinancing charges of US\$61 million. Tax investment allowances, following the increase in specialised cellulose capacity in South Africa, were fully utilised during fiscal 2014 resulting in

Our net debt level has reduced approximately US\$1 billion from the peak in 2009. We are pleased with this progress but believe that more can and should be achieved. With respect to our recent refinancing efforts, our timing has been good.

an increase in the group tax charge from US\$2 million to US\$62 million. Profit for the year improved by 24% to US\$167 million. We continued our focus to strengthen the balance sheet, and restricted capital expenditure to US\$248 million. As a result, cash generated of US\$145 million was in line with expectations and reduced net debt to US\$1,771 million.

Foreign currency translation reserves reduced equity by US\$148 million, reversing the majority of the US\$167 million net earnings for the year.

Segment reporting

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

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

Exchange rates and their impact on the group's results

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

	Income statement average rates		Balance sheet closing rates	
	2015	2014	2015	2014
EUR1 = US\$	1.1501	1.3577	1.1195	1.2685
US\$1 = ZAR	11.9641	10.5655	13.9135	11.2285

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

Section 2

financial performance – group

The discussion in this section focuses on the group financial performance in 2015 compared with 2014. 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	2015	2014	% Change
Sales volume (metric tons '000)	7,306	7,524	(3)
	US\$ million	US\$ million	% Change
Sales revenue	5,390	6,061	(11)
Variable manufacturing and delivery costs	(3,414)	(3,887)	(12)
Fixed costs	(1,613)	(1,837)	(12)
Sundry items ⁽¹⁾	(6)	9	(167)
Operating profit excluding special items	357	346	3
Special items	54	(32)	(269)
Operating profit	411	314	31
Finance costs	(182)	(177)	3
Taxation	(62)	(2)	3,000
Net profit	167	135	24
EPS excluding special items (US cents)	34	22	55

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

Sales volume

In 2015, sales volume decreased by 218,000 tons, or 3%, compared with 2014. The regional contributions to sales volume are shown below:

Sales volume (metric tons '000)	2015	2014	% Change
Europe	3,242	3,303	(2)
North America	1,305	1,454	(10)
Southern Africa	2,759	2,767	–
Group	7,306	7,524	(3)
Paper and pulp (excluding dissolving wood pulp)	5,154	5,264	(2)
Dissolving wood pulp	1,161	1,199	(3)
Forestry	991	1,061	(7)

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

Volumes in Europe were impacted by the continuing drop in demand for coated paper, albeit at a slower rate than anticipated. Speciality paper achieved strong growth and this performance reinforces our decision to convert the Alfeld Mill coated woodfree machine to produce speciality paper.

In North America, specialised cellulose volumes were lower than the prior year as we increased own-make fibre

production for the paper machines at Cloquet Mill in order to improve profitability. Coated paper sales volumes were affected by a reduction in demand for coated paper, and higher levels of imports due to the stronger US Dollar.

Paper and specialised cellulose volumes in South Africa were higher than the prior year on the back of strong demand.

Improving capacity utilisation is a key focus area of the business and was successfully achieved in the South African and European regions. The sudden drop in demand in North America during the second and third quarters of fiscal 2015, which was partly due to the strength of the US Dollar, resulted in a lower capacity utilisation. The North American operations managed to claw back lost market share during the fourth quarter and restore the capacity utilisation to more acceptable levels.

Sales volume to capacity	2015	2014
Europe	92%	89%
North America	93%	96%
Southern Africa	91%	87%
Group	92%	90%

Sales revenue

Sales revenue decreased by 11% from US\$6.1 billion in 2014 to US\$5.4 billion in 2015. The decrease was due to the lower sales volumes discussed above partially offset by an improved sales mix and price increases in all regions.

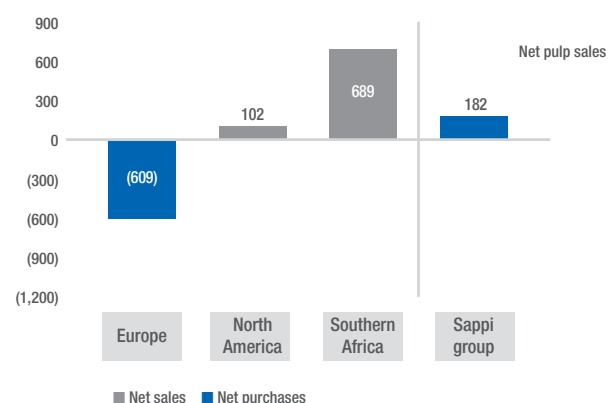
An exchange rate loss of US\$662 million was the result of a weaker average Rand and Euro.

Variable and delivery costs

Variable and delivery costs decreased by US\$473 million, or 12%, from 2014. The decrease was proportionally larger than the decrease in sales volumes and reflects the currency translation impact as a result of a weaker average Rand and Euro. Prices of purchased hardwood pulp increased 12% in US Dollar terms, and offset benefits from cost initiatives as well as reduced chemical costs. Viewed on a US Dollar per ton basis, cost reduced by 10% to US\$467 per ton.

The net pulp purchases and sales of the Sappi group is detailed in the graph below:

Sappi group pulp balance
(US\$ million)



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

Variable manufacturing and delivery costs (US\$ million)	2015	2014	% Change
Wood	603	664	(9)
Energy	443	529	(16)
Chemicals	773	914	(15)
Pulp and other	1,121	1,248	(10)
Delivery	474	532	(11)
Group	3,414	3,887	(12)

Fixed costs

Fixed costs decreased by US\$224 million, or 12%, from fiscal 2014. This achievement is further evidence of the efforts to lower costs and improve efficiencies across the group as well as the currency translation impact as a result of a weaker average Rand and Euro.

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

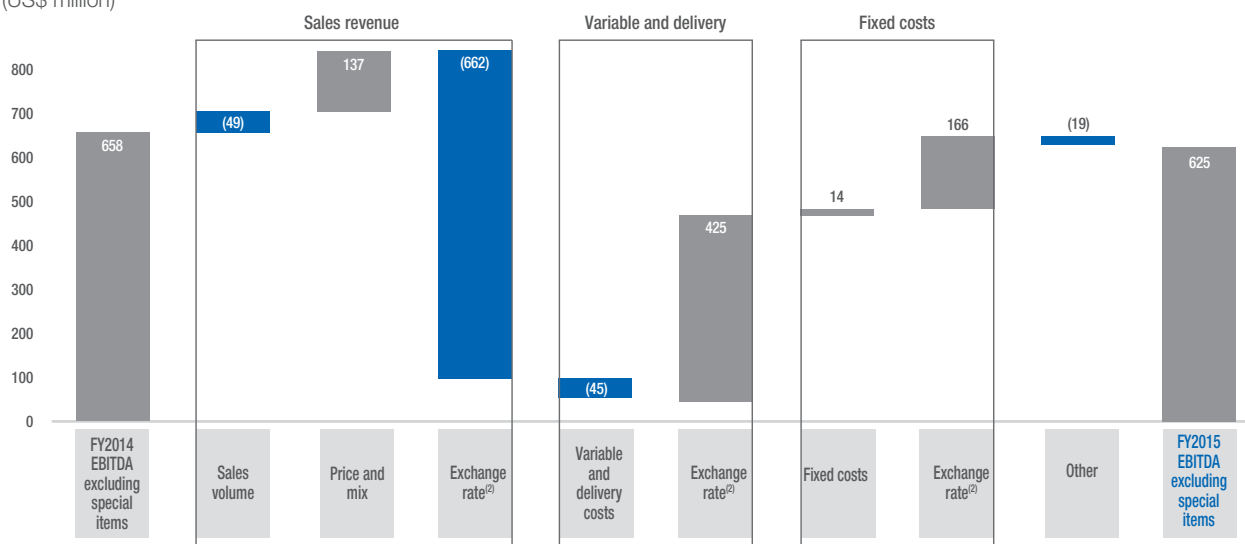
Fixed costs (US\$ million)	2015	2014	% Change
Personnel	930	1,050	(11)
Maintenance	215	238	(10)
Depreciation	266	310	(14)
Other	202	239	(15)
Group	1,613	1,837	(12)

EBITDA and operating profit excluding special items

The improved results of the North American and South African operations were more than offset by the translation impact of the weaker Rand and Euro. EBITDA excluding special items decreased to US\$625 million, 5% lower than the US\$658 million achieved in 2014. Operating profit excluding special items improved from US\$346 million last year to US\$357 million in 2014.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales prices and the reduction in fixed costs. Exchange rate movements, however, dwarf all other reconciling items on both revenue and costs.

Reconciliation of EBITDA excluding special items: 2015 compared to 2014⁽¹⁾ (US\$ million)



⁽¹⁾ All variances were calculated excluding Sappi Forestry.

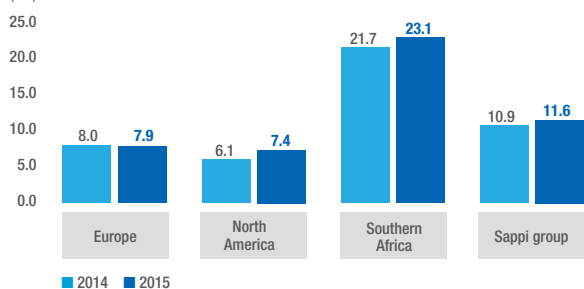
⁽²⁾ 'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.

