




# About this report

Our Annual Integrated Report for the year ended September 2016 provides both an assessment of our strategy and delivery as well as an introduction of our revised strategic direction, mission and vision together with our value statement introduced in 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. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues.

 The scope of this report includes all of our operations, as set out on page 18. 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.

While this report is aligned with the King III Code on Corporate Governance (King III) from 2017, our reporting will be aligned with the King IV Code launched at the beginning of November 2016.

### 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 2016 addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The report has been prepared in line with best practice and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 09 December 2016.

### 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 page 51 of this report and page 2 in the Group Annual Financial Statements respectively. This year's report does not include summarised financials. However, the full Annual Integrated Report with financials is available on [www.sappi.com](http://www.sappi.com) in electronic and PDF format.

For important information relating to forward-looking statements, refer to the inside back cover. We present this Annual Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 98.

### Navigation aids:

-  Online information
-  Further reading

### Sappi's 3Ps



### Group and regional sustainability reports

We will once again publish a Group Sustainability Report for 2016 in accordance with the Global Reporting Initiative's G4 guidelines. Our North American and Southern African operations will publish comprehensive sustainability reports for FY2016, while our European operations will publish an update to their 2015 report. These reports will be available early in 2017 on [www.sappi.com](http://www.sappi.com).

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

<p>Annual Integrated Report and Group Annual Financial Statements: <a href="http://www.sappi.com/annual-reports">www.sappi.com/annual-reports</a></p>	<p>Quarterly results announcements and analyst presentations: <a href="http://www.sappi.com/quarterly-reports">www.sappi.com/quarterly-reports</a></p>	<p>Group Sustainability Report: <a href="http://www.sappi.com/sustainability">www.sappi.com/sustainability</a></p>
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### Cover

The circles represent the global interconnectivity of our business, our strategy of intentional evolution, and the manner in which we are harnessing the power of One Sappi to successfully deliver on it.

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

**sappi** GalerieArt™ silk

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

Printed on 250 and 135g/m<sup>2</sup>.

# Our sustainable business model creates ongoing value

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

## Inputs

### Financial capital

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

- Total assets: **US\$5.177 billion**
- Net debt: **US\$1,408 million (down US\$363 million)**
- Ordinary shareholders’ interest: **US\$1,378 million**

### Manufactured capital

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

- **Nine paper mills, two specialised cellulose and paper mills, one specialised cellulose mill, two speciality paper mills and one sawmill**, together with our manufacturing assets

### Intellectual capital

Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company. Our intellectual capital is closely aligned with our human capital.

- R&D spend: **US\$26 million** (including Exciter projects)
- Technology centres **in each region**.

### Human capital

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

- **12,000 employees, 750 fixed-term contractors**
- **US\$529** average training spend per employee, of which 76% spent on skills development and 24% on compliance training.

### Social capital

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

- **Ongoing** stakeholder engagement
- CSR spend: **US\$4 million**

### Natural capital

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

- **2,798MW energy** purchased, **1,911MW** generated
- Specific process water **extracted 33.9m<sup>3</sup>/adt**
- **388,000ha owned or leased plantations**, 100% FSC®\*\* -certified, with approximately **28.6 million tons** of standing timber
- Contracted supply covers a further almost **103,000ha**

\* IIRC – International Integrated Reporting Council.

\*\* Further information of Sappi’s FSC®-certification is available in the glossary.



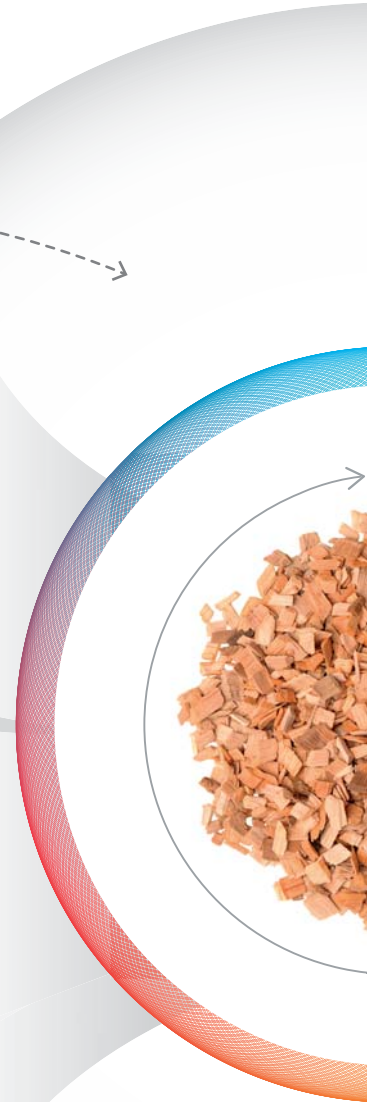
Prosperity



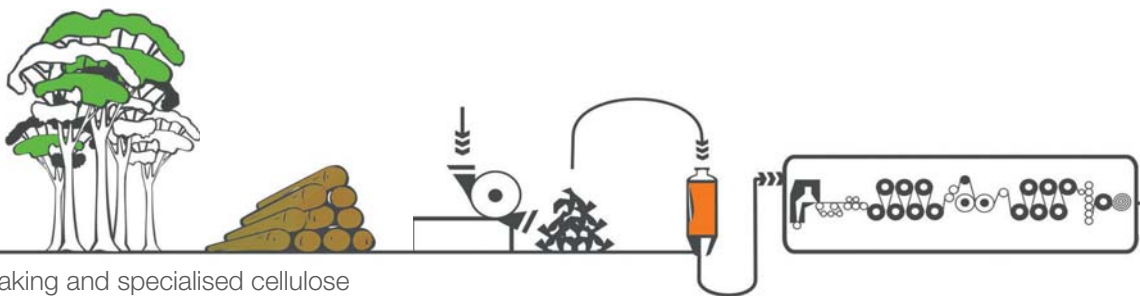
People



Planet



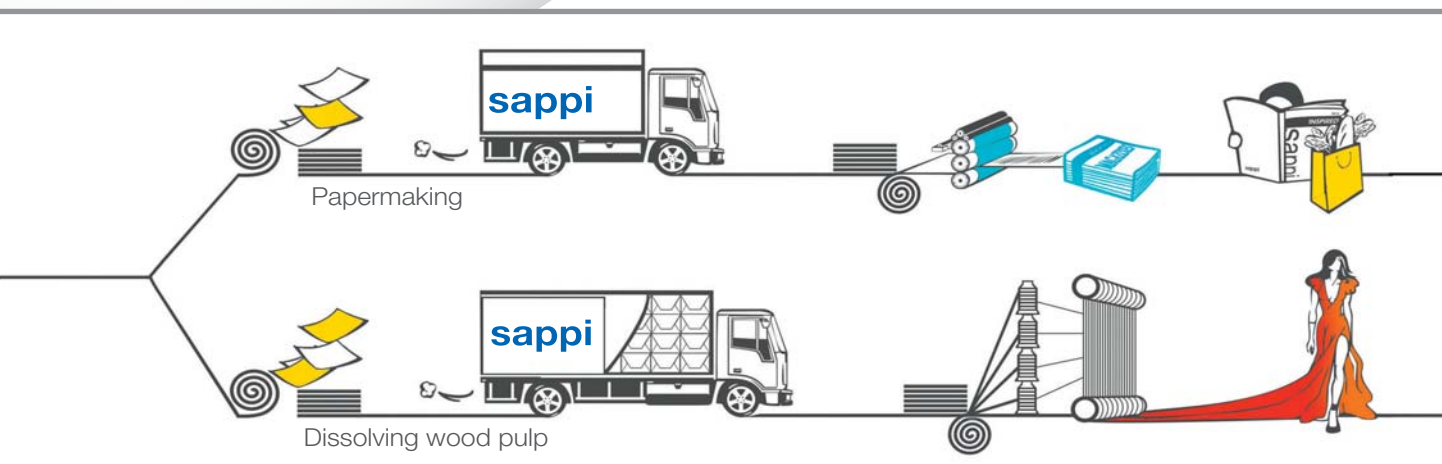
## Our processes



The papermaking and specialised cellulose (dissolving wood pulp) processes

Currently, **natural capital, financial capital and human capital** are the most important in our drive to position Sappi as a **profitable and cash-generative diversified woodfibre group – focused on dissolving wood pulp, paper and products in adjacent fields.**

A natural capital infographic is presented on the following page. ----->



# Our use of natural capital

Our business relies on natural capital, particularly on woodfibre, land and water. Accordingly, we focus closely on responsible management of these resources.

## Our woodfibre resources

### Europe

No owned plantations or land. Woodfibre sourced from forests close to each mill. Softwood and hardwood pulp is sourced from Europe and the Americas.

**Tree species used:**

Spruce (used for mechanical pulp and softwood chemical pulp) and beech (used for hardwood pulp). Lanaken Mill can also process significant amounts of poplar.

### North America

No owned forest plantations or land. Wood sourced from landowners and commercial loggers. Woodfibre is procured from temperate forests in Maine, New Hampshire, Michigan, Minnesota and Wisconsin and from the Canadian provinces of New Brunswick, Quebec and Ontario.

**Tree species used:**

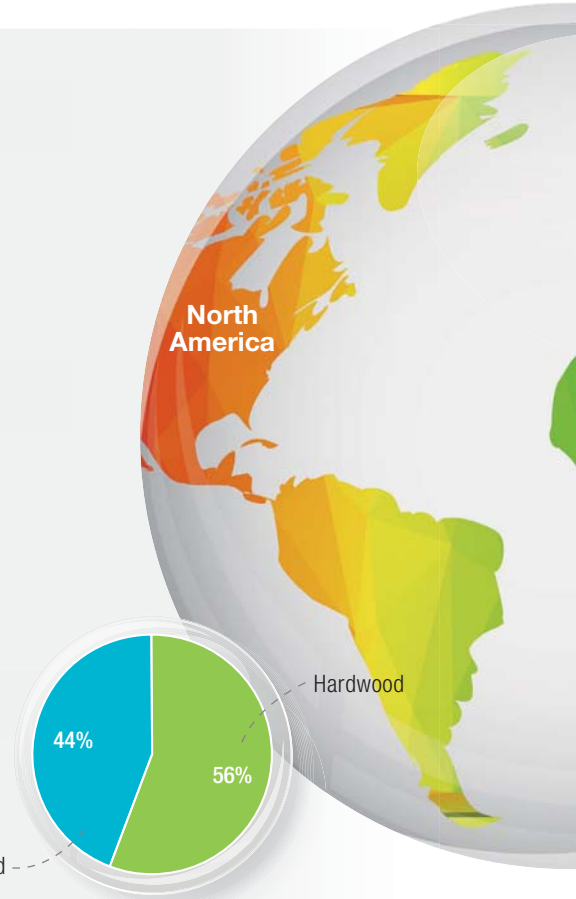
Maple, poplar, aspen, beech and birch (hardwoods) and spruce, pine and fir (softwoods).

### South Africa

Sappi owns or leases 388,000 hectares (ha) with approximately 28.6 million tons of standing timber. Contracted supply covers almost 103,000ha.

**Tree species used:**

Of the 234,000ha planted at the end of FY2016, 56% was hardwood and 44% softwood, and of contracted supply, 91% is hardwood.



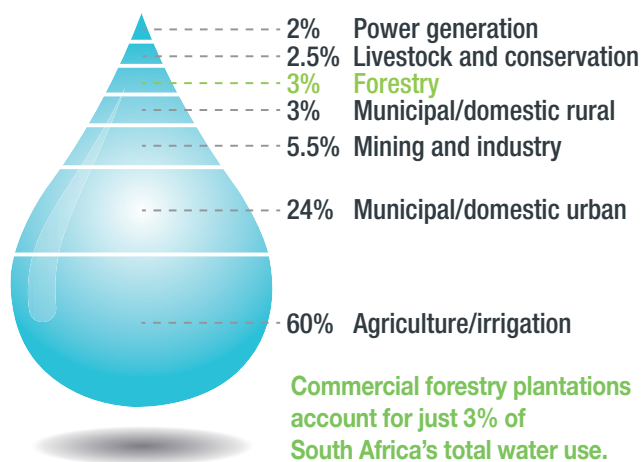
**Our plantations are not irrigated.**

**Trees are planted at least 30 metres away from watercourses.**

**Globally, we return 92% of water drawn for our mills to the environment.**

**Our plantations require minimal amounts of fertiliser.**

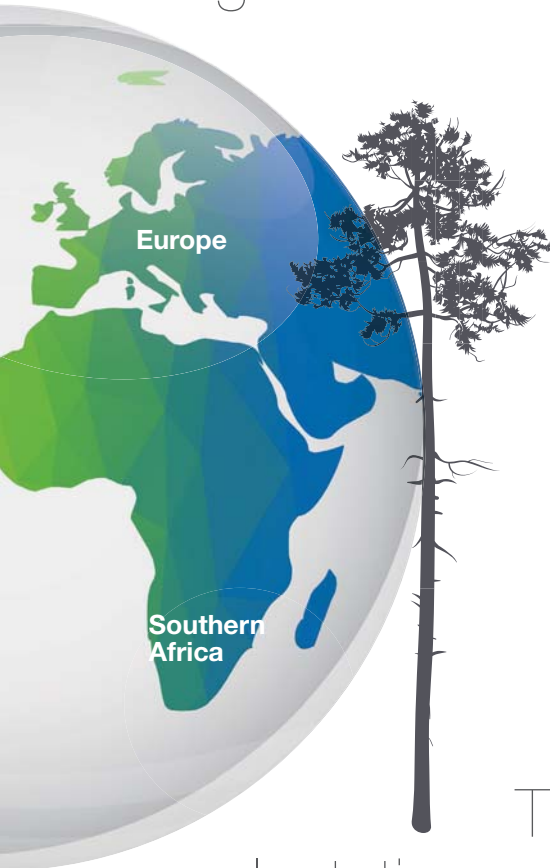
### Water usage by sector in South Africa



**The trees in our plantations are able to take up nutrients from relatively acidic soil (soil with low pH) and are thus able to grow on degraded soils that are unsuitable for agriculture.**



# High levels of forest certification



100% of our owned and leased plantations are FSC®-certified.

Globally, 73% of fibre supplied to our mills is certified.

**And the rest?**

- FSC®-controlled wood and PEFC™ Due Diligence Systems (DDS) requirements are incorporated into our purchasing specifications and contracts, and
- Environmental and forestry-related information (including wood sources) is obtained from pulp suppliers on a regular basis and this data is then evaluated by a team of experts.



“ As stakeholders in managed forests, we have a responsibility to ensure the sustainability of the world's forest resources through our procurement practices. ”

Group Wood and Fibre Procurement Policy

## The myth: Sappi's plantations are sterile deserts

### The facts:

Approximately one third of our plantations are managed for biodiversity conservation. These plantations harbour rich bird and mammal diversity.

#### 455 bird species

recorded on our plantations, more than half of all South Africa's bird species.



#### 27 mammals

recorded by camera traps on our KZN plantations of which six are *rare or threatened*.

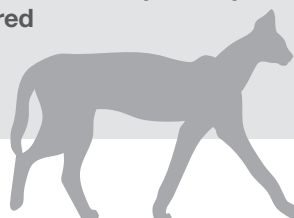
#### 15 faunal red data species

recorded on our MPU plantations:

**Endangered** mammal species include Oribi and Samango Monkey, and

**Near threatened** species include Serval and Honey Badger.

We provide feedback on numbers and locations of specific priority species on our property to the Endangered Wildlife Trust every year.



The forests and plantations from which we source woodfibre are actively managed to enhance biodiversity and restrict harmful processes like pests and disease.

“ Forests are central to addressing climate change. Forests provide one of the most cost-effective and efficient natural carbon capture and storage systems. Investing in forests is an insurance policy for the planet. ”

Ban-ki Moon, United Nations Secretary General, message on the International Day of Forests 2016

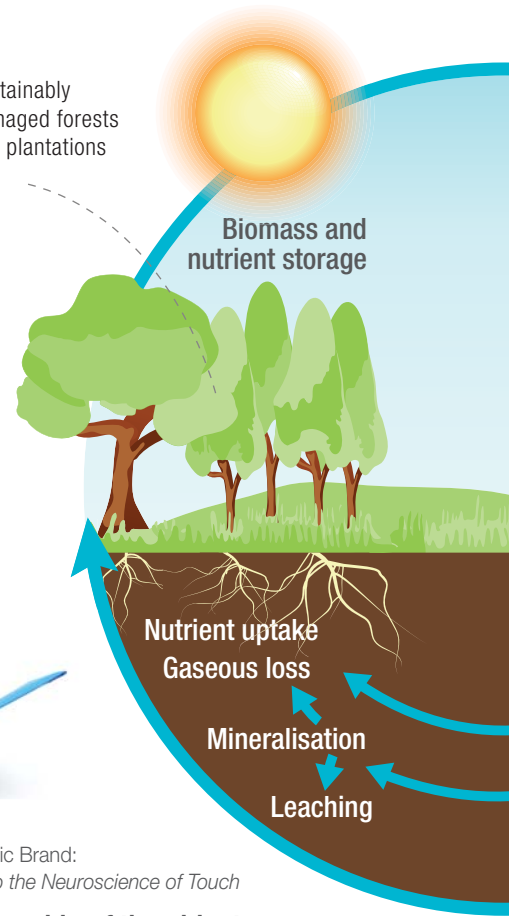
## Our activities add value to all our stakeholders

Globally, we contributed

- US\$89 million**  
to governments as taxation
- We reinvested US\$554 million**  
to grow the business
- We paid US\$894 million**  
to employees as salaries, wages and other benefits
- EBITDA amounted to US\$739 million**  
(excluding special items)

The sustainably managed forests and plantations from which we source woodfibre sequester carbon; harvesting is balanced with planting and regrowth and so the **carbon cycle** begins all over again.

Sustainably managed forests and plantations



Paper quality significantly affects viewer response.

Source: Haptic Brain, Haptic Brand: *A Communicators Guide to the Neuroscience of Touch*

and tactile communications, like paper, cause people to exhibit a sense of ownership of the objects they read about, influencing buying decisions.



Our high-quality coated printing papers are the key platform for premium magazines, catalogues, books and high-end print advertising.

### Our activities promote socio-economic

development in rural areas where otherwise, there would be limited opportunities.

### Our coatings expertise means that we can

fulfil requirements for complicated prints, finishes and colours, and gives us a competitive advantage.

### We invested US\$4 million to enhance

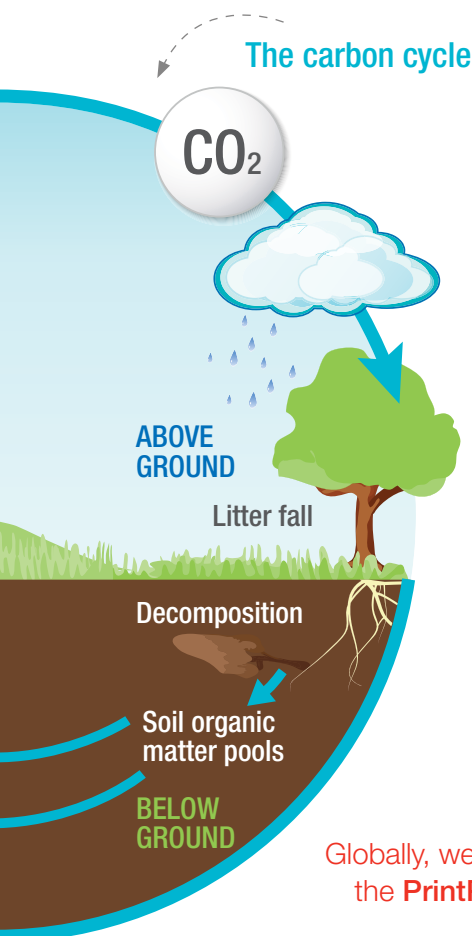
the wellbeing, safety and health of communities close to our areas of operation.

### We help our customers to leverage the

demand for environmentally friendly packaging, helping them to make their products visually distinct and processing more efficient.

### By promoting the use of certified woodfibre,

we have helped to increase the size of the natural forest areas across Europe and North America.



Our goal is to achieve **Level 4 BBBEE** contributor status when the new Forestry Sector Codes are introduced in **November 2016**.



[www.twosides.info](http://www.twosides.info)



Globally, we promote the value of paper through the **PrintPower** and **TwoSides** organisations.

## ALGRO Guard | M

Our paper solutions like **Algro Guard** eliminate the need for plastics or foil, thereby reducing costs. By removing additional barrier layers (comprising plastic or foil), the product becomes biodegradable.



We were awarded a **Champion of Economic Development Award** from the **Maine Development Foundation** in **NA**.

Recognised as a **top brand** in the annual **Sunday Times newspaper** survey for 2016 in SA.



In FY2016 our enterprise development programme, **Khulisa Umnotho** (Project Grow) delivered **395,232 tons of woodfibre** to our SA operations. Currently, the total area managed under this programme is **22,717ha**.



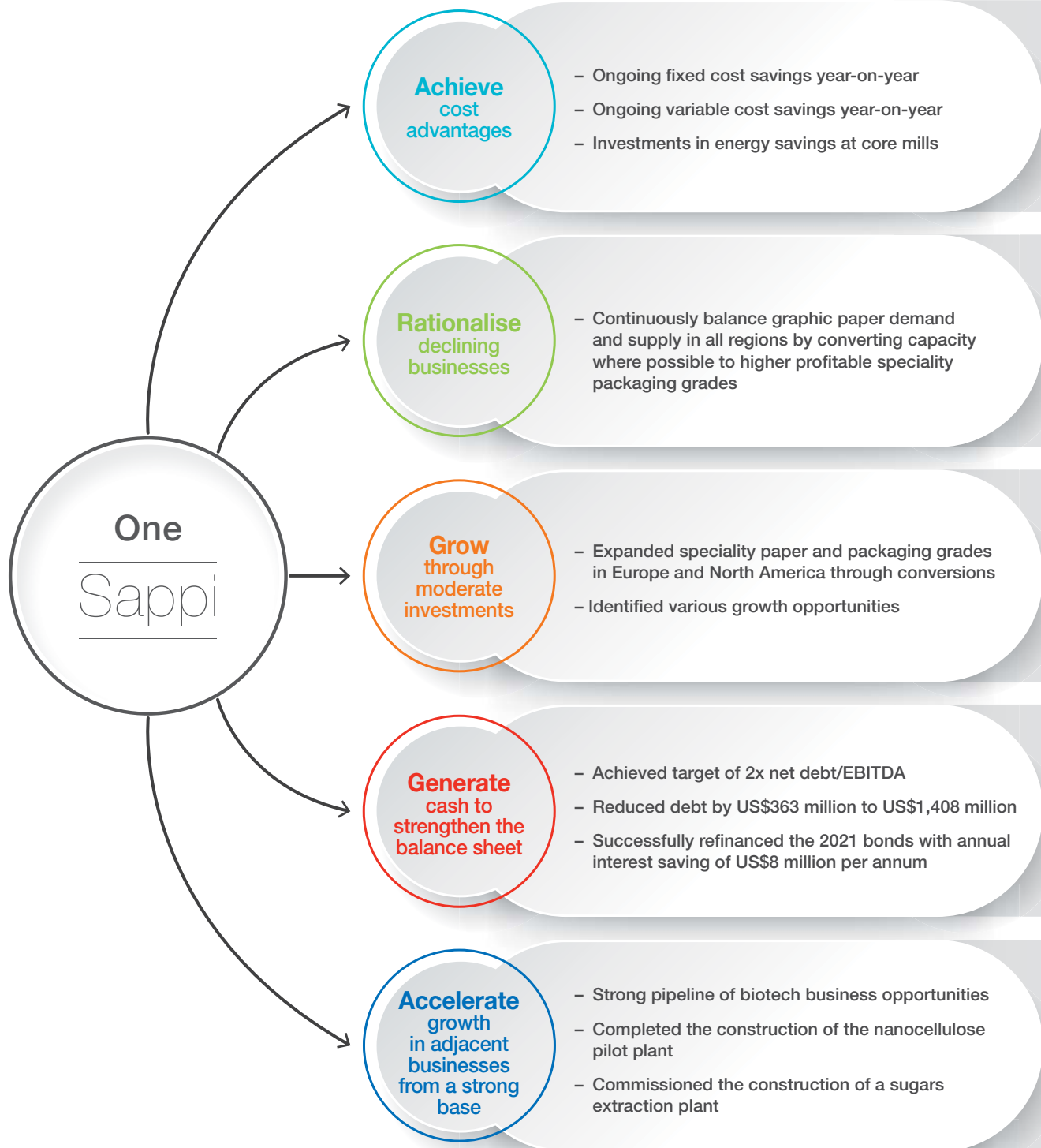
Approximately half of the **bagasse** (sugar cane waste residue) supplied to **Stanger Mill** is sourced from emerging farmers.

In South Africa, our operations provide employment for approximately **10,500 contractor employees**.

# 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.

## 2016 achievements





## 2017 objectives

### Achieve cost advantages

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

### Rationalise declining businesses

- Maximise production at low-cost mills
- Continue to convert low contributing graphic capacity to higher profitable speciality packaging grades

### Grow through moderate investments

- Expand speciality paper and packaging grades up to 20% of group EBITDA
- Grow dissolving wood pulp capacity by up to 100,000 tons over the next two years

### Generate cash to strengthen the balance sheet

- Maintain net debt/EBITDA below 2x
- Continuously improve working capital
- Use liquidity sources to repay the maturing 2017 US\$400 million bond

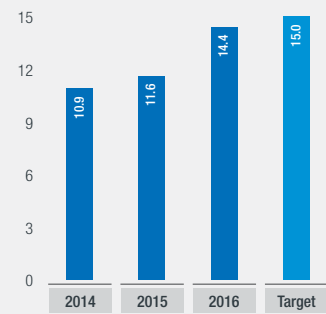
### Accelerate growth in adjacent businesses from a strong base

- Commercialise biotech opportunities
- Assess new business opportunities for commercial application

## Performance to targets

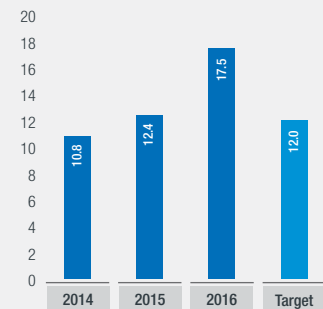
### EBITDA margin

%



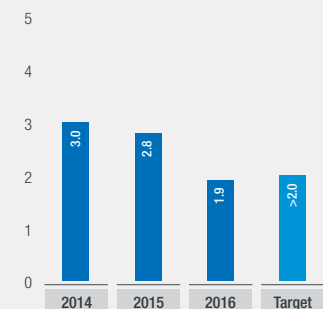
### ROCE

%



### Net debt/EBITDA

Times



# Our performance in 2016

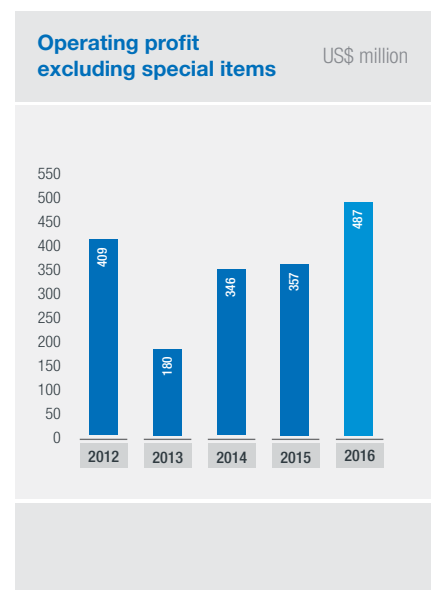
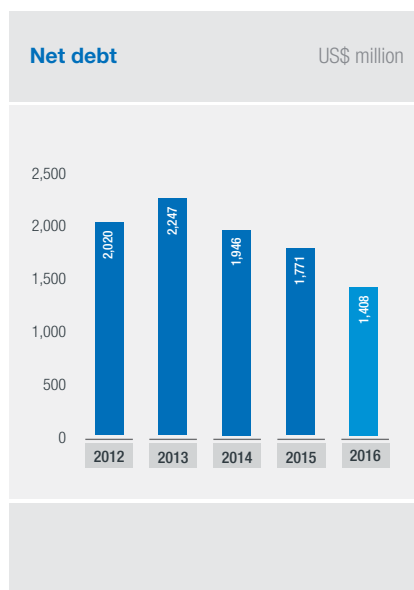
The successful execution of our strategy delivered a further significant increase in earnings in 2016 and our return to the JSE Top 40 index.

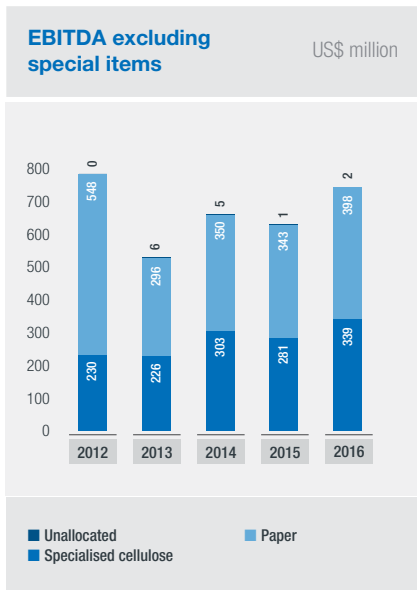


We invested capital in lowering our cost base at a number of mills during the year, reduced our debt and refinanced higher cost debt in order to lower our future debt service costs. The previous investments in specialised cellulose and speciality packaging paper delivered strong performances in the year.

Our European graphics paper business showed an improved underlying operating performance with stable pricing and lower input costs, leading to enhanced margins. The speciality packaging business made further improvements in sales volumes and margin growth during the year.

The North American business experienced a difficult market, with the stronger US Dollar in particular having a marked effect on graphic paper prices and weak domestic demand for the first nine months of the year. Lower purchased paper pulp, wood, energy and





chemical costs, as well as market share gains enabled our business to improve margins in this environment.

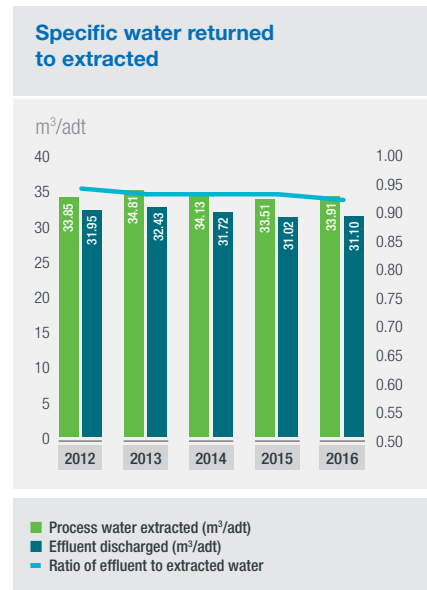
Our South African business had another excellent year, benefiting from a materially weaker Rand/US Dollar exchange rate and strong demand for our virgin fibre packaging grades and dissolving wood pulp.

