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Southern Africa
Sustainability Report 2013

sappi

Inspired by life

www.sappi.com

About this report

Scope of this report

This report is aligned with our 2013 Integrated Report and 2013 Group Sustainability Report (available online at www.sappi.com) and covers the period from the beginning of October 2012 to the end of September 2013.

Reporting framework

As Sappi Limited is headquartered in South Africa and listed on the Johannesburg Stock Exchange, we abide by the King III Code on Corporate Governance (King III).

Joint ventures excluded

LignoTech South Africa, our 50:50 joint venture with Borregaard at Saiccor Mill, is excluded from this report as we do not manage this operation.

Global Reporting Initiative and United Nations Global Compact

Sappi Southern Africa has been publicly reporting progress on sustainability initiatives since 2008 as part of a Group Sustainability Report issued annually by Sappi Limited at financial year-end. This is the third consecutive year that each regional division will issue its own sustainability report, with consolidated global sustainability performance included in the annual Integrated Report to shareholders. Sappi Limited will continue to publish a separate online report in conformance with the Global Reporting Initiative's G3.1 framework and disclosing compliance with the UN Global Compact, to which we are a signatory. This reporting structure maintains our commitment to transparency at the global level while allowing a deeper regional focus that reflects local markets and issues.

We demonstrate our global commitment to sustainability through our participation in the UN Global Compact and we are equally committed to ensuring that the companies in the supply chain operate safely and comply with international standards with respect to human rights, discrimination and freedom of association.

In this sustainability report for Sappi Southern Africa, we placed greater emphasis on materiality throughout the value chain, as well as stakeholders' concerns, in accordance with the core principles of the GRI's recently released G4 reporting guidelines.



Our vision

We are inspired:

- By nature
- By the interactions with our customers and suppliers
- By our observations of what is happening around us.

We use this inspiration and understanding to create solutions and products that are sustainable and relevant to the world.

Our goal

To be an exciting, growing and profitable leader in Paper and Specialised Cellulose, providing value for our shareholders, people and customers in a safe, responsible and sustainable manner.



Our operations

Sappi Southern Africa

Sappi specialised cellulose



Saiccor and Ngodwana Mills
Dissolving wood pulp

Sappi paper and paper packaging



Cape Kraft Mill
Containerboard and coated packaging paper

Enstra Mill
Uncoated graphics paper, specialities, kraft paper and containerboard

Ngodwana Mill
Containerboard and newsprint

Stanger Mill
Coated and uncoated graphics paper, specialities and tissue

Tugela Mill
Containerboard

Sappi forests and ReFibre



KwaZulu-Natal, Mpumalanga and Swaziland Forests
Pulpwood
Sawlogs

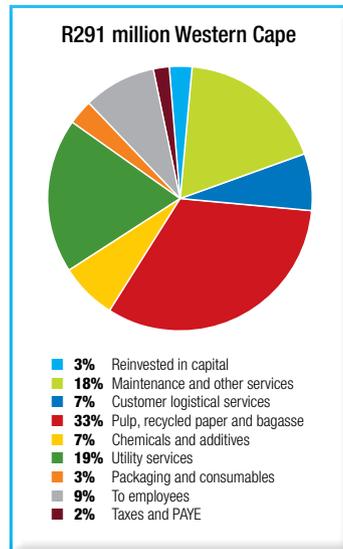
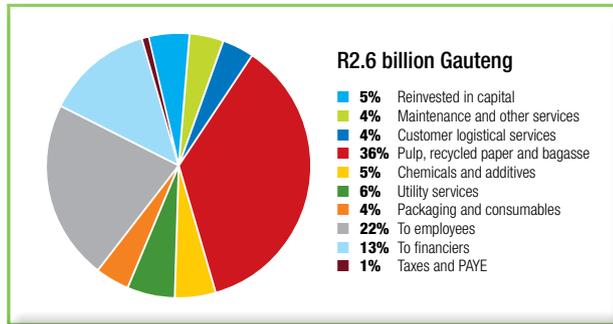
Lomati Sawmill
Structural and industrial timber

ReFibre
Recovered fibre

! jobs

Our value add to Southern Africa

Sappi contributes just under 1% of South Africa's total export revenue



- Corporate head office
- ▲ Regional head office
- Mill
- ◆ Sales office



Our value chain

Our key inputs

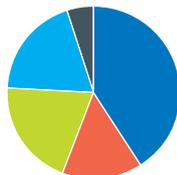
Fibre: We are advantaged by the fact that our primary resource, woodfibre, is a sustainable, renewable resource derived from sustainably managed plantation forests. In 2013, we used 4.5m tons of woodfibre, of which 73% was supplied by our own, leased and managed plantations. Woodfibre accounted for 91.7% of our total fibre basket requirements, with the balance made up by bagasse (sugar cane waste residue) used at our Stanger Mill and recycled paper.