Section 2 continuedfinancial performance — group continued

The tables below show the EBITDA and operating profit excluding special items of the business for both the 2015 and 2014 fiscal years as well as the margins of each:

EBITDA excluding special items by region (US\$ million)	2015	2014
Europe	209	249
North America	102	92
Southern Africa	313	312
Corporate and other	1	5
Group	625	658

EBITDA margin* by region (%)

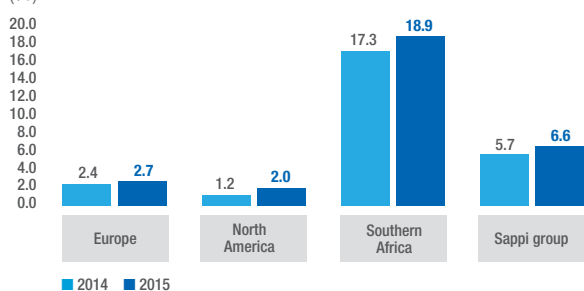


* EBITDA excluding special items divided by sales

EBITDA excluding special items by product category (US\$ million)	2015	2014
Specialised cellulose (dissolving wood pulp)	281	303
Paper	343	350
Other	1	5
Group	625	658

Operating profit excluding special items by region (US\$ million)	2015	2014
Europe	73	75
North America	27	18
Southern Africa	256	248
Corporate and other	1	5
Group	357	346

Operating margin* by region (%)

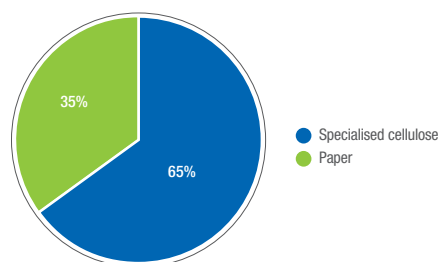


* Operating profit excluding special items divided by sales.

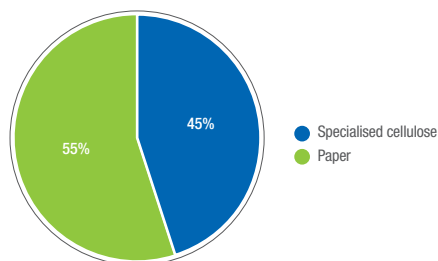
Operating profit excluding special items by product category (US\$ million)	2015	2014
Specialised cellulose (dissolving wood pulp)	231	243
Paper	125	98
Other	1	5
Group	357	346

The charts below illustrate that although the paper business only provides 35% of the operating profit, it contributes 55% of the group's EBITDA excluding special items. Consequently, it still generates the majority of cash for Sappi and remains an important strategic component of our business.

Operating profit excluding special items 2015: US\$357 million



EBITDA excluding special items 2015: US\$625 million



Sales price increases were achieved in all three regions and, along with cost reduction initiatives, improved EBITDA margins from 10.9% to 11.6%. European demand declined at a slower pace than expected; however, increased imports into North America had an effect on local producers during the last six months of the fiscal year as they fought to maintain market share. Sappi North America was able to recover the lost market share towards the end of the fiscal. The South African operations experienced strong demand across all their product categories which assisted with price increases and mix improvements.

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 the Letter to Shareholders on page 10.

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 2015 and 2014 is reflected in the table below:

Special items – gain (charge) (US\$ million)	2015	2014
Plantation price fair value movement	41	18
Net restructuring provisions and loss on disposal of assets and businesses	(6)	(23)
Impairment of goodwill	–	(1)
Employee benefit liability settlement	55	–
Black Economic Empowerment charge	(2)	(2)
Fire, flood, storm and other events	(34)	(24)
Total	54	(32)

The net impact of special items was to increase our net profit in 2015 by US\$54 million. The major components are described below:

- A positive non-cash US\$41 million plantation price fair value adjustment was recognised following increases to the market price of timber.
- An employee benefit liability settlement gain of US\$55 million was realised upon transfer of the Sappi Dutch pension fund to a general fund.
- Included in 'other events' are the cost of a turbine failure at Alfeld Mill (US\$6 million), a boiler tube leak and turbine failure at Ngodwana Mill (US\$18 million) as well as fire and drought damage to our forests (US\$7 million).

Finance costs

US\$ million	2015	2014
Net interest paid	180	185
Net foreign exchange gains	(11)	(7)
Net fair value loss (gain) on financial instruments	13	(1)
Total	182	177

Finance costs include a charge from the refinancing of the 2018 and 2019 bonds of US\$61 million. The annual future savings in interest costs from the refinancing amounts to approximately US\$29 million. In addition to lower interest costs, finance charges were US\$33 million lower than last year as a result of favourable exchange rate movements.

Taxation

A regional breakdown of the tax charge is provided below:

Taxation (US\$ million)	Profit (loss) before tax	Tax (charge) relief	Effective tax rate %
Europe	(57)	(4)	8
North America	7	2	24
Southern Africa	279	(60)	(22)
Group	229	(62)	(27)

We do not recognise the tax relief on all pre-tax losses in Europe 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 tax losses in Austria, Finland, Belgium and The Netherlands which, we expect, will shield the taxable profit in those countries for some years.

The North American effective tax rate of 24% is lower than the statutory rate of 38% mainly due to the impact of non-taxable income.

The Southern African tax rate of 22% is lower than the statutory tax rate of 28% mostly as a result of a prior year energy efficiency tax allowance of US\$5 million being claimed.

Net profit, earnings per share and dividends

After taking into account finance costs and taxation, our net profit and earnings per share for fiscal 2015 and 2014 are as follows:

US\$ million	2015	2014
Operating profit	411	314
Finance costs	182	177
Profit before taxation	229	137
Taxation	(62)	(2)
Profit for the period	167	135
Weighted average number of shares in issue (millions)	525.7	522.5
Basic earnings per share (US cents)	32	26

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

In this section, we discuss the performance of our regional businesses in local currency as we believe that this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

Europe

	2015	2014	% Change
Sales volume (metric tons '000)	3,242	3,303	(2)

	EUR million 2015	EUR million 2014	% Change	EUR per ton 2015	EUR per ton 2014	% Change
Sales	2,313	2,288	1	713	693	3
Variable manufacturing and delivery costs	(1,575)	(1,533)	3	(486)	(464)	5
Contribution	738	755	(2)	227	229	(1)
Fixed costs	(668)	(700)	(5)	(206)	(212)	(3)
Sundry costs and consolidation entries	(6)	–	–	(2)	–	–
Operating profit excluding special items	64	55	16	19	17	12
EBITDA excluding special items	182	183	(1)	56	55	2

A realignment of customer distribution channels and the application of variable and fixed cost reduction initiatives, enabled the European operations to improve operating income by 16% to EUR64 million. Overall volumes were down 2% but the weaker Euro improved the profitability of exports, and an increase in sales prices together with a mix improvement, resulted in net revenue increasing by 1% for the year. The speciality packaging business improved substantially during the year as products gained acceptance in the market following lengthy qualification requirements. As a result, Alfeld Mill was able to plan longer production runs and improve efficiencies and consequently better profits.

Variable costs were well controlled with energy and chemical costs reducing favourably. Purchased hardwood pulp prices

increased in US Dollar terms and, in addition to the effects of a weaker Euro, resulted in purchased pulp costs increasing by 27% per ton of paper produced. Consequently, variable costs per ton increased by 5%. The sale of the Nijmegen Mill in the previous year helped reduce the fixed cost base by 5% to EUR668 million. Profits were curtailed by the upgrade of the paper machine and boiler at Gratkorn Mill which resulted in lost contribution of EUR22 million.

The Sappi Dutch pension plan was transferred to a general fund resulting in an actuarial gain being included in special items of EUR48 million. Working capital requirements and capital expenditure were managed within the targets set.

North America

	2015	2014	% Change
Sales volume (metric tons '000)	1,305	1,454	(10)

	US\$ million 2015	US\$ million 2014	% Change	US\$ per ton 2015	US\$ per ton 2014	% Change
Sales	1,377	1,517	(9)	1,055	1,043	1
Variable manufacturing and delivery costs	(871)	(1,024)	(15)	(667)	(704)	(5)
Contribution	506	493	3	388	339	14
Fixed costs	(460)	(464)	(1)	(352)	(319)	10
Sundry costs and consolidation entries	(19)	(11)	73	(15)	(8)	88
Operating profit excluding special items	27	18	50	21	12	75
EBITDA excluding special items	102	92	11	78	63	24

A strengthening US Dollar, weaker local demand and extreme weather conditions adversely influenced the North American operations. Mitigating actions in the form of cost control and improved sales mix resulted in operating income increasing by 50% to US\$27 million. Sales volumes were down 10% primarily due to the impacts of the strengthening US Dollar coupled with the decision to run kraft pulp to supply the Cloquet Mill paper machines. A concerted effort to keep graphic selling prices stable resulted in lost market share in the earlier part of the year; however, market shares recovered in the latter stages of the fiscal as demand picked up and the region softened its stance on selling prices. The lower contribution from specialised cellulose sales was more than offset by lower kraft pulp costs used in the manufacture of graphic paper. The casting release paper continues to be impacted by weaker demand in the coated fabrics segment in China. Notwithstanding the above, average selling prices for the year were 1% above that of the prior year.

Improved usage variances and lower wood, chemical and energy costs resulted in variable costs per ton falling by 6%. Additionally, fixed costs reduced by 1% which improved the EBITDA margin from 6.1% to 7.4% providing an absolute increase in EBITDA excluding special items of US\$10 million. Included in the above result was an extended annual maintenance shut at the Somerset Mill in the first quarter, which negatively impacted contribution by US\$10 million. The shut was successfully completed within the budgeted costs and deadlines and some of the benefits have been realised during the remainder of the year.

The North American operations delivered a particularly good result for the year given the adverse macro-economic conditions and the performance of peers.

Section 3 continuedfinancial performance – regional continued

Southern Africa*

	2015	2014	% Change
Sales volume (metric tons '000)	1,768	1,706	4

	ZAR million 2015	ZAR million 2014	% Change	ZAR per ton 2015	ZAR per ton 2014	% Change
Sales	15,470	14,454	7	8,750	8,472	3
Variable manufacturing and delivery costs	(9,476)	(8,991)	5	(5,360)	(5,270)	2
Contribution	5,994	5,463	10	3,390	3,202	6
Fixed costs	(4,606)	(4,448)	4	(2,605)	(2,607)	–
Sundry costs and consolidation entries	1,675	1,605	4	948	941	1
Operating profit excluding special items	3,063	2,620	17	1,733	1,536	13
EBITDA excluding special items	3,745	3,296	14	2,118	1,932	10

* Excludes Sappi Forests.