Net debt decreased by US\$363 million in the past year and the refinancing of our 2021 bonds at significantly lower interest rates will further lower our future net finance cost. We are pleased to have reached our target to reduce our net debt to EBITDA ratio to below two times a year, earlier than originally envisaged. We will continue to focus on further debt reduction in order to reduce financial risk and allow us more flexibility for future strategic initiatives.



Energy efficiency is our key environmental performance indicator and we continue to strive for improvement in this area. 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.

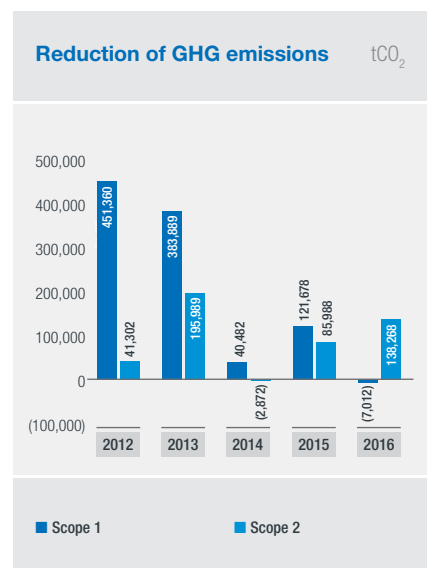
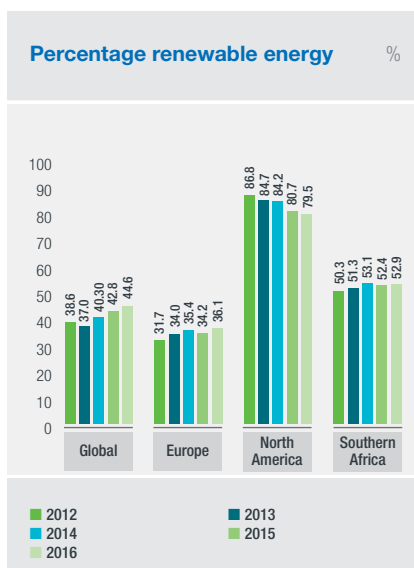
Disappointingly, we suffered one employee and three contractor fatalities in our sawmilling and forestry operations in South Africa this past year. Although forestry operations can be inherently risky, fatalities and injuries to contractors or staff are unacceptable and receive attention at the highest levels in order to continuously improve procedures and behaviours. We have called on expertise from forestry organisations in Finland and New Zealand to assess our systems and approach to safety



in order to assess our safety systems, practices and policies.

**Note:** In terms of water and energy, we have made certain changes to align more closely with the Global Reporting Initiatives (GRI) G4 indicators and the guidelines set out by the National Council for Air and Stream Improvement (NCASI). Changes have been backdated to 2012 to allow for trend continuity:

- Previously, total energy was defined as basic purchased energy (mill gate) plus own fuels. It has now been readjusted to include basic purchased energy plus own fuels minus energy sold. In addition, the inefficiency factor for some mills has been updated, and
- Cooling water is now included in process water, so that effluent volumes have increased.



# Letter to stakeholders

from the Chairman and CEO

## 2016 was another successful year for Sappi

Each of our regions improved its operating performance and cash generation exceeded our own goals, allowing us to reduce net debt to below two times EBITDA, a target we achieved one year ahead of plan. As a result, we now have greater flexibility to increase investments in strategic growth.

### Operating review

The successful implementation of our strategy and the benefits of a weaker Rand/US Dollar exchange rate delivered further significant gains in earnings. Ongoing projects to improve our cost position and enhance our competitiveness in graphic paper ensured an improved operating performance. Furthermore, initiatives to accelerate growth in speciality packaging paper in Europe and North America have boosted volumes and lifted margins.

Net profit for the year increased by 91% to US\$319 million while the group's EBITDA excluding special items of US\$739 million was an increase of US\$114 million (18% on the prior year).

Regrettably we report the fatalities of one own employee and three contractors in our sawmilling and forestry business during the past year. Management and the board of Sappi have placed even greater emphasis on safety, particularly in our plantation operations where most of our severe and fatal accidents have occurred. We have brought in experts from around the world to advise us on how we can improve our systems, training and overall approach to safety in order to make our company a safe place to work. We will continue to focus on entrenching a strong safety culture, with the ultimate aim of zero accidents in the workplace.

In line with our strategy and with our commitment to being a responsible corporate citizen we updated the Sappi Code of Ethics (Code), which was subsequently rolled out companywide with various awareness programmes during the year. The Code recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent Sappi to our staff, customers and other stakeholders and ensuring that we behave ethically, is more important than ever. How we do business is never a short-term consideration, but should rather contribute to our long-term sustainability. For our Code to be effective, we have to live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

Our European business delivered enhanced profitability compared to 2015. The progress of our speciality packaging business, with increased volumes and higher margins, offset a further decline in demand for graphic papers. Our focus on the high-end coated speciality papers in the release liner, solid bleached board and functional papers categories, allows us to leverage our coating expertise. Variable costs declined substantially in the past year both as a result of lower raw material pricing, particularly for paper pulp, and as a result of initiatives to reduce usage and boost efficiency. Industry demand for coated woodfree and coated mechanical

paper was worse than expected, with export markets particularly weak.

The strong US Dollar continued to impact the North American business in 2016, with paper prices under pressure throughout the year due to the threat of imports. However, gains in market share, reductions in variable costs, particularly wood, and increased dissolving wood pulp volumes and prices, led to an improved result. 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 business. With the risk of potential production losses in our South African operations due to drought and the increasing spread between paper pulp and dissolving wood pulp prices, we elected to increase production of dissolving wood pulp during the year. The casting release paper business remained affected by weaker demand from China and the strong US Dollar.

The South African paper business enjoyed record profitability notwithstanding the sale of the Cape Kraft and Enstra Mills in the first quarter of 2016. 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. Lower energy costs as a result of investments in power generation and efficiency gains helped offset the import price component of our fibre and chemical inputs which were



**Sir Nigel Rudd**  
Independent Chairman

**Steve Binnie**  
Chief Executive Officer

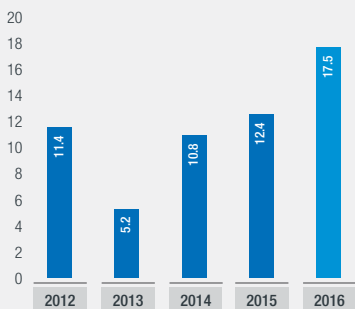
**Net profit for the year increased by 91% to US\$319 million**

**EBITDA increased by 18% to US\$739 million**

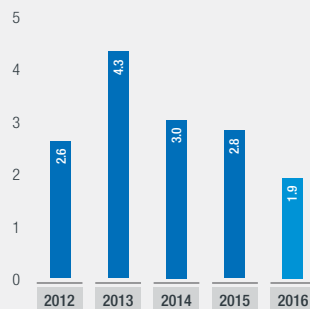
**Our net cash generation was US\$359 million**

**Net debt declined to US\$1,408 million**

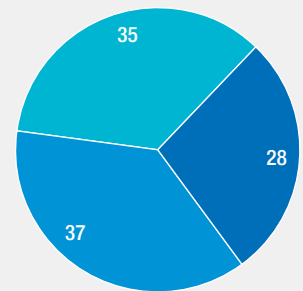
**Operating profit excluding special items to capital employed (ROCE)** %



**Net debt to EBITDA excluding special items** Times



**Net operating assets** %



2016: US\$3,424 million

■ North America ■ Europe ■ Southern Africa

## Letter to stakeholders continued

impacted by the weaker Rand. The sale of the Cape Kraft and Enstra Mills helped keep fixed costs flat year-on-year in Rand terms.

Growing demand for dissolving wood pulp, constrained cotton supply, the weaker Rand and good customer operating rates have led to improved profitability for our specialised cellulose business in 2016. Our specialised cellulose business was once again the main contributor to the group's success, delivering 46% of the group's EBITDA excluding special items at an average margin of 36.5%. The Rand/US Dollar weakness supported the margins of our South African mills and preserved their low-cost competitive position. Spot dissolving wood pulp prices in China grew steadily in the second half of the financial year after declining in the second quarter. With hardwood paper pulp prices having declined for much of the year, the opportunity exists to produce more dissolving wood pulp at our Cloquet Mill should the current differential in pricing continue into 2017.

### Strategic review

Our strategic 2020Vision was developed during the course of 2015, and while the core focus remains on improving profitability, cash generation and growth, we have turned our attention to more specific growth targets and aspirations over the five-year period. In 2016, we achieved all of our short-term targets and made significant strides towards the 2020Vision.

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 and optimise declining businesses** – Recognising the decreasing demand for graphic papers, we 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 and packaging papers.

- **Generate cash to 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 are outlined below.

### Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to improving margins, particularly in commodity type businesses such as graphic papers, where declining demand places additional pressure on margins and revenues. The past year saw the implementation of a groupwide cost reduction project to lower costs through greater emphasis on global procurement, as well as local projects focused on efficiency and raw material usage. We have set ourselves a target of achieving US\$100 million in annual savings by 2020, and during 2016 the project delivered US\$13 million in savings. We have also installed three turbines in our Southern African operations with a combined net capacity of 23MW and have completed the investment in the Somerset Mill paper mill heat recovery systems. These projects will result in lower energy costs for our operations. In 2017, we will invest in the upgrade of the wood yard at Somerset Mill to improve reliability and enhance efficiency. We are also focusing on lowering our fixed costs through greater use of global shared service centres, which have been particularly successful in our regional businesses.

### Optimise and rationalise declining businesses

Graphic paper demand in Europe and North America continues to be in long-term structural decline. Maintaining operating rates and lowering costs, in order to maximise cash generation, has been our strategy in these markets. In Europe, our disposal of the Nijmegen Mill in 2014 and actions taken by a number of paper producers to reduce excess capacity have helped maintain industry operating rates in coated woodfree papers despite declining demand. In addition, we 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 was transferred to our European mills and helped improve our coated mechanical paper operating rates during 2016.

In a difficult North American market, our cost-competitive manufacturing facilities, consistent and reliable supply chains and excellent service to customers, allowed us to increase market share in 2016. The focus in the year ahead is to continue to optimise our sales mix in the US and further lower the cost base.

Our coating expertise and the growing specialities packaging market has led us to reallocate some of our coated woodfree capacity at our Ehingen, Maastricht and Somerset Mills to various grades of speciality packaging paper. In the past year, our sales have grown by 15% in Europe and we have expanded into new segments in North America. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both regions.

In Southern Africa, we exited the waste-based packaging paper business via the sale of our Enstra and Cape Kraft Mills in December 2015 and moved 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 can achieve improved revenue 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. Concerns about climate change, recycling and the environment are resulting in encouraging growth in paper-based packaging.

In Southern Africa, we have long-term competitive advantages in virgin fibre packaging grades and will be making further investments at the Ngodwana and Tugela Mills over the next few years in order to increase capacity and entrench our leadership position. In April 2016, we completed the upgrade of the recovery



boiler at Ngodwana Mill, which has increased the capacity of the liquor circuit at that mill allowing for increased future production. In the coming year, further investments will be made at the Ngodwana and Saiccor Mills, which will boost production of DWP by up to 50,000tpa at each mill over the next two years.

### **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 sold our non-core recycled packaging mills in Southern Africa for ZAR600 million. The improvement in our operational performance and the sale of non-core assets enabled us to lower debt by US\$363 million in 2016 and to reduce our leverage to below two times.

At the group level we are also focused on optimising our working capital management, containing capex to US\$350 million and repaying and refinancing debt when possible in order to lower risk and interest costs.

### **Accelerate growth in adjacent businesses from a strong base**

As we approached 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 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. In the past year, we have built a pilot scale plant for Cellulose Nano Fibrils (CNF) in the Netherlands and have announced the construction of a second generation sugar extraction demonstration plant at our Ngodwana Mill with start-up scheduled for early 2017. 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 contribute as much as 10% of the group's EBITDA.

### **Looking forward**

Demand for DWP remains favourable and recent gains in spot prices in China indicate that the market is currently tightly supplied. We therefore expect higher average US Dollar pricing in the first quarter of fiscal 2017. The concerns regarding possible Saiccor Mill production losses due to drought conditions in Southern Africa have lessened in the past few months after some late winter rains. We do not currently foresee any impact from drought in the first quarter.

Graphic paper markets continue to be weak in Europe and the United States. Variable cost reductions in both regions continue to be important as prices remain under pressure. While the prices of most inputs are not expected to continue to reduce in the coming year, we believe savings in variable costs can be achieved as a result of the group procurement and efficiency initiatives currently underway.

We believe that demand for our speciality packaging grades will continue to grow and we will therefore look to allocate more of our graphic paper capacity to these products.

The first quarter of our 2017 financial year will comprise 14 weeks instead of the typical 13-week quarter. This is in order to adjust our reporting periods closer to the calendar periods. This will result in increased sales compared to comparative quarters.

Based on current market conditions, in particular the recent strengthening of the Rand relative to the US Dollar, stronger US Dollar pricing for DWP and weaker paper demand and pricing in Europe, we expect the group's performance in 2017 to be broadly in line with 2016.

Capex expenditure in 2017 is expected to increase to approximately US\$350 million as we continue the debottlenecking of DWP production at our Ngodwana and Saiccor Mills and seek to take advantage of our strong growth in speciality packaging.

We expect to reduce net debt levels further during the course of 2017 and are considering utilising some cash reserves to repay the maturing 2017 bonds in order to lower future finance costs.

### **Appreciation**

Our wide and varied stakeholder groups have contributed in many ways to our development and performance in the past year. Our interactions with these stakeholders, their ideas, suggestions and support guide us and we thank them for their contribution.

To our customers who have placed enormous trust in us and our ability to meet their changing and growing requirements, we thank you. We undertake to continue to work closely with you to ensure we meet both your and our needs for value.

Our employees continue to support the strategic initiatives of the group and we thank them for embracing the values and ethics that are so important to good corporate citizenship. The initiative and resourcefulness of our people make it possible to believe we can continue to improve on the underlying performance of the group in 2016. We also thank them for their dedication and hard work.

Our board has continued to provide insight and encouragement as we face the challenges of growing a sustainable business and we thank them for their professionalism and guidance.

In October we announced the retirement of Mrs Bridgette Radebe and Mr Frits Beurskens as independent non-executive directors with effect from 28 February 2017. Bridgette Radebe has been a valued colleague for many years. We would like to thank her for the significant contribution which she has made to Sappi since she was appointed to the board more than 12 years ago. She added a fresh perspective to board discussions and her knowledge and experience supported the growth of Sappi during a crucial period of the company's history. We also wish to thank Mr Beurskens for his valuable contribution as the Chairman of the Sappi Europe Audit Committee and member of the group Audit Committee, as well as for the role he played on the board during this important phase of the company's development.

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 08 February 2017.

# Q & A with the CEO

Steve Binnie

## Focus on strategy

We have made substantial progress deleveraging over the past few years and we have refinanced most of our high-cost debt.

### 1 Returns for your dissolving wood pulp business continue to be strong. What are the short- and long-term plans for this business?

Our major customers have exciting long-term growth plans and we aim to expand alongside them. The long-term growth rates in demand for dissolving wood pulp (DWP) are in the order of 4-5% per annum and our target is to increase production by approximately 500,000tpa in the next five years. Debottlenecking projects to be implemented at both Ngodwana and Saiccor during the course of 2017 and 2018 will add up to 100,000tpa to our existing one million tons in South Africa. The Cloquet Mill is currently utilising approximately two thirds of its capacity to produce DWP, with the remainder dedicated to hardwood paper pulp for consumption on its own paper machines. Over time we expect to utilise the full DWP capacity, providing an additional 100,000tpa. As we look beyond the next three years, we foresee the need for a further investment in DWP capacity. We are currently investigating opportunities globally that could allow us to add 300,000tpa of low-cost DWP. Opportunities exist to expand our product offering to include more high alpha products, as well as diversifying our customer base.

### 2 What competitive advantages do you have that justify your increased focus on and investment in speciality packaging paper?

One of the pillars of our strategy is to grow through moderate investments in areas that offer growth and improved margins. Demand trends in speciality packaging are encouraging. With increasing concern over climate change, and an insistence from customers for more paper-based packaging, we intend to produce the solutions to an increasing call from

industries around the world for renewable, sustainable and biodegradable products with a lower carbon footprint. We have been a participant in the speciality packaging sector for a long time, and the investments that we are making in this business are based on our past success in the graphic paper business and the expertise we have – namely, our ability to be a cost-competitive global supplier, our expertise in coating surfaces for printing, and our reputation for innovation and quality. At the moment, our aim is to provide the flexibility to allocate capacity between graphic paper, where volume is declining, to speciality packaging grades, where demand is growing and margins are higher. This helps to maintain graphic paper operating rates, maximise cash generation and establish Sappi as a premium global supplier of speciality packaging paper, while maintaining our leading position in graphic paper. We are evaluating our graphic paper machines in both the US and Europe for potential conversion to speciality grades. Over time, we see ourselves selling over one million tons per year of speciality packaging paper to our global market from our geographically diverse set of mills.

### 3 You've mentioned a global cost-cutting initiative targeting US\$100 million in annual savings by 2020. From which business areas can we expect these savings to come?

Achieving cost advantages through improved efficiencies and optimised business processes is one of our strategic pillars. This will improve returns for shareholders, and create opportunities to finance growth by making more capital available for future investments. During 2016 we initiated a project to lower costs

through a greater focus on global procurement. To date, we've been able to realise US\$13 million in cost reductions over and above our usual continuous improvement initiatives. In the coming financial year, we expect this pace to accelerate in order to deliver a further US\$50 million towards our target of US\$100 million by 2020. Improvements are expected in all three geographies in which we operate, and are across a broad range of expense categories including paper pulp, wood, energy, logistics, sea freight and non-fibre raw materials. Our investment in shared service centres for certain processes has proven to be cost-effective and we believe more savings can be achieved through further consolidation of back-office services around the world.

### 4 You've mentioned an EBITDA target of US\$100 million coming from new businesses by 2020. What are the new business opportunities at Sappi?

We're exploring alternative uses for the compounds extracted from our trees that aren't used in the manufacture of pulp and paper. Paper makers use about 50% of the tree to make paper, and the balance, is typically used to generate energy to power our mills or to sell into the electrical grid. In order to achieve our 2020 targets, we are investing in technology and processes to extract the high-value renewable chemicals and materials from the byproducts of papermaking, and support our strategy to move into new and adjacent markets. For example, the lignin in trees can be used as a binding agent in many and varied applications, from cement to animal feed. In the past year, we announced the construction of a pilot hemicellulose sugars extraction plant at Ngodwana Mill. Hemicellulose, containing a variety of complex



“One of the pillars of our strategy is to grow through moderate investments in areas that offer growth and improved margins.”



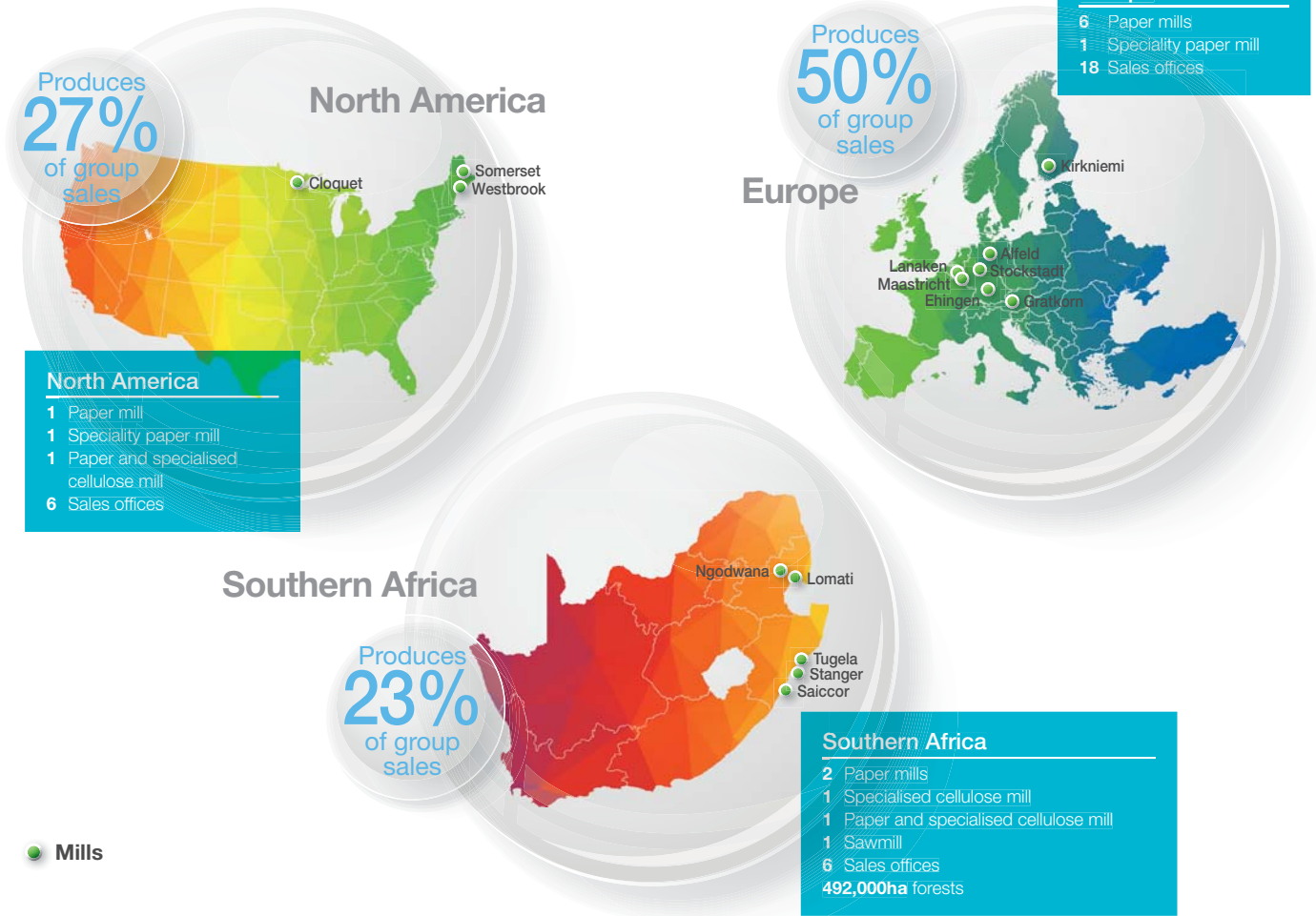
sugars, could provide us with many high-value products for sale into a wide range of markets, including vanillin, furfural and lactic acid. We are also exploring the micro- and nano-scale potential of woodfibre through our nanocellulose pilot plant in the Netherlands. Areas of interest include the production of automobile composites panels and hi-fi speaker construction. Car panels containing nanocellulose will provide the required levels of strength and safety required while reducing the weight of the car and thereby increasing fuel efficiency.

**5** Now that you've reached your net debt to EBITDA target of below two times, what are your expected debt levels and leverage going forward? We have made substantial progress deleveraging over the past few years and we have refinanced most of our high-cost debt.

We have cash on the balance sheet to repay the last of our high-cost debt, which is callable in April 2017. Our stronger balance sheet now enables us to make moderate investments in order to accelerate

growth. We believe that there are a number of opportunities to profitably grow both our specialised cellulose and speciality packaging businesses. With use of the two times net debt to EBITDA leverage ratio as our guiding principle, we believe that we can make these smaller investments without going above that target ratio for any sustained period of time, and perhaps, only briefly while completing larger projects. Overall, we expect gearing to continue to reduce in 2017.

# Where we operate



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 150 countries. Our production includes:

<b>Paper per year</b> <b>5.4 million tons</b>	<b>Paper pulp per year</b> <b>2.3 million tons</b>	<b>Dissolving wood pulp per year</b> <b>1.3 million tons</b>	<b>Globally we have</b> <b>12,000 employees</b>
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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 and release papers used by suppliers to the fashion, textiles, automobile and household industries; and newsprint, uncoated graphic and business papers, packaging and speciality papers used and protect our customers' products especially in the agricultural sector and speciality papers used in the convenience food, confectionery, cosmetic and luxury markets, and tissue products for household, medical and industrial use in the Southern Africa region.

The wood and pulp needed for our products is either grown by Sappi, 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 coordinates our shipping and logistical functions for exports from these regions.

### Sales offices

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

### Logistics offices

Durban, New York

# Review of operations – capacity tables

## Europe

Capacity<sup>(1)</sup> ('000 tons)

Mills	Products produced	Paper	Pulp	Employees
Alfeld Mill	Bleached chemical pulp for own consumption		120	
	Coated and uncoated speciality paper	275		
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		140	
	Coated woodfree paper	280		
Gratkorn Mill	Bleached chemical pulp for own consumption		250	
	Coated woodfree paper	980		
Kirkniemi Mill	Bleached mechanical pulp for own consumption		300	
	Coated mechanical paper	750		
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		165	
	Coated mechanical paper, coated woodfree paper	530		
Maastricht Mill	Coated woodfree paper	280		
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		145	
	Coated woodfree paper, uncoated woodfree paper	445		
	<b>Total Europe</b>	<b>3,540</b>	<b>1,120</b>	<b>5,097</b>

## North America

Capacity<sup>(1)</sup> ('000 tons)

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		
	<b>Total North America</b>	<b>1,160</b>	<b>855</b>	<b>2,087</b>

## Southern Africa

Capacity<sup>(1)</sup> ('000 tons)

Plantations*	Products produced	Ha	Standing tons	m <sup>3</sup>	Employees
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	230	10,944		
Mpumalanga	Plantations (pulpwood and sawlogs)**	262	17,536		
Lomati Sawmill	Sawn timber			102	
	<b>Total forests</b>	<b>492</b>	<b>28,480</b>	<b>102</b>	

Capacity<sup>(1)</sup> ('000 tons)

Mills	Products produced	Paper	Pulp	Employees
Ngodwana Mill	Dissolving wood pulp		210	
Saiccor Mill	Dissolving wood pulp		800	
	<b>Total specialised cellulose</b>		<b>1,010</b>	
Ngodwana Mill	Unbleached chemical pulp for own consumption		220	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	240		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Office paper and tissue paper	110		
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption		130	
	Corrugating medium	185		
Sappi ReFibre***	Waste paper collection and recycling for own consumption		132	
	<b>Total paper and paper packaging</b>	<b>675</b>	<b>652</b>	
	<b>Total Southern Africa</b>	<b>675</b>	<b>1,662</b>	<b>4,644</b>

<sup>(1)</sup> Capacity at maximum continuous run rate.

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

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

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

# Product review – Graphic papers, packaging and speciality papers and dissolving wood pulp

## Graphic papers

Brand managers are increasingly balancing the permanence, versatility, engaging nature and elegance of print with the accessibility and immediacy of online media. The roles and expectations of the two media have evolved over the last decade and with it, consumer behaviour. People use online media for product news, reviews, shopping hours and best buys. However, with print they experience the brand tactilely, making a more personal connection between the product, the company and themselves. Printed material is more engaging; more cognisant that it is ‘speaking’ to its target audience. 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 engaging publications are a way to build loyalty and trust.

Publishers, advertising agencies, designers and corporate end-users benefit from Sappi's quality products, innovations, resources and sustainable practices when using Sappi's graphic papers.

In FY2016, 66% of Sappi's sales volume was in four different grades of graphic papers discussed below:

### Coated woodfree paper



Share of sales  
**48%**

#### Description and typical uses

The uses for **coated woodfree paper** include marketing promotions and brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. In FY2016, 48% of Sappi's sales volume was in this segment, typically through large paper merchants.

#### Demand trends

The shift to digital magazines, books, catalogues and advertising have all impacted demand for graphic papers in general. Although global demand for coated woodfree paper is expected to decline 1-2% year-on-year, we do however, believe that there will always be a place for quality coated woodfree paper.

#### Sales volumes

Sappi's coated woodfree paper sales volumes rose approximately 2% in 2016, while global demand fell by approximately 2%.

### Coated mechanical paper



Share of sales  
**11%**

#### Description and typical uses

**Coated mechanical paper** is primarily used in magazines, catalogues and advertising material. In FY2016, 11% of Sappi's sales volumes constituted coated mechanical paper. Customers for this paper are typically large merchants, large printers and publishers of weekly magazine titles.

#### Demand trends

Demand for coated mechanical paper is more closely linked to that of demand for magazines and as readership, subscriptions, circulation, pagination and advertising revenue per page continues to decrease, and as coated mechanical paper is replaced with alternative grades in order to cut costs, demand for this paper is forecast to decline more than coated woodfree paper.

#### Sales volumes

Sappi's sales volumes for coated mechanical paper were approximately 2% lower than last year, while the global market contracted by approximately 8%.



**Uncoated woodfree paper**



Share of sales  
**5%**

**Description and typical uses**

**Uncoated woodfree paper** is used in business forms, business stationery, photocopy paper, cut-size, preprint, and office paper, with certain brands used for books, brochures and magazines. In FY2016, 5% of Sappi's sales volume was made up of uncoated woodfree paper. Typically large paper merchants are our main customers in this sector.

**Demand trends**

Demand for uncoated woodfree paper is expected to remain flat. Adoption of paperless solutions by end-users such as financial institutions, large companies and healthcare organisations is expected to continue as companies look at cutting costs, and environmental groups advocate for less paper usage. Demand is expected to fall in mature markets, but growth is expected in emerging economies.

**Sales volumes**

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

**Newsprint paper**



Share of sales  
**2%**

**Description and typical uses**

**Newsprint**, 2% of Sappi's sales volume, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers.

**Demand trends**

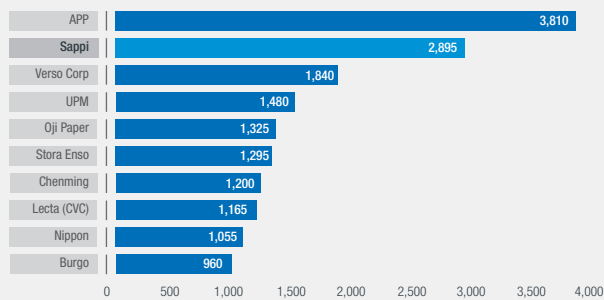
Demand for newsprint is highly dependent on newspaper circulation and retail advertising. As advertising spend in electronic media continues to grow worldwide with many newsprint titles moving to a 'digital-only' format, South Africa has experienced an estimated 6% decline in demand in 2016.

**Sales volumes**

Volumes declined less than the overall market due to new product development.