86% of the woodfibre supplied to our manufacturing operations was FSC-C012316 certified originating from our own plantations as well as on the Sappi Group Scheme (FSC-C017054) with other logs from controlled sources. Our own, leased and managed plantations in South Africa have the capability to supply 77% of our mills' woodfibre requirements.

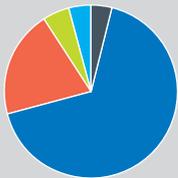
Our communities: We work closely with our communities situated in the areas around our plantations and production facilities. Through our corporate social responsibility programme, we invest in the socio-economic development of the communities in which our workers live. Our direct Corporate Social Investment (CSI) spend in 2013 was R8.1 million (2012: R6.9 million). We currently exclude indirect expenditure.

Our people: We employ 5,637 own employees and over 12,000 contract workers. Our focus is on retaining talent, accelerating development, sourcing talent strategically, providing performance feedback and creating development opportunities. We aim to create a workplace where diversity is encouraged and safety is a priority, incorporating contractor employees into our best practice safety programmes.

Top 20 chemical suppliers (54% of total chemical supply) split by country of origin



Fibre utilised in our production



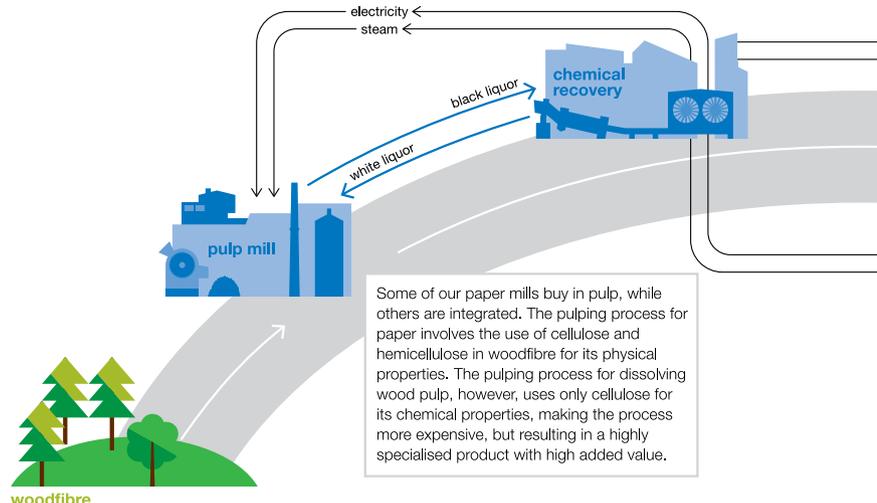
- 5% Woodfibre from Project Grow (Enterprise Development)
- 4% Recycled paper
- 4% Bagasse from sugar cane
- 67% Woodfibre from own, leased and managed plantations
- 20% Woodfibre from contracts and markets

Socio-economic development spend



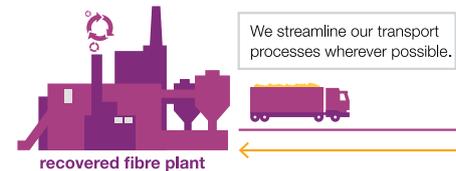
- 43% Local community support
- 45% Education
- 12% Environment

We use the principles of Lean Manufacturing to reduce energy, re-use resources and minimise waste throughout our mills.



Some of our paper mills buy in pulp, while others are integrated. The pulping process for paper involves the use of cellulose and hemicellulose in woodfibre for its physical properties. The pulping process for dissolving wood pulp, however, uses only cellulose for its chemical properties, making the process more expensive, but resulting in a highly specialised product with high added value.

woodfibre



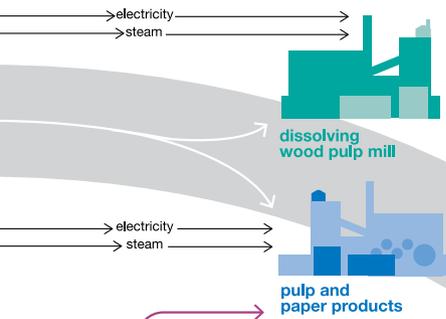
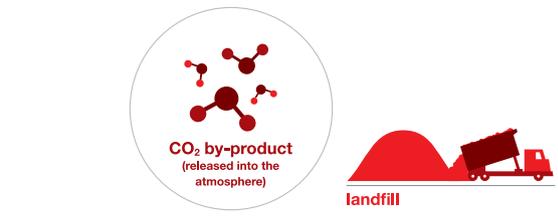
Recovering and recycling paper and board helps to minimise the emissions associated with landfill.



Our pulp, paper and dissolving wood pulp solutions touch the lives of millions of people around the world, create direct employment for 5,637 people and indirect employment for thousands of others, have a positive impact on communities and generate significant economic benefits.

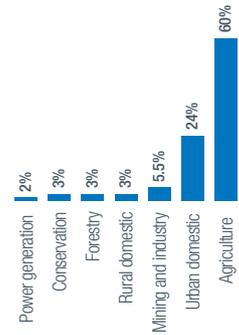


Chemicals: Our key chemicals used include caustic soda, calcium carbonates, latexes, starches, sulphur and sulphuric acid purchased from a variety of South African and overseas suppliers. Our focus is to buy chemicals where possible that originates locally.