The refocusing and reorganisation of the South African business over the preceding years culminated in record profits for fiscal 2015. Admittedly, the business has a predominance of strong currencies driving export revenue and was assisted by the weaker Rand. However, strong volume demand and the introduction of new packaging grades also contributed greatly to the record performance.

Specialised cellulose volumes and prices improved during the year increasing contribution in absolute and on a Rand per ton basis. Machine efficiency improvements and below inflation fixed cost increases further assisted in improving EBITDA margins. The paper packaging business experienced similar tailwinds improving absolute EBITDA by 52% over last year. Virgin linerboard demand remained strong and the introduction of Ultraflute into the market was well received.

The realignment of businesses and simplification of product offerings improved efficiencies and output. The announced sale of non-core businesses at Cape Kraft and Enstra Mills supports the realignment of our core business. Proceeds from the sale of these two businesses were received in November 2015.

Input cost pressures on energy, wood and pulp costs persist and resources have been focused on limiting the impact of cost increases. Capital expenditure projects have been approved to increase our self-sufficiency on energy requirements and the benefits are expected to be realised towards the end of the next fiscal year. Variable costs per ton increased by 2%. Managing costs in a high inflationary environment has been a priority and the results are evident with an increase in fixed costs limited to 4%.

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 EUR million	North America US\$ million	Southern Africa ZAR million	Translation impact* US\$ million	Group US\$ million
Net selling prices	1%	24	14	163	–	53
Dissolving wood pulp prices	1%	–	2	93	–	9
Variable costs	1%	15	7	83	–	29
Sales volume	1%	8	6	69	–	19
Fixed costs	1%	6	4	39	–	14
Paper pulp price	US\$10	6	2	8	–	9
Wood prices	1%	2	2	34	–	8
ZAR/US\$	10 cents	–	–	75	(2)	4
EUR/US\$	10 cents	–	3	–	21	24

* Based on currency impact on translation of EBITDA.

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

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not take into account potential management interventions to mitigate negative impacts or enhance benefits.

Section 4

cash flow

In the table below, we present the group's cash flow statement for 2015 and 2014 in a summarised format:

US\$ million	2015	2014
Operating profit excluding special items	357	346
Depreciation and amortisation	268	312
EBITDA excluding special items	625	658
Contributions to post-employment benefits	(56)	(70)
Other non-cash items	25	22
Cash generated from operations	544	566
Movement in working capital	(11)	34
Capital expenditure	(248)	(295)
Finance costs	(135)	(162)
Taxation	(16)	(1)
Net proceeds on disposal of assets and businesses	1	87
Other	10	14
Net cash generated	145	243

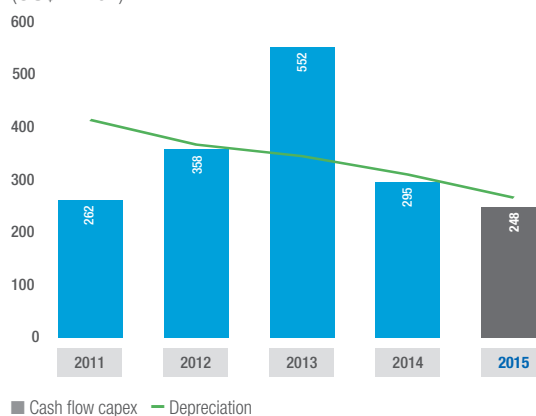
Sappi generated net cash of US\$145 million during 2015, compared to US\$243 million in 2014. An increase in working capital, tax payments and lower proceeds from the disposal of assets contributed to the reduction in the cash generated.

The net increase in working capital of US\$45 million arose primarily from a reduction in accruals and provisions. 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\$250 million. Sappi incurred US\$71 million on projects to increase capacity or improve efficiency. These projects mainly relate to the paper machine upgrade at the Gratkorn Mill and the energy project at Kirkniemi Mill. 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\$135 million were US\$27 million less than last year due to the refinancing of the 2018 and 2019 bonds at a lower coupon together with overall lower net debt levels, particularly in South Africa.

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



Section 5

balance sheet

Summarised balance sheet

US\$ million	2015	2014
Property, plant and equipment	2,508	2,841
Plantations	383	430
Net working capital	380	390
Other assets	326	248
Net post-employment liabilities	(422)	(454)
Other liabilities	(389)	(465)
Employment of capital	2,786	2,990
Equity	1,015	1,044
Net debt	1,771	1,946
Capital employed	2,786	2,990

Sappi has 14 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 2015, capital expenditure for property, plant and equipment was US\$248 million. However, the currency translation differences arising from the weaker Rand and Euro reduced the net book value by US\$298 million during fiscal 2015.

The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US\$20 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	2015	2014
Cost	7,908	8,721
Accumulated depreciation and impairment	5,400	5,880
Net book value	2,508	2,841

Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource as it gives us access to low-cost fibre for pulp production and ensures continuity of supply on an important raw material input source.

We currently have access to approximately 353,000 hectares of plantable land of which approximately 339,000 hectares are planted with pine and eucalyptus. Our plantations provide approximately 68% of the wood requirements for our Southern Africa mills.

During the year, there was a significant movement in the price for hardwood in South Africa; however, this was offset by the damages recorded during the year. As we manage our plantations on a sustainable basis, the growth for the year was largely offset by timber felled during the year. The principal movement for the year related to a reduction in the carrying value of plantations due to the translation effect of a weaker Rand versus the US Dollar at fiscal year-end.

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 on our accounting policies for plantations, how we manage our plantations as well as the major assumptions used in the calculation of fair value.

Working capital

The component parts of our working capital as at the 2015 and 2014 fiscal year-ends are disclosed in the table below:

Net working capital

US\$ million	2015	2014
Inventories	595	687
Trade and other receivables	645	731
Trade and other payables	(860)	(1,028)
Net working capital	380	390

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 decreased to US\$380 million in 2015 from US\$390 million in 2014. The material movements in working capital are discussed below:

- Inventories decreased by US\$92 million, mainly due to a currency translation impact of US\$64 million and a US\$14 million inventory reduction relating to the sale of the Enstra and Cape Kraft Mills which were reclassified to assets held for sale.
- Receivables continue to be tightly managed and reduced by US\$86 million. After taking into consideration the currency translation impact of US\$53 million, receivables decreased by US\$33 million. The decrease in receivables is largely due to management of receivables and the collection of the outstanding receivable of US\$8 million relating to the sale of Usutu Forest Products Company.
- Payables reduced by US\$168 million. After taking into consideration the currency translation impact of US\$110 million, payables decreased by US\$58 million. The decrease in payables is largely due to a reduction in trade creditors' balances, lower interest and rebate accruals, and the reduction of restructuring provisions.

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	2015	2014
Defined benefit obligation	(1,483)	(2,155)
Present value of wholly or partially funded obligation	(1,223)	(1,911)
Present value of wholly unfunded obligation	(260)	(244)
Fair value of plan assets	1,061	1,701
Net balance sheet liability	(422)	(454)
Cash contributions to defined benefit plans	52	65
Income statement (credit) charge to defined benefit plans*	(43)	18
Cash contributions deemed 'catch-up'	30	37

* The income statement credit arose primarily as a result of the settlement of the Dutch pension plan.

The liabilities of our funded plans decreased by US\$688 million and for our unfunded plans increased by US\$16 million compared with last year. Combined, gross liabilities fell significantly by US\$672 million. The effects of lower discount rates determined from yields in respective bond markets in continental Europe increased liabilities but were reversed by the settlement of our Dutch pension plan and the strengthening of the US Dollar which contributed a gain in terms of our reporting currency.

Fair value of plan assets decreased by US\$640 million over the year due to opposing factors. Strong investment returns in South Africa, Europe and United Kingdom were offset by the transfer of assets off the balance sheet as part of the settlement of the Dutch pension plan and the strengthening of the US Dollar which caused a loss in terms of our reporting currency. 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.

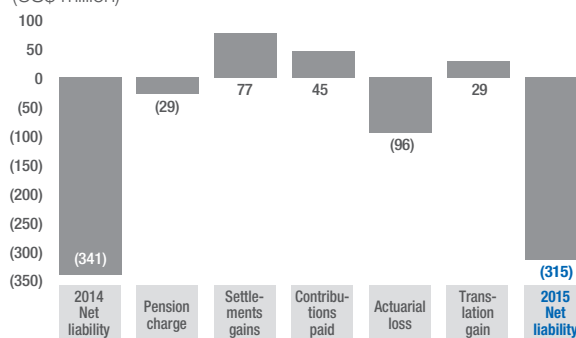
The strengthening US Dollar contributed an overall gain of US\$33 million to the balance sheet.

Since the reduction in liabilities was greater than the reduction in assets, the overall net liability reduced by US\$32 million as at September 2015. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in note 28 of the Group Annual Financial Statements.



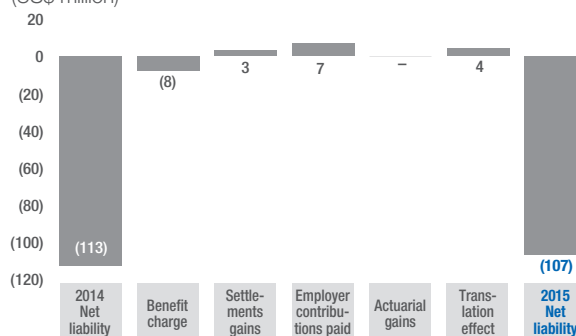
Defined benefit pensions

Sources of credits and debits to the balance sheet liability (US\$ million)



Post-retirement medical aid liability

Sources of credits and debits to the balance sheet liability (US\$ million)



Equity

Year-on-year, equity decreased by US\$29 million to US\$1,015 million as summarised below:

Equity reconciliation

US\$ million	2015
Equity at September 2014	1,044
Profit for the year	167
Actuarial losses on post-employment benefit funds	(63)
Exchange differences on translation of foreign operations	(148)
Movements in hedging reserves	4
Share-based payments	12
Other movements	(1)
Equity at September 2015	1,015

Equity reduced by US\$29 million during the year. The increase in equity from net profit after tax for the year of US\$167 million, was offset by actuarial losses of US\$63 million and foreign currency translation reserve movements of US\$148 million. The actuarial losses were predominantly incurred in our North American region and are a result of adopting the latest longevity tables and thereby increasing the pension liability. The foreign currency translation reserve movements arise mainly from converting the South African and European operations at weaker exchange rates.