**Sappi's global position – coated woodfree paper**

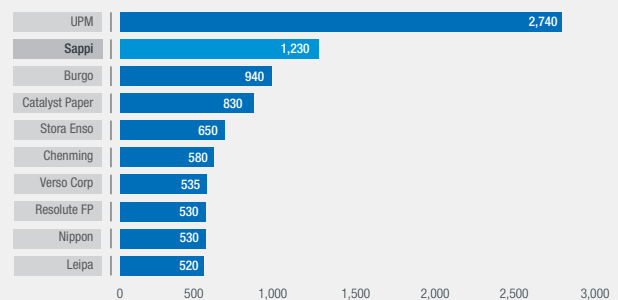
Capacity  
'000 tons



Source: EMGE World Graphics Paper Report, September 2016

**Sappi's global position – coated mechanical paper**

Capacity  
'000 tons



Source: EMGE World Graphics Paper Report, September 2016

# Graphic papers continued

## Our markets in 2016 and outlook for 2017

The past financial year for Sappi's graphic paper business was characterised by lower volumes and sales prices relative to last year, which was more than offset by lower costs. Average EBITDA margins, excluding special items, rose from approximately 7% in FY2015 to 9.5% in FY2016. Upgrades to Sappi's Gratkorn Mill's recovery boiler and finishing room, investments in Kirknemi Mill's PM3 and new multi-fuel boiler as well as upgrades to Lanaken Mill's PM7, have lowered Sappi's cost base at these mills. Additional cost-reduction plans have been announced including upgrades to the debarking units and woodchip processing portion of our Somerset Mill. Sappi has also identified areas related to

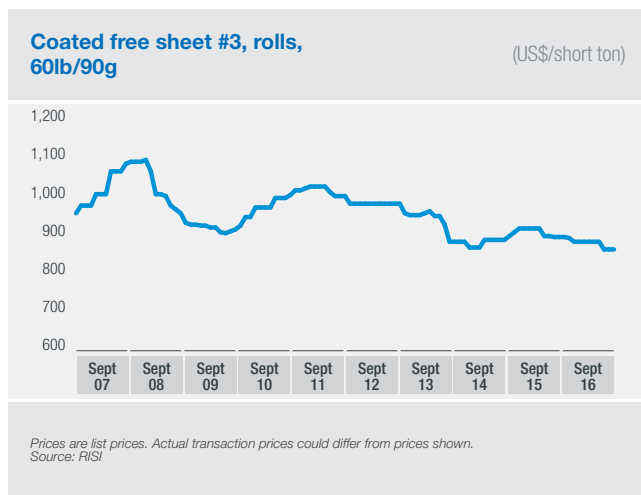
procurement and logistics, as well as further fixed and variable cost savings programmes to implement over the next few years so as to further entrench our competitive cost position.

During the 2016 financial year, we transferred volumes from the Husum Mill, the output of which Sappi had previously sold on an agency basis to our own mills, raising utilisation rates and lowering costs at these mills.

Our aim is to further collaborate with and sell directly to our graphic paper customers, especially in Europe, in those instances where merchants can no longer add sufficient value.

With the communications industry and their clients better understanding the unique value that print and online communications each play in communications strategies and the marketing mix, it is no longer a case of print versus digital but print and digital combined. The convenience and immediacy of online media with the sensory or haptic benefits of paper, offer the best solution for many marketing campaigns.

Sappi's range of graphic papers, technical support and service ensures that our customers meet their business objectives in the best and most affordable way.



# Packaging and speciality papers

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

Sappi offers products and solutions in many different packaging and speciality segments including:

## Flexible packaging and label papers



### Description and typical uses

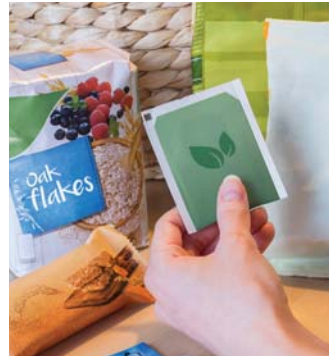
**Flexible packaging** with coated and uncoated paper for food and non-food applications, such as sachets, pouches and wrappers.

**Label papers** for pressure sensitive and wet adhesive applications.

### Global market size\*

- CIS papers
- 1.2mt
- Growth: 2%-3% per annum

## Functional papers



### Description and typical uses

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

### Global market size

- Barrier and grease resistant papers
- Unlimited

## Containerboard



### Description and typical uses

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

### Global market size

- Coated white topliner
- Kraft linerboard and fluting
- 1mt
- Growth: 1%-2% per annum

## Rigid packaging



### Description and typical uses

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

### Global market size

- SBS printing and converting
- 4.7mt
- Growth: 2% per annum

## Release liner



### Description and typical uses

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

### Global market size

- CCK graphic arts
- 300kt
- Growth: 6% per annum

## Technical papers



### Description and typical uses

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

\* Market sizes are for our specific products.

# Packaging and speciality papers continued

## Casting and release papers



### Description and typical uses

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

## Tissue paper



### Description and typical uses

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

In 2013, Sappi undertook a €60 million rebuild of PM2 at Alfeld Mill, converting the coated woodfree paper machine to coated specialities in order to support growth in this market. Alfeld Mill is now producing 100% speciality papers and boards, and in the last two years we have made additional investments to further improve quality. In line with our growth strategy and to meet increasing market demand, we have also undertaken production upgrades at our Maastricht Mill, focused on producing packaging boards, and our Ehingen Mill to produce topline. Packaging and speciality papers are also made in North America at our Somerset and Cloquet Mills and at Tugela and Ngodwana Mills in Southern Africa. We are investigating further conversion and debottlenecking opportunities in each region as we seek to expand sales in this growing higher margin segment and concurrently match capacity to demand in the declining graphic paper market.

See Q&A on page 16 for more detail.

Our strengths in this key product segment include being a trusted partner working together with brand owners at inception and delivering premium product quality and service; being an innovative packaging company with over 30 years of experience and research in papermaking and coatings; and lastly, being a strategic partner with a global footprint.

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

### Our markets in 2016 and outlook for 2017

Demand for Sappi's wide range of products continues to grow in the speciality packaging market, reflecting the increasing needs from the food packaging industry which is responding to customer requests for more sustainable and environmentally friendly packaging solutions. We estimate global demand is growing at approximately 3% per annum. However, in 2016, with new high-margin

business, our European sales grew by 14%. Pricing for our products was largely stable compared to last year, but the improved volumes and lower costs led to a significant increase in margin. In the US, Sappi's LusterCote and LusterPrint products also had an excellent year, growing by 43%, but from a low base.

Sales of casting and release papers were constant compared to last year, with weak casting demand from China, offset by growing panel sales in Europe. With the launch of new patterns towards the end of 2016 we aim to increase sales to the important Chinese market in 2017 and develop new markets and end-uses outside of China.

In the containerboard market in Southern Africa, a strong fruit and vegetable season boosted sales and the weaker Rand assisted pricing in 2016. Most of Sappi's containerboard sales are into the agricultural market, which is expected to grow by 4-5% per annum going forward.

**Lightweight coated 60g/m<sup>2</sup> offset reels**

(Euro/metric ton)



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

**Unbleached kraft liner – 175g/m<sup>2</sup> CIF Germany**

(Euro/metric ton)



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



# Dissolving wood pulp

Sappi produces dissolving wood pulp (DWP) in Southern Africa and North America. When converted to viscose staple fibre (VSF), DWP is a natural substitute in many applications for cotton and polyester and this is used in the manufacture a wide range of consumer products, including in textiles for fashion clothing and household linen. Sappi is the world's largest manufacturer of DWP and exports almost all of the production from our Saiccor and Ngodwana Mills in Southern Africa and Cloquet Mill in the United States. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

Based on the growth rate in the overall textile market (driven by factors such as population growth and wealth effects) and the move towards more comfortable, environmentally friendly natural fibres, we expect long-term growth of 4-5% per annum for DWP.

In order to meet this growing demand we expect to further invest over the next four to five years in a number of projects to increase our DWP capacity. In 2017, Sappi will be adding up to 100,000tpa capacity through debottlenecking projects. We also have the ability to increase DWP production at our Cloquet Mill by utilising its swing capacity. In the longer term, we foresee adding an additional 300,000tpa capacity to meet growing customer needs. More detail on these projects can be found in the Q&A section on page 16.

Market prices for DWP are determined by a number of factors. Approximately a quarter of current DWP capacity has the ability to switch between various fluff and paper pulp grades and DWP. Sappi's Cloquet Mill has the ability to swing between NBHK (Northern Bleached Hardwood Pulp) and DWP. The decision to switch is usually based on the pricing differential between the particular paper grade pulp and DWP. DWP is typically priced at a premium due to the lower yield

per ton of wood and lower throughput when producing DWP. When the gap widens, paper pulp producers may elect to enter the DWP market, which tends to limit the DWP price, and when the gap narrows the converse occurs. Textile prices influence DWP prices as this determines the maximum affordable price our customers can bear. Lastly, the DWP supply and demand balance as well as the availability and pricing of alternative sources of cellulose to the VSF market, such as cotton linter pulp, can affect the market price for dissolving wood pulp.

## Our markets in 2016 and outlook for 2017

Demand for VSF, and therefore DWP, continues to be linked to the growth in the overall textile market, approximately 3.5% in China over the prior year.

However, Sappi's sales volumes in 2016 were 4% lower than those in 2015 due to lost production at Saiccor Mill as a result of the drought in KwaZulu-Natal early in the financial year, as well as an extended annual maintenance shut at Ngodwana Mill as the recovery boiler was upgraded. In 2017, we will proceed with debottlenecking investments at the Southern African DWP mills and the flexibility of being able to swing production at the Cloquet Mill between paper pulp

and DWP, based on the pricing differential between hardwood paper pulp and dissolving wood pulp. Barring any further impact from drought, we forecast an increase in sales volumes in 2017.

Spot prices for DWP in China peaked at US\$901/ton in November 2015 and then declined to a low of US\$830/ton by February 2016. This was caused by a decline in paper pulp prices which encouraged swing producers to switch to DWP in that period. Demand for DWP grew 8.6% in the first seven months of calendar 2016, well in excess of the overall demand growth for VSF, of approximately 3%. As a result of increased demand for DWP, higher VSF and cotton textile prices and improved VSF operating rates, the spot price for DWP increased significantly from March 2016 onwards, with September's average price being US\$939/ton. In 2017, additional DWP supply capacity is expected to come into the market as a result of conversions from various paper pulp grades and there is already evidence of decreasing VSF prices. The combination of these two factors is likely to result in declines in pricing from the current levels of US\$990/ton in China.

### Imported hardwood dissolving wood pulp

(US\$/metric ton) CIF China



Prices are list prices. Actual transaction prices could differ from prices shown. Source: CCF group



# Our key relationships

Proactive, constructive stakeholder engagement is at the heart of our drive to integrate sustainability into our everyday business 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 and by understanding stakeholder rights, needs and expectations, integrating their inputs, as well as measuring and monitoring our activities, we 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.

Sappi's main stakeholder groupings, per our Group Stakeholder Engagement Policy, are set out below, together with selected examples of engagement undertaken during the reporting period. As a global business, with our products sold into more than 150 countries, our ability to


connect with stakeholders as **One Sappi**, motivated by our revised mission, strategy and shared values, gives us a clear advantage and for our stakeholders a connection they can trust to add value. Our management approach, areas of mutual interest, ongoing avenues of engagement and the value added by our stakeholder engagement processes are set out below. Details of specific stakeholder engagement can be found in our 2016 group Sustainability Report, available at [www.sappi.com](http://www.sappi.com). 

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Employees	<p><b>Management approach</b> 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.</p> <p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Strategy, priorities and performance of the company</li> <li>• Internal and external activities of the company, our staff and our communities</li> <li>• Organisational developments, particularly in respect of restructuring</li> <li>• Ongoing training and skills development</li> <li>• Creation of a dynamic and encouraging environment through a focus on safety, health, wellness and recognition programmes</li> <li>• Commitment to sustainability</li> <li>• Group values and Code of Ethics.</li> </ul>	<p>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.</p> <p>We encourage full engagement between managers and their staff. Other avenues of engagement include:</p> <ul style="list-style-type: none"> <li>• Global, regional and local newsletters</li> <li>• Our global Intranet</li> <li>• Letters, roadshows and presentations by the group CEO as well as regional CEOs</li> <li>• Operating unit meetings, briefings and workshops</li> <li>• Various forums (SA)                             <ul style="list-style-type: none"> <li>– National Employment Equity and Learning Forum</li> <li>– Shop Steward Forum</li> <li>– National Partnership Forum</li> <li>– Transformation Steering Committee</li> </ul> </li> <li>• Global Employee Engagement Survey (every second year)</li> <li>• Wellbeing committees at mills and business units</li> <li>• Health and safety committees at mills</li> <li>• In addition to the global Technical Innovation Awards, there are regional recognition awards: SEU – the annual Coryphaena awards; SNA – the quarterly Risk Taking and Ingenuity awards; SSA – the Excellence in Achievement (EAA) awards; Sappi Trading – the Gold SMART Award. Globally, there is also the Sappi Limited CEO Award for Excellence</li> </ul> <p>Ongoing training and development initiatives, training targets in each region. Targeted training and engagement programmes in each region regarding sustainability.</p>	<ul style="list-style-type: none"> <li>• Engaged employees are pivotal to the success of our business – alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development</li> <li>• Build our human capital, thereby helping to enable delivery of our 2020Vision</li> <li>• Build a base of the technical skills needed by our industry</li> </ul>

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
<b>Unions</b>	<p><b>Management approach</b> Given today's extremely challenging global economic conditions and the current socio-economic dynamics in the Southern African labour market, we prioritise our relationship with our employees and their representatives. Protecting the right to freedom of association and collective bargaining are fundamental to the manner in which Sappi does business. Globally, approximately 60% of our workforce is represented by unions, with 71.5% covered by collective bargaining agreements.</p> <p><b>Areas of mutual interest</b> 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.</p>	<p><b>SEU:</b> 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.</p> <p><b>SNA:</b> 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.</p> <p><b>SSA:</b> 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.</p> <p>We also engage on broader issues with the recognised trade unions at the National Employment Equity and Skills Development Forum, the Shop Steward Forum and the National Partnership Forum.</p>	<ul style="list-style-type: none"> <li>• Meaningful engagement on a number of issues affecting both business and employees</li> <li>• Improved relationships</li> <li>• More stable labour force</li> <li>• Enhanced productivity</li> </ul>
<b>Communities</b>	<p><b>Management approach</b> 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 interconnected world.</p> <p>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.</p> <p><b>Areas of mutual interest</b> 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.</p>	<p>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.</p> <p>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.</p> <p>In <b>Southern Africa</b>, Sappi works with local government and communities to accelerate afforestation as a strong rural economy development opportunity. In particular expansion in the northern region of the Eastern Cape shows great promise. This allows Sappi to secure valuable hardwood timber resources close to Saiccor Mill in KwaZulu-Natal. Sappi has also invested in supporting social mobilisation in its communities thereby helping to break the cycle of poverty. The initiative empowers and supports them to create opportunities for income. The project, initially launched in nine communities, has seen significant success over its first two years and will now be expanded to other Sappi communities.</p>	<ul style="list-style-type: none"> <li>• Enhance our licence to operate</li> <li>• Promote socio-economic development which could, in the long term, lead to increased demand for our products</li> <li>• Initiate real social mobilisation and change to enable people to create their own opportunities and benefit from locally focused projects</li> </ul>

# Our key relationships continued

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
<b>Customers</b>	<p><b>Management approach</b> We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers.</p> <p>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.</p> <p>Where relevant, we will also conduct R&amp;D and develop products to suit the specific needs of a customer.</p> <p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• High service levels</li> <li>• Information and campaigns to promote speciality paper and paper packaging, print-based communication, dissolving wood pulp as well as new biomaterials</li> <li>• Provision of technical information and support to our paper, packaging and specialised cellulose customers</li> <li>• Information about organisational developments, and the fibre sourcing and production processes behind our brands</li> <li>• New products that meet rapidly changing market demand.</li> </ul>	<p>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.</p> <p><b>Globally:</b> Targeted communication campaigns to help promote the value of paper-based packaging, casting and release papers as well as print-based communication.</p> <p>Examples include support for the TwoSides organisations in Europe, North America, South America, Southern Africa and Australia and the Print Power campaign in Europe. Also, participation in industry forums and events regarding dissolving wood pulp.</p> <p>Trade shows and exhibitions.</p> <p>Technical support through the Sappi customer portal as well as the newly released Sappi website <a href="http://www.sappi.com">www.sappi.com</a>.</p> <p>We annually host customer and investor visits to the mills.</p> <p>Technical centres of excellence for each product range. These are located at Saiccor and Cloquet Mills for dissolving wood pulp; the Alfeld Mill Competence Centre for Speciality Wood Papers and Paper Laboratory; Westbrook Mill for casting and release papers and the Maastricht, Westbrook and Pretoria technology centres for coated paper. The Pretoria Technology Centre is also the centre of excellence for paper pulp.</p>	<ul style="list-style-type: none"> <li>• Meet customers' needs for products with an enhanced environmental profile</li> <li>• Promote our customers' own sustainability journeys</li> <li>• Heightened awareness of the importance of sustainability</li> <li>• Keep abreast of market developments</li> <li>• Showcase our products</li> </ul>
<b>Industry bodies</b>	<p><b>Management approach</b> We partner with industry and business bodies to provide input into issues and regulations that affect and are relevant to our businesses and industries.</p> <p>We also support and partner with industry initiatives aimed at promoting the use of our products.</p>	<p>Sappi is a member of various industry and business associations in each region.</p> <p><b>SEU</b></p> <ul style="list-style-type: none"> <li>• Confederation of European Paper Industries (CEPI)</li> <li>• Eurograph</li> <li>• The alliance of energy-intensive industries</li> <li>• The Two Team Project – (focusing on breakthrough technology concepts in the industry which could enable a more competitive future)</li> <li>• European joint undertaking on biobased industries</li> <li>• TwoSides and PrintPower</li> </ul> <p><b>SNA</b></p> <ul style="list-style-type: none"> <li>• American Forests and Paper Association (AF&amp;PA)</li> <li>• Paper and Paper Packaging Board</li> <li>• Agenda 2020 Technology Alliance</li> <li>• Sustainable Packaging Coalition (SPC)</li> <li>• Forest Products Working Group</li> <li>• TwoSides</li> </ul>	<ul style="list-style-type: none"> <li>• Sappi is able to create and launch new products which already meet Sustainable Packaging Coalition criteria, which is beneficial to us on a cost basis and a sustainability basis</li> <li>• Maintain and expand markets for our products</li> <li>• Demonstrate the value-add of the forest products industry</li> <li>• Dispel myths and promote understanding of our industry</li> <li>• Work with other companies through collective initiatives to support societal change and deal with societal challenges</li> </ul>

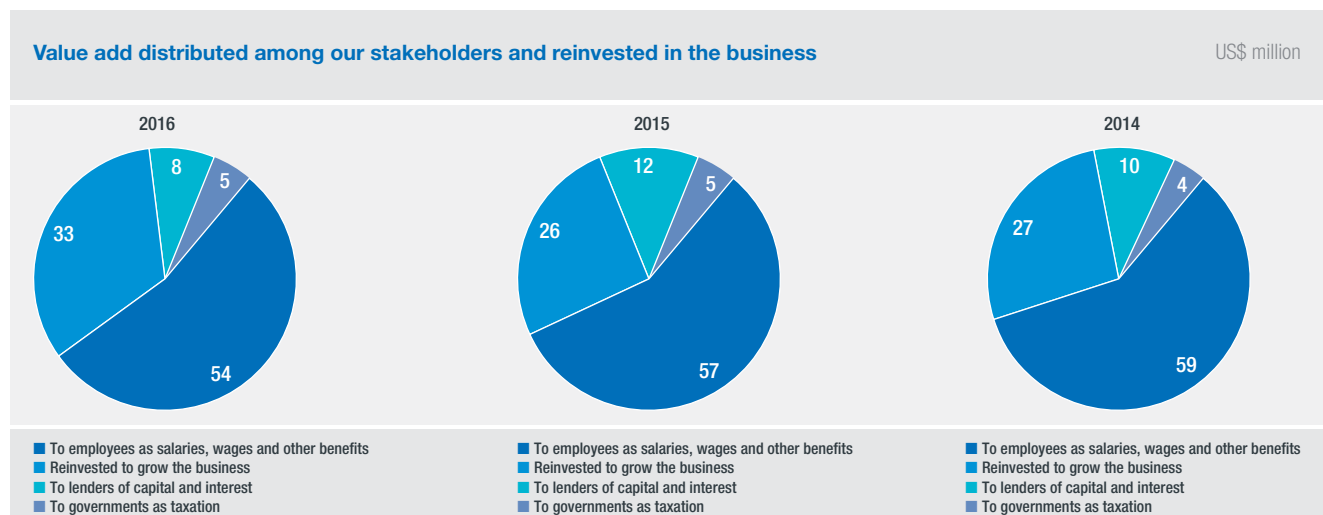
	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
<b>Industry bodies</b> continued	<p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Issues that affect the sustainability of our industry – woodfibre base, carbon taxes, energy and emissions etc</li> <li>• Energy issues in general and in particular government proposals on carbon taxation</li> <li>• The impact of increased regulations on business</li> <li>• The benefits of our industry and our economic contribution to society</li> <li>• Social and environmental credentials of our products.</li> </ul>	<p><b>SSA</b></p> <ul style="list-style-type: none"> <li>• Paper Manufacturers’ Association of South Africa (PAMSA)</li> <li>• Business Unity South Africa</li> <li>• Business Leadership South Africa</li> <li>• The CEO Initiative</li> <li>• Manufacturing Circle</li> <li>• Forestry South Africa</li> <li>• TwoSides</li> </ul> <p>Sappi Forests is a founding member of the Tree Protection Cooperative Programme (TPCP) based in the Forestry and Bio-technical Institute (FABI): <a href="http://www.fabinet.up.ac.za">www.fabinet.up.ac.za</a> at the University of Pretoria. Through the TPCP we are also members of the internationally collaborative programme BiCEP (Biological Control of Eucalyptus Pests: <a href="http://bicep.net.au/">http://bicep.net.au/</a>) at the Australian Centre for Industrial and Agricultural Research (ACIAR).</p> <p>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 sub-tropical and tropical tree species.</p> <p>Sappi Speciality Papers is a member of the Save Food initiative which aims to eliminate food waste and loss globally.</p>	
<b>Investors</b>	<p><b>Management approach</b></p> <p>Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.</p> <p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Information on the company strategy</li> <li>• Return on investment</li> <li>• Transparent information about risks, opportunities and ESG performance.</li> </ul>	<p>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.</p> <p>We also conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website <a href="http://www.sappi.com">www.sappi.com</a>. </p> <p>We publish our Annual Integrated Report and sustainability report on the company website.</p> <p>Shareholders can attend and participate in the AGM as well as the four quarterly financial results briefings.</p> <p>Our CFO and Head of Treasury engage with bondholders, banks and rating agencies on an ongoing basis regarding the performance of the company.</p> <p>We participate in the Carbon Disclosure and Forest Footprint Disclosure projects every year, making our submissions publicly available to investors who ask for these specific ESG disclosures.</p>	<ul style="list-style-type: none"> <li>• Understanding of our strategic direction</li> <li>• Enhanced reputation</li> <li>• Greater investment confidence</li> <li>• Broader licence to invest</li> </ul>

## Our key relationships continued

Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
<p><b>Suppliers and contractors</b></p> <p><b>Management approach</b> We are committed to establishing mutually respectful relationships with our suppliers, 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.</p> <p>We work with our contractors to ensure that they follow Sappi safety systems and rules.</p> <p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Transparent information</li> <li>• Forest certification</li> <li>• Increased value and decreased costs</li> <li>• Security of fibre supply, income generation and job creation.</li> <li>• Common safety standards with contractors</li> </ul>	<p>In <b>North America</b> and <b>Southern Africa</b>, our foresters work extensively with contractors and communities, on a number of sustainability issues. In Southern Africa we work actively with our contractors on safety issues in particular.</p> <p>In <b>Europe</b>, a joint sourcing partnership has been established with SCA which assists in negotiating better terms with timber and other suppliers.</p> <p>In addition to Sappi's internal woodfibre certification efforts, we promote certification among our suppliers and outside our own operations.</p> <p>SNA's ongoing forest management services and supplier outreach programmes help to increase certified lands in areas that supply fibre to its mills. SNA 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 SNA's forest management group have their land certified in accordance with the FSC standard under this certificate. SNA's Sustainable Forestry Programme assists woodlot owners in the state of Maine to develop plans for managing and harvesting woodlands.</p> <p>Launched in 1983, Project Grow (Khulisa Umnotho), 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 now expanded Khulisa Umnotho to the northern part of the Eastern Cape.</p>	<ul style="list-style-type: none"> <li>• Improve supplier relations</li> <li>• Better understanding of the requirements of the Sappi group</li> <li>• Security of woodfibre supply</li> <li>• Expanded basket of certified fibre</li> <li>• Better safety performance from contractors</li> </ul>
<p><b>Civil society (media)</b></p> <p><b>Management approach</b> We maintain an open relationship with the media, believing that an informed media is better able to serve public reporting and debate on any issue.</p> <p>We continue to update the media regarding our strategic shifts to extract value from woodfibre in line with future trends.</p> <p>We engage with civil society organisations on issues of mutual interest.</p> <p>We are members of key organisations relevant to our operations.</p>	<p>We join key credible organisations as members.</p> <p>We develop personal relationships and engage on an ongoing basis.</p> <p>We provide support to and sponsorship for key organisations on issues of mutual interest.</p> <p>In <b>Europe</b> and <b>North America</b>, we maintain close engagement directly and through our industry body CEPI with the FSC and WWF® International. In <b>Europe</b>, also with the Programme for the Endorsement of Forest Certification (PEFC™).</p> <p>In <b>North America</b>, 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.</p> <p>In <b>Southern Africa</b>, Sappi is a member of the local WWF and Birdlife organisations as well as FSC.</p> <p>As fire is a key risk on our plantations, we belong to a number of fire protection associations.</p>	



	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
<b>Civil society (media)</b> continued	<p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Business developments</li> <li>• The future of our industry</li> <li>• Our contributions to our communities</li> <li>• Our work to protect the environment.</li> </ul>	<p>In South Africa, the Centre for Environmental Rights (CER) published a follow-up report on their 2015 review of corporate reporting and 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). Their 2016 report can be found at <a href="http://fulldisclosure.cer.org.za/company/sappi">http://fulldisclosure.cer.org.za/company/sappi</a>. They commended Sappi for providing much more disclosure in its 2015 reports. They also noted "Sappi is to be commended for this reference to the NECER and the mention therein of the inspection at the Sappi Saiccor Mill. The clarification that no official report has been received from the DEA is helpful, in particular in that it explains why the details of the alleged non-compliances have not been disclosed." This remains the situation. As in our 2015 report we confirm that we had taken note of the CER's comments and their request for increased transparency. We remain committed to aligning our reporting to any mentions in the NECER. We also continue to engage with authorities regarding all issues of environmental compliance.</p>	<ul style="list-style-type: none"> <li>• Opportunity to inform and educate media</li> <li>• Transparent, two-way communication and opportunity for dialogue</li> <li>• Support for the valuable work of various NGOs</li> </ul>
<b>Government and regulatory bodies</b>	<p><b>Management approach</b></p> <p>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.</p> <p><b>Areas of mutual interest</b></p> <ul style="list-style-type: none"> <li>• Energy issues in general and in particular government moves on carbon taxation</li> <li>• The impact of increased regulations on business</li> <li>• The social and economic benefits of our industry nationally as well as at a local level.</li> </ul>	<p>Consultations take place on an ongoing basis with government departments and regulatory bodies in each region.</p>	<ul style="list-style-type: none"> <li>• Opportunity to promote understanding of the issues and challenges we face and resolve certain challenges.</li> </ul>



## Our global sustainability goals

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

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

Our performance in 2016, together with commentary, is set out below:

Prosperity				
Global target	2014 base	2016 performance	2015/2016 % change	2020 goal
ROCE	10.8%	17.5%	62% improvement	12% ROCE minimum

People				
Global target	2014 base	2016 performance	2015/2016 % change	2020 goal
LTIFR (combined own and contractor employees)	0.53	0.46	4.3% improvement	Target zero LTIFR with minimum 10% improvement year-on-year
Sustainable engagement	Not measured	Not measured (2015: 74%)	N/A	76%

Planet				
Global target	2014 base	2016 performance	2015/2016 % change	2020 goal
Energy efficiency (specific thermal energy)	22.92GJ/adt	23.17GJ/adt	1.1% increase	5% improvement over the period
Certified fibre	79%	73%	6% decrease	Maintain or improve percentage

### Prosperity

**ROCE:** The 62% improvement on our 2014 base reflected the ongoing successful implementation of our One Sappi strategy and 2020Vision is highly encouraging. The ongoing viability of our business and generation of value for all our stakeholders depends on our ability to generate profits.

### People

**Safety:** Globally, while there was no significant improvement in the own employee lost time injury frequency rate (LTIFR), there was an improvement in contractor LTIFR, resulting in a 4.3% improvement in the combined LTIFR. However, this was tragically overshadowed by four fatalities in **Southern Africa** involving one employee and three contractors

**Sustainable engagement:** Surveys are held every second year, which means the

next one will be held in 2017. We are currently implementing solutions to the gaps identified during the 2015 survey.

### Planet

**Specific thermal energy (STE):** The 1.1% increase in STE/GJ/adt meant that we did not achieve our goal, due mainly to increased energy intensity in **Southern Africa**. This in turn was due to greater use of coal and heavy fuel oil at Saiccor Mill, as well as problems with the lignosulphonate spray dryer at Tugela Mill. Note that we previously indicated that our STE goal was 21.05GJ/adt. This has been changed as reflected in the table above, in line with the changes to our energy reporting described on page 42 of this report.

**Certified fibre:** We did not achieve our goal in 2016, with the percentage being 73% against a target of maintaining or exceeding our 2014 base of 79%. This

was due to the following reasons: in **Europe**, we are finding there is a push back against certification by sawmills, that are finding certification requirements increasingly onerous; in **North America**, the decline was driven primarily by a change in production strategy at Cloquet Mill, which involved a change from buying 100%-certified market pulp to making our own pulp (doing so means we are limited to the amount of certified fibre available in the local wood basket), and in **Southern Africa**, where our owned and leased plantations are 100% FSC®-certified, the amount of certified fibre supplied to our mills declined slightly, from 83% in 2015 to 82%. The 1% decrease was the result of using less of our own woodfibre because of the drought, having to buy it in and being limited by the amount of certified fibre available.



# 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.

## Governance

### Material issue: a sound ethical culture

#### Background

Our reputation, built up over 80 years, is one of our most important assets, and one of the most difficult to rebuild should it be negatively impacted. Accordingly, driving a strong ethical culture is both a moral responsibility and a business imperative.

#### Our response

In 2016, we launched a revised Code of Ethics which incorporates the new Sappi values (*At Sappi we do business with integrity and courage; making smart decisions which we execute with speed*), which includes specific policies that guide employee behaviour and incorporates practical examples of possible scenarios which employees might encounter.

The Code has now been translated into the various Sappi languages (English, German, Dutch, Finnish and Zulu) and distributed to all Sappi mills and offices. The roll-out of regional awareness campaigns was accompanied by communications materials including a brochure, posters, letters to stakeholder groups, newsletter and training video and presentation slides.

These campaigns followed the 2015 roll-out of the One Sappi Mission, Strategy, 2020Vision and Values. A dipstick survey conducted in August 2016 indicated a positive attitude towards the values campaign rolled out in 2015. Of the 4,804 staff members who took part, approximately 80% responded positively (strongly agree or tend to agree) with the statement: 'I am sufficiently informed about Sappi's values.'



## Prosperity

### Material issue: costs

#### Background

In the highly capital intensive pulp and paper industry, cost containment is a key pillar of competitive advantage.

#### Our response

In recent years, we have embarked on a number of cost and efficiency projects at our mills, including:

- A new multifuel boiler at the Kirkniemi Mill, capable of firing coal, internal and external biomass, which has reduced energy costs by approximately 26% per annum
- The gas pipeline at Somerset Mill which enables the mill to switch selectively between gas, biomass or oil for energy generation
- Improved lime preparation, also at Somerset Mill, which has sped up the recommencement time after an annual shut

- An increase in capacity of the pulverised fuel power boiler at Ngodwana Mill, and
- A rebuild of the pulp line as well as paper machine (PM11) at Gratkorn Mill in order to enhance paper quality, increase the operating windows of the mill's biggest paper machine and enhance the potential grammage range.

In FY2016, we also embarked on a number of efficiency projects:

- New turbines at Tugela and Saiccor Mills
- A new woodyard at Somerset Mill
- Following an investment in Stanger Mill of approximately US\$2 million in the mill's paper machine in 2015, in FY2016 we invested a further US\$4.7 million in the sheeting and finishing operations with a focus on speed, increasing the throughput of our finished A4 products, as well as improving the packaging quality of our products to further benefit our customers, and
- In **Europe**, we allocated US\$22.7 million for mill upgrades which will be completed by the end of 2016. At Lanaken Mill, the gate-roll coater

on PM7 is being replaced with a state-of-the-art film-press coater. With additional adaptations to the drying system and coating preparation, the rebuild paves the way to add weight to the first coating. The investment will enable PM7 to produce the entire portfolio of grades, without compromising on web profile, coating coverage and paper properties. Kirkniemi Mill is undergoing a variety of modifications to its PM3 to increase energy efficiency and further improve quality consistency through better basis weight and moisture profiles.

As part of our ongoing goal of continuous cost reductions, our latest formal programme focuses on procurement and efficiency savings. The intention is to reduce costs by US\$100 million per annum by FY2020 off the FY2015 cost base. We plan to achieve this by:

- Working to strategically identify those areas of our global spend, such as chemicals, purchased pulp and technical goods and services which will produce important cost savings through a global sourcing approach

## Our key material issues continued

- Applying the strategic sourcing process and category management principles to reduce costs across all third-party spend areas, and
- Identifying and adopting best in class procurement tools and practices.

### Material issue: declining demand in some of our traditional markets

Our aspirational 2020Vision sets out a range of medium-term targets with the end goal of substantially increasing EBITDA (earnings before interest, taxes, depreciation and amortisation) by the conclusion of 2020. Expanding our product portfolio underpins this aim. Our response in terms of our targeted business segments is set out below.

#### Packaging

##### Background

A recent report, World Packaged Food – Market Opportunities and Forecasts, 2014–2020, indicates that by 2020, the packaged food market is expected to bring in revenue of US\$3.03 trillion, registering a compound annual growth rate (CAGR) of 4.5% from 2015 to 2020<sup>(1)</sup>.

##### Our response

Our target earnings from our packaging division is 25% of EBITDA by 2020. Our expertise in the food packaging market gives us a competitive edge, as does the growing demand for environmentally sound packaging.

In FY2016, in **Europe**, we launched the following speciality products:

- Building on the success of Algro® Guard, a product family designed to enhance the ability of packaging to protect food products and improve their safety while simultaneously removing steps from the production process, we launched Algro Guard OHG, a new high-barrier paper-based packaging solution. Algro Guard OHG provides integrated barriers that prevent the migration of oxygen and water vapour into packaged products and also make packaging production simpler and more efficient by eliminating the need to apply special coatings or lamination. This paper meets the market demand for alternatives to foil and plastics, reducing both costs and environmental footprint.

- We also enhanced our leading position in silicone base papers in the European pressure sensitive adhesive market with new additions to the range of Algro Sol silicone base papers. We introduced lower grammages for Algro Sol SNC in the form of 82, 85 and 98g/m<sup>2</sup>. Produced on the mill's PM2, they are suitable for office applications, offering high volume, good mechanical strength, consistent thickness and outstanding siliconisation properties.

Sappi's Algro Guard family of products has recently been awarded The German Packaging Award 2016 in the New Materials category. The award-winning new materials from Sappi's functional papers product group are Algro Guard OHG and Leine® Guard M. The packaging awards were announced at a ceremony on 27 September 2016 at Fachpack in Nuremberg, Germany. The jury praised Sappi's sustainable paper packaging solutions, which offer innovative integrated barrier and heat sealing properties otherwise only achievable with multi-layer films. The jury also noted the exceptional tactile properties and excellent printability of the Sappi Guard product family.

- We expanded our corrugated raw material product line by offering corrugated paper (fluting) and topline. The bright white Fusion® topline is the primary topline product, while the cartonboard Algro Design and the new folding carton atelier™ can also be used as topline. Weights from 90 to 400g/m<sup>2</sup> are available. In Europe, Sappi now also offers the corrugating medium Ultraflute®, which is manufactured in South Africa for the global market.

In response to the high demand for Fusion topline, we expanded production from Alfeld Mill to include production at Ehingen Mill.

Following the conversion of the Alfeld Mill into a centre of excellence for specialities and board, and the scaling up in production of folding box board at Maastricht Mill, Ehingen Mill is now Sappi's third European production site for special papers and board.

Previously, the mill produced only high-quality matt and silk graphic papers with single to triple coatings. As a result of the production of Fusion in Ehingen Mill and the associated further quality development, a slightly adapted range of product weights is now offered. In addition to 130 and 140g/m<sup>2</sup>, Fusion is now available in 135g/m<sup>2</sup> and, for the first time, 110g/m<sup>2</sup>. This offers corrugated card processors even more options and creative possibilities, and

- In this region, we are also developing barrier solutions for corrugated card. The mineral oil barrier liner, Leine Guard, has already undergone successful market testing as an inner liner.

#### In North America

- We launched Neoterix™ST, the first commercial casting and release paper with Sharklet™ bacteria-inhibition technology. The new release paper is the first of its kind which creates surfaces that inhibit bacterial growth without the use of toxic additives or chemicals. The product is the first in our new Neoterix™ line and will be available to customers globally under the name Neoterix ST from 2017.

As with all Sappi's release papers, Neoterix ST acts as a mould for coated fabric and laminates. It is used to transfer texture and gloss onto these surfaces and is then stripped away. According to a published study in *Antimicrobial Resistance and Infection Control*, when applied to high touch surfaces, the microtexture reduced surface contamination of methicillin-sensitive *Staphylococcus aureus* (MSSA) and methicillin-resistant *S aureus* (MRSA) by as much as 97% and 94% respectively, compared to controls.

- We expanded our LusterCote® packaging line to offer heavyweight options – 70, 80 and 95lb. Produced at Cloquet Mill, these products offer superior performance for offset, flexographic and gravure printing, including wide-format, multi-colour sheetfed presses. In combination with LusterCote 55 and 60lb, the new grades also extend Sappi's offering for cut and stack labels.

<sup>(1)</sup> <http://www.foodprocessing.com/industrynews/2015/global-packaged-food-market-by-2020-will-be-a-3-03-trillion-industry/>

## Graphics paper

### Background

News, entertainment, and information is increasingly consumed via computers, tablets, and phones instead of paper.

Despite the enormous migration to electronic media, neuroscience research shows that paper-based content and advertisements offer special advantages in connecting with our brains. This is highlighted by a recent article in Forbes magazine<sup>(2)</sup> which cites a report showing that direct mail is easier to process mentally and tests better for brand recall.

According to the report, direct mail requires 21% less cognitive effort to process than digital media (5.15 vs 6.37), suggesting that it is both easier to understand and more memorable. Post-exposure memory tests validated what the cognitive load test revealed about direct mail's memory encoding capabilities. When asked to cite the brand (company name) of an advertisement they had just seen, recall was 70% higher among participants who were exposed to a direct mail piece (75%) than a digital advert (44%).

### 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. We manage our capacity to strengthen our leadership position in this market, realising its strategic importance to the group and maximising its significant cash flow generation. Accordingly, we continue to develop and enhance our portfolio of products to meet the needs of customers who recognise the value of print.

In **Europe**, in addition to high performance offset printing, our Magno<sup>®</sup> Plus Gloss and Plus Silk high-bulk products are now fully certified for use on HP Indigo digital presses – certification which eliminates the need for duplicated stocks, ensuring production flexibility between offset and digital processes.

In **North America** in FY2016

- We announced the addition of McCoy<sup>®</sup> Gift Card 28pt to our McCoy line. The McCoy paper brand's premium surface and printability allow for a variety of stand-out printing techniques, including heavy colour saturated imagery, embossing, foil printing and spot gloss. McCoy gift cards have also been engineered for high bond strength to satisfy tape, hot glue and authorisation mechanisms, including scratch-offs, bar codes and magnetic strips. Additionally, McCoy gift cards' multi-layer structure is optimised for clean-edge, die-cut quality, while the paper stays flat and even through processing, with no feeding issues. Printer feedback from product trials has been very positive, citing McCoy as one of the best performing paper gift cards on the market.
- We also made several recent product and service enhancements to our Opus<sup>®</sup> and Flo<sup>®</sup> product lines, including:
  - Increased sheet brightness on Opus to 94
  - Increased sheet brightness on Flo to 90
  - The addition of 120lb cover options to the Flo product line, and
  - Faster availability of size options on Flo products.

Sappi North America is a founding member of the Paper and Packaging Board, an industry-wide initiative under the auspices of the US Department of Agriculture to take steps to stem the decline of paper and grow paper-based packaging demand. The roughly US\$20 million consumer campaign, 'How Life Unfolds', was launched in July 2015 and has already had a measurable improvement in industry awareness and reputation among target consumers.

In **Southern Africa**, we continued to focus on our core market brands like the well-known Typek<sup>®</sup> office brand which has a high bagasse (sugar cane waste residue) content and offer our customers a range of papers from Sappi Europe in line with our One Sappi strategy.

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

The product is intended for standard injection moulding and extrusion processes. The use of fillers in plastic is already normal, but using these cellulose fibres instead of the traditional fillers reduces the weight by approximately 15%. Mixing 20% to 50% of the cellulose fibres with polypropylene increases the stiffness. The end product can be easily coloured and the fibres are not visible. It will initially be available with 20% and 40% cellulose content. We see further possibilities to use this technology for car interiors, furniture, consumer electronics and toys.

## Dissolving wood pulp (DWP)

### Background

The market demand for the use of cellulosic fibres is increasing across a wide spectrum of applications and sustained growth is expected for cellulose fibres in the industrial application over the next five years, according to a recent report<sup>(3)</sup>. The report finds that the apparel and home textile application segments of this market are expected to witness a compound annual growth rate of 9.66% and 9.62%, respectively. The popularity of cellulosic-based fibres is based on their high levels of absorbency, breathability and softness, as well as wash and wear characteristics.

Their environmental credentials, when compared with petroleum-based fibres, also contribute to their growing popularity.

A potential shortage of cotton supply is expected to accelerate demand for DWP. The International Cotton Advisory Committee (ICAC) is forecasting a supply deficit in the 2016 season, on the back of El Niño and changing Chinese cotton policies. China has historically supported

<sup>(2)</sup> <http://www.forbes.com/sites/rogerdooley/2015/09/16/paper-vs-digital/#7afd38ba1aa2>

<sup>(3)</sup> <https://www.researchandmarkets.com/feats/login.asp>

## Our key material issues continued

spinners with a rebate on domestically purchased cotton. The policy was amended in 2014, to subsidise cotton farming. However, only one province was offered subsidies, as China looked to unwind its stored inventories. Accordingly, Chinese cotton supply is estimated to have decreased by 6.5% year-on-year in 2015 and is forecast to decrease a further 27% year-on-year in 2016<sup>(4)</sup>.

### Our response

Textiles are the primary market for our DWP, which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell), and we continue to supply smaller quantities into the other DWP market segments. Sappi is the world's biggest producer of DWP and we expect global demand for textiles continuing to grow, particularly in markets such as China, India and Indonesia, due to increasing population growth and affluence in these regions. Forecasts by Oxford Economics put Asia's share of world GDP in real US Dollar purchasing power parity at nearly 45% by 2025, up from 23.2% in 1990<sup>(5)</sup>.

Against this backdrop, we will be expanding our DWP capacity at Ngodwana and Saiccor Mills by up to 50,000tpa at each mill, beginning in FY2017.

In light of our expansion plan and given that, in **Southern Africa**, our DWP is based on eucalyptus fibre, the suspension of the draft genus exchange regulations is a welcome move. The Department of Water and Sanitation (DWS) had intended to use the draft regulations to force timber growers to firstly apply for a licence or amendment to a licence, when switching genera and more importantly, insist on a blanket 30% reduction in plantation area, when switching from pine to eucalyptus. Forestry South Africa (FSA), supported by the Department of Agriculture, Forestry and Fisheries (DAFF) had for many years contested these requirements and appointed a consultant based at the Council for Scientific and Industrial Research (CSIR) who established a significant error in the initial calculations on

which the draft regulations were based. Their error can be demonstrated in the following hypothetical example:

- A grassland uses a hypothetical 100mm of rainfall per annum
- It is planted to pine which uses a hypothetical 110mm of rainfall (10% more than the grassland)
- It is subsequently converted to eucalyptus, which uses 113mm of rainfall (13% more than the grassland and 30% more than the pine)
- DWS erroneously concluded that the area would therefore have to be reduced by 30% due to the eucalyptus using 30% more than the pine, and
- They should instead have required only a 3% reduction in area, as this would bring the water use back to 10% more than the grassland and the same level as the pine which it replaced.

The consultant's findings have been substantiated and it is highly unlikely that the regulations will be reinstated. Accordingly, FSA is advising members that they can switch genera on at least a 1:1 area basis – a development we welcome.

### Adjacent markets: nanocellulose, sugars and lignins Nanocellulose

#### Background

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, gas impermeable and it is highly absorbent when used as a basis for aerogels or foams.

The nanocellulose market is projected to register a market size in terms of value of US\$250 million by 2019, signifying an annualised compound annual growth rate of 19% between 2014 and 2019<sup>(6)</sup>.

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

### 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 easily be recycled and reused without generating large amounts of effluent.

Last year, we also announced that we would be developing this energy-saving process in a pilot-scale plant at Brightlands Chemelot Campus in Maastricht, the Netherlands.

The nanocellulose pilot plant has experienced a number of challenges mainly due to equipment deliveries. Nonetheless, with a number of innovative solutions we commissioned phase I of the pilot plant in March 2016. This allowed the team to manufacture microcellulose (CMF) of excellent quality when compared to our competitors. The highlight for the team was the ability to produce adequate quantity of the product to run a successful paper machine trial at one of our mills.

Phase II was delayed due to late equipment delivery from a few suppliers although our target for the final commissioning remains the end of December 2016 with further optimisation in early 2017 to produce a dry redispersible nanocellulose (CNF).

### Biobased materials

#### 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. This offers opportunities with strong, growing market demand for renewable biochemicals from non-food sources as companies intensify their search for 'green' products that offer enhanced sustainability and also offer product value chains with a lower carbon footprint.

<sup>(4)</sup> Source: Avior Capital markets

<sup>(5)</sup> <http://dupress.deloitte.com/dup-us-en/economy/asia-pacific-economic-outlook/2016/q1-asia-economic-growth-continues.html>

<sup>(6)</sup> <http://www.marketsandmarkets.com/PressReleases/nanocellulose.asp>



**Our response**

One of the pillars of our strategy is to move into new adjacent business fields based on renewable raw materials, ie biomaterials and bio-energy to extract more value from the production processes. In July 2016, we established a new business unit, Sappi Biotech, to take global responsibility for the commercialisation of new products.

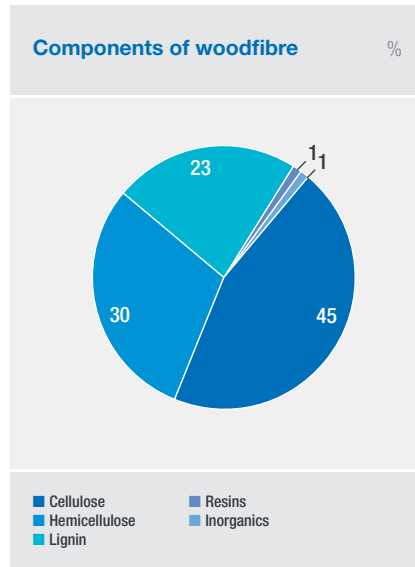
For example, we are looking into ways to use the sugars (as well as lignin and organic acids) extracted from the wood during the pulping process, including entering into partnerships to modify these extracts into higher value products for use in a wide variety of applications.

The biorefinery process for second generation hemicellulose sugars at Sappi involves recovering them from the prehydrolysate liquor and then separating them from the associated lignin and organic acids. There are various levels of processing and purification depending on end uses. The products we are targeting include sugar alcohols such as xylitol (a low-energy sugar substitute), lactic acid (used in the production of polylactic acid (PLA), a renewable plastic), glycols (the main applications being for the production of PET for plastic bottles) and unsaturated polyester resins and other products.

Second generation sugars are attractive because they do not compete with first generation sugars which are sourced from agricultural crops. This is extremely important because of a rapidly growing global population and worldwide pressure on agricultural resources.

The construction of a second generation sugar extraction demonstration plant at Ngodwana Mill in South Africa will begin in 2017, with the feedstock supplied from the DWP line. The demonstration plant will make it possible to study the next generation dissolving wood pulping process and test new ideas at mill scale. The main features which we hope to demonstrate include increasing production output, higher DWP quality, lower operating costs and a new optimised hydrolysate revenue stream. The products from the demonstration plant will assist in

the development of various beneficiation options for the different DWP lines operated by Sappi.



**Bio-energy**

**Background**

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

**Our response**

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 at 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 would generate 25MW of electrical energy which would be fed into the national grid. We are still waiting for regulatory approval.

**Material issue: innovation**

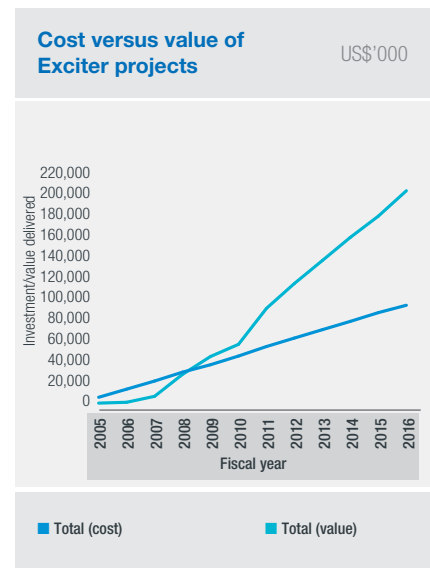
**Background**

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

**Our response**

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

Our total R&D spend in 2016 was US\$26 million including spend of approximately US\$7 million on our Exciter programme which focuses on core business (Exciter I) and new and adjacent business (Exciter II).



In FY2016, the focus for Exciter I projects (core business) was on cost reduction, developing new products and optimisation of current processes. Over the past year, in addition to working on spray blade coater and stock preparation development, we focused on:

- Cost reduction through novel innovations for the paper industry
- Processing in our pulp and paper mills, including the potential inclusion of lower cost species in the timber furnish for DWP pulp production and ongoing work on the economic feasibility of sugar extraction
- The evaluation of disruptive processes or technologies for DWP manufacture and/or conversion
- Improving our DNA Fingerprinting Platform which has been in commercial use since 2008, and



## Our key material issues continued

- Breakthrough papermaking processes, including cost-effective concepts for coated fine paper by significantly decreasing variable costs and the use of CMF/CNF in papermaking.

Exciter II (new business) is primarily focused on new technologies in adjacent areas to the current business. In FY2016, we focused on:

- The development of products for adjacent markets, including paper for plastic projects which focused on delivering renewable raw materials and biodegradable products as alternatives to plastic products
- Biorefinery, as well as organic acids and lignin platforms, and
- New commercial revenue streams in the release field and active and intelligent packaging as well as the development of fibre-based composites.



### 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 regret to report that tragically, there was one employee and three contractor fatal injuries during the year in **Southern Africa**. The severity of these accidents was reflected in the increased Injury Index (II) for own employees and contractors.

There was no significant improvement in the own employee LTIFR of all regions during FY2016, although there was an improvement in contractor LTIFR. All regions recognise that we will not improve our safety record by treating safety in the same way we have done so in the past. Consequently, in 2017, all regions are introducing new safety initiatives in order to significantly improve safety going forward.

In **Southern Africa**, Sappi Forests commissioned consultants from Finland and New Zealand to spend two weeks each in the forestry operations to evaluate practices and make recommendations

for improvement. During 2017, the region will be embarking on a *Twice as safe* programme to halve the number of accidents by 2020.

The programme will involve all employees in manufacturing and forestry from the CEO down, to line management, supervisors, trade unions and health and safety representatives. The programme, which will be facilitated by an industrial psychologist, will address issues like fatigue, communication, risk tolerance and at risk behaviour. Contractors will be involved in all safety decisions and the Sappi Forests division will also focus on forestry contractor supervisor training and a chainsaw operator evaluation, gap analysis and a retraining programme.

#### Material issue: labour relations Background

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

#### Our response

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

Sappi promotes freedom of association and engages extensively with representative trade unions. Globally, approximately 60% of Sappi's workforce is unionised, with 71.5% belonging to a bargaining unit.

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

In **Europe**, approximately 72% of our employees belong to a union and are represented through work councils. European work councils meetings take place twice a year at which Sappi is represented by the Chief Executive Officer and Human Resources Director. The main purpose of the meetings is to inform and consult on business results/market developments and pan-European organisational topics.

The overall labour relations climate in this region continued to be constructive. We

concluded a collective labour agreement (CLA) at Kirkniemi Mill and are engaging with local union leaders to conclude a CLA at Maastricht Mill. The CLAs for the other mills are due for review in 2017.

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

There were no major disputes in this region. During FY2016, we settled labour agreements with trade unions at Somerset, Cloquet and Westbrook Mills, the security union at the Somerset Mill and the two small railroad unions at Cloquet Mill. These new agreements contain economic provisions similar to those negotiated with the production workers at all three mills during FY2015.

In **Southern Africa**, approximately 47% of the total workforce 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 (CEPPWAWU). However, this agreement requires the majority union to maintain a membership threshold of 50%+1 which is currently not the case.

The labour relations climate in **Southern Africa** was volatile, mainly due to trade union rivalry. However, the mills continued to enjoy labour stability owing to ongoing positive engagement with union leadership facilitated by structures such as the National Partnership Forum which includes senior members of management and senior union leaders. They hold regular meetings where business, safety and union challenges are discussed.

While collective bargaining during FY2016 was extremely tough, we once again successfully concluded wage negotiations without industrial action in all sectors – forestry, pulp and paper, as well as sawmilling.


#### Material issue: investing in communities Background

#### Background

Corporate Social Responsibility (CSR) investment can enhance a company's social licence to operate; build reputation and employee morale; help establish

customer loyalty and attract talent. Community investment is particularly important in **Southern 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

 Sappi's CSR policy (see separate committee paper) provides a global framework used by each operating region to guide local activities. The policy reflects community need, government priorities and business strategy as well as global developments including the emergence of sustainability/CSR standards and reporting.

Projects are aligned with and support business priorities and needs, taking into account feedback from our stakeholders.

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. We encourage employees to participate in outreach and community projects.

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

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

Our CSR initiatives in 2016 are described in more detail in our group sustainability report, available at [www.sappi.com](http://www.sappi.com), but a snapshot is set out below to give an overview of these initiatives.

In conjunction with Natuur en Bos, **Sappi Europe** continued with their employee-led tree-planting programme, planting a further 4,000 saplings in the Forêt de Soignes in Belgium. This brings the total number of trees planted by the group

to over 16,000 since the initiative started six years ago.

Now in its 17th year, the annual Ideas that Matter (ITM) programme in **North America** continues to provide financial support to designer applicants who create and implement print projects for social impact. The programme is open to North American designers who have partnered with a non-profit organisation and developed a communication campaign that is ready for implementation. This year's winning projects were chosen for the effective way they address pressing social issues including rural healthcare and pharmaceutical misuse, literacy, childhood development and the importance of play, education and leadership in war-challenged international communities, girls and youth development and traumatic health issues for children and their families.

Since 1999, the ITM grant programme has funded over 500 non-profit projects and has contributed more than US\$13 million to a wide range of causes that use design as a positive force in society.

To encourage more engagement and involvement from employees, in 2017 we will be launching an employee ITM programme.

### In **Southern Africa**:

- There is a proven causal link between early childhood development and success and wellbeing later in life. 2016 was the third year of our ECD project in KwaZulu-Natal, which covers 25 sites through the Training and Resources in Early Education (TREE) organisation, with the project expanding to include an additional 18 sites from the end of 2016. In Mpumalanga province, the development of an ECD Centre of Excellence at the Sappi Elandshoek

community through Penreach is delivering strong results. We have also extended the ECD programme in Gauteng, with 50 practitioners in 50 ECD centres per year undergoing training through Jabulani Training and Development.

- We continue to support five Protec branches in Sappi communities (maths and science classes for over 1,000 students in grades 10, 11 and 12) as well as the KwaDukuza Resource Centre.
- Possibly the highlight of the year under review was the success of our youth development project called Abashintshi ('the Changers' in Zulu), implemented in conjunction with a development communication agency. The project involves using young people from the rural communities living in and around our operations across KwaZulu-Natal to mobilise their communities to take charge of their own futures instead of waiting for work or development to arrive from outside, in line with the asset-based community development (ABCD) model. The programme began with 18 young volunteer men and women in 2015 and has now expanded to include 36 people.

Over the last two years, these 36 change agents have reached more than 18,500 people in their respective communities. Overall, almost 330 people have been taught some basic business skills which has resulted in more than 120 micro enterprises either starting up, or being rejuvenated. The Abashintshi have also mobilised communities to become involved in fire prevention with significant results – the average number of fires in 2016 is the lowest in six years.

### Social investment spend in 2016 and budgeted spend for 2017

Total	Spend 2016	Budget 2017
Europe	US\$98,200	US\$90,900
North America (ITM US\$250,000)	US\$577,362	US\$580,000
Southern Africa	US\$2.5 million	US\$3.85 million
Additional once-off spend by Sappi Forests on capex items for villages including solar geysers, etc	US\$1.36 million	

## Our key material issues continued



### Planet

#### Material issue: woodfibre Background

The global demand for woodfibre is expected to increase for the foreseeable future, driven partly by the demand for wood pellets rather than finite fossil fuels as a green energy source. This is expected to accelerate as more and more countries commit to mitigation actions on climate change. In 2015, global wood pulp prices climbed past the previous peak from 2011, which was the highest price point in more than 30 years<sup>(7)</sup>.

In addition, climate change has the potential to seriously impact our fibre base. In all three regions where Sappi operates, climate change could alter the frequency and intensity of forest disturbances such as insect outbreaks, invasive species, wildfires, and storms. These disturbances could reduce forest productivity and change the distribution of tree species.

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

#### Our response

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

In **North America**, we recently announced a US\$25 million capital project to update Somerset Mill woodyard. This project will allow the mill to modernise the wood debarking, chipping and chip distribution systems, thereby improving reliability, reducing white wood losses and costs while enhancing efficiency gains through the increased production of wood chips. The improved quality will decrease the cooking time within the digester, while the increased chip volumes mean the mill will no longer purchase woodchips from the external market.

The commissioning of the new system will be complete by the end of November 2017, following a temporary woodyard shutdown for installation. Specifically, upgrades will be made to the log infeed, debarker, chipper, chip transfer system, woodroom controls and bark handling.

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

In **Southern Africa**, the fact that we own and lease 388,000 hectares (ha) of plantations gives us a competitive advantage. Of this 388,000ha, 249,000ha is used to grow trees, with a further 139,000ha being used for other purposes such as conservation. We have access to wood from a further 103,000ha via contracted timber suppliers. 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. Work to enhance the sustainable management of our plantations and fibre base in FY2016 included:

- The acquisition of LiDAR (Light Detection and Ranging) data for all Sappi land holdings primarily for the purpose of determining ground roughness and slope (important variables for harvesting). LiDAR produces a very accurate three-dimensional point cloud (six points per m<sup>2</sup>). In addition to slope and ground roughness, these data were used to extract tree heights at a compartment level. Tree measurement, using LiDAR, is significantly better than the conventional 3% sampling approach conducted by Sappi as it is essentially a census of the tree growth in a compartment. It measures tree height, a main driver of growth, very accurately. Extensive testing was carried out, and

the LiDAR data correlated extremely well with recent in-field conventional measurements (correlation greater than 90%). Growth data for approximately 50% of Sappi's planted area was updated using this methodology

- We continued to focus on the development of genomic methods for the selection of superior individuals to potentially shorten the breeding cycle. Pure species development is ongoing, with selected individual genotypes being captured through grafting. Trials on seed use efficiency, aiming to make best use of scarce seed resources, whether for breeding or in the nursery continue
- Hybrid production of both pines and eucalypts continues, and various hybrid combinations are being tested across Sappi land holdings. Work is being done to improve the growing environment for cutting production, to refine plant quality specifications and to investigate media and media enhancements to promote growth
- In the field, cold tolerance trials and insecticide investigations look for ways to counter biotic and abiotic threats, while methods of land preparation, fertiliser treatment and site selection seek to give plants the best possible growth, while studies on wood properties seek to add value to the pulping process
- We began to test *Corymbia henryi*, a promising potential new species choice which can tolerate salt-laden coastal winds and is slightly tolerant to frost (0 to -5°C), and
- We have used near infrared spectroscopy (NIRS) to develop baseline models representing a range of wood chemical traits. These models are being used to predict the wood property of large numbers of genotypes in tree breeding trials and the technique is being investigated as tool for scanning chips in our pulp mills for rapid assessment of important traits such as moisture and wood density.

In terms of climate change, we mitigate risks by:

- Deploying a diverse range of commercial species and hybrids across a wide range of climatic conditions

<sup>(7)</sup> <http://www.pulpapernews.com/2016/02/wood-pulp-and-paper-prices-continue-to-rise>

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

In **Southern Africa**, we work to expand access to the forestry sector in a number of ways, including:

- **Khulisa Umnotho (Project Grow)**, our enterprise development initiative which began in 1983, is aimed at community tree-farming and has successfully uplifted impoverished communities in KwaZulu-Natal and the Eastern Cape. The total area currently managed under this programme amounts to 22,717ha. In FY2016, under the programme, 395,232 tons (2015: 361,134 tons), worth approximately US\$20 million was delivered to our operations. Since 1995, a total volume of 2,865,360 tons, to the value of ZAR1.3 billion, has been purchased from small growers in terms of this programme.