Section 5 continued

balance sheet continued

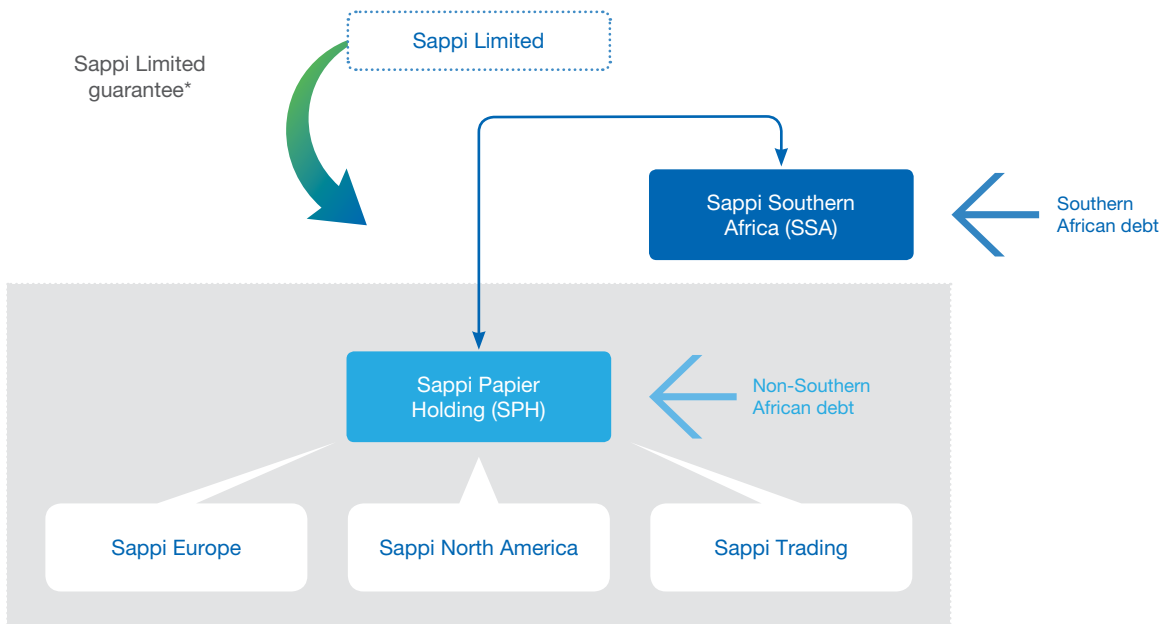
Debt

Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local 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:



*Sappi Limited provides guarantees for long-term non-South African debt

Refinancing activities during financial year 2015

Below we highlight the main financing activities that occurred during the year:

- The increase from EUR350 million to EUR465 million and extension to 2020 of the Sappi Papier Holding (SPH) Revolving Credit Facility (RCF) was finalised during the second quarter of the 2015 fiscal year.
- In March 2015, SPH accessed the European High Yield bond market and raised a new EUR450 million seven-year bond with a coupon of 3.375%. The proceeds of the new bond, plus some cash resources and a EUR100 million drawing on the RCF were used to repay in full the existing 2018 and 2019 bonds. EUR50 million of the RCF drawing was repaid in September from cash generated. The annual savings in interest costs from this refinancing amounts to approximately US\$29 million.

- Sappi Southern Africa's ZAR750 million SSA02 bond matured in April and local cash resources were used to repay this bond in full.
- The three-year EUR330 million securitisation programme of Sappi Papier Holding would have matured in August 2016. In June 2015, the facility was renewed and extended to August 2018.

Structure of net debt and liquidity

We consider the liquidity position to be good, with cash holdings exceeding short-term obligations by US\$260 million at fiscal year-end. In addition, Sappi has US\$562 million of unutilised committed facilities, including the Revolving Credit Facility in Europe at SPH of EUR415 million (US\$464 million).

The structure of our net debt at September 2015 and 2014 is summarised below:

US\$ million	2015	2014
Long-term debt	2,031	2,311
Secured debt	1,239	1,355
Unsecured debt	524	671
Securitisation funding	343	374
Less: Short-term portion	(75)	(89)
Net short-term debt (cash)	(260)	(365)
Overdrafts and short-term loans	121	74
Short-term portion of long-term debt	75	89
Less: Cash	(456)	(528)
Net debt	1,771	1,946

Movement in net debt

The movement of our net debt from fiscal 2014 to fiscal 2015 is explained in the table below:

US\$ million	2015
Net debt at September 2014	1,946
Net cash generated	(145)
Currency translation impact	(52)
Debt issuance and related costs	22
Net debt at September 2015	1,771

Group debt profile

We show the major components and maturities of our net debt at September 2015 below. These are split between our debt in South Africa and our debt outside South Africa.

US\$ million	Amount	Local interest rate, weighted	Fixed/variable	Maturity (Sappi fiscal years)				
				2016	2017	2018	2019	Thereafter
South Africa								
Bank debt	29	7.85%	Fixed**					29
Bonds	144	8.04%	Fixed**	54		36		54
Gross debt	172							
Less: Cash	(242)			(242)				
Net South Africa debt	(69)			(188)	-	36	-	82
Non-South Africa								
Securitisation	343	1.77%	Variable		343			
OekB loan	133	3.10%	Variable	20	113			
Other bank debt	68	0.66%	Variable	65	0.3	0.3	0.3	1.1
Revolving credit facility	56	1.90%	Variable					55.9
2017 Bonds (US\$)	400	7.75%	Fixed		400			
2021 Bonds (US\$)	350	6.63%	Floating*					350
2022 Bonds (US\$)	504	3.38%	Fixed					504
2032 Bonds	221	7.50%	Fixed					221
IFRS adjustments	(20)							
Gross debt	2,054							
Less: Cash	(214)			(214)				
Net non-South Africa debt	1,841			(129)	856	-	-	1,132
Net group debt	1,771			(316)	856	36	-	1,214

* 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.

Section 5 continued

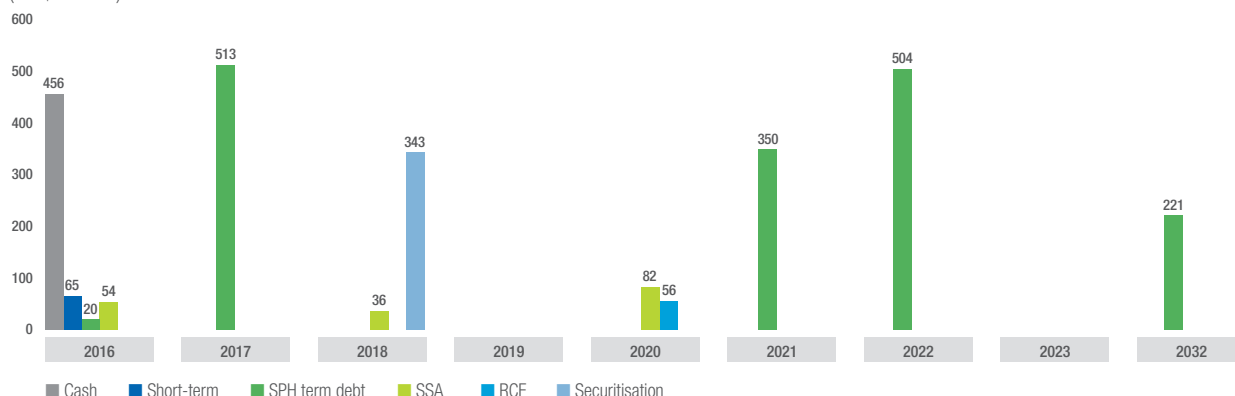
balance sheet continued

The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

A diagram of the debt maturity profile is shown below:

Debt maturity profile

(US\$ million)



Outside South Africa, there are no material debt maturities during fiscal 2016. The US\$65 million trade finance facility revolves on a quarterly basis. The South African business has public bonds of US\$54 million that will mature in 2016.

Covenants

Non-South African covenants

Financial covenants apply to US\$133 million of our non-South African bank debt, the EUR465 million revolving credit facility and our securitisation borrowings.

The covenants are described below and are calculated on a last four quarter basis and require that at the end of each quarter:

- the ratio of group net debt to EBITDA be not greater than 4.00-to-1 at the end of September 2015, reducing over the term of the facility to 3.75-to-1 by June 2019, and
- the ratio of group EBITDA to net interest expense be not less than 2.50-to-1 at the end of September 2015, and remain at this level over the term of the facility.

The table below shows that at September 2015 we were well in compliance with these covenants.

Non-South African covenants	2015	Covenant
Net debt to EBITDA	2.83	<4.00
EBITDA to net interest	4.44	>2.50

In addition to the financial covenants referred to above, our bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments. As regards dividend payments, in terms of the international bond indentures, any cash dividends paid may not exceed 50% of net profit excluding special items after tax and certain other adjustments.

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 2015 the South African financial covenants were comfortably met:

South African covenants	2015	Covenant
Net debt to equity	35.39	<65%
EBITDA to net interest	(7.89)	>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 (May 2015)

Moody's:

Sappi Corporate Credit Rating: Ba3/NP/Stable (March 2015)

Secured Debt Rating Ba2 (March 2015)

Unsecured Debt Rating B2 (March 2015)

Standard & Poor's:

Corporate Credit Rating: BB-/B/Stable (September 2015)

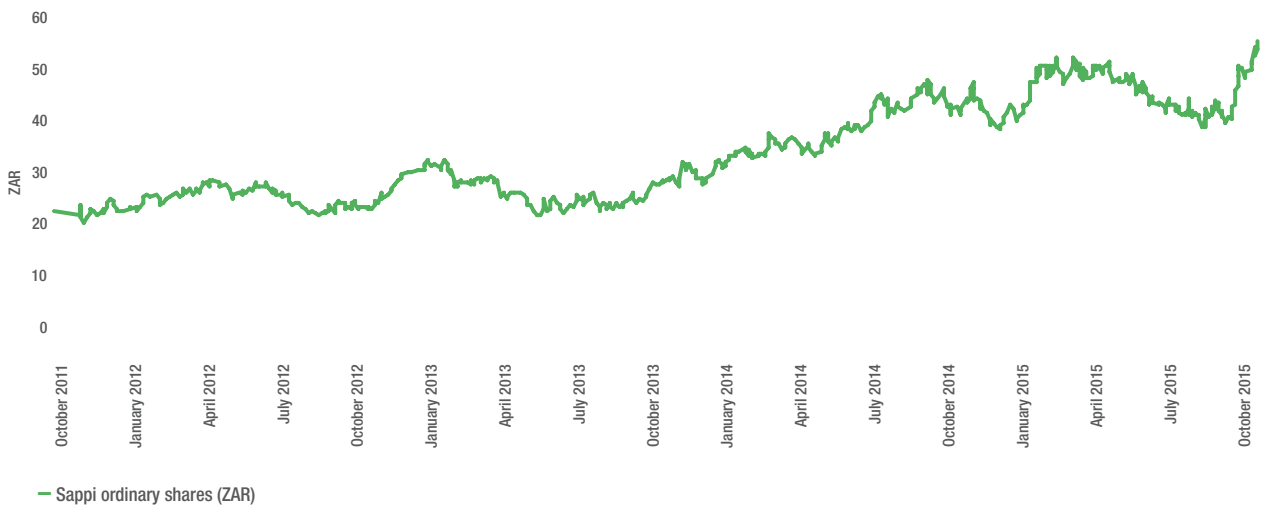
Secured Debt Rating BB (September 2015)

Unsecured Debt Rating B (September 2015)

Section 6

share price performance

Sappi share price – 01 October 2011 to 31 October 2015



Conclusion

The business was able to overcome the result of lower revenue and sales volumes by focusing on implementing mix improvements, cost initiatives and machine efficiencies. Despite the negative impact of exchange rates and falling demand in our graphic markets, operating profit excluding special items and basic EPS increased by 3% and 23% respectively. We generated cash in line with expectations and reduced our leverage to 2.83 times net debt to EBITDA.

We are committed to achieving our strategic goals and the five pillars of our strategic focus are evident in the operating results for fiscal 2015. During the year, we succeeded in reducing variable and fixed costs, which resulted in margin improvement, by improving operational and machine efficiencies. We rationalised our businesses

by announcing the sale of the Enstra and Cape Kraft Mills and our growth through moderate investments was realised through the improved performance at the Alfeld Mill following the conversion of PM2. Good fiscal discipline and the refinancing of expensive debt assisted in reducing net debt to US\$1,771 million, and thereby strengthening the balance sheet.

We have laid the foundation for a strong base from which we can plan to accelerate growth in adjacent businesses.

GT Pearce
Chief Financial Officer

08 December 2015

five-year review

for the year ended September 2015

US\$ million	2015	2014	2013	2012	2011
Income statement					
Sales	5,390	6,061	5,925	6,347	7,286
Variable manufacturing and delivery costs	3,414	3,887	3,768	3,919	4,559
Fixed costs	1,613	1,837	1,943	1,986	2,296
Sundry expenses (income) ⁽¹⁾	6	(9)	34	33	27
Operating profit excluding special items	357	346	180	409	404
Special items – (gains) losses	(54)	32	161	(18)	318
Operating profit	411	314	19	427	86
Net finance costs	182	177	186	306	327
Profit (loss) before taxation	229	137	(167)	121	(241)
Taxation charge	62	2	15	28	9
Profit (loss) for the year	167	135	(182)	93	(250)
EBITDA excluding special items	625	658	528	778	821
Balance sheet					
Total assets	4,913	5,465	5,727	6,168	6,308
Non-current assets	3,174	3,505	3,787	4,031	4,127
Current assets	1,739	1,960	1,940	2,137	2,181
Current liabilities	1,092	1,223	1,212	1,315	1,652
Shareholders' equity	1,015	1,044	1,144	1,525	1,478
Net debt	1,771	1,946	2,247	2,020	2,142
Gross interest-bearing debt	2,227	2,474	2,599	2,624	2,739
Cash	(456)	(528)	(352)	(604)	(597)
Capital employed	2,786	2,990	3,391	3,545	3,620
Cash flow					
Cash generated from operations	544	566	447	728	798
(Increase) decrease in working capital	(11)	34	(20)	(102)	(98)
Finance costs paid	(148)	(170)	(171)	(206)	(266)
Finance revenue received	13	8	7	11	10
Taxation paid	(16)	(1)	(17)	(20)	(38)
Cash generated from operating activities	382	437	246	411	406
Net cash generated (utilised)	145	243	(247)	127	163
Cash effects of financing activities	(127)	(36)	(8)	(103)	(296)
Capital expenditure (gross)	248	295	552	358	262
To maintain operations	175	148	116	177	213
To expand operations	73	147	436	181	49

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

US\$ million	2015	2014	2013	2012	2011
Statistics					
Number of ordinary shares (millions)⁽¹⁾					
In issue at year-end	526.4	524.2	521.5	520.8	520.5
Basic weighted average number of shares in issue during the year	525.7	522.5	521.3	520.8	519.9
Per share information (US cents)					
Basic earnings (loss)	32	26	(35)	18	(48)
Diluted earnings (loss)	31	26	(35)	18	(48)
Headline earnings (loss)	32	31	(10)	7	(19)
Diluted headline earnings (loss)	31	31	(10)	7	(19)
EPS excluding special items (US cents)	34	22	(4)	28	17
Net asset value	193	199	219	293	284
Profitability ratios (%)					
Operating profit to sales	7.6	5.2	0.3	6.7	1.2
Operating profit excluding special items to sales	6.6	5.7	3.0	6.4	5.5
EBITDA excluding special items to sales	11.6	10.9	8.9	12.3	11.3
Operating profit excluding special items to capital employed (ROCE)	12.4	10.8	5.2	11.4	10.4
Return on average equity (ROE)	16.2	12.3	(13.6)	6.2	(14.8)
Debt ratios (%)					
Net debt to total capitalisation	63.6	65.1	66.3	57.0	59.2
Efficiency ratios					
Asset turnover (times)	1.1	1.1	1.0	1.0	1.2
Inventory turnover ratio	7.9	7.8	7.3	7.6	8.6
Liquidity ratios					
Current asset ratio	1.6	1.6	1.6	1.6	1.3
Trade accounts receivable days outstanding (including receivables securitised)	45	45	47	44	43
Cash interest cover (times)	3.0	3.1	2.7	2.4	2.4
Other non-financial information⁽²⁾					
Sales volumes	7,306	7,524	7,466	7,705	7,898
Number of full-time equivalent employees	12,548	13,064	13,665	14,039	14,862
Lost Time Injury Frequency Rate (including contract employees)	0.48	0.53	0.56	0.56	0.62
Energy					
Specific net purchased energy (GJ/adt)	10.71	11.15	11.59	11.88	13.07
Renewable energy to total energy (%)	52.36	53.07	51.31	50.35	49.37
Water					
Specific process water drawn (m ³ /adt)	34.77	35.04	35.64	34.73	35.50
Specific process water returned (m ³ /adt)	31.93	32.90	33.45	33.04	33.41
Waste					
Specific total landfill (ton/adt)	0.082	0.070	0.072	0.074	0.084
Emissions					
Specific scope 1 emissions (ton CO ₂ eq/adt)	0.58	0.59	0.61	0.64	0.70
Specific scope 2 emissions (ton CO ₂ eq/adt)	0.20	0.21	0.21	0.23	0.23
Exchange rates					
US\$ per one EUR exchange rate – closing	1.1195	1.2685	1.3522	1.2859	1.3386
US\$ per one EUR exchange rate – average (12-month)	1.1501	1.3577	1.3121	1.2988	1.3947
ZAR to one US\$ exchange rate – closing	13.9135	11.2285	10.0930	8.3096	8.0963
ZAR to one US\$ exchange rate – average (12-month)	11.9641	10.5655	9.2779	8.0531	6.9578

Refer to share statistics on page 92 for other market and share-related information.

⁽¹⁾ Net of treasury shares (refer to note 18 to the Group Annual Financial Statements).

⁽²⁾ Certain energy, water, waste and emissions data for the comparative years have been restated using latest measurement methodology.

Note: Definitions for various terms and ratios used above are included in the Glossary on page 106.

share statistics

at September 2015

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares ⁽¹⁾	% of shares in issue
1 – 5,000	4,332	80.7	2,602,584	0.5
5,001 – 10,000	181	3.4	1,347,544	0.3
10,001 – 50,000	308	5.7	7,656,598	1.4
50,001 – 100,000	151	2.8	11,052,546	2.1
100,001 – 1,000,000	314	5.9	101,129,587	19.2
Over 1,000,000	82	1.5	402,616,152	76.5
	5,368	100.0	526,405,011	100.0

⁽¹⁾ The number of shares excludes 15,041,212 treasury shares held by the group.

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
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 2015 was 5,357)	99.8
	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 2015, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	84,977,510	16.1
Allan Gray Balanced Fund (ZA)	26,983,021	5.1

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 2015, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	92,536,042	17.6
Public Investment Corporation	74,653,198	14.2
Prudential Portfolio Advisors	44,225,114	8.4
Coronation Fund Managers	37,002,251	7.0
Investec Asset Management	32,534,734	6.2
Dimensional Fund Advisors	28,833,492	5.5

Share statistics

	2015	2014	2013	2012	2011
Ordinary shares in issue (millions) ⁽¹⁾	526.4	524.2	521.5	520.8	520.5
Net asset value per share (US cents)	193	199	219	293	284
Number of shares traded (millions)					
JSE	351.0	296.9	323.3	365.3	469.1
New York	1.1	2.0	3.1	2.8	6.3
Value of shares traded					
JSE (ZAR million)	15,642.5	10,500.0	8,634.7	9,262.9	15,786.4
New York (US\$ million)	4.4	6.1	8.8	8.9	31.1
Percentage of issued shares traded	66.9	57.0	62.6	70.7	91.3
Market price per share					
– year-end					
JSE (South African cents)	4,069	4,337	2,549	2,366	2,385
New York (US cents)	286	385	249	285	304
– highest					
JSE (South African cents)	5,279	4,755	3,300	2,999	3,962
New York (US cents)	448	425	389	373	595
– lowest					
JSE (South African cents)	3,610	2,525	2,204	2,092	2,107
New York (US cents)	267	247	228	257	292
Earnings yield (%) ⁽²⁾	10.94	6.73	negative	6.32	negative
Price/earnings ratio (times) ⁽²⁾	9.14	14.86	negative	15.82	negative
Total market capitalisation (US\$ million) ⁽²⁾	1,539	2,025	1,317	1,484	1,535

⁽¹⁾ The number of shares excludes 15,041,212 treasury shares held by the group.