In recent years, we have expanded Khulisa Umnotho beyond the borders of KwaZulu-Natal to the Eastern Cape. We have signed a Memorandum of Understanding with the Eastern Cape Rural Development Agency (ECRDA) to facilitate forestry development in this region. To date, the total area planted covers 3,297ha and a further 4,812ha is in the Environmental Impact Assessment phase, with records of decision awaited on a further 1,250ha. For further details, please see our Khulisa Umnotho FAQ, available at [www.sappi.com](http://www.sappi.com)



- We are also active in land reform. As at the end of September 2016, Sappi was involved in 51 land reform projects with the average farm size of 218ha to the largest project of approximately 6,900ha belonging to the Somhlolo Community Trust. Many of these properties previously belonged to commercial farmers who had supply agreements with Sappi. To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and have also provided assistance. This depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive Forestry Enterprise Development Agreement (FEDA). The latter is a supply agreement but also incorporates development objectives whereby Sappi provides technical and business training as well as administrative support, and
- To further assist with the development of small growers and other forestry value chain participants, we have established a training centre at Richmond in KZN. The training centre has Khulisa Ulwazi ('Growing Knowledge') as its slogan and will be providing training to small growers, land reform beneficiaries and small-scale contractors in the technical and business aspects of forestry and small business management. (See the 2016 Sappi SA Sustainability Report available on [www.sappi.com](http://www.sappi.com) for further details.)

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

The so-called Paris Agreement – adopted by all 196 parties to the United Nations Framework Convention on Climate Change at COP21 in Paris on 12 December 2015 and which came into force on 04 November 2016 – urges countries to implement policies that would allow them to keep a global temperature rise below two degrees Celsius. The global forest products industry has a highly significant role to play in the implementation of these targets.

We believe that any policies aimed at curbing emissions and introducing carbon tax need to take 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 industry. In 2016, globally Sappi's generation of renewable energy (derived from black liquor, sludges and biomass) was 52.9% – an increase of 5.1% over five years. Of this amount, just over 75% (2015: 73%) is own black liquor. In addition, over five years we have achieved a reduction in direct (Scope 1) emissions of 4.7% and 20.55% in indirect (Scope 2) emissions, representing a decrease in absolute emissions intensity (Scope 1 and 2) of 8.8%.

As forests grow, carbon dioxide (CO<sub>2</sub>) is removed from the atmosphere via photosynthesis. This CO<sub>2</sub> is converted into organic carbon and stored in woody biomass. Trees release the stored carbon when they die, decay or are combusted. As the biomass releases carbon as CO<sub>2</sub>, the carbon cycle is completed. The carbon in biomass will return to the atmosphere regardless of whether it is burned for energy, allowed to biodegrade or lost in a forest fire.

The net impact of these processes is that CO<sub>2</sub> flows in and out of forests and through the forest products industry by both biomass combustion and sequestration in products. Overall, the flow of forest CO<sub>2</sub> is carbon positive when forests are sustainably managed and the forest system remains a net sink of CO<sub>2</sub> from the atmosphere. Thus, the carbon neutrality of sustainably managed forest biomass is a scientifically supported fact.

The carbon neutrality of biomass harvested from sustainably managed forests has been recognised repeatedly by an abundance of studies, agencies, institutions, legislation and rules around the world, including the guidance of the Intergovernmental Panel on Climate Change and the reporting protocols of the United Nations Framework Convention on Climate Change.

Our view is that any emissions regulations or carbon tax must take account of the carbon neutrality of biomass.



## Our key material issues continued

In terms of carbon taxes, we continue to monitor the situation in each region where we operate. In **North America** and **Europe**, carbon taxes do not appear to be an imminent risk. In **Southern Africa**, the Department of Environmental Affairs (DEA) and National Treasury have embarked on a process to ensure that the carbon tax is aligned with a proposed carbon budget system. We are pleased to report that the DEA has accepted our proposed carbon budget which is valid until 2020.

### 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 **Southern Africa**, where national energy demand outstrips supply at times, energy security is also an issue.

### Our response

Even though globally our energy costs as a percentage of cost of sales have declined over five years due to actions taken, it makes business sense for Sappi to aggressively manage energy usage and promote the generation of renewable energy. We aim to reduce our carbon

footprint by improving energy efficiency and decreasing our reliance on fossil fuels. We have and will continue to achieve this by making process changes, installing more efficient equipment, reducing purchased energy (electricity and fossil fuel) by increasing our use of renewable energy – an approach that ultimately results in a reduction in CO<sub>2</sub> emissions.

Over five years, we have achieved a reduction in internal energy consumption of 8.8% and a reduction in energy intensity of 2.1%, as well as an increase in energy self-sufficiency of 10.5%.

Our energy efficiency is enhanced through our 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.

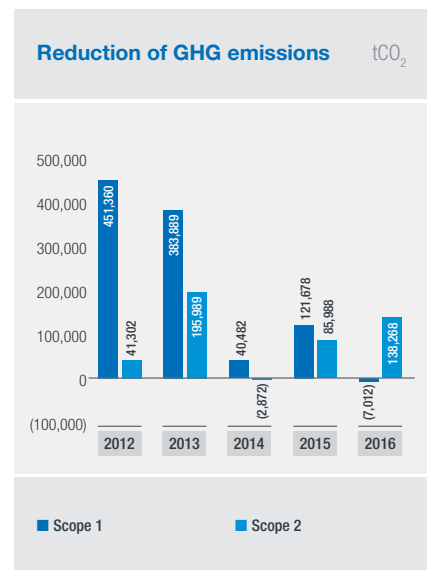
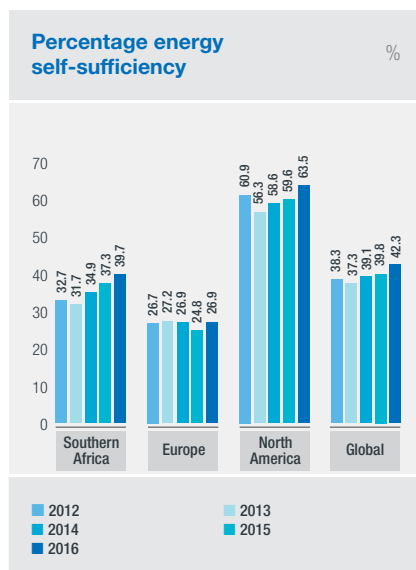
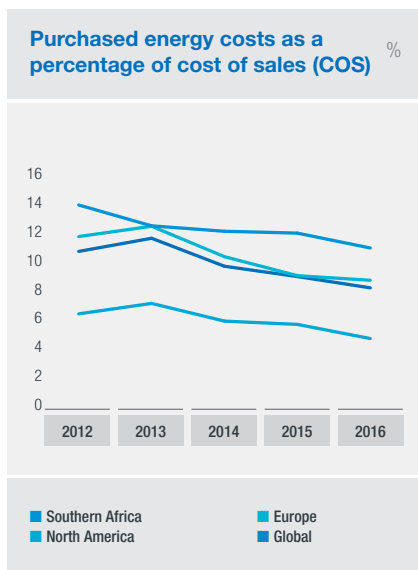
Most Sappi mills generate power on site from fossil or renewable resources for internal consumption. In some instances (Westbrook Mill (North America), Gratkorn and Maastricht Mills (Europe) and

Ngodwana Mill (South Africa)), excess energy generated is sold back into the power grid. This energy is used for district heating in the vicinity of Sappi's plants and for export into the public grid, thereby replacing fossil fuels. In this way, roughly 100,670 metric tons CO<sub>2</sub>e emissions were avoided during the past five-year cycle<sup>(9)</sup>.

In the USA, the country's energy profile is only 10% renewable energy whereas the pulp and paper industry uses 54.5% and Sappi **North America's** use of renewable energy is over 70%. This is a significant competitive benefit not just in terms of costs, but also in terms of customers choosing papers with a lower environmental footprint<sup>(9)</sup> and as a result we have the lowest reported greenhouse gas emissions amongst the major domestic coated freesheet suppliers.

In **Southern Africa**, we have embarked on two new energy projects:

- At Tugela Mill, we have installed a new turbine and applied for the project to be registered under the South African government's cogeneration Independent Power Producer Programme, and



<sup>(9)</sup> The emissions avoidance value was calculated by taking each regional power utility's emissions factor and comparing it with Sappi's internal power generation emissions factor. The difference between the two factors indicates that Sappi's internal power generation is less carbon intensive in certain regions and therefore results in carbon emission avoidance.

<sup>(9)</sup> [https://www.eia.gov/forecasts/aeo/data/browser/#/?id=37-AEO2016&cases=ref2016~ref\\_no\\_cpp&sourcekey=0](https://www.eia.gov/forecasts/aeo/data/browser/#/?id=37-AEO2016&cases=ref2016~ref_no_cpp&sourcekey=0)



- At Saiccor Mill, we are replacing three turbine generators with a high efficiency steam turbine generator set. This will eliminate wasteful steam venting during process upsets, allow for efficient boiler operation and mitigate the impact of an Eskom electricity supply interruption. It will also reduce the amount of imported power purchased from Eskom, thereby increasing power self-sufficiency to approximately 69% and enhancing the mill's cost competitiveness. In addition, it will improve coal-fired boiler operation as the occasional oversupply of steam due to the cyclical nature of the steam demand will be handled via the condensing turbine set rather than by increasing or decreasing boiler steaming rates. It is expected that the boiler steam to coal ratio will improve by 6% as a result of running these boilers at an optimal rate. Annual savings are estimated to be approximately US\$4.9 million based mainly on reduced power purchases.

Also at Saiccor Mill, in FY2016, we established a pilot scale plant at the mill to assess the use of anaerobic digestion 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.

## Material issue: water

### Background

The United Nations estimates that by 2030 almost half of the world's population will live in areas of high water stress. Human population growth and consumption are the leading drains on global water supplies.

### Our response

Our production processes depend on water, as does woodfibre, our primary input. Globally, we return 92% of the water we extract back into the environment after it has been treated and cleaned. Of the 8% balance, approximately 4% exits the mill in the form of production, while the remainder is lost to the environment. Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand by 0.5% and total suspended solids by 36.5%.

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

To mitigate the impact of low flows on the Umkomazi River, the prime source of water to Saiccor Mill, we have completed a project to raise the Comrie Dam wall, upstream of Saiccor Mill, tripling the amount of water in the dam. However, we still await a water use licence from the regulatory authorities. At Ngodwana, Tugela and Stanger Mills we are focusing on internal modifications which involve the more efficient use of water.

# Our leadership

## Non-executive management



**Sir Anthony Nigel Russell Rudd (Nigel)\*** (69)  
**Independent Chairman**  
**Qualifications** DL, Chartered Accountant  
**Nationality** British  
**Sappi board committee memberships**  
 Nomination and Governance Committee (Chairman)  
 Attends Audit Committee, Human Resources and Compensation Committee and Social, Ethics, Transformation and Sustainability Committee meetings ex officio

**Godefridus Peter Franciscus Beurskens (Frits)\*\*** (69)  
**Independent**  
**Qualifications** BSc Mechanical Engineering, MSc Industrial Engineering and Management Science  
**Nationality** Dutch  
**Sappi board committee memberships**  
 Audit Committee  
 Audit Committee of Sappi Europe (Chairman)

**Robert John DeKoch (Bob)** (64)  
**Independent**  
**Qualifications** BA (Chemistry), MBA  
**Nationality** American  
**Appointed** March 2013  
**Sappi board committee memberships**  
 Social, Ethics, Transformation and Sustainability Committee

**Michael Anthony Fallon (Mike)** (58)  
**Independent**  
**Qualifications** BSc (Hons) (First class)  
**Nationality** British  
**Appointed** September 2011  
**Sappi board committee memberships**  
 Human Resources and Compensation Committee (Chairman)  
 Audit Committee

**Dr Deenadayalen Konar (Len)** (62)  
**Independent**  
**Qualifications** BCom, MAS, DCom, CA(SA), CRIMA  
**Nationality** South African  
**Appointed** March 2002  
**Sappi board committee memberships**  
 Audit Committee (Chairman)  
 Nomination and Governance Committee

**Nkateko Peter Mageza (Peter)** (62)  
**Independent**  
**Qualifications** FCCA (UK)  
**Nationality** South African  
**Appointed** January 2010  
**Sappi board committee memberships**  
 Audit Committee  
 Human Resources and Compensation Committee

\*Sir Nigel Rudd was appointed Chairman of the Sappi board on 01 March 2016.  
 \*\*Mr Beurskens will retire from the Sappi board at the end of February 2017.



**John David McKenzie (Jock)** (69)

**Lead independent director**

**Qualifications** BSc Chemical Engineering (Cum laude), MA

**Nationality** South African

**Appointed** September 2007

**Sappi board committee memberships**

Human Resources and Compensation Committee  
Nomination and Governance Committee

**Mohammed Valli Moosa (Valli)** (59)

**Non-independent**

**Qualifications** BSc (Mathematics)

**Nationality** South African

**Appointed** August 2010

**Sappi board committee memberships**

Social, Ethics, Transformation and Sustainability Committee  
(Chairman)

**Robertus Johannes Antonius Maria Renders**

**(Rob Jan)** (63)

**Independent**

**Qualifications** MSc (Mechanical Engineering), MDP

**Nationality** Dutch

**Appointed** October 2015

**Sappi board committee memberships**

Human Resources and Compensation Committee

**Dr Rudolf Thummer** (69)

**Independent**

**Qualifications** Dr Techn, Dipl-Ing

**Nationality** Austrian

**Appointed** February 2010

**Sappi board committee memberships**

Social, Ethics, Transformation and Sustainability Committee

**Karen Rohn Osar** (67)

**Independent**

**Qualifications** MBA, Finance

**Nationality** American

**Appointed** May 2007

**Sappi board committee memberships**

Audit Committee  
Audit Committee of Sappi North America (Chairperson)

**Bridgette Radebe\*** (56)

**Independent**

**Qualifications** BA (Pol Sc and Socio)

**Nationality** South African

**Appointed** May 2004

**Sappi board committee memberships**

Social, Ethics, Transformation and Sustainability Committee



*\*Mrs Radebe will retire from the Sappi board at the end of February 2017.*



# Our leadership continued

## Executive directors

**Stephen Robert Binnie (Steve)** (49)  
**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 all meeting of all other board committees by invitation

**Glen Thomas Pearce** (53)  
**Chief Financial Officer**

**Qualifications** 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** (61)

**President and Chief Executive Officer of Sappi North America**

**Qualifications** BSc (Industrial Technology)

**Alexander van Coller Thiel (Alex)** (55)

**Chief Executive Officer of Sappi Southern Africa**

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



## Executive management continued

**Berend John Wiersum (Berry)** (61)  
**Chief Executive Officer of Sappi Europe**

Qualifications MA (Medieval and Modern History)

**Gary Bowles** (56)  
**Executive Vice President Specialised Cellulose**

Qualifications BSc Electrical Eng, PMD, EDP

**Andrea Rossi** (62)  
**Group Head Technology**

Qualifications BSc Eng (Hons), C Eng, FCI

**Fergus Marupen** (51)  
**Group Head Human Resources**

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

**Maarten van Hoven** (43)  
**Group Head Strategy and Legal**

Qualifications BProc, LL.M (International Business Law)





# Corporate governance

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

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

## The board of directors

The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board collectively determines major policies and strategies and is responsible for managing risk.

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

The composition of the board and attendance at board meetings and board committee meetings is set out in the table below for the period October 2015 to September 2016:

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 <sup>(1)</sup>	Independent non-executive Chairman – until 29 Feb 2016	2/2		E	2/3	✓	C	2/2						
ANR Rudd <sup>(2)</sup>	Lead independent director – until 29 Feb 2016	2/2		E	3/3	✓		2/2	✓		2/2			
	Independent non-executive Chairman – from 01 March 2016	3/3		E	2/2	✓	C	1/1	✓		2/2		E	2/2
GPF Beurskens	Independent non-executive	3/5	✓		4/5									
RJ DeKoch	Independent non-executive	5/5										✓		4/4
MA Fallon <sup>(3)</sup>	Independent non-executive	5/5	✓		5/5				✓	C	4/4			
D Konar	Independent non-executive	5/5	✓	C	5/5	✓		3/3						
JD McKenzie <sup>(4)</sup>	Independent non-executive – until 29 Feb 2016	2/2							✓		2/2	✓	C	2/2
	Lead independent director – from 01 March 2016	3/3				✓		1/1	✓		2/2			
NP Mageza	Independent non-executive	5/5	✓		5/5				✓		4/4			
MV Moosa <sup>(5)</sup>	Non-executive	5/5										✓	C	2/2
KR Osar	Independent non-executive	5/5	✓		5/5									
B Radebe	Independent non-executive	5/5										✓		4/4
RJAM Renders <sup>(6)</sup>	Independent non-executive	5/5							✓		2/2			
R Thummer	Independent non-executive	5/5										✓		4/4

<sup>(1)</sup> Dr Danie C Cronjé retired as Chairman from the board of Sappi Limited with effect from 01 March 2016.

<sup>(2)</sup> Sir Nigel Rudd was appointed Independent non-executive Chairman of the Sappi Limited board and chairman of the Nomination and Governance Committee, with effect from 01 March 2016.

<sup>(3)</sup> Mr MA Fallon was appointed chairman of the Human Resources and Compensation Committee with effect from 01 March 2016.

<sup>(4)</sup> Mr JD McKenzie was appointed lead independent director with effect from 01 March 2016.

<sup>(5)</sup> Mr MV Moosa was appointed chairman of the SETS Committee with effect from 01 March 2016.

<sup>(6)</sup> Mr RJAM Renders was appointed non-executive director to the board of Sappi Limited with effect from 01 October 2015 and member of the Human Resources and Compensation Committee with effect from 01 March 2016.

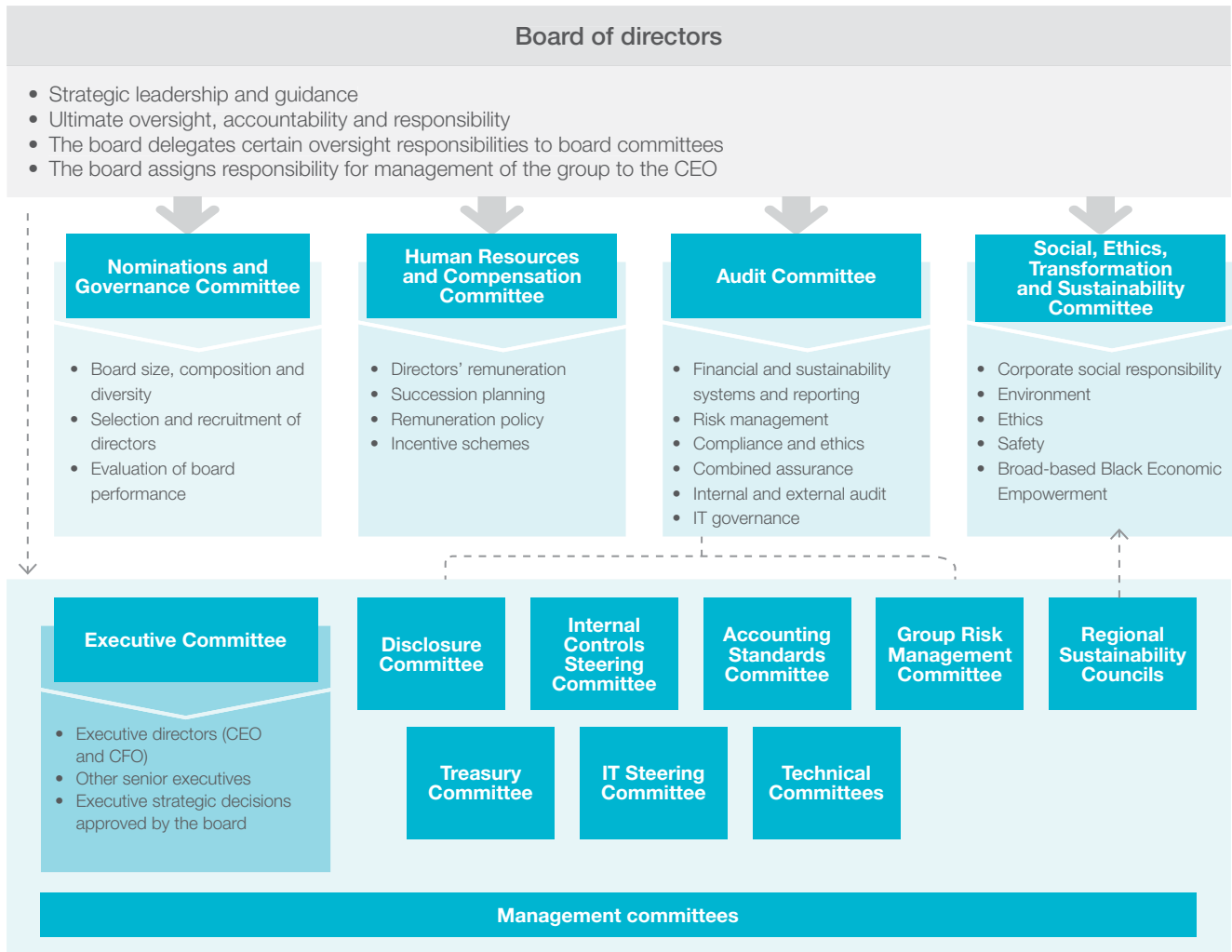
✓ Indicates board committee membership, C indicates board committee chairman, B indicates attendance by invitation, and E indicates attendance ex officio. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated.

## Induction and training of directors

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

## Sappi board and management committees

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



### Board committees

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

#### Audit Committee

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

- Safeguarding and efficient use of assets
- Oversight of the risk management function
- 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 in the group annual financial statements.

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit Committee during 2016.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2016.


# Corporate governance continued

## Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent directors and considers the leadership requirements of the company, including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, 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 function and performance of Sappi's board and board committees were assessed internally in 2016 and established that the board and board committees functioned well.

## Human Resources and Compensation Committee


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

 The compensation report can be found on page 55.

## Social, Ethics, Transformation and Sustainability Committee

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

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

 For more information on sustainability at Sappi refer to pages 26 to 43 and for a summary of the group's initiatives go to [www.sappi.com](http://www.sappi.com).

## Management committees

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

## 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 year.

## Disclosure Committee

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

## Treasury Committee

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

## Technical Committees

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

## Group Risk Management Team

The board mandates the Group Risk Management Team (GRMT) to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The GRMT reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process.

## Internal Control Steering Committee

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

## Group IT Steering Committee

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

## Sappi's internal controls and combined assurance framework

Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls. Sappi maintains a robust framework of risks and controls which assists in the application of the King III

guidelines. The framework comprises both financial and non-financial controls.

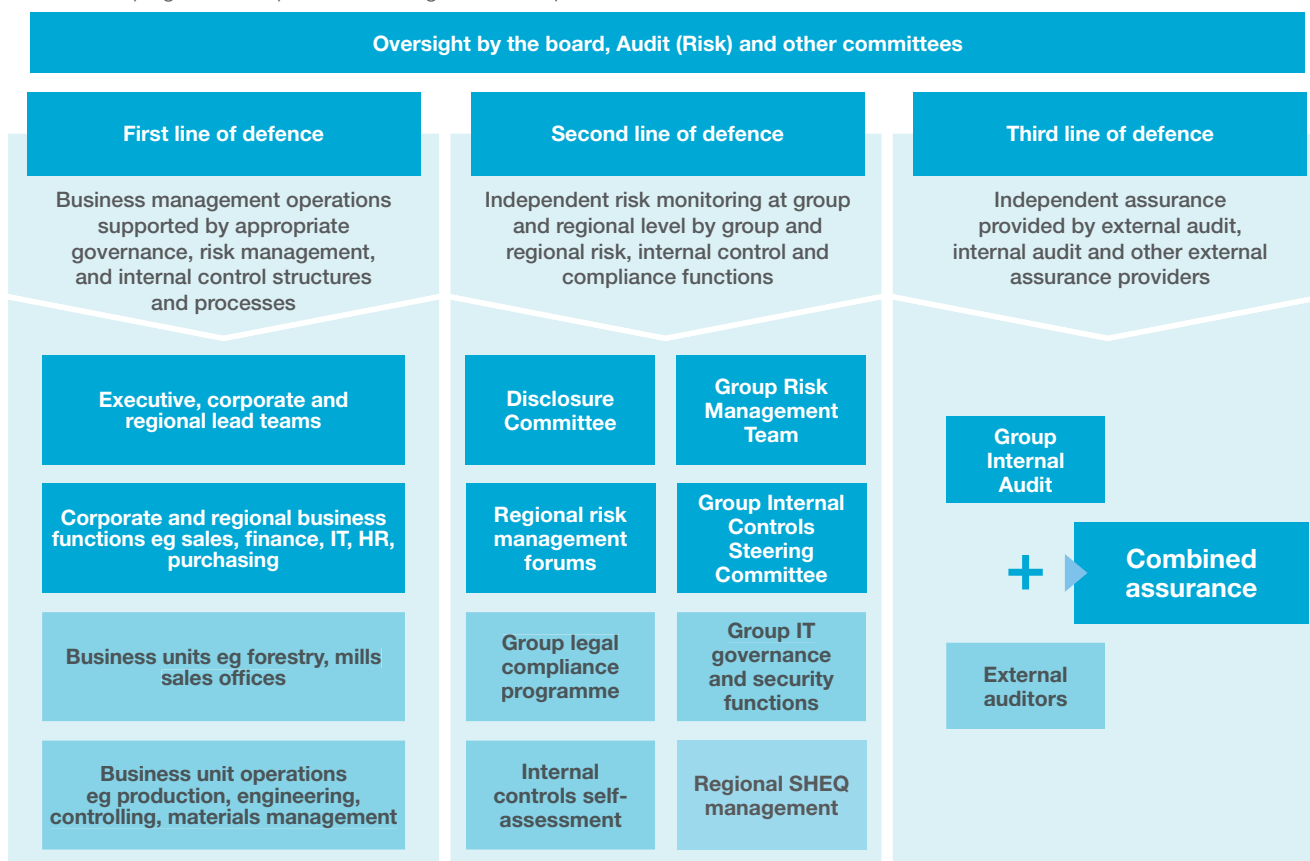
The group's internal controls and systems are designed in accordance with the COSO\* control framework, to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information, that assets are adequately safeguarded against material 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 operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

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

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

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



\* COSO – please refer to the Glossary on page 88.

# Corporate governance continued

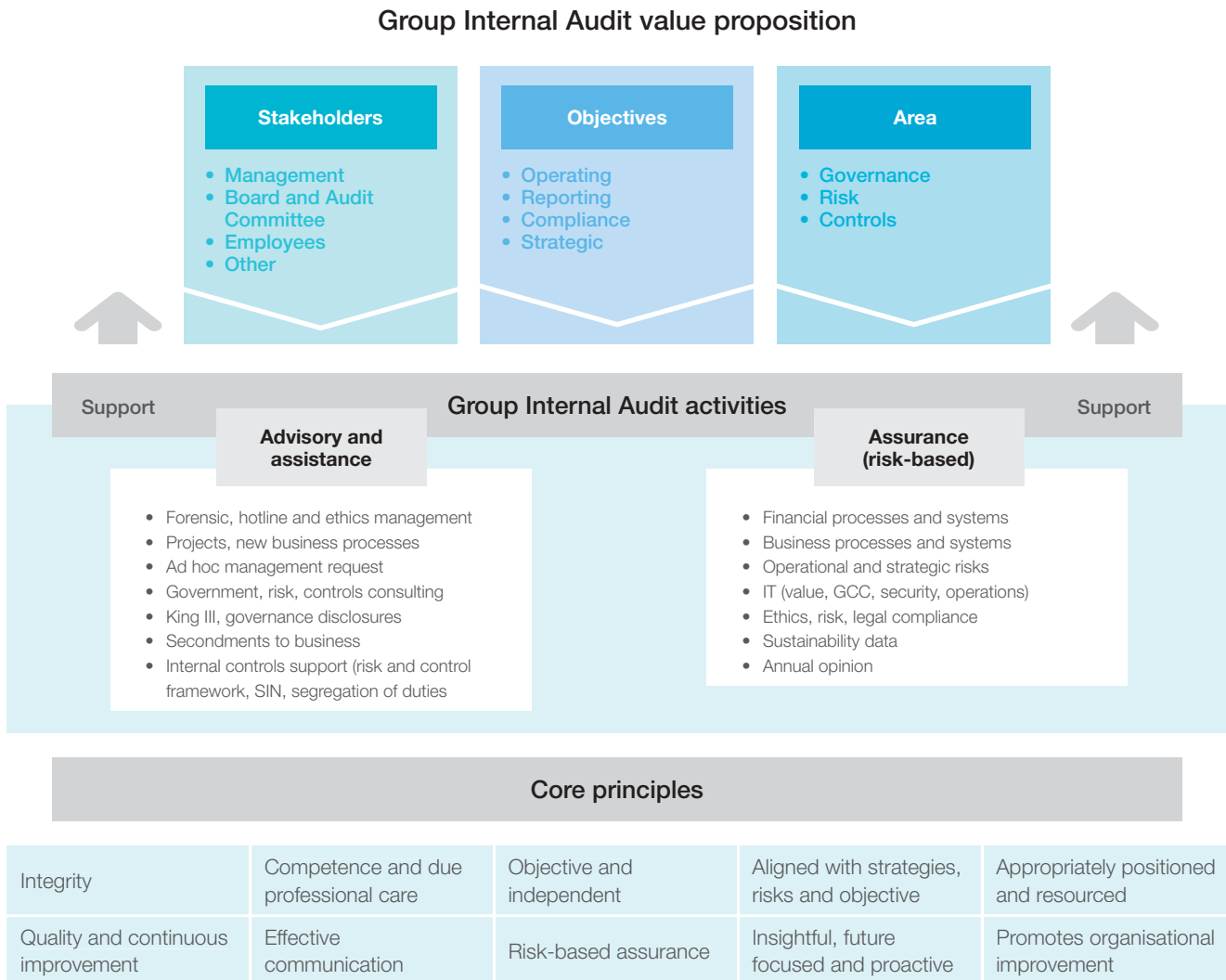
As part of combined assurance in respect of internal controls, Sappi has obtained assurance on the data in the Annual Integrated Report from the following sources:

- Financial data is independently audited by 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 governance, risk management, systems, internal controls and accounting records. It plays a coordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and group Audit Committees.

The head of Group 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 Group Internal Audit at Sappi is set out in the following diagram:





During 2016, apart from the ongoing focus on financial controls, Group 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 coordinated by Group Internal Audit. Group Internal Audit maintains an internal quality assurance programme, which includes periodic external review. In 2015, an external validation was conducted by the Institute of Internal Auditors (IIA). A generally conforms (GC) rating was received, which is the highest of the three levels of conformance to the IIA's standards.

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

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 Group 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 2016. 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.