⁽²⁾ Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

Note: Definitions for various terms and ratios used above are included in the Glossary on page 106.

summarised financial statements

These summarised group results comprise a summary of the audited Group Annual Financial Statements for the year ended September 2015 that were approved by the board on 08 December 2015. The preparation of the audited Group Annual Financial Statements and these summarised 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, 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 summarised consolidated financial statements of Sappi Limited, set out on pages 98 to 105, contained in the accompanying summarised report, which comprise the summarised consolidated balance sheet as at September 2015, 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 consolidated financial statements of Sappi Limited for the year ended September 2015. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 08 December 2015. 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 financial statements. Reading the summarised consolidated financial statements, therefore, is not a substitute for reading the audited 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 IAS 34: *Interim Financial Reporting*, 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 Summarised Financial Statements*.

Opinion

In our opinion, the summarised consolidated financial statements derived from the audited consolidated financial statements of Sappi Limited for the year ended September 2015 are consistent, in all material respects, with those consolidated financial statements, in accordance with IAS 34: *Interim Financial Reporting*, 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 08 December 2015, states that as part of our audit of the consolidated financial statements for the year ended September 2015, 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 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 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 summarised consolidated financial statements or our opinion thereon.

Deloitte & Touche

Registered Auditor

Per RC Campbell
Partner

08 December 2015
Johannesburg
South Africa

National Executive: *LL Bam Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit *N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries *JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy *MJ Comber Reputation & Risk *TJ Brown Chairman of the Board

* Partner and Registered Auditor

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 2015

Introduction

The Audit Committee presents its report for the financial year ended September 2015. 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 Annual 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)
Mr GPF Beurskens	(Appointed in January 2012)
Mr MA Fallon	(Appointed in January 2012)
Mr NP Mageza	(Appointed in February 2010)
Mrs KR Osar	(Appointed in November 2007)

Biographical details of the current members of the committee are set out in Our leadership on page 50.

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 attends 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 2016 financial year of whom Mr Patrick J Smit is the designated auditor. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Annual Integrated Report and the Group Annual Financial Statements

The Audit Committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2015. The Audit Committee has also considered the sustainability information as disclosed in the Annual 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 the Annual 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

08 December 2015

summarised group income statement

for the year ended September 2015

US\$ million	Note	2015	2014	2013
Sales		5,390	6,061	5,925
Cost of sales		4,693	5,370	5,285
Gross profit		697	691	640
Selling, general and administrative expenses		333	352	384
Other operating (income) expenses		(35)	33	244
Share of profit from associates and joint ventures		(12)	(8)	(7)
Operating profit	2	411	314	19
Net finance costs		182	177	186
Net interest expense		180	185	188
Net foreign exchange gain		(11)	(7)	(1)
Net fair value loss (gain) on financial instruments		13	(1)	(1)
Profit (loss) before taxation		229	137	(167)
Taxation		62	2	15
Profit (loss) for the year		167	135	(182)
Basic earnings (loss) per share (US cents)		32	26	(35)
Weighted average number of shares in issue (millions)		525.7	522.5	521.3
Diluted earnings (loss) per share (US cents)		31	26	(35)
Weighted average number of shares on fully diluted basis (millions)		531.2	526.6	521.3

summarised group statement of comprehensive income

for the year ended September 2015

US\$ million	2015	2014	2013
Profit (loss) for the year	167	135	(182)
Other comprehensive loss, net of tax	(208)	(247)	(210)
Item that will not be reclassified subsequently to profit or loss	(63)	(152)	14
Actuarial (losses) gains on post-employment benefit funds	(96)	(152)	51
Tax effect on above item	33	–	(37)
Items that may be reclassified subsequently to profit or loss	(145)	(95)	(224)
Exchange differences on translation of foreign operations	(148)	(71)	(225)
Movements in hedging reserves	4	(23)	3
Movement on available-for-sale financial assets	(1)	(2)	–
Tax effect on above items	–	1	(2)
Total comprehensive loss for the year	(41)	(112)	(392)

summarised group balance sheet

as at September 2015

US\$ million	2015	2014
ASSETS		
Non-current assets	3,174	3,505
Property, plant and equipment	2,508	2,841
Plantations	383	430
Deferred tax assets	162	138
Other non-current assets	121	96
Current assets	1,711	1,960
Inventories	595	687
Trade and other receivables	650	731
Taxation receivable	10	14
Cash and cash equivalents	456	528
Assets held for sale	28	–
Total assets	4,913	5,465
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary shareholders' interest	1,015	1,044
Non-current liabilities	2,806	3,198
Interest-bearing borrowings	2,031	2,311
Deferred tax liabilities	245	272
Other non-current liabilities	530	615
Current liabilities	1,091	1,223
Interest-bearing borrowings	196	163
Other current liabilities	865	1,035
Taxation payable	30	25
Liabilities associated with assets held for sale	1	–
Total equity and liabilities	4,913	5,465
Number of shares in issue at balance sheet date (millions)	526.4	524.2

summarised group statement of cash flows

for the year ended September 2015

US\$ million	2015	2014	2013
Profit (loss) for the year	167	135	(182)
Adjustment for:			
Depreciation, fellings and amortisation	325	371	414
Taxation	62	2	15
Net finance costs	182	177	186
Defined post-employment benefits paid	(56)	(70)	(74)
Plantation fair value adjustments	(106)	(86)	(166)
Asset impairments	-	-	155
Net restructuring provisions and loss on disposal of assets and businesses	6	23	99
Non-cash post-retirement plan settlements and amendments	(68)	-	(24)
Other non-cash items	32	14	24
Cash generated from operations	544	566	447
Movement in working capital	(11)	34	(20)
Net finance costs paid	(135)	(162)	(164)
Taxation paid	(16)	(1)	(17)
Cash generated from operating activities	382	437	246
Cash utilised in investing activities	(237)	(194)	(493)
Capital expenditure ⁽¹⁾	(248)	(295)	(552)
Proceeds on disposal of non-current assets	1	87	53
Other movements	10	14	6
Net cash generated (utilised)	145	243	(247)
Cash effects of financing activities	(127)	(36)	(8)
Proceeds from interest-bearing borrowings	588	-	388
Repayment of interest-bearing borrowings	(647)	(35)	(389)
Cash costs attributable to refinancing transactions	(68)	-	(3)
Movement in overdrafts	-	(1)	(4)
Net movement in cash and cash equivalents	18	207	(255)
Cash and cash equivalents at beginning of year	528	352	604
Translation effects	(90)	(31)	3
Cash and cash equivalents at end of year	456	528	352

⁽¹⁾ Includes capitalised interest of US\$9 million in the 2013 financial year.

summarised group statement of changes in equity

for the year ended September 2015

US\$ million	2015	2014	2013
Balance – beginning of year	1,044	1,144	1,525
Total comprehensive loss for the year	(41)	(112)	(392)
Transfers from the share purchase trust	10	12	3
Transfers of vested share options	(5)	(7)	(3)
Share-based payment reserve	7	7	11
Balance – end of year	1,015	1,044	1,144

notes to the summarised group results

for the year ended September 2015

US\$ million	2015	2014	2013
1. Operating profit			
Included in operating profit are the following items:			
Depreciation and amortisation	268	312	348
Fair value adjustment on plantations (included in cost of sales)			
Changes in volume			
Fellings	57	59	66
Growth	(65)	(68)	(79)
	(8)	(9)	(13)
Plantation price fair value adjustment	(41)	(18)	(87)
	(49)	(27)	(100)
Net restructuring provisions and loss on disposal of assets and businesses	6	23	99
Impairment of goodwill	–	1	–
Asset impairments	–	–	155
Post-retirement settlements and plan amendments	(68)	(21)	(24)
Broad-based Black Economic Empowerment (BBBEE) charge	2	2	3
US\$ million	2015	2014	2013
2. Headline earnings (loss) per share			
Headline earnings (loss) per share (US cents)	32	31	(10)
Weighted average number of shares in issue (millions)	525.7	522.5	521.3
Diluted headline earnings (loss) per share (US cents)	31	31	(10)
Weighted average number of shares on fully diluted basis (millions)	531.2	526.6	521.3
Calculation of headline earnings (loss)			
Profit (loss) for the year	167	135	(182)
Asset impairments	–	–	155
Loss on disposal of assets and businesses	–	29	2
Impairment of goodwill	–	1	–
Tax effect of above items	–	(1)	(27)
Headline earnings (loss)	167	164	(52)
US\$ million	2015	2014	
3. Capital commitments			
Contracted	60	104	
Approved but not contracted	73	126	
	133	230	
US\$ million	2015	2014	
4. Contingent liabilities			
Guarantees and suretyships	13	23	
Other contingent liabilities	11	26	
	24	49	

notes to the summarised group results

for the year ended September 2015 continued

5. 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	2015	2014
Fair value of plantations at beginning of year	430	464
Gains arising from growth	65	65
Fire, flood, storms and related events	(7)	–
In-field inventory	(1)	(1)
Gain arising from fair value price changes	41	7
Harvesting – agriculture produce (fellings)	(57)	(57)
Translation difference	(88)	(48)
Fair value of plantations at end of year	383	430

6. Financial instruments

The group's financial instruments that are measured at fair value on a recurring basis consist of cash and cash equivalents, 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 ⁽¹⁾	
		2015	2014
Available-for-sale assets	Level 1	8	10
Derivative financial assets	Level 2	46	13
Derivative financial liabilities	Level 2	5	59

⁽¹⁾ 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 to 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.

7. Material balance sheet movements

Since the 2014 financial year-end, the Rand and Euro have weakened by approximately 24% and 12% 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.

Deferred tax assets

The increase is largely attributable to the deferred tax raised on actuarial losses incurred by our North American pension liability as a result of increased longevity.

Trade and other receivables, cash and cash equivalents and other current liabilities

The decrease in trade and other receivables, cash and cash equivalents and other current liabilities is largely attributable to seasonal working capital movements.

Assets held for sale

During the quarter, the group announced the sale of its Enstra and Cape Kraft Mills. In accordance with the accounting standard, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the assets and associated liabilities of these entities have been separately classified on the condensed group balance sheet.

Shareholders' equity

Profit for the year of US\$167 million was offset by unrealised actuarial losses on post-employment benefit funds of US\$63 million and unrealised translation losses of US\$148 million largely from the weakening of the Rand to the US Dollar.

Interest-bearing borrowings

In March 2015, the group placed an aggregate principal amount of US\$504 million (EUR450 million) senior secured notes due 2022 at a coupon of 3.375% per annum. In addition, the group increased its US\$392 million (EUR350 million) revolving credit facility to US\$521 million (EUR465 million) and extended the maturity date to March 2020. The proceeds of the new notes together with cash on hand and drawings of US\$112 million (EUR100 million) under the US\$521 million (EUR465 million) revolving credit facility were used to early redeem Sappi's US\$280 million (EUR250 million) senior secured notes due 2018 and the US\$300 million senior secured notes due 2019. As a result of the early redemption, once-off charges of US\$61 million (of which US\$10 million was non-cash), which includes the pre-arranged call premiums on the early redemption of the notes and the unwinding of an interest rate currency swap, were recorded in net finance costs.

During the financial year, the group utilised cash on hand of US\$54 million (ZAR750 million) to repay its South African bond due April 2015.

Other non-current liabilities

During the year, the group transferred one of its European defined benefit pension funds to an industry-wide pension fund which resulted in a net liability derecognition of US\$66 million (EUR59 million). This transfer, together with the translation effects of the above mentioned weaker currencies and the associated currency gains on certain hedging instruments were partially offset by actuarial losses incurred on the group's defined benefit obligations.

8. Post-balance sheet event

During November 2015, all conditions precedent to the announced sales of the Enstra and Cape Kraft Mills in Southern Africa were fulfilled resulting in a profit on disposal of US\$16 million. The proceeds of US\$40 million have since been received.

notes to the summarised group results

for the year ended September 2015 continued

US\$ million	2015	2014	2013
9. Segment information			
Sales			
North America	1,377	1,517	1,377
Europe	2,660	3,107	3,155
Southern Africa – Pulp and paper	1,293	1,368	1,316
Forestry	60	69	77
Total	5,390	6,061	5,925
Which consists of:			
Specialised cellulose	908	1,013	683
Paper	4,422	4,979	5,165
Forestry	60	69	77
Operating profit (loss) excluding special items			
North America	27	18	57
Europe	73	75	(8)
Southern Africa	256	248	125
Unallocated and eliminations ⁽¹⁾	1	5	6
Total	357	346	180
Which consists of:			
Specialised cellulose	231	243	182
Paper	125	98	(8)
Unallocated and eliminations ⁽¹⁾	1	5	6
Special items – losses (gains)			
North America	–	2	(6)
Europe	(47)	33	142
Southern Africa	(27)	(12)	8
Unallocated and eliminations ⁽¹⁾	20	9	17
Total	(54)	32	161
Segment operating profit (loss)			
North America	27	16	63
Europe	120	42	(150)
Southern Africa	283	260	117
Unallocated and eliminations ⁽¹⁾	(19)	(4)	(11)
Total	411	314	19
EBITDA excluding special items			
North America	102	92	135
Europe	209	249	183
Southern Africa	313	312	204
Unallocated and eliminations ⁽¹⁾	1	5	6
Total	625	658	528
Which consists of:			
Specialised cellulose	281	303	226
Paper	343	350	296
Unallocated and eliminations ⁽¹⁾	1	5	6
Segment assets			
North America	1,007	1,013	1,046
Europe	1,313	1,472	1,594
Southern Africa	1,066	1,289	1,556
Unallocated and eliminations ⁽¹⁾	13	(35)	(25)
Total	3,399	3,739	4,171

⁽¹⁾ Includes the group's treasury operations and the self-insurance captive.

9. Segment information *continued*

Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit (loss) for the period

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.

US\$ million	2015	2014	2013
EBITDA excluding special items	625	658	528
Depreciation and amortisation	(268)	(312)	(348)
Operating profit excluding special items	357	346	180
Special items – gains (losses)	54	(32)	(161)
Plantation price fair value adjustment	41	18	87
Net restructuring provisions and loss on disposal of assets and businesses	(6)	(23)	(99)
Impairment of goodwill	–	(1)	–
Asset impairments	–	–	(155)
Post-retirement plan settlements and amendments	55	–	24
Broad-based Black Economic Empowerment charge	(2)	(2)	(3)
Fire, flood, storm and related events	(34)	(24)	(15)
Segment operating profit	411	314	19
Net finance costs	(182)	(177)	(186)
Profit (loss) before taxation	229	137	(167)
Taxation	(62)	(2)	(15)
Profit (loss) for the year	167	135	(182)
Reconciliation of segment assets to total assets			
Segment assets	3,399	3,739	4,171
Deferred taxation	162	138	92
Cash and cash equivalents	456	528	352
Other current liabilities	865	1,035	1,094
Taxation payable	30	25	12
Liabilities associated with assets held for sale	1	–	6
Total assets	4,913	5,465	5,727

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

casting 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

CEPI – Confederation of European Paper Industries

chemical oxygen demand (COD) – the amount of oxygen required to break down the organic compounds in effluent

chemical pulp – a generic term for pulp made from woodfibre that has been produced in a chemical process

CHP – combined heat and power

coated mechanical – coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material

coated papers – papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper

coated woodfree – coated paper made from chemical pulp which is made from woodfibre that has been produced in a chemical process, primarily used for high end publications and advertising material

corrugating medium – paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced

CSI and CSR – corporate social investment and corporate social responsibility

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® – in terms of the Forest Stewardship Council® (FSC®) scheme, there are two types of certification. In order for forest land to achieve FSC endorsement, its forest management practices must meet the FSC 10 principles based on environmental, social and economic criteria. Roundwood (logs) with FSC-certification: Sappi Southern Africa Forests FSC C012316 and Sappi Southern Africa Group Scheme FSC C017054. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody (CoC)-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 licensed – Ngodwana Mill – FSC C021636, Saiccor Mill – FSC C011012, Stanger Mill – FSC C019831 and 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 gases (GHG) – the GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

haptic – (haptic communication) – refers to the ways in which people communicate and interact via the sense of touch. As well as providing information about surfaces and textures, touch, or the haptic sense, is a component of communication in interpersonal relationships that is non-verbal and non-visual. Touch is extremely important for humans and is vital in conveying physical intimacy

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

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

liquor – white liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals

Lost Time Injury Frequency Rate (LTIFR) = $\frac{\text{number of lost time injuries} \times 200,000}{\text{man hours}}$

managed forest – naturally occurring forests that are harvested commercially

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or 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

NGO – a non-governmental organisation is any non-profit, voluntary citizens' group which is organised on a local, national or international level

NPO – non-profit organisation. A corporation or an association that conducts business for the benefit of the general public without shareholders and without a profit motive

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

sackkraft – kraft paper used to produce multi-wall paper sacks

Sappi Specialised Cellulose – the business within Sappi which oversees the production and marketing of dissolving wood pulp

Scope 1 and 2 GHG emissions – The Green House 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

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 tons of saleable product

specific purchased energy – the term 'specific' indicates that the actual quantity during the year indicated, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, the parameter is air dry tons of product

Sustainable Forestry Initiative (SFI®) – the SFI® programme is a comprehensive system of objectives and performance measures which integrate the sustained growing and harvesting of trees and the protection of plants and animals

glossary continued

thermo-mechanical pulp – pulp produced by processing woodfibres using heat and mechanical grinding or refining wood or wood chips

ton/tonne – 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

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

foreign operation – an entity whose activities are based or conducted in a country or currency other than that of the reporting entity

functional currency – the currency of the primary economic environment in which the entity operates

group – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

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, and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

asset turnover (times) – sales divided by total assets

average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Broad-based Black Economic Empowerment (BBBEE) charge – represents the IFRS 2 non-cash charge associated with the BBBEE transaction implemented in 2010 in terms of BBBEE legislation in South Africa

capital employed – shareholders' equity plus net debt

cash interest cover – cash generated by operations divided by finance costs less finance revenue

current asset ratio – current assets divided by current liabilities

dividend yield – dividends per share, which were declared after year-end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

earnings yield – earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

EPS excluding special items – earnings per share excluding special items and certain once-off finance and tax items

fellings – the amount charged against the income statement representing the standing value of the plantations harvested

headline earnings – as defined in Circular 2/2013, 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 believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

total market capitalisation – ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

trade receivables days outstanding (including securitised balances) – gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year

notice to shareholders

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.


Sappi Limited
(Registration No 1936/008963/06)
(‘Sappi’ or ‘the Company’)


The seventy-ninth Annual General Meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 10 February 2016 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, 05 February 2016.

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 2015, 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 98 to 105 of the Annual Integrated Report.


 The complete annual financial statements for the year ended September 2015 are available on the Sappi website: www.sappi.com

“Resolved that the annual financial statements for the year ended September 2015 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

“Resolved that the appointment of Mr Robertus Johannes Antonius Maria Renders (Rob Jan) with effect from 01 October 2015 is confirmed as required, in terms of Sappi’s Memorandum of Incorporation.”

 The board recommends and supports the approval and confirmation of his appointment. For Mr Renders’ 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 3.5: 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 video-conferencing.