### Group Company Secretary

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

### Code of Ethics

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

### Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports twice per annum to the group Audit Committee. The resourcing of the compliance function was boosted by the appointment of a compliance manager in 2016.

### Conflict of interests

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

### Insider trading

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

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

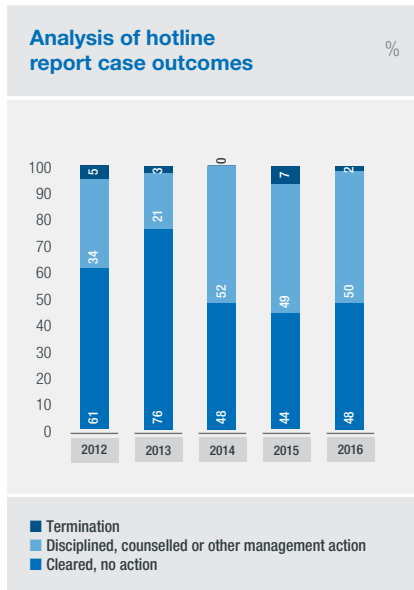
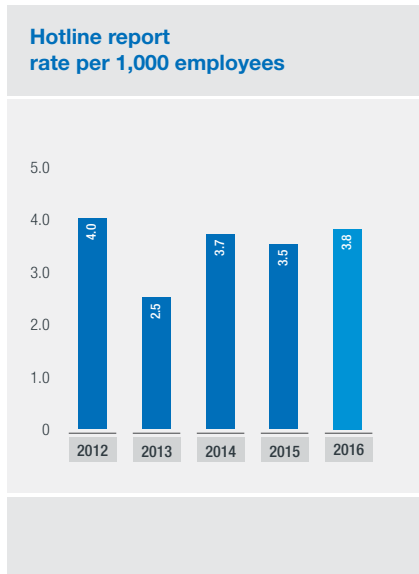
Whistle-blower hotlines have been implemented in all the regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is coordinated either by legal counsel or internal audit and reported to the Audit Committee. The majority of calls received related to the Southern African region. Please refer to the whistle-blower hotline graphs, found on page 54, 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.

# Corporate governance continued

## Stakeholder communication

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

For more information on our key relationships at Sappi refer to page 26.



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

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

## Independent advice

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

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

## Human Resources and Compensation Committee


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

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

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

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

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

 Attendance at meetings by individual members is detailed on page 48.

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 2016 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the performance share plan awards which were awarded on 02 December 2011
- Approved the allocation of 2015 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 2016
- Recommended fee levels to the Sappi Limited board for consideration and recommendation to shareholders for approval

- Approved the allocation model and the comparator peer group for the 2016 performance share plan
- 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 2016
- Approved the 2017 Management Incentive Bonus Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan, and
- Reviewed the succession and retirement plans for key management positions.

## Compensation strategy and policy

Our compensation packages:

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

# Compensation report continued

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

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

Purpose	Operations	Opportunity
<b>Fixed</b>		
<b>Component – Base salary</b>		
<ul style="list-style-type: none"> <li>To reflect market value of the role, individuals’ skills, contribution, experience and performance</li> <li>To attract and retain key talent</li> </ul>	<ul style="list-style-type: none"> <li>Paid monthly in cash</li> <li>Reviewed annually with any increases to be effective from 01 January each year</li> <li>Base salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population</li> </ul>	<ul style="list-style-type: none"> <li>Increases are applied in line with outcomes of performance discussions with the individuals concerned</li> </ul>
<b>Component – Benefits</b>		
<ul style="list-style-type: none"> <li>To provide protection and market competitive benefits to aid recruitment and retention</li> </ul>	<ul style="list-style-type: none"> <li>Private medical insurance</li> <li>Income in the event of death or disability</li> <li>These are:                             <ul style="list-style-type: none"> <li>– appropriate in terms of level of seniority</li> <li>– market related</li> <li>– death benefit is a multiple of base salary, and</li> <li>– non-pensionable</li> </ul> </li> </ul>	None
<b>Component – Pension</b>		
<ul style="list-style-type: none"> <li>Make ongoing company contributions during employment</li> <li>To provide market-related benefits</li> <li>Facilitate the accumulation of savings for post-retirement years</li> </ul>	<ul style="list-style-type: none"> <li>Comprises defined benefit and defined contribution plans</li> <li>A large number of defined benefit plans are closed to new hires</li> <li>Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service</li> <li>Retirement plans differ by region</li> </ul>	<ul style="list-style-type: none"> <li>Executive members of defined contribution plans receive a company contribution of up to 18.47% of salary</li> <li>Executive members of defined benefit plans receive company contributions of up to 31.24% of salary. This applies to only one Executive Committee member. The contribution varies based on the actuarial valuation of the reserves of the relevant schemes</li> </ul>
<b>Variable</b>		
<b>Component – Annual cash incentive</b>		
<ul style="list-style-type: none"> <li>Focus participants on targets relevant to the group’s strategic goals</li> <li>Drive performance</li> <li>Motivate executives to achieve specific and stretching short-term goals</li> <li>Reward individuals for their personal contribution and performance</li> <li>Deferred share proportion of the annual bonus aligns interests with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>All measures and objectives are reviewed and set at the beginning of the financial year</li> <li>Payments are reviewed and approved at year-end by the committee based on performance against the targets</li> <li>Threshold is required to be met for any bonus payment to occur</li> <li>Target level of bonuses varies from 65-85% of base salary</li> <li>Weightings for 2016 were: EBITDA – 60%; working capital – 30%; and safety – 10%</li> <li>Bonuses are paid in cash. The Group Chief Executive Officer and Executive Committee members have volunteered to purchase shares with 40% and 30% of their after-tax cash bonus respectively. The right to sell the shares is deferred for up to three years, subject to individual members not being terminated for cause</li> <li>Non-pensionable</li> </ul>	<ul style="list-style-type: none"> <li>The maximum bonus for executive directors is 116% of base salary</li> <li>Executive Committee members and other senior managers may earn a maximum bonus of up to 95% of base salary</li> <li>The number of shares arising from the deferred Executive Management Incentive Scheme will be increased by 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years</li> </ul>

Purpose	Operations	Opportunity
Variable continued		
<b>Component – Long-term share incentive plans</b>		
<ul style="list-style-type: none"> <li>Align the interests of the executive members with those of the shareholder</li> <li>Reward the execution of the strategy and long-term outperformance of our competitors</li> <li>Encourage long-term commitment to the company</li> <li>Is a wealth creation mechanism for executive members if the company outperforms the peer group</li> </ul>	<ul style="list-style-type: none"> <li>Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company</li> <li>Straight-line vesting after four years</li> <li>Performance is measured relative to a peer group of 16 other industry-related companies</li> <li>The number of conditional shares allocated varies from 190,000 conditional share awards to the Chief Executive Officer, and between 50,000 and 105,000 conditional share awards to Executive Committee members</li> <li>Measures for 2015 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (CFRONA) – 50%</li> </ul>	None
<b>Component – Broad-based Black Economic Empowerment (BBBEE)</b>		
<ul style="list-style-type: none"> <li>Provide black managers with the opportunity to acquire equity in the company</li> <li>Attract, motivate and retain black managers</li> </ul>	<ul style="list-style-type: none"> <li>Established to meet the requirements of the Forestry Sector Charter BBBEE codes</li> <li>Eligible employees receive an allocation based on seniority of 'A' ordinary shares</li> <li>Shares vest 40% after three years and 10% each year thereafter</li> <li>Shares can only be taken up after September 2019</li> <li>Managers receive the net value in shares or cash at the end of the lock-in period</li> </ul>	None
<b>Component – Service contracts</b>		
<ul style="list-style-type: none"> <li>Provide an appropriate level of protection to both the executive and to Sappi</li> </ul>	<ul style="list-style-type: none"> <li>Executive Committee members have notice periods of 12 months or less</li> <li>Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>

### Compensation structure

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

### Benchmarking

Executive compensation is benchmarked to data provided in national executive compensation surveys, for countries in

which executives are domiciled, as well as information disclosed in the annual reports of listed companies of the Johannesburg Stock Exchange.

Ensuring an appropriate peer group in order to retain the integrity and appropriateness of the benchmark data is a key task of the Human Resources and Compensation Committee. Executive pay is benchmarked every alternate year.

### Compensation mix

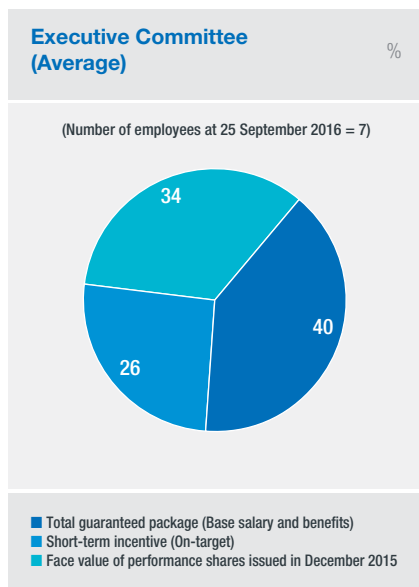
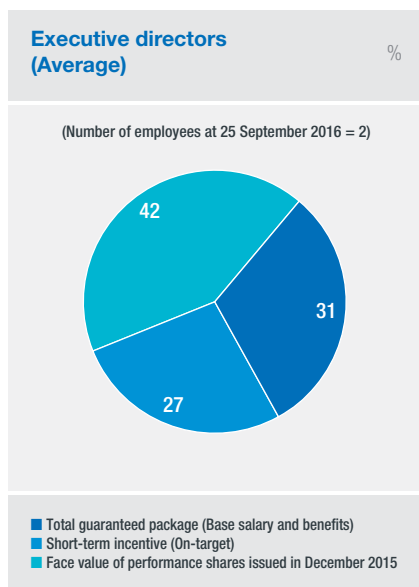
The compensation mix for executive directors and Executive Committee members is shown in the schematics on the following page.

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



# Compensation report continued

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2015 (share price at date of allocation: ZAR59.92 December 2015).



## Base salary

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

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

The 2016 salary increases were based on individual 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 Executives Committee members' increases as was the mandate for general staff, dependent on location.

Mr Binnie received a salary increase of 5.5% 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 2016 was US\$386,767 per annum.

Mr Pearce received a salary increase of 5% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Pearce's salary with effect from 01 January 2016 was US\$269,960 per annum.

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.

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

## Retirement benefits

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

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

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

## Short-term incentive

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

For the 2016 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 group's performance for the 2016 financial year:

Performance criteria	Weighting	Target points	2016 Actual achievement
EBITDA	60%	48	72
Working capital	30%	24	36
Safety	10%	8	0
<b>Total</b>	<b>100%</b>	<b>80</b>	<b>108</b>

Mr Binnie will receive a bonus award of US\$438,082 and Mr Pearce will receive a bonus award of US\$300,613 to be paid in December 2016.

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 2016 Management Incentive Scheme (MIS) rules compared to 2015.

#### 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 TSR and relative CFRONA.

The peer group for the 2016 financial year consisted of the following 16 industry-related companies:

- Fortress Paper
- Lenzing
- Rayonier Advance Materials
- Tembec
- Borrogaard
- Domtar
- West Rock

- Norske-Skog
- UPM-Kymmene
- Holmen
- Metsá Board
- Verso
- Mondi Plc
- International Paper
- Stora Enso, and
- Resolute Forest Products.

Verso and Borrogaard have been added in 2016.

#### Performance Share Plan

The vesting schedule for 2012 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 2016, Sappi's performance relative to the peer group measured on TSR was ranked in third place out of 16 companies, which meant that 100% TSR component shares vested on the due date in December 2016.

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

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

In aggregate, 100% of the total 2012 awards vested.

In December 2012, Mr Binnie was granted 100,000 conditional performance plan shares of which 100,000 vested in December 2016.

In December 2012, Mr Pearce was granted 35,000 conditional performance plan shares of which 35,000 vested in December 2016.

The historical vesting of Performance Share Plan awards:

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

Mr Binnie was awarded 190,000 conditional performance plan shares in December 2015, in line with the plan rules.

Mr Pearce was awarded 90,000 conditional performance plan shares in December 2015, 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 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 follows:

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

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

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

## Compensation report continued

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 performance shares were to be exercised or vest as at September 2016, the resulting dilution effect would be 3.24% (2015: 3.27%) of issued ordinary share capital excluding treasury shares. To the extent possible, treasury shares will continue to be used

to meet future requirements for shares arising from the exercise of options and vesting of awards.

### Share ownership guidelines and restrictions

The Chief Executive Officer, Mr Binnie, volunteered to hold a target number of shares equal to twice his annual base salary. This arrangement is from December 2015 and the Chief Executive Officer 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

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

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

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

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

Executive directors are required to retire from the company at the age of 60 years. The retirement age of Executive Committee members is generally between the ages of 60 years and 65 years, and differs by region.

## Remuneration disclosure of executive directors and prescribed officers

### Executive directors' emoluments for 2016

Executive director	Base salary US\$	Retirement funding and medical insurance US\$	Other payments US\$	Annual cash bonus US\$	Total 2016 US\$	Total 2015 US\$
SR Binnie	386,767	91,638	12,050	438,082	928,537	925,454
GT Pearce	269,960	69,630	8,249	300,613	648,452	650,060

- Base salary – the actual salary earned during 2016
- Retirement benefits – the annual contribution paid by the company into a defined benefit fund on behalf of the members determined as a percentage of their base salary
- Other payments – expenses allowances
- Annual cash bonus – the actual bonus earned in 2016 based on the rules of the Management Incentive Scheme
- Long-term incentive – conditional performance plan shares awarded in 2016 financial year which will vest in 2020
- Local earnings are translated into the reporting currency (US\$) using the average exchange rate over the financial year. The average rate for SA Rand depreciated by 23.6%.

### Prescribed officers/Executive Committee members

Prescribed officers are members of the group Executive Committee. The table below sets out the remuneration for prescribed officers for 2016:

Prescribed officer	Base salary US\$	Retirement funding and medical insurance US\$	Other payments US\$	Annual bonus US\$	Total 2016 US\$	Total 2015 US\$
Officer 1	706,507	215,077	2,773	660,006	<b>1,584,363</b>	1,452,515
Officer 2	519,115	51,258	0	373,598	<b>943,971</b>	624,274
Officer 3	282,526	69,215	9,187	215,780	<b>576,708</b>	631,880
Officer 4	288,804	0	9,581	171,064	<b>469,449</b>	455,142
Officer 5	141,784	44,862	4,862	122,025	<b>312,732</b>	303,088
Officer 6	183,583	84,861	6,220	169,402	<b>444,066</b>	489,410
Officer 7	157,701	47,917	5,111	134,583	<b>345,312</b>	202,254

# Social, Ethics, Transformation and Sustainability Committee report

## Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2016. This committee is a statutory committee with a majority of independent non-executive members, whose duties are delegated to them by the board of directors. The committee conducted its affairs in compliance with a board-approved terms of reference, and discharged all its responsibilities contained therein.

The committee was established during FY2012 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's businesses operate to ensure that the group not only complies with, but also fully implements all requirements. The committee addresses issues relating to corporate social investment, ethical conduct, diversity, transformation and empowerment initiatives and targets and ongoing sustainability practices to ensure that our business, our environment and our people can prosper on an ongoing basis. The responsibilities include monitoring the company's activities, having regard to any relevant legislation, other legal requirements and prevailing codes of best practice. The committee meets a minimum of three times each year.

## Membership of the committee

The members of the SETS Committee during FY2016 were:

- Mr JD McKenzie (Chairman and member until 29 February 2016)
- Mr MV Moosa (Chairman from 01 March 2016)
- Mr SR Binnie
- Mr RJ DeKoch
- Mrs B Radebe, and
- Dr R Thummer.

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

## Committee activities reviewed and actioned during the year

- Reviewed and revised the committee terms of reference and annual work plan
- Approved the public affairs and CSR programmes and policy
- The corporate social development programme
- Sappi's standing in terms of 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 (BBBEE) Act.
- Reviewed the updated and revised Code of Ethics, ethics programme and their effectiveness
- Reviewed the South African Skills Audit as well as the training and development plan
- Reviewed the staff training progress
- Reviewed the company performance relative to the Employment Equity Act, 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 policy and standing in terms of the International Labour Organisation (ILO) protocol on decent work and working conditions
- Reviewed the group safety programmes and safety performance
- Reviewed the Group Unfair Discrimination and Equality Policy
- Reviewed the Group Sustainability Charter and Group Environmental Policy
- Reviewed regional sustainability performance against goals for 2016
- 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 2016
- Reviewed sustainability matters pertaining to Sappi Europe – in particular the European emissions trading system
- Reviewed the impacts of changing environmental legislation in South Africa on our operations
- Reviewed the SETS Committee report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

## Conclusion

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

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

## MV Moosa

*Chairman  
Social, Ethics, Transformation and  
Sustainability Committee*



# Risk management

## Philosophy

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

The Group Risk Management Policy is aimed at enhancing value for all of Sappi's stakeholders. In the broadest sense, effective risk management ensures continuity of operations, service delivery, achievement of objectives (strategic and otherwise), and the protection of the interests of the group. To achieve objectives, the risk management process is aligned with and compatible with Sappi's strategy. This policy takes into account the recommendations set out in ISO standard 31000 (a guidance only standard) – 'Risk management — Principles and guidelines', as well as King 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 management report, which is available on the group's website at [www.sappi.com](http://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 first quarter, we sold our South African Enstra and Cape Kraft Mills. This was in line with our strategic focus on the virgin fibre packaging business in Southern 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 first quarter, we sold our South African Enstra and Cape Kraft Mills. Proceeds received from the sales further reduced net debt.

During the third quarter, we completed the refinancing of our 2021 bonds. This will result in a reduction in the interest charge of approximately US\$8 million per annum going forward.

### 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,

## Risk management continued

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

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

Our aim is to minimise our impact on the environment. The principles of ISO 14000, Forest Stewardship Council® (FSC®), SFI®, PEFC™ and other recognised programmes are well entrenched across the group. We 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 26.)

However, we are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We closely monitor the potential for changes in pollution control laws, including GHG emissions requirements, and take action with respect to our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in a sustainable manner.

**6. Fluctuations in the value of currencies, particularly the Rand and the Euro in relation to the US Dollar, have in the past had, and could in the future have, a significant impact on our earnings in these currencies.**

We are exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging being applied thereafter. External hedging techniques consist primarily of foreign exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval). For further detail, see note 31 contained in the Group Annual Financial Statements, which are available online at

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

**7. The inability to obtain energy, 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 FY2016, however, no single customer individually represented more than 10% of our total sales. Any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. We are, on a continuous basis, working to expand and diversify our customer base.

**9. A large percentage of our employees are unionised, and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.**

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

**10. Injuries and fatalities.**

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

- Performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board
- Group- and industry-wide sharing of all incidents and associated mitigating steps thereby helping to ensure that all our regions remain in the top 10% quartile for our industry

- Enforcing compliance with behaviour-based safety (BBS) principles, 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 coordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from incidents.

Asset insurance is renewed on a calendar-year basis. The self-insured retention portion for any one property damage occurrence is US\$23 million (€20.5 million) with the annual aggregate set at US\$37 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full replacement value is not readily available. A loss limit cover of US\$842 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

# Chief Financial Officer's report

Glen Pearce

## Section 1

# Financial highlights

(US\$ million)	2016	2015	% Change
Sales	<b>5,141</b>	5,390	(5)
EBITDA excluding special items	<b>739</b>	625	18
Operating profit excluding special items	<b>487</b>	357	36
Profit (loss) for the year	<b>319</b>	167	91
EBITDA excluding special items to sales (%)	<b>14.4</b>	11.6	n/a
Operating profit excluding special items to sales (%)	<b>9.5</b>	6.6	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	<b>17.5</b>	12.4	n/a
Net cash generated	<b>359</b>	145	148
Net debt	<b>1,408</b>	1,771	(20)
Basic earnings (loss) per share (US cents)	<b>60</b>	32	88

There were two defining achievements during fiscal 2016 that reflected the consequences of a sustained improvement in operating performance and a strengthened balance sheet. Firstly, the group successfully triggered a security release clause on the revolving credit facility and the bonds, resulting in our debt reverting to senior unsecured debt. Secondly, we surpassed our targeted leverage ratio of two times to record a ratio of 1.9 times at the end of the year, as the net debt reduced to US\$1,408 million. A resumption of dividends is a consequence of the above.

Consolidated sales volumes and prices reduced during the year as demand for graphic paper products came under pressure. Partially offsetting this decline was growth in the packaging and specialities products, including increased revenue in the dissolving wood pulp products. Substantial reductions in variable and fixed costs, in excess of the

reduced revenue, resulted in improved profitability and margins. EBITDA excluding special items improved by 18% to US\$739 million as EBITDA margins increased from 11.6% to 14.4%. The sale of the Enstra and Cape Kraft Mills during the first quarter of FY2016, and the increased sales in the packaging and specialities segment in our North American and European regions contributed towards a favourable mix and an improved rationalisation of our remaining asset base.

Finance costs were 66% of the prior period as the benefits of refinancing debt at lower rates takes effect. The additional profitability has increased the tax charge to US\$104 million at a rate of 25% of profit before taxation. Profit for the year increased to US\$319 million (2015: US\$167 million) with earnings per share excluding special items improving from 34 US cents to 57 US cents. A dividend of 11 US cents per share has been declared at a five times earnings cover.

Strong cash generation for the year of US\$359 million was assisted by proceeds from the sale of the two South African mills, prudent working capital management and a solid cash generated from operations. Capital expenditure was restricted to US\$241 million, which was in line with our expectations.

### Segment reporting

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

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

### Exchange rates and their impact on the group's results

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

	Income statement average rates		Balance sheet closing rates	
	2016	2015	2016	2015
EUR1 = US\$	1.1111	1.1501	1.1226	1.1195
US\$1 = ZAR	14.7879	11.9641	13.7139	13.9135

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.



“Finance costs were 66% of the prior period as the benefits of refinancing debt at lower rates takes effect.”



# Chief Financial Officer's report continued

## Section 2

# Financial performance – group

The discussion in this section focuses on the group financial performance in FY2016 compared with FY2015. A detailed discussion, in local currencies, of each of our three operating regions follows in Financial performance – section 3.

### Income statement

Our group financial results can be summarised as follows:

(metric tons '000)	2016	2015	% Change
Sales volume	7,253	7,306	(1)

	US\$ million	US\$ million	% Change
<b>Sales revenue</b>	<b>5,141</b>	5,390	(5)
Variable manufacturing and delivery costs	(3,061)	(3,414)	(10)
Fixed costs	(1,571)	(1,613)	(3)
Sundry items <sup>(1)</sup>	(22)	(6)	267
<b>Operating profit excluding special items</b>	<b>487</b>	357	36
Special items	57	54	6
<b>Operating profit</b>	<b>544</b>	411	32
Finance costs	(121)	(182)	(34)
Taxation	(104)	(62)	68
<b>Net profit</b>	<b>319</b>	167	91
EPS excluding special items (US cents)	57	34	68

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

### Sales volume

In FY2016, sales volume decreased by 53,000 tons, or 1%, compared with 2015. The regional contributions to sales volume are shown below:

Sales volume (metric tons '000)	2016	2015	% Change
North America	1,329	1,305	2
Europe	3,252	3,242	–
Southern Africa	2,672	2,759	(3)
<b>Group</b>	<b>7,253</b>	7,306	(1)
Paper and pulp (excluding dissolving wood pulp)	5,096	5,154	(1)
Dissolving wood pulp	1,111	1,161	(4)
Forestry	1,046	991	6

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

European volumes increased marginally as the drop in demand for coated paper was offset by an increase in packaging and speciality volumes.

In North America, the increased coated paper market share and the additional dissolving wood pulp volumes, improved total sales

volumes by 2% to 1,329kt. The additional dissolving wood pulp volumes compensated for the reduced volumes at Saiccor Mill following production problems and the effects of a drought in Southern Africa.

Volumes in Southern Africa reduced by 3% following the sale of the Enstra and Cape Kraft Mills during the first quarter of the fiscal. Additionally, dissolving wood pulp volumes were down as described alongside.

Optimising our capacity utilisation is a key focus area of the business and was successfully achieved across all regions despite a reduction in demand in the graphics paper markets.

Sales volume to capacity (%)	2016	2015
North America	96	93
Europe	92	92
Southern Africa	96	91
<b>Group</b>	<b>94</b>	92

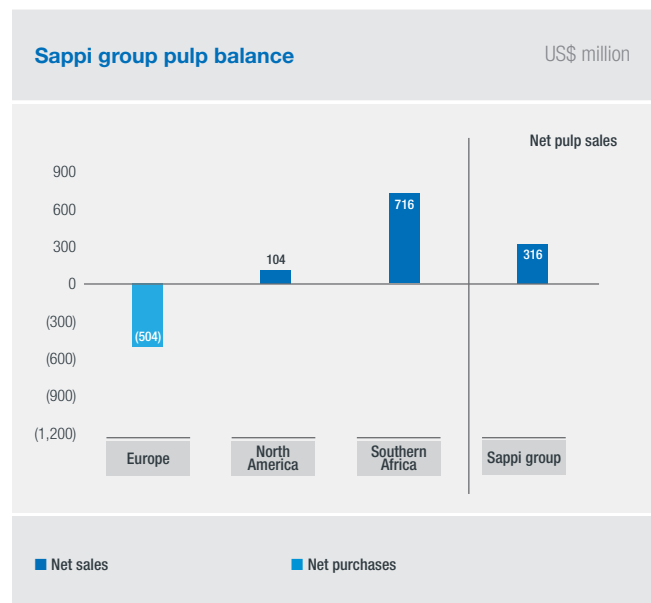
### Sales revenue

Sales revenue decreased by 5% from US\$5.4 billion in FY2015 to US\$5.1 billion in FY2016. The decrease was due to the lower sales volumes discussed above partially offset by an improved sales mix.

### Variable and delivery costs

Variable and delivery costs decreased by US\$353 million, or 10%, from FY2015. A reduction in the purchase price of wood, pulp and energy costs contributed to the decrease in costs. Additionally, cost reduction and lower usage initiatives in all three regions added to the improved cost performance. Viewed on a US Dollar per ton basis, cost reduced by 9% to US\$422 per ton.

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



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

Variable manufacturing and delivery costs (US\$ million)	2016	2015	% Change
Wood	624	603	3
Energy	355	443	(20)
Chemicals	726	773	(6)
Pulp and other	925	1,121	(18)
Delivery	431	474	(9)
<b>Group</b>	<b>3,061</b>	<b>3,414</b>	<b>(10)</b>

### Fixed costs

Fixed costs decreased by US\$42 million, or 3%, from FY2015. This achievement is further evidence of the efforts to lower costs and improve efficiencies across the group. A weaker Rand and Euro did, however, contribute to the lower US Dollar costs.

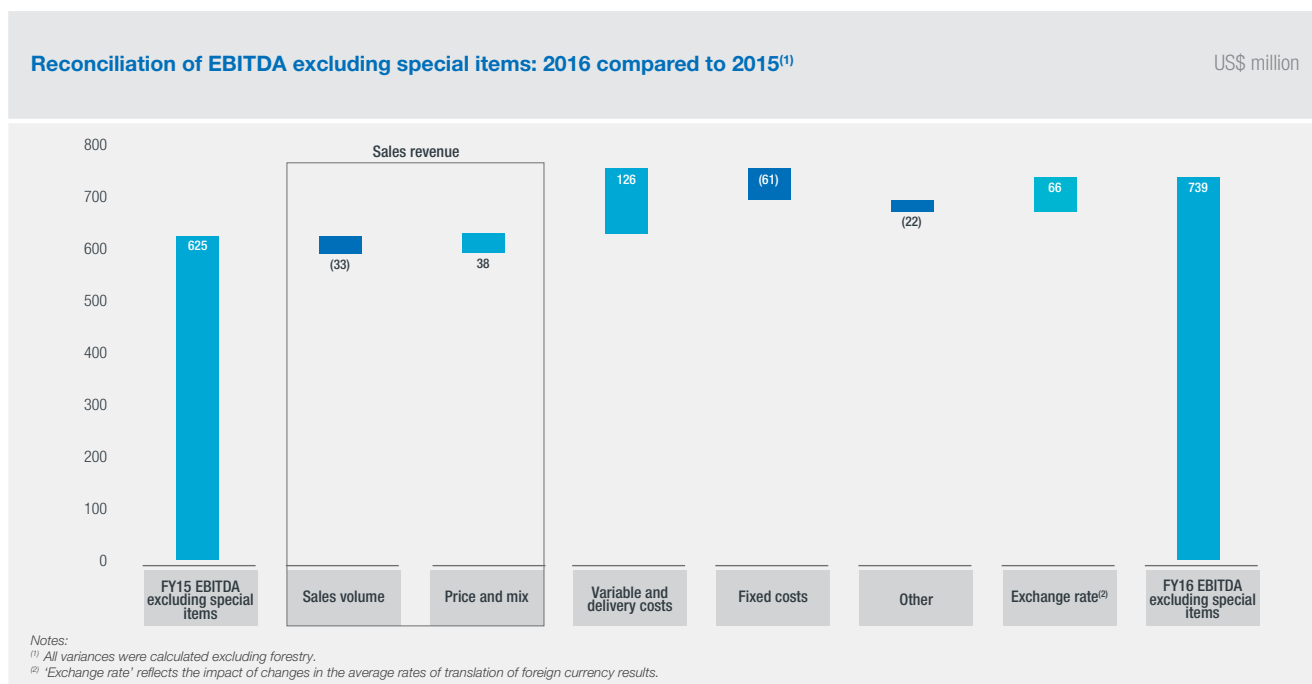
Details of the make-up of fixed costs are provided in the table below.

Fixed costs (US\$ million)	2016	2015	% Change
Personnel	894	930	(4)
Maintenance	201	215	(7)
Depreciation	250	266	(6)
Other	226	202	12
<b>Group</b>	<b>1,571</b>	<b>1,613</b>	<b>(3)</b>

### EBITDA and operating profit excluding special items

The improved results of North America, Europe and Southern Africa benefited from a weaker Rand and Euro. EBITDA excluding special items increased to US\$739 million, 18% higher than the US\$625 million achieved in 2015. Similarly, operating profit excluding special items improved from US\$357 million last year to US\$487 million in FY2016.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales prices, improved sales mix, a reduction in variable costs and exchange rate movements.

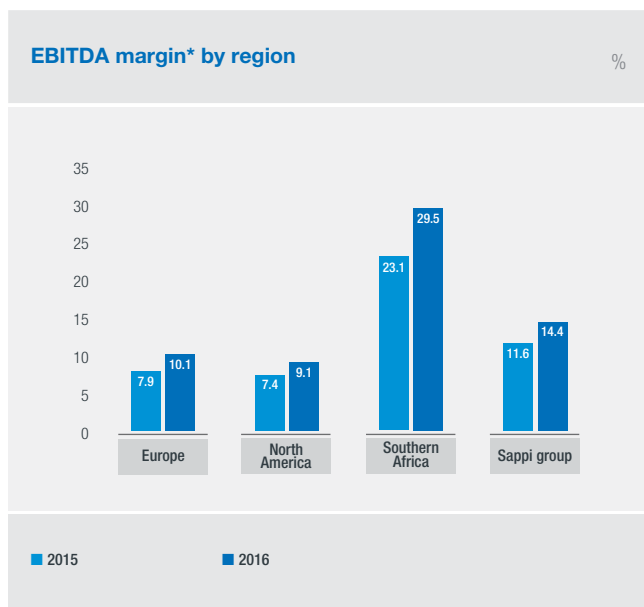


# Chief Financial Officer's report continued

## Financial performance – group continued

The tables below show the EBITDA and operating profit excluding special items of the business for both FY2016 and FY2015 and the margins of each.

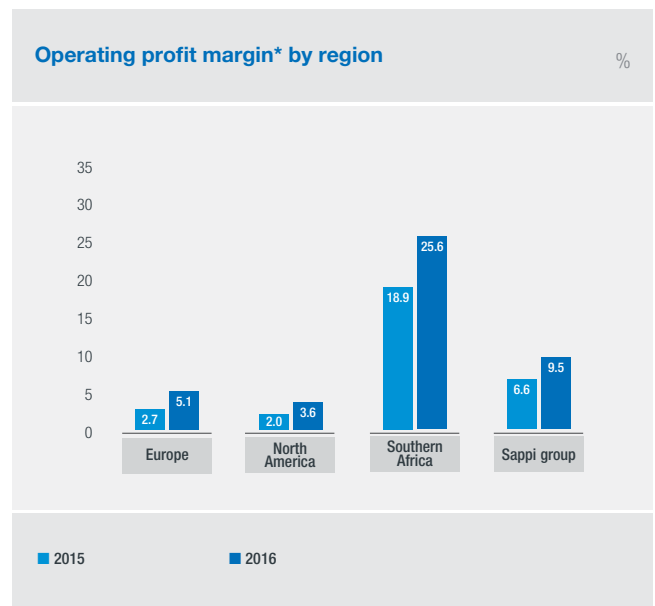
EBITDA excluding special items by region (US\$ million)	2016	2015
North America	124	102
Europe	261	209
Southern Africa	352	313
Corporate and other	2	1
<b>Group</b>	<b>739</b>	625



\* EBITDA excluding special items divided by sales.

EBITDA excluding special items by product category (US\$ million)	2016	2015
Specialised cellulose (dissolving wood pulp)	339	281
Paper	398	343
Other	2	1
<b>Group</b>	<b>739</b>	625

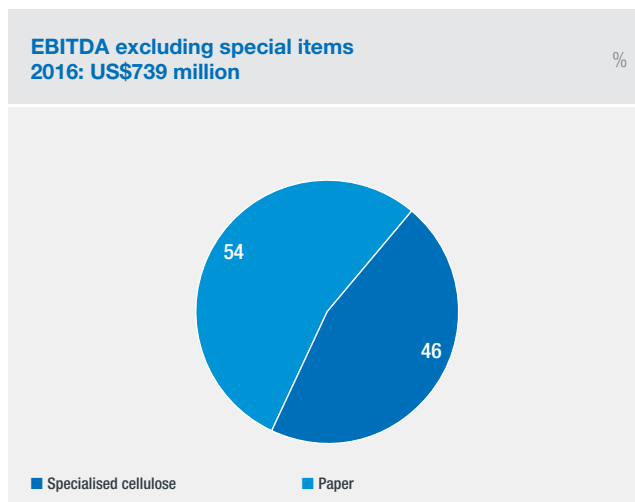
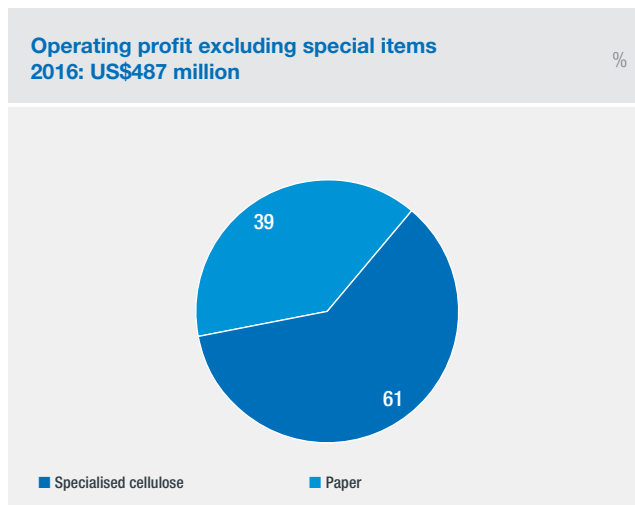
Operating profit excluding special items by region (US\$ million)	2016	2015
North America	49	27
Europe	131	73
Southern Africa	305	256
Corporate and other	2	1
<b>Group</b>	<b>487</b>	357



\* Operating profit excluding special items divided by sales.

Operating profit excluding special items by product category (US\$ million)	2016	2015
Specialised cellulose (dissolving wood pulp)	294	231
Paper	191	125
Other	2	1
<b>Group</b>	<b>487</b>	357

The charts below illustrate that although the paper business only provides 39% of the operating profit, it contributes 54% 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.



Sales price increases were achieved in Europe and Southern Africa and along with cost reduction initiatives, EBITDA margins improved from 11.6% to 14.4%. All regions presented commendable improvements in EBITDA and operating income relative to last year. The European business benefited from increased packaging and speciality volumes and aggressive variable cost reductions. Increased coated paper market share, additional dissolving wood pulp volumes and a reduction in variable and delivery costs assisted North America. The South African operations took advantage of a weaker local currency which assisted with price increases and mix improvements after the disposal of Cape Kraft and Enstra Mills.

For further information regarding the financial performance of the regions, please refer to the Financial performance – regional section of this report.

#### Key operating targets

Our financial targets and performance against them are dealt with in the letter to stakeholders on page 12.

#### Special items

Special items consist of those items which management believes are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for FY2016 and FY2015 is reflected in the table below:

Special items – gain (US\$ million)	2016	2015
Plantation price fair value adjustment	64	41
Net restructuring provisions	(4)	(6)
Profit on disposal of assets held for sale and other assets	15	–
Asset impairments	(2)	–
Employee benefit liability settlement	8	55
Black Economic Empowerment charge	(1)	(2)
Fire, flood, storm and other events	(23)	(34)
<b>Total</b>	<b>57</b>	<b>54</b>

## Chief Financial Officer's report continued

### Financial performance – group continued

The net impact of special items was to increase our net profit in FY2016 by US\$57 million. The major components are described below:

- A positive non-cash US\$64 million plantation price fair value adjustment was recognised following increases to the market price of timber.
- A profit of US\$13 million was recorded from the disposal of the group's Cape Kraft and Enstra Mills.
- A US\$8 million employee benefit gain arose in North America following a one-time lump sum settlement benefit that was offered to certain eligible terminated vested participants.
- Included in 'other events' are the cost of a fire and electrical related fault at Gratkorn Mill (US\$4 million), turbine failures at our Alfeld and Cloquet Mills of US\$1 million and US\$4 million respectively, and fire and drought damage in our South African forests (US\$13 million).

#### Finance costs

(US\$ million)	2016	2015
Net interest expense	124	180
Net foreign exchange gains	(2)	(11)
Net fair value (gain) loss on financial instruments	(1)	13
<b>Total</b>	<b>121</b>	<b>182</b>

Finance costs include a refinancing charge from the 2021 bonds of US\$23 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:

(US\$ million)	Profit (loss) before tax	Tax (charge) relief	Effective tax rate %
North America	35	(8)	(23)
Europe	14	(6)	(44)
Southern Africa	374	(90)	(24)
<b>Group</b>	<b>423</b>	<b>(104)</b>	<b>(25)</b>

In Europe, tax charges of US\$0.5 million in Germany and US\$5.2 million in Belgium have been raised. Due to non-valued losses, no relief is available on other losses, mainly financial expenses in Austria. For sales offices and service companies, a current tax charge of US\$0.5 million has been accrued.

The North American effective tax rate of 23% is lower than the statutory rate of 38%. The tax rate has been favourably impacted by a release of tax risk provisions.

The Southern African tax rate of 24% is lower than the statutory tax rate of 28%. Two mills were disposed during the year for US\$37.9 million. A portion of the profit on sale of the assets and liabilities of Specval Proprietary Limited was taxed at the capital gains tax rate, thereby resulting in a reduction of the effective tax rate. In addition, a prior year adjustment of US\$1.3 million was released to the income statement on completion of the FY2015 tax return.



### Net profit, earnings per share and dividends

After taking into account finance costs and taxation, our net profit and earnings per share for FY2016, with comparatives for FY2015, were as follows:

(US\$ million)	2016	2015
Operating profit	544	411
Finance costs	121	182
Profit before taxation	423	229
Taxation	104	62
<b>Profit for the period</b>	<b>319</b>	167
Weighted average number of shares in issue (millions)	529.4	525.7
<b>Basic earnings per share (US cents)</b>	<b>60</b>	32

The directors have decided in light of the group's improved financial performance and its reduction in net debt/EBITDA ratio to below the targeted two times level, to declare a dividend of 11 US cents representing a five times earnings cover adjusted for non-cash items. The group aims to declare ongoing annual dividends, and over time achieve a long-term average to dividends ratio of three to one.

## Chief Financial Officer's report continued

### Section 3

## Financial performance – regional

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies, as we believe this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

#### North America

(metric tons '000)	2016	2015	% Change
Sales volume	1,329	1,305	2

	US\$ million 2016	US\$ million 2015	% Change	US\$ per ton 2016	US\$ per ton 2015	% Change
Sales	1,367	1,377	(1)	1,029	1,055	(2)
Variable manufacturing and delivery costs	(822)	(871)	(6)	(619)	(667)	(7)
Contribution	545	506	8	410	388	6
Fixed costs	(486)	(460)	6	(366)	(352)	4
Sundry costs and consolidation entries	(10)	(19)	(47)	(7)	(15)	(53)
<b>Operating profit excluding special items</b>	<b>49</b>	27	81	<b>37</b>	21	76
<b>EBITDA excluding special items</b>	<b>124</b>	102	22	<b>93</b>	78	19

The stronger US Dollar encouraged imports into the North American market and forced selling prices down. Sappi North America managed to counter these adverse conditions by improving local market share, sales mix of graphic paper products and increasing sales volumes of packaging and speciality products. The increase in sales volumes did not reverse the impact of lower selling prices, however, good control of variable costs increased operating profit by 81% to US\$49 million.

Improved usage variances and lower wood and energy costs resulted in variable costs per ton falling by 7%. The reduction in variable costs exceeded the selling price drop, resulting in an improvement in EBITDA margin from 7.4% to 9.1%. The North American operations delivered a particularly good result for the year given the adverse macro-economic conditions and the performance of peers.

## Europe

(metric tons '000)	2016	2015	% Change
Sales volume	3,252	3,242	0

	€ million 2016	€ million 2015	% Change	€ per ton 2016	€ per ton 2015	% Change
Sales	2,324	2,313	0	715	713	0
Variable manufacturing and delivery costs	(1,490)	(1,575)	(5)	(458)	(486)	(6)
Contribution	834	738	13	257	227	13
Fixed costs	(692)	(668)	4	(213)	(206)	3
Sundry costs and consolidation entries	(24)	(6)	300	(8)	(2)	300
<b>Operating profit excluding special items</b>	<b>118</b>	64	84	<b>36</b>	19	89
<b>EBITDA excluding special items</b>	<b>235</b>	182	29	<b>72</b>	56	29

The European operations beat market trends by increasing sales through additional market share and improved mix. The realignment of customer distribution channels and the application of variable cost reduction initiatives, enabled the European operations to improve operating income by 84% to €118 million. The speciality and packaging business increased volumes by 14% which offset the 1% reduction in the much larger graphic paper market.

Variable costs were well controlled with energy, wood and purchased pulp costs reducing favourably. Consequently, variable costs per ton reduced by 6% increasing the EBITDA margin of the region from 7.9% to 10.1%. Working capital requirements and capital expenditure were well managed within the targets set.

Chief Financial Officer's report *continued*Financial performance – regional *continued*

## Southern Africa\*

(metric tons '000)	2016	2015	% Change
Sales volume	1,626	1,768	(8)

	ZAR million 2016	ZAR million 2015	% Change	ZAR per ton 2016	ZAR per ton 2015	% Change
Sales	16,799	15,470	9	10,331	8,750	18
Variable manufacturing and delivery costs	(9,449)	(9,476)	(0)	(5,811)	(5,360)	8
Contribution	7,350	5,994	23	4,520	3,390	33
Fixed costs	(4,688)	(4,606)	2	(2,883)	(2,605)	11
Sundry income and consolidation entries	1,848	1,675	10	1,137	948	20
<b>Operating profit excluding special items</b>	<b>4,510</b>	<b>3,063</b>	<b>47</b>	<b>2,774</b>	<b>1,733</b>	<b>60</b>
<b>EBITDA excluding special items</b>	<b>5,205</b>	<b>3,745</b>	<b>39</b>	<b>3,201</b>	<b>2,118</b>	<b>51</b>

\* Excludes forestry.

The average rate of the ZAR weakened by 24% for the year, and had a significant positive impact on the results of the Southern African operations. Sales volumes were down on the previous period due to the sale of the Enstra and Cape Kraft Mills.

Additionally, production problems and extreme drought conditions at Saiccor Mill lowered dissolving wood pulp volumes. Increased selling prices, aided by the weaker Rand on export sales, and strong local market conditions reversed the effect of the lower volumes. The cost of imported variable cost items increased in local currency terms, as did local wood costs which are adjusted to import parity prices. The realignment of businesses and

simplification of product offerings improved efficiencies and output. The net result of the above is an increase in EBITDA margin from 24% to 31% and a record Rand annual operating profit of ZAR4,510 million.

The region's capital expenditure focused on debottlenecking processes and increasing our energy self-sufficiency during the year. The Ngodwana Mill energy biomass project has reached the stage where it is ready to start construction. We are currently waiting for the Department of Energy to set a date for all stakeholders to sign the relevant agreements to allow construction to begin.

## Major sensitivities

Some of the more important factors which impact the group's operating profit excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below:

Sensitivities	Change	Europe € million	North America US\$ million	Southern Africa ZAR million	Translation impact* US\$ million	Group US\$ million
Net selling prices	1%	23	14	182	–	53
Dissolving wood pulp prices	US\$10	–	2	136	–	12
Variable costs	1%	13	7	88	–	28
Sales volume	1%	8	6	83	–	21
Fixed costs	1%	6	4	44	–	14
Paper pulp price	US\$10	7	1	8	–	9
ZAR/US\$ (weakening)	10 cents	–	–	77	(3)	3
Euro/US\$ (weakening)	10 cents	–	(4)	–	(23)	(27)

\* 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 FY2016 and FY2015 in a summarised format:

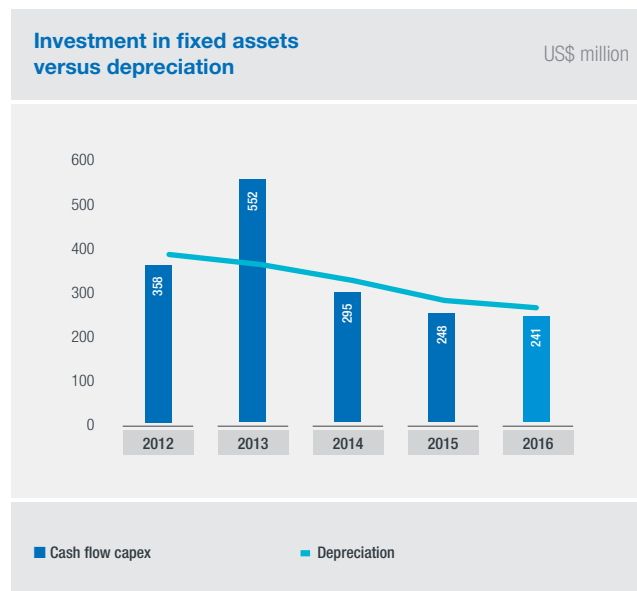
(US\$ million)	2016	2015
Operating profit excluding special items	487	357
Depreciation and amortisation	252	268
<b>EBITDA excluding special items</b>	<b>739</b>	625
Contributions to post-employment benefits	(51)	(56)
Other non-cash items	5	(25)
<b>Cash generated from operations</b>	<b>693</b>	544
Movement in working capital	4	(11)
Capital expenditure	(241)	(248)
Finance costs	(91)	(135)
Taxation	(56)	(16)
Net proceeds on disposal of assets and businesses	44	1
Other	6	10
<b>Net cash generated</b>	<b>359</b>	145

Sappi generated net cash of US\$359 million during FY2016, compared to US\$145 million in FY2015 largely due to an improved group operating performance. Lower finance costs from refinancing activities were offset by higher tax payments. Proceeds, principally from the sale of the Cape Kraft and Enstra Mills also contributed to a higher net cash generated.

Working capital levels were well controlled and remained in line with last year. 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\$91 million were US\$44 million lower than last year due to the refinancing of the 2021 bonds at a lower coupon and overall lower net debt levels.





# Chief Financial Officer's report continued

## Section 5

# Balance sheet

### Summarised balance sheet

(US\$ million)	2016	2015
Property, plant and equipment	2,501	2,508
Plantations	441	383
Net working capital	394	380
Other assets	284	326
Net post-employment liabilities	(411)	(422)
Other liabilities	(423)	(389)
<b>Employment of capital</b>	<b>2,786</b>	2,786
Equity	1,378	1,015
Net debt	1,408	1,771
<b>Capital employed</b>	<b>2,786</b>	2,786

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 page 19.

During FY2016, capital expenditure for property, plant and equipment was US\$241 million. 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)	2016	2015
Cost	8,130	7,908
Accumulated depreciation and impairment	5,629	5,400
<b>Net book value</b>	<b>2,501</b>	2,508

### 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 492,000ha of land of which approximately 352,000ha are planted with pine and eucalyptus. These plantations provide approximately 64% of the wood requirements for our Southern Africa mills.

During the year, there was a significant movement in the price for hardwood in Southern Africa; however, this was partially offset by the damages recorded during the year. As we manage our plantations on a sustainable basis, the growth for the year was offset by timber felled during the year.

Our plantations are valued on the balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In notes 2.3.5 and 11 on pages 19 and 31 to the Financial Statements, we provide more detail on our accounting policies for plantations, how we manage our plantations as well as the major assumptions used in the calculation of fair value.

### Working capital

The component parts of our working capital at the FY2016 and FY2015 year-ends are shown in the table below:

### Net working capital

(US\$ million)	2016	2015
Inventories	606	595
Trade and other receivables	642	645
Trade and other payables	(854)	(860)
<b>Net working capital</b>	<b>394</b>	380

Optimising working capital remains a key focus area for us and appropriate targets are incorporated into the management incentive schemes for all businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital increased to US\$394 million in FY2016 from US\$380 million in FY2015. The material movements in working capital are discussed below:

- Inventories increased by US\$11 million, mainly due to a currency translation impact of US\$3 million and an increase in the value of raw materials.
- Receivables continue to be tightly managed and reduced by US\$3 million. After taking into consideration the currency translation impact of US\$2 million, receivables decreased by US\$5 million. The decrease in receivables is largely due to management of receivables.
- Payables reduced by US\$6 million. After taking into consideration the currency translation impact of US\$5 million, payables decreased by US\$11 million. The decrease in payables is largely due to a reduction in trade creditors' balances, capital, interest and rebate accruals and the reduction of restructuring provisions.

## Post-employment liabilities

We operate various defined benefit pension/lump sum, post-employment healthcare subsidy and other employee benefits in the various countries in which we operate. A summary of defined benefit assets and liabilities (pension and post-employment healthcare subsidy) is as follows:

### Defined benefit liabilities

(US\$ million)	2016	2015
Defined benefit obligation	(1,525)	(1,483)
– Present value of wholly or partially funded obligation	(1,276)	(1,223)
– Present value of wholly unfunded obligation	(249)	(260)
Fair value of plan assets	1,114	1,061
<b>Net balance sheet liability</b>	<b>(411)</b>	<b>(422)</b>
Cash contributions to defined benefit plans	46	52
Income statement charge (credit) to profit or loss	17	(43)*
Cash contributions deemed 'catch-up**'	27	30

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

\*\* 'Catch-up' is cash contributions to defined benefit plans in excess of current service cost.

The liabilities of our funded plans increased by US\$53 million and for our unfunded plans reduced by US\$11 million compared with last year. Combined, gross liabilities rose by US\$42 million. The main effect of the overall increase in gross liability is the result of lower discount rates used due to lower yields in respective bond markets in Europe and the United States.

Fair value of plan assets increased by US\$53 million over the year due to opposing factors: 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.

Currency movements relative to our reporting currency were relatively insignificant.

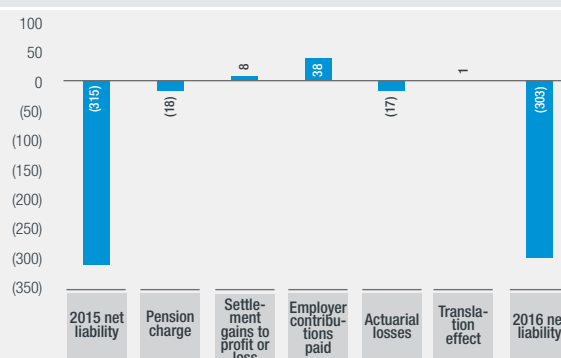
Since the increase in liabilities was smaller than the increase in assets, the overall net liability reduced by US\$11 million as at September 2016. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in



note 28 on page 48 of the Annual Financial Statements.

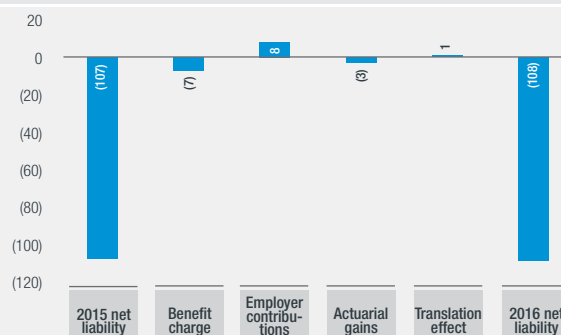
### Sappi Limited Defined benefit pensions balance sheet movement

US\$ million



### Sappi Limited Post-retirement medical aid liability balance sheet movement

US\$ million



## Equity

Year-on-year, equity increased by US\$363 million to US\$1,378 million as summarised below:

### Equity reconciliation

(US\$ million)	2016
Equity at September 2015	1,015
Profit for the year	319
Actuarial losses on post-employment benefit funds	(12)
Exchange differences on translation of foreign operations	38
Movements in hedging reserves	4
Share-based payments	7
Other movements	7
<b>Equity at September 2016</b>	<b>1,378</b>

# Chief Financial Officer's report continued

## Balance sheet continued

Equity increased by US\$363 million driven largely by the profit for the year of US\$319 million and foreign currency translation reserve movements of US\$38 million. These increases were partially offset by actuarial losses of US\$12 million attributable to lower interest rates.

### Debt

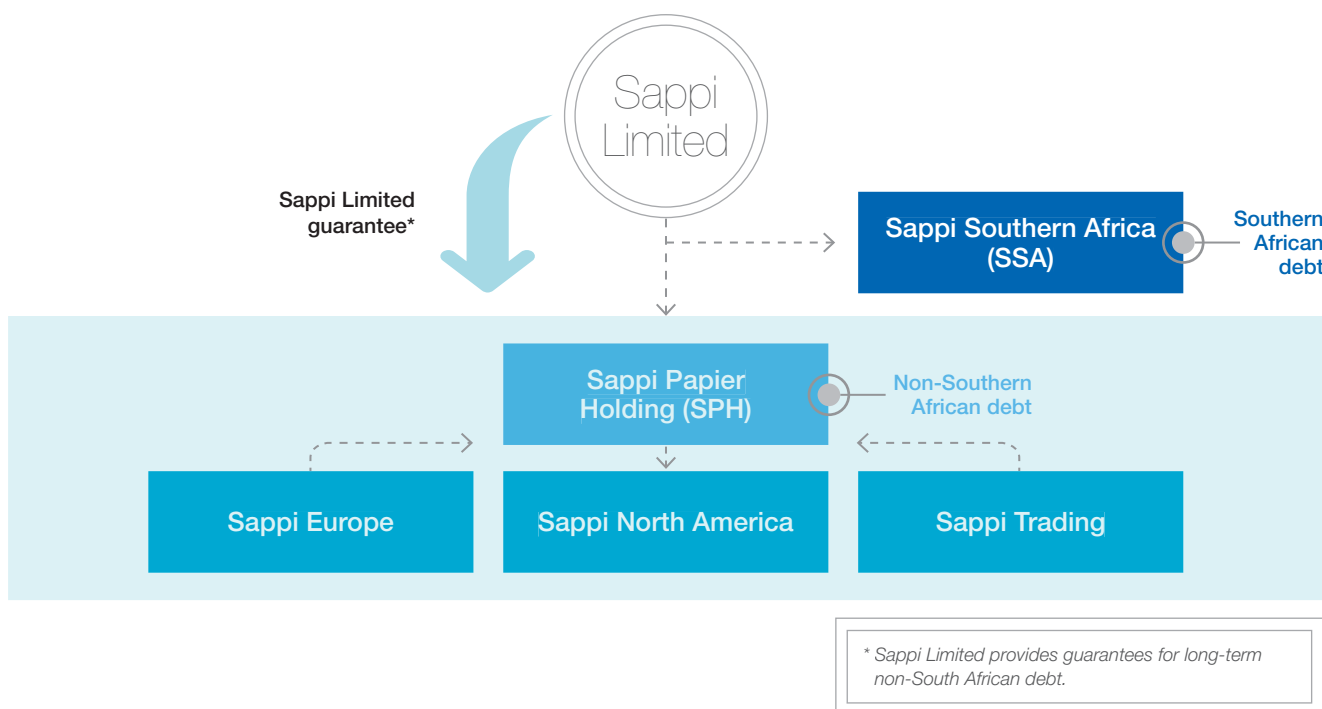
Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

### 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:

### Our debt funding structure



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

- In March 2016 SPH accessed the European high-yield bond market and raised a new €350 million seven-year bond with a coupon of 4%. The proceeds of the new bond were used to repay in full the existing 2021 US\$350 million bond. The annual savings in interest costs from this refinancing amounts to approximately US\$8 million.
- Sappi Southern Africa's ZAR500 million SSA01 and ZAR255 million SSA04 bonds matured during the year and local cash resources were used to repay these bonds in full.

- During the year all existing security previously granted to secure certain indebtedness of SPH was released. In order to release the security, Sappi was required to meet various release conditions and having met these conditions the bank and public debt of SPH has now reverted to a senior unsecured status.

### Structure of net debt and liquidity

We consider the liquidity position to be very good, with cash holdings exceeding short-term obligations by US\$127 million at fiscal year-end. In addition, Sappi has US\$595 million of unutilised committed credit facilities, including the revolving credit facility at

SPH of €465 million (US\$522 million). A material short-term maturity is the SPH US\$400 million bond maturing in July 2017. It remains our intention to repay this bond from current liquidity sources.

The structure of our net debt at September 2016 and 2015 is summarised below:

(US\$ million)	2016	2015
<b>Long-term debt</b>	<b>1,535</b>	2,031
Secured debt	–	1,239
Unsecured debt	<b>1,732</b>	524
Securitisation funding	<b>314</b>	343
Less: Short-term portion	<b>(511)</b>	(75)
<b>Net short-term debt/(cash)</b>	<b>(127)</b>	(260)
Overdrafts and short-term loans	<b>65</b>	121
Short-term portion of long-term debt	<b>511</b>	75
Less: Cash	<b>(703)</b>	(456)
<b>Net debt</b>	<b>1,408</b>	1,771

#### Movement in net debt

The movement of our net debt from fiscal 2015 to fiscal 2016 is explained in the table below:

(US\$ million)	2016
Net debt at September 2015	<b>1,771</b>
Net cash generated	<b>(359)</b>
Currency translation impact	<b>(16)</b>
Debt issuance and related costs	<b>12</b>
<b>Net debt at September 2016</b>	<b>1,408</b>

#### Group debt profile

We show the major components and maturities of our net debt at September 2016 below. These are split between our debt in Southern Africa and our debt outside Southern Africa.

(US\$ million)	Amount	Interest rates (local currencies)	Fixed/variable	Maturity (Sappi fiscal years)				
				2017	2018	2019	2020	Thereafter
<b>Southern African</b>								
Bank debt	29	7.85%	Fixed*				29	
Bonds	90	7.86%	Fixed*		36		54	
Gross debt	119							
Less: Cash	(280)			(280)				
<b>Net Southern Africa debt/(cash)</b>	<b>(161)</b>			<b>(280)</b>	<b>36</b>	<b>–</b>	<b>83</b>	<b>–</b>
<b>Non-Southern African</b>								
Securitisation	314	1.88%	Variable		314			
OeKB term loan	113	2.80%	Variable	113				
Other bank debt	65	0.40%	Variable	65				
2017 Bonds (US\$)	400	7.75%	Fixed	400				
2022 Bonds (EUR)	505	3.38%	Fixed					505
2023 Bonds (EUR)	393	4.00%	Fixed					393
2032 Bonds (US\$)	221	7.50%	Fixed					221
IFRS adjustments	(19)			(2)				(17)
Gross debt	1,992							
Less: Cash	(423)			(423)				
<b>Net non-Southern African debt</b>	<b>1,569</b>			<b>153</b>	<b>314</b>	<b>–</b>	<b>–</b>	<b>1,102</b>
<b>Net group debt</b>	<b>1,408</b>			<b>(127)</b>	<b>350</b>	<b>–</b>	<b>83</b>	<b>1,102</b>

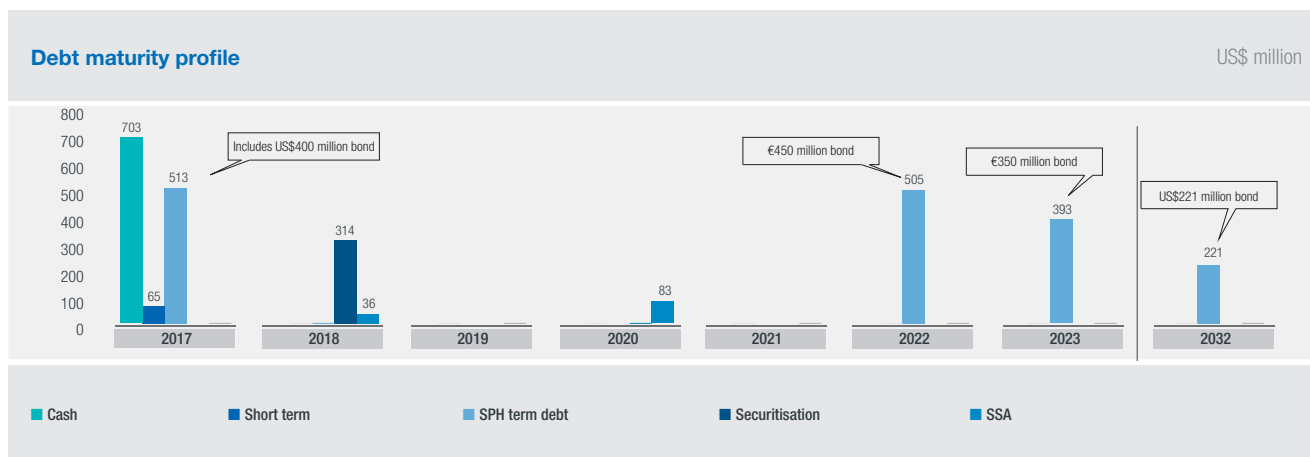
\* Floating rate bonds/bank loans swapped to fixed.