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the Annual General Meeting and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1

“Resolved that Mr GPF Beurskens is re-elected as a director of Sappi.”

Ordinary resolution number 3.2

“Resolved that Mr SR Binnie is re-elected as a director of Sappi.”

Ordinary resolution number 3.3

“Resolved that Mr RJ DeKoch is re-elected as a director of Sappi.”

Ordinary resolution number 3.4

“Resolved that Mrs KR Osar is re-elected as a director of Sappi.”

Ordinary resolution number 3.5

“Resolved that Dr R Thummer 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 2015.

Brief biographical details of each member of the Audit Committee are included in the biographies of all directors shown in Our leadership on page 50.

“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 3.1.

** Subject to her re-election as a director pursuant to ordinary resolution number 3.4.

5. Ordinary resolution number 5: Re-appointment of auditors

The board has evaluated the performance of Deloitte & Touche and recommends and supports their reappointment as auditors of Sappi.

“Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr Patrick J Smit) as the auditors of Sappi for the financial year ending September 2016 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.

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 2015). As at 30 September 2015, 8,154,751 shares pursuant to offers made under the Schemes after 07 March 2005, have already been issued to, or transferred to the Schemes since the approval by shareholders of the Sappi Limited Performance Share Plan on 07 March 2005, leaving a balance of up to 34,546,119 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 12,014,143 Performance Share Plan awards which are still subject to vesting and 6,433,248 options which have not yet been exercised.

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.

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’),

notice to shareholders continued

other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to issue those shares in terms of the Plan.”

Ordinary resolution number 6.2

“Resolved as an ordinary resolution that any subsidiary of Sappi (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 62 to 68 of the Annual Integrated Report, be and is hereby endorsed by way of a non-binding advisory vote.”

This non-binding advisory vote is being proposed in accordance with the recommendations of King 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 2015 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
1. Sappi board fees⁽¹⁾		
Chairperson		
If South African resident	ZAR2,393,300*	ZAR2,536,900*
If United Kingdom resident	GBP292,650*	GBP298,500*
If United States resident	US\$427,350*	US\$444,440*
If European resident	EUR393,550*	EUR401,420*

* Inclusive of all board committee fees.

	From	To
Lead independent director		
If South African resident	ZAR522,500	ZAR553,850
If United Kingdom resident	GBP64,100	GBP65,380
If United States resident	US\$93,550	US\$97,290
If European resident	EUR86,200	EUR87,920

Other directors

If South African resident	ZAR349,200	ZAR370,150
If United Kingdom resident	GBP42,700	GBP43,550
If United States resident	US\$62,350	US\$64,840
If European resident	EUR57,420	EUR58,570

	From	To
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2. Audit Committee fees⁽¹⁾

Board committee

Chairperson

If South African resident	ZAR362,600	ZAR384,360
If United Kingdom resident	GBP43,350	GBP44,220
If United States resident	US\$64,600	US\$67,180
If European resident	EUR58,300	EUR59,470

Other members

If South African resident	ZAR181,300	ZAR192,180
If United Kingdom resident	GBP21,800	GBP22,240
If United States resident	US\$31,500	US\$32,760
If European resident	EUR29,315	EUR29,900

Regional Audit Committee

Chairperson

If South African resident	ZAR45,700	ZAR48,445
	per meeting	per meeting
If United Kingdom resident	GBP5,575	GBP5,690
	per meeting	per meeting
If United States resident	US\$7,900	US\$8,220
	per meeting	per meeting
If European resident	EUR7,500	EUR7,650
	per meeting	per meeting

	From	To
--	------	----

3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees⁽¹⁾

Chairperson

If South African resident	ZAR218,000	ZAR231,080
If United Kingdom resident	GBP25,750	GBP26,270
If United States resident	US\$36,900	US\$38,380
If European resident	EUR34,630	EUR35,320

Other members

If South African resident	ZAR113,450	ZAR120,260
If United Kingdom resident	GBP18,050	GBP18,415
If United States resident	US\$22,550	US\$23,455
If European resident	EUR24,275	EUR24,760

	From	To
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4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/video-conference)

If South African resident	ZAR35,000	ZAR37,100
	per meeting	per meeting
If United Kingdom resident	GBP4,225	GBP4,310
	per meeting	per meeting
If United States resident	US\$6,230	US\$6,480
	per meeting	per meeting
If European resident	EUR5,685	EUR5,800
	per meeting	per meeting

	From	To
--	------	----

5. Travel compensation

For more than 10 flight hours return	US\$3,300	US\$3,400
	per meeting	per meeting

⁽¹⁾ 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% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2015. The fees were last increased with effect from 01 October 2014 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 2015 onwards. Initially the December 2015 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 2015 payment will be made up in the March 2016 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 10 February 2016 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.

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 69.

Proxies

Shareholders are entitled to appoint one or more proxies to attend, speak and on a poll to vote in their stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by shareholders who hold Sappi shares in certificated form or have dematerialised their shares (ie have replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and are recorded in the sub-register in 'own name' dematerialised form (ie shareholders who have specifically instructed their

notice to shareholders continued

Central Securities Depository Participant (CSDP) or broker to hold their shares in their own name on Sappi's sub-register).

Shareholders who have dematerialised their shares and who are not registered as 'own name' dematerialised shareholders and who wish to:

- attend the Annual General Meeting must instruct their CSDP or brokers to provide them with a letter of representation to enable them to attend such meeting, or
- vote, but not to attend the Annual General Meeting, must provide their CSDPs or brokers with their voting instructions in terms of the relevant custody agreement between them and their CSDPs or brokers.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the Annual General Meeting to be held on 10 February 2016 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 in advance are encouraged to submit their questions in writing to the Group Secretary by 17:00 on Friday, 05 February 2016 at:

7th floor
48 Ameshoff Street
Braamfontein
Johannesburg 2001

or

PO Box 31560
Braamfontein
2017

or

By eMail to Amanda.Tregoning@sappi.com

Sappi Southern Africa Limited

Secretaries: per AJ Tregoning
48 Ameshoff Street
Braamfontein, Johannesburg 2001

08 December 2015



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

Robertus Johannes Antonius Maria Renders (Rob Jan)

(Independent)

Age: 62

Qualifications: MSc (Mechanical Engineering), MDP

Nationality: Dutch

Appointed: October 2015

Sappi board committee memberships

- Not applicable

Other board and organisation memberships

- Not applicable

Skills, expertise and experience

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

2. Directors retiring by rotation who are seeking re-election

Godefridus Peter Franciscus Beurskens (Frits)

(Independent)

Age: 68

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 the Smurfit Kappa Group plc
- Member of the Nominations Committee of the Smurfit Kappa Group
- Chairman of the Supervisory Board of Smurfit Kappa Netherlands
- Chairman of the Investment Committee of the Smurfit Kappa Netherlands Pension Fund

Skills, expertise and experience

The Smurfit Kappa Group is a leader in paper-based packaging with annual sales of more than EUR7 billion globally. As President and Chief Executive Officer of Kappa Packaging (EUR3 billion turnover – 18,000 people), prior to its late 2005 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 containerboard, 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.

Stephen Robert Binnie (Steve)

Chief Executive Officer

Age: 48

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

Nationality: British

Appointed: September 2012

Sappi board committee memberships

- Attends meetings of all 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 ten years after having been in a senior finance role at Investec Bank Limited for four years.

Robert John DeKoch (Bob)

(Independent)

Age: 63

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
- 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 Vice President of Manufacturing for Appleton Papers (USA). He has co-authored two books on leadership thinking.

notice to shareholders continued

Karen Rohn Osar (Karen)

(Independent)

Age: 66

Qualifications: MBA, Finance

Nationality: American

Appointed: May 2007

Sappi board committee memberships

- Audit Committee
- Audit Committee of Sappi North America (Chairperson)

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.

Dr Rudolf Thummer

(Independent)

Age: 68

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 Ehingen 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 01 January 2006 up to his retirement at the end of December 2007.



shareholders' diary

Annual General Meeting	10 February 2016
First quarter results released	February 2016
Second quarter and half-year results released	May 2016
Third quarter results released	August 2016
Financial year-end	September 2016
Preliminary fourth quarter and year results	November 2016
Annual Integrated Report posted to shareholders and posted on website	December 2016

administration

Sappi Limited

Registration number 1936/008963/06

JSE code: SAP

ISIN code: ZAE 000006284

Group secretary and corporate counsel

Amanda Tregoning

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

eMail Amanda.Tregoning@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

eMail Andre.Oberholzer@sappi.com

Investor relations

Graeme Wild – Group Head Investor Relations
and Sustainability

Telephone +27 (0)11 407 8391

eMail Graeme.Wild@sappi.com

United States ADR Depository

BNY Mellon Shareowner Services

PO Box 30170

College Station, TX 77842-3170

United States of America

eMail: shrrelations@cpushareownerservices.com

Telephone (US only) 1 888 BNY ADRS

Telephone (outside the US) +1 201 680 6825

Website: 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-ninth Annual General Meeting of the members to be held at 14:00 on Wednesday, 10 February 2016 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, 08 February 2016, 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 _____ Sappi shares and entitled to vote at the above mentioned

_____ 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, 10 February 2016 or any adjournment thereof, as follows.

Number of shares

For	Against	Abstain
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Ordinary resolution number 1 – Receipt and acceptance of 2015 Group Annual Financial Statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Confirmation of appointment of Mr Robertus Johannes Antonius Maria Renders (Rob Jan) as a director of Sappi*			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – Re-election of Godefridus Peter Franciscus Beurskens (Frits) as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Stephen Robert Binnie (Steve) as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Robert John DeKoch (Bob) as a director of Sappi			
Ordinary resolution number 3.4 – Re-election of Karen Rohn Osar (Karen) as a director of Sappi			
Ordinary resolution number 3.5 – Re-election of Dr Rudolf Thummer as a director of Sappi			
Ordinary resolution number 4 – Election of Audit Committee members			
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 2016 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 or corporations			
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 of meeting on page 110.

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, 08 February 2016.
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 South African Companies Act 71 of 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 71 of 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, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies; and
- currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



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