# Chief Financial Officer's report continued

## Balance sheet continued

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

A diagram of the debt maturity profile is shown below:



There is a material debt maturity during FY2017, ie the FY2017 US\$400 million bond. It remains our intention to repay this maturity from current liquidity sources. The US\$65 million short-term trade finance facility revolves on a quarterly basis.

### Covenants

#### Non-Southern African covenants

Financial covenants apply to US\$113 million of our non-Southern 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 2016, reducing over the term of the facility to 3.75 to 1 by June 2019
- the ratio of group EBITDA to net interest expense be not less than 2.50 to 1 at the end of September 2016 and remain at this level over the term of the facility.

The table below shows that at September 2016 we were well in compliance with these covenants.

Non-Southern African covenants	2016	Covenant
Net debt to EBITDA	1.89	<4.00
EBITDA to net interest	7.40	>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.

#### Southern 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 2.00 to 1.

Below we show that for the year ended September 2016 the Southern African financial covenants were comfortably met.

Southern African covenants	2016	Covenant
Net debt to equity	Net cash	<65%
EBITDA to net interest	Net interest received	>2.00

### Credit ratings

#### Global credit ratings

South African national rating  
Sappi Southern Africa Limited: A/A1/Stable Outlook (August 2016).

#### Moody's\*

Sappi Corporate Family Rating: Ba2/NP/Stable Outlook (November 2016)//SPH Debt Rating:

- 2017/2022/2023 Bonds and RCF: Ba2/Stable Outlook (November 2016)
- 2032 Bonds: B2

#### S&P global ratings\*

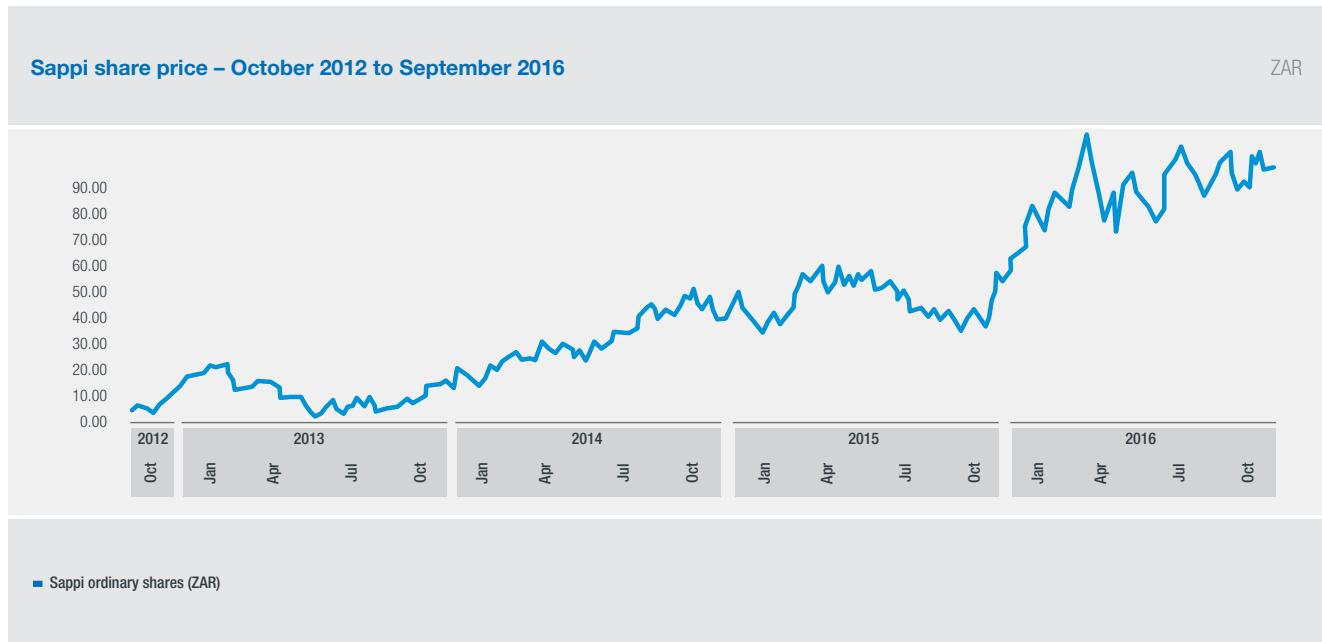
- Corporate credit rating: BB-/B/Positive Outlook (August 2016)
- SPH debt rating: BB-/Positive Outlook (August 2016)

\* With the release of the security package during the year the ratings no longer differentiate between secured and unsecured debt ratings.



## Section 6

# Share price performance



### Conclusion

We exceeded our expectations during fiscal 2016 and are committed to achieving our goals through the five pillars of our strategic focus. We demonstrated that we were able to achieve cost advantages by reducing fixed and variable costs which resulted in an improvement in margins from 11.6% to 14.4% during the current year. We rationalised our businesses by concluding the sale of the Cape Kraft and Enstra Mills and our growth through moderate investments was realised by a substantial improvement in speciality sales in both North America and Europe.

Strong cash generation reduced our leverage to 1.9 times net debt/EBITDA, and provided the opportunity to trigger the security release clause on the revolving credit facility and the bonds. We start FY2017 with a strong balance sheet that lays the foundation for our 2020Vision.

### GT Pearce

*Chief Financial Officer*

09 December 2016

# Five-year review

for the year ended September 2016

(US\$ million)	2016	2015	2014	2013	2012
<b>Income statement</b>					
Sales	5,141	5,390	6,061	5,925	6,347
Variable manufacturing and delivery costs	3,061	3,414	3,887	3,768	3,919
Fixed costs	1,571	1,613	1,837	1,943	1,986
Sundry expenses (income) <sup>(1)</sup>	22	6	(9)	34	33
Operating profit excluding special items	487	357	346	180	409
Special items – (gains) losses	(57)	(54)	32	161	(18)
Operating profit	544	411	314	19	427
Net finance costs	121	182	177	186	306
Profit (loss) before taxation	423	229	137	(167)	121
Taxation charge	104	62	2	15	28
Profit (loss) for the year	319	167	135	(182)	93
EBITDA excluding special items	739	625	658	528	778
<b>Balance sheet</b>					
Total assets	5,177	4,913	5,465	5,727	6,168
Non-current assets	3,171	3,174	3,505	3,787	4,031
Current assets	2,006	1,739	1,960	1,940	2,137
Current liabilities	1,474	1,092	1,223	1,212	1,315
Shareholders' equity	1,378	1,015	1,044	1,144	1,525
Net debt	1,408	1,771	1,946	2,247	2,020
Gross interest-bearing debt	2,111	2,227	2,474	2,599	2,624
Cash	(703)	(456)	(528)	(352)	(604)
Capital employed	2,786	2,786	2,990	3,391	3,545
<b>Cash flow</b>					
Cash generated from operations	693	544	566	447	728
Decrease (increase) in working capital	4	(11)	34	(20)	(102)
Finance costs paid	(107)	(148)	(170)	(171)	(206)
Finance revenue received	16	13	8	7	11
Taxation paid	(56)	(16)	(1)	(17)	(20)
Cash generated from operating activities	550	382	437	246	411
Net cash generated (utilised)	359	145	243	(247)	127
Cash effects of financing activities	(130)	(127)	(36)	(8)	(103)
Capital expenditure (gross)	241	248	295	552	358
To maintain operations	155	175	148	116	177
To expand operations	86	73	147	436	181
<b>Exchange rates</b>					
US\$ per one Euro exchange rate – closing	1.1226	1.1195	1.2685	1.3522	1.2859
US\$ per one Euro exchange rate – average (financial year)	1.1111	1.1501	1.3577	1.3121	1.2988
ZAR to one US\$ exchange rate – closing	13.7139	13.9135	11.2285	10.0930	8.3096
ZAR to one US\$ exchange rate – average (financial year)	14.7879	11.9641	10.5655	9.2779	8.0531

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

(US\$ million)	2016	2015	2014	2013	2012
<b>Statistics</b>					
<b>Number of ordinary shares (millions)<sup>(1)</sup></b>					
In issue at year-end	530.6	526.4	524.2	521.5	520.8
Basic weighted average number of shares in issue during the year	529.4	525.7	522.5	521.3	520.8
<b>Per share information (US cents)</b>					
Basic earnings (loss)	60	32	26	(35)	18
Diluted earnings (loss)	59	31	26	(35)	18
Headline earnings (loss)	58	32	31	(10)	7
Diluted headline earnings (loss)	57	31	31	(10)	7
EPS excluding special items (US cents)	57	34	22	(4)	28
Net asset value	260	193	199	219	293
<b>Profitability ratios (%)</b>					
Operating profit to sales	10.6	7.6	5.2	0.3	6.7
Operating profit excluding special items to sales	9.5	6.6	5.7	3.0	6.4
EBITDA excluding special items to sales	14.4	11.6	10.9	8.9	12.3
Operating profit excluding special items to capital employed (ROCE)	17.5	12.4	10.8	5.2	11.4
Net debt to EBITDA excluding special items	1.9	2.8	3.0	4.3	2.6
Interest cover	7.3	4.4	3.6	3.1	3.9
Return on average equity (ROE)	26.7	16.2	12.3	(13.6)	6.2
<b>Debt ratios (%)</b>					
Net debt to total capitalisation	50.5	63.6	65.1	66.3	57.0
<b>Efficiency ratios</b>					
Asset turnover (times)	1.0	1.1	1.1	1.0	1.0
Inventory turnover ratio	7.0	7.9	7.8	7.3	7.6
<b>Liquidity ratios</b>					
Current asset ratio	1.4	1.6	1.6	1.6	1.6
Trade accounts receivable days outstanding (including receivables securitised)	44	45	45	47	44
Cash interest cover (times)	5.6	3.0	3.1	2.7	2.4
<b>Other non-financial information<sup>(2)</sup></b>					
Sales volumes	7,253	7,306	7,524	7,466	7,705
Number of full-time equivalent employees	12,051	12,548	13,064	13,665	14,039
Lost time injury frequency rate (including contract employees)	0.46	0.48	0.53	0.56	0.56
<b>Energy</b>					
Specific net purchased energy (GJ/adt)	13.36	13.75	13.95	14.20	14.61
Renewable energy to total energy (%)	52.87	52.44	53.07	51.27	50.31
<b>Water</b>					
Specific process water drawn (m <sup>3</sup> /adt)	33.91	33.51	34.13	34.81	33.85
Specific process water returned (m <sup>3</sup> /adt)	31.10	31.02	31.72	32.43	31.95
<b>Waste</b>					
Specific total landfill (ton/adt)	0.070	0.085	0.070	0.073	0.075
<b>Emissions</b>					
Specific scope 1 emissions (ton CO <sub>2</sub> eq/adt)	0.62	0.60	0.60	0.61	0.65
Specific scope 2 emissions (ton CO <sub>2</sub> eq/adt)	0.18	0.20	0.21	0.21	0.23

Refer to share statistics on page 86 for other market and share-related information.

<sup>(1)</sup> Net of treasury shares (refer to note 18 to the group annual financial statements).

<sup>(2)</sup> Certain energy, water, waste and emissions data for the comparative years have been restated using the latest reporting standards and measurement methodology.

**Note:** Definitions for various terms and ratios used above are included in the glossary on page 88.

# Share statistics

for the year ended September 2016

## Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares <sup>(1)</sup>	% of shares in issue
1 – 5,000	4,936	80.0	3,216,409	0.6
5,001 – 10,000	226	3.7	1,666,025	0.3
10,001 – 50,000	432	7.0	10,714,561	2.0
50,001 – 100,000	169	2.7	12,092,738	2.3
100,001 – 1,000,000	332	5.4	111,204,159	21.0
Over 1,000,000	74	1.2	391,669,709	73.8
	6,169	100.0	530,563,601	100.0

<sup>(1)</sup> The number of shares excludes 10,882,622 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	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2016 was 6,157)	99.8
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

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 2016, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	79,107,397	14.9
Allan Gray Balanced Fund (ZA)	27,903,157	5.3

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2016, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	75,999,266	14.3
Public Investment Corporation	71,078,778	13.4
Prudential Portfolio Advisors	45,094,666	8.5
Old Mutual Plc	31,403,199	5.9
Dimensional Fund Advisors	27,309,408	5.1

## Share statistics

	2016	2015	2014	2013	2012
Ordinary shares in issue (millions) <sup>(1)</sup>	<b>530.6</b>	526.4	524.2	521.5	520.8
Net asset value per share (US cents)	<b>260</b>	193	199	219	293
Number of shares traded (millions)					
JSE	<b>544.7</b>	351.0	296.9	323.3	365.3
New York	<b>0.9</b>	1.1	2.0	3.1	2.8
Value of shares traded					
JSE (ZAR million)	<b>35,428.6</b>	15,642.5	10,500.0	8,634.7	9,262.9
New York (US\$ million)	<b>4.2</b>	4.4	6.1	8.8	8.9
Percentage of issued shares traded	<b>102.8</b>	66.9	57.0	62.6	70.7
Market price per share					
– year-end					
JSE (South African cents)	<b>7,226</b>	4,069	4,337	2,549	2,366
New York (US cents)	<b>522</b>	286	385	249	285
– highest					
JSE (South African cents)	<b>7,942</b>	5,279	4,755	3,300	2,999
New York (US cents)	<b>522</b>	448	425	389	373
– lowest					
JSE (South African cents)	<b>3,982</b>	3,610	2,525	2,204	2,092
New York (US cents)	<b>282</b>	267	247	228	257
Earnings yield (%) <sup>(2)</sup>	<b>11.39</b>	10.94	6.73	negative	6.32
Price/earnings ratio (times) <sup>(2)</sup>	<b>8.78</b>	9.14	14.86	negative	15.82
Total market capitalisation (US\$ million) <sup>(2)</sup>	<b>2,796</b>	1,539	2,025	1,317	1,484

<sup>(1)</sup> The number of shares excludes 10,882,622 treasury shares held by the group.

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

 **Note:** Definitions for various terms and ratios used above are included in the Glossary on page 88.



# 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** – the spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester

**bleached pulp** – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

**casting and release paper** – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. 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 papers** – papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper

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

**coated woodfree** – coated paper made from chemical pulp which is made from 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

**COSO** – the Committee of Sponsoring Organisations of the Treadway Commission

**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** – 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** – 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 land to achieve FSC endorsement, its forest management practices must meet the FSC's 10 principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product

**full-time equivalent employee** – the number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law

**greenhouse gas (GHG)** – the GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

**ISO** – developed by the International Standardisation Organisation (ISO), ISO 9000 is a series of standards focused on quality management systems, while the ISO 14001 series is focused on environmental performance and management

**JSE Limited** – the main securities exchange in South Africa

**kraft paper** – packaging paper (bleached or unbleached) made from kraft pulp

**kraft pulp** – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

**Kyoto Protocol** – a document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990

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

**Lost Time Injury Frequency Rate (LTIFR)** – number of lost time injuries x 200,000 divided by man hours

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

**managed forest** – naturally occurring forests that are harvested commercially

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

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

**NBHK** – Northern Bleached Hardwood Kraft pulp. One of the varieties of market pulp, produced from hardwood trees (ie birch or aspen) in Scandinavia, Canada and northern USA

**NBSK** – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

**NPO** – non-profit organisation

**natural/indigenous forest** – pristine areas not used commercially

**newsprint** – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

**OHSAS** – 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

**power** – the rate at which energy is used or produced

**PM** – paper machine

**pulpwood** – wood suitable for producing pulp – usually not of sufficient standard for sawmilling

**sackkraft** – kraft paper used to produce multiwall paper sacks

**Scope 1 and 2 GHG emissions** – the Greenhouse Gas Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:

- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity, and
- Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity

**silviculture costs** – growing and tending costs of trees in forestry operations

**solid waste** – dry organic and inorganic waste materials

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

**speciality paper** – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc

**specific** – when data is expressed in specific form, this means that the actual quantity consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry 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 woodchips

**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

**compound annual growth rate** – the mean annual growth rate of an investment over a specified period of time longer than one year

**control** – an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

**diluted earnings per share** – calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive

**discount rate** – the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate

**disposal date** – the date on which control in respect of subsidiaries, joint arrangements and significant influence in associates ceases

**fair value** – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

**financial results** – comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group

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

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

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

**joint arrangement** – an arrangement of which two or more parties have joint control

**joint venture** – 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** – 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 number: 1936/008963/06)  
("Sappi" or "the Company")

The eightieth Annual General Meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, on Wednesday, 08 February 2017 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, 03 February 2017.



### 1. Ordinary resolution number 1: Presentation of Group Annual Financial Statements

Ordinary resolution number 1 is proposed to present the Group Annual Financial Statements of the company for the year ended September 2016, including the directors' report, the report of the auditors and the report of the Audit Committee.

The complete Group Annual Financial Statements for the year ended September 2016 are available on the Sappi website: [www.sappi.com](http://www.sappi.com).



"Resolved that the Group Annual Financial Statements for the year ended September 2016 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 resolutions numbers 2.1 to 2.4: Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation

The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them. For brief biographical details of those directors, refer to note 1 under Notes on page 97.

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 2.1

"Resolved that Mr MA Fallon is re-elected as a director of Sappi."

#### Ordinary resolution number 2.2

"Resolved that Dr D Konar is re-elected as a director of Sappi."

#### Ordinary resolution number 2.3

"Resolved that Mr JD McKenzie is re-elected as a director of Sappi."

#### Ordinary resolution number 2.4

"Resolved that Mr GT Pearce is re-elected as a director of Sappi."

### 3. Ordinary resolution number 3: Election of Audit Committee members

Ordinary resolution number 3 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.

Mr GPF Beurskens will be retiring as independent non-executive director and member of the Audit Committee with effect from 28 February 2017 and will be replaced by Mr RJAM Renders, subject to separate election by shareholders.





Brief biographical details of each member of the Audit Committee are included in the biographies of all directors on our website [www.sappi.com](http://www.sappi.com).

“Resolved that an Audit Committee be and is hereby elected, by separate election to the committee of the following independent directors:

- 3.1 Dr D Konar Chairman\*
- 3.2 Mr MA Fallon Member\*\*
- 3.3 Mr NP Mageza Member
- 3.4 Mrs KR Osar Member
- 3.5 Mr RJAM Renders 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 2.2.

\*\* Subject to his re-election as a director pursuant to ordinary resolution number 2.1.

#### 4. Ordinary resolution number 4: Appointment of auditors

The board has “Resolved to appoint KPMG Inc. (with the designated registered auditor to be Mr Peter MacDonald) as the auditors of Sappi for the financial year ending September 2017 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.

#### 5. Ordinary resolutions numbers 5.1 and 5.2: Provision of Sappi shares required by The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

The passing of resolutions 5.1 and 5.2 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 5.2 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 2016). As at 30 September 2016, 12,313,341 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 30,387,529 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 14,031,774 Performance Share Plan awards which are still subject to vesting and 2,825,679 options which have not yet been exercised.

Since 2012, the Company has ceased allocating share awards which are not subject to any performance criteria. Instead, only performance share plan awards are granted to 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 a reference to The Sappi Limited Share Incentive Trust in ordinary resolution number 5.2.

#### Ordinary resolution number 5.1

“Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Trust (“the Plan”), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to issue those shares in terms of the Plan.”

## Notice to shareholders continued

### Ordinary resolution number 5.2

“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.

### 6. Ordinary resolution number 6: Remuneration policy

“Resolved as an ordinary resolution, that the company’s remuneration policy as contained in the compensation report on pages 55 to 61 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.

### 7. Special resolution number 1: Non-executive directors’ fees

“Resolved that, with effect from 01 October 2016 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
<b>1. Sappi board fees<sup>(1)</sup></b>		
<b>Chairperson</b>		
If South African resident	ZAR2,536,900*	ZAR2,689,110*
If United Kingdom resident	£298,500*	£302,980*
If United States resident	US\$444,440*	US\$453,330*
If European resident	€401,420*	€407,440*
<b>Lead independent director</b>		
If South African resident	ZAR553,850	ZAR587,080
If United Kingdom resident	£65,380	£66,360
If United States resident	US\$97,290	US\$99,240
If European resident	€87,920	€89,240
<b>Other directors</b>		
If South African resident	ZAR370,150	ZAR392,360
If United Kingdom resident	£43,550	£44,200
If United States resident	US\$64,840	US\$66,140
If European resident	€58,570	€59,450

\* Inclusive of all board committee fees.

<sup>(1)</sup> Fees per annum unless indicated otherwise.

	From	To
<b>2. Audit committee fees<sup>(1)</sup></b>		
<b>Board committee</b>		
<b>Chairperson</b>		
If South African resident	ZAR384,360	ZAR407,420
If United Kingdom resident	£44,220	£44,880
If United States resident	US\$67,180	US\$68,520
If European resident	€59,470	€60,360
<b>Other members</b>		
If South African resident	ZAR192,180	ZAR203,710
If United Kingdom resident	£22,240	£22,570
If United States resident	US\$32,760	US\$33,420
If European resident	€29,900	€30,350
<b>Regional Audit Committee</b>		
<b>Chairperson</b>		
If South African resident	ZAR48,445 per meeting	ZAR51,350 per meeting
If United Kingdom resident	£5,690 per meeting	£5,780 per meeting
If United States resident	US\$8,220 per meeting	US\$8,380 per meeting
If European resident	€7,650 per meeting	€7,770 per meeting

<sup>(1)</sup> Fees per annum unless indicated otherwise.



	From	To
<b>3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees<sup>(1)</sup></b>		
<b>Chairperson</b>		
If South African resident	ZAR231,080	ZAR244,950
If United Kingdom resident	£26,270	£26,660
If United States resident	US\$38,380	US\$39,150
If European resident	€35,320	€35,850
<b>Other members</b>		
If South African resident	ZAR120,260	ZAR127,480
If United Kingdom resident	£18,415	£18,690
If United States resident	US\$23,455	US\$23,920
If European resident	€24,760	€25,130
	From	To
<b>4. Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/ video-conference</b>		
If South African resident	ZAR37,100 per meeting	ZAR39,330 per meeting
If United Kingdom resident	£4,310 per meeting	£4,380 per meeting
If United States resident	US\$6,480 per meeting	US\$6,610 per meeting
If European resident	€5,800 per meeting	€5,890 per meeting
<b>5. Travel compensation For more than 10 flight hours return</b>	US\$3,400 per meeting	US\$3,500 per meeting

<sup>(1)</sup> Fees per annum unless indicated otherwise.

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 1.5% 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 2016. The fees were last increased with effect from 01 October 2015 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 2016 onwards. Initially the December 2016 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 2016 payment will be made up in the March 2017 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.

#### **8. 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

## Notice to shareholders continued

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.

### 9. Ordinary resolution number 7: 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 08 February 2017 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.

### 10. 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 62.



#### 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 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 08 February 2017 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 98, 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 Company Secretary by 17:00 on Friday, 03 February 2017 at:

7th floor  
48 Ameshoff Street  
Braamfontein  
2001 Johannesburg

or

PO Box 31560  
2017 Braamfontein

or by eMail to  
Amanda.Tregoning@sappi.com

Sappi Southern Africa Limited

Secretaries: per AJ Tregoning  
48 Ameshoff Street  
Braamfontein  
2001 Johannesburg

09 December 2016

## Notes

### Directors retiring by rotation who are seeking re-election

#### Michael Anthony Fallon (Mike) (58)

(Independent)

**Qualifications:** BSc (Hons) (First class)

**Nationality:** British

**Appointed:** September 2011

#### Sappi board committee memberships

- Audit Committee
- Human Resources and Compensation Committee (Chairman)

#### Skills, expertise and experience

Mr Fallon retired as an executive director of Nippon Sheet Glass Company Limited (NSG Group) at the end of June 2012. Prior to retirement, Mr Fallon was President of NSG's global automotive division, with 17,500 employees, and where he headed up all the glass and glazing operations in the key automotive regions across the world. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisition experience. He was President of Pilkington operations in North America and has been director and chairman of companies in the United Kingdom, New Zealand and Finland.

#### Dr Deenadayalen Konar (Len) (62)

(Independent)

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

**Nationality:** South African

**Appointed:** March 2002

#### Sappi board committee memberships

- Audit Committee (Chairman)
- Nomination and Governance Committee

#### Other board and organisation memberships

- Alexander Forbes Equity Holdings Limited
- Exxaro Resources Limited (Chairman)
- Lonmin plc
- Steinhoff International Holdings Limited (Deputy Chairman)

#### Skills, expertise and experience

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

#### John David McKenzie (Jock) (69)

(Lead independent director)

**Qualifications:** BSc Chemical Engineering (Cum laude), MA

**Nationality:** South African

**Appointed:** September 2007

#### Sappi board committee memberships

- Human Resources and Compensation Committee
- Nomination and Governance Committee

#### Other board and organisation memberships

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

#### Skills, expertise and experience

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

#### Glen Thomas Pearce (53)

(Chief Financial Officer)

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

**Nationality:** South African

**Appointed:** July 2014

#### Sappi board committee memberships

Expected to attend Audit Committee meetings by invitation

#### Skills, expertise and experience

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



## Shareholders' diary

Annual General Meeting	08 February 2017
First quarter results released	February 2017
Second quarter and half-year results released	May 2017
Third quarter results released	August 2017
Financial year-end	September 2017
Preliminary fourth quarter and year results	November 2017
Annual Integrated Report posted to shareholders and posted on website	December 2017

## Administration

### Sappi Limited

Registration number: 1936/008963/06

JSE code: SAP

ISIN code: ZAE 000006284

### Group Company Secretary and Corporate Counsel

Amanda Tregoning

### Secretaries

Sappi Southern Africa Limited

48 Ameshoff Street

2001 Braamfontein

South Africa

PO Box 31560

2017 Braamfontein

South Africa

Tel +27 (0)11 407 8111

Fax +27 (0)11 339 1881

eMail [Amanda.Tregoning@sappi.com](mailto:Amanda.Tregoning@sappi.com)

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

### Transfer secretaries

South Africa

Computershare Investor Services Proprietary Limited

Rosebank Towers

15 Biermann Avenue

2196 Rosebank

PO Box 61051

2107 Marshalltown

Tel +27 (0)11 370 5000

Fax +27 (0)11 688 5238

eMail [proxy@computershare.co.za](mailto:proxy@computershare.co.za)

[www.computershare.com](http://www.computershare.com)

### Corporate affairs

André Oberholzer – Group Head Corporate Affairs

Tel +27 (0)11 407 8111

Fax +27 (0)11 403 8236

eMail [Andre.Oberholzer@sappi.com](mailto:Andre.Oberholzer@sappi.com)

### Investor relations

Graeme Wild – Group Head Investor Relations and Sustainability

Tel +27 (0)11 407 8391

eMail [Graeme.Wild@sappi.com](mailto:Graeme.Wild@sappi.com)

### JSE sponsor

UBS South Africa Proprietary Limited

64 Wierda Road East

2196 Sandton

South Africa

Tel +27 (0)11 407 8391

eMail [Yvette.Labuschagne@ubs.com](mailto:Yvette.Labuschagne@ubs.com)

### United States ADR Depository

BNY Mellon Shareowner Services

PO Box 30170

College Station, TX 77842-3170

United States of America

eMail [shrelations@cpushareownerservices.com](mailto:shrelations@cpushareownerservices.com)

Tel (US only) 1 888 BNY ADRS

Tel (Outside the US) +1 201 680 6825

[www.mybnymdr.com](http://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 eightieth Annual General Meeting of the members to be held at 14:00 on Wednesday, 08 February 2017 in the Auditorium, Ground Floor, 48 Ameshoff Street, 2001 Braamfontein, Johannesburg, 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, 06 February 2017, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, Republic of South Africa, or by way of postal delivery to PO Box 61051, 2107 Marshalltown, 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

being a shareholder(s) of Sappi holding \_\_\_\_\_ 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, 08 February 2017 or any adjournment thereof, as follows.

Number of shares

	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2016 annual financial statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Re election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 2.1 – Re-election of Michael Anthony Fallon (Mike) as a director of Sappi			
Ordinary resolution number 2.2 – Re-election of Dr Deenadayalen Konar (Len) as a director of Sappi			
Ordinary resolution number 2.3 – Re-election of John David McKenzie (Jock) as a director of Sappi			
Ordinary resolution number 2.4 – Re-election of Glen Thomas Pearce (Glen) as a director of Sappi			
Ordinary resolution No 3 – Election of Audit Committee			
Ordinary resolution number 3.1 – Election of Dr D Konar as chairman of the Audit Committee			
Ordinary resolution number 3.2 – Election of Mr MA Fallon as a member of the Audit Committee			
Ordinary resolution number 3.3 – Election of Mr NP Mageza as a member of the Audit Committee			
Ordinary resolution number 3.4 – Election of Mrs KR Osar as a member of the Audit Committee			
Ordinary resolution number 3.5 – Election of Mr RJAM Renders as a member of the Audit Committee			
Ordinary resolution number 4 – Appointment of KPMG Inc. as auditors of Sappi for the year ending September 2017 and until the next Annual General Meeting of Sappi			
Ordinary resolution number 5.1 – 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 5.2 – 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 6 – 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 7 – 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 Annual General Meeting on page 92.

## Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

### Instructions on signing and lodging the Annual General Meeting proxy form

- 1 A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
- 2 The Chairman shall be entitled to decline to accept the authority of the signatory:
  - 2.1 Under a power of attorney, or
  - 2.2 On behalf of a company,
 if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, 2196 Rosebank, Republic of South Africa, or posted to PO Box 61051, 2107 Marshalltown, Republic of South Africa.
- 3 The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
- 4 When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
- 5 The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
- 6 Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, 2196 Rosebank, Republic of South Africa, (for hand delivery) or PO Box 61051, 2107 Marshalltown, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 06 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 SA Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of

the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation
- A shareholder may revoke a proxy appointment in writing
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder, and
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

# Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- The impact on our business of adverse changes in global economic conditions
- Unanticipated production disruptions (including as a result of planned or unexpected power outages)
- Changes in environmental, tax and other laws and regulations
- Adverse changes in the markets for our products
- The emergence of new technologies and changes in consumer trends including increased preferences for digital media
- Consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- Adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems
- The impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies, and
- Currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

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