Water: In 2013, we utilised 88.3 million cubic metres of water from rivers, dams and boreholes, returning 93% cleaned and treated water back to the environment. Research by the Department of Water Affairs has shown that commercial forestry plantations in South Africa account for only 3% of total water use by reducing runoff into rivers and streams. By comparison, irrigated agriculture accounts for 60%. Our plantations use approximately 15% of the water available in the specific catchment areas in which they are located.

Water use per sector in South Africa



Source: Department of Water Affairs, 2010

Paper is transported to regional distribution centres, merchants and printers. Designers specify paper which printers convert into products such as books, magazines, brochures and labels. In 2013, we increased capacity in South Africa of dissolving wood pulp (DWP) by more than 25%. DWP is used in the manufacture of cellulosic textiles and non-woven fibre products used in the fashion, pharmaceutical and consumer markets.

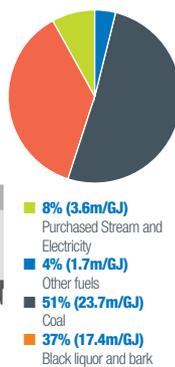


specialised cellulosic textiles and non-woven fibre products



Energy: We supply 37% of our total energy needs with renewable fuel sources by burning black liquor and bark. The remainder of our energy needs are met by coal and electricity, supplemented by purchases of oil and natural gas.

Energy used (million GJ/annum)



Our products: We are the world's leading producer and exporter of dissolving wood pulp, used to make sought-after viscose fibre and a wide range of health, food, beauty and industrial products. We produce market-leading paper and packaging products including newsprint, tissue wadding, coated and uncoated graphics papers, speciality papers and security papers, containerboard and kraft papers. Our best-known brands include the Triple Green coated range of papers, Typek A4 and A3 uncoated office paper and Superflute and Kraftpride packaging papers.

In making products that meet society's needs, we recognise that we not only have a positive impact, but also a potential negative impact on health, safety and the environment. Our focus on mitigating these impacts is detailed throughout this report.



“The Southern African region continued with bold actions to restructure and reposition the business for long-term sustainable growth and profitability.”

– Ralph Boöttger

“Focusing on growing and profitable markets as well as improving our paper business margins remains our major strategic priority. Our journey along this road has been challenging, but rewarding and has involved focused commitment from our people.”

– Alex Thiel

Message from our Chief Executive Officer Sappi Limited

In the Southern African business, our Saiccor Mill had an excellent year as regards production and quality. The region also continued with bold actions to restructure and reposition the business for long-term sustainable growth and profitability.

The completion of the specialised cellulose conversion project at our Ngodwana Mill further strengthens Sappi’s global leadership in specialised cellulose. Whilst challenging, the project has already begun to deliver first grade product to customers around the world.

The restructuring in our paper and packaging businesses in the region is beginning to bear fruit and while the year ahead will not be easy, we are confident that we will again be the local producer and supplier of choice.

Of particular importance in South Africa, is the role that Sappi plays in community development. Our large footprint in rural areas due to the location of our forests and mills focuses our attention on the needs of these communities; resulting in actions which not only strengthen our business but also have a positive impact on the lives of the people in our communities as a responsible corporate citizen.

Ralph Boöttger
Chief Executive Officer
Sappi Limited



Message from our Chief Executive Officer Sappi Southern Africa Limited

Our vision is to balance and integrate the 3Ps of Prosperity, People and Planet into our business so that our economic, social and environmental impacts have positive outcomes for all our stakeholders.

Sustainability is not an add-on, but an entrenched part of the way we manage our daily business activities, mitigate risk, leverage opportunities and plan for the future.

Our 3P targets underpin our strategic approach to sustainability.

It is with profound regret that I have to report that there were two fatalities within our operations this year. Recognising that even one fatality is one too many, we continue to focus on our ultimate goal of creating a working environment that is free from incidents and accidents.

Promoting employee diversity and a culture of inclusion is integral to our reputation and licence to operate in South Africa. One area where we need to improve is employment equity. We have implemented an action plan to redress the situation. There was, however, good progress made in other People target areas, including training and development and corporate social responsibility.

We achieved our Prosperity target. This is significant because profitability is the basis of our ability to create enduring value for all our stakeholders. We are confident going forward following on from our GoCell conversion and paper business restructuring that we will continue to improve our margins.

We are mindful of our responsibility to the natural resources on which our business depends. We significantly exceeded our specific energy fossil fuel target, but fell short on our water target, but will continue to aggressively pursue this target in the light of South Africa's constrained water resources.

Our operations interact with many different stakeholders and we are increasingly placing emphasis on our dialogue with them. The material impacts of our business on our stakeholders, together with broader macro-economic and political trends in terms of the 3Ps, are indicated throughout this report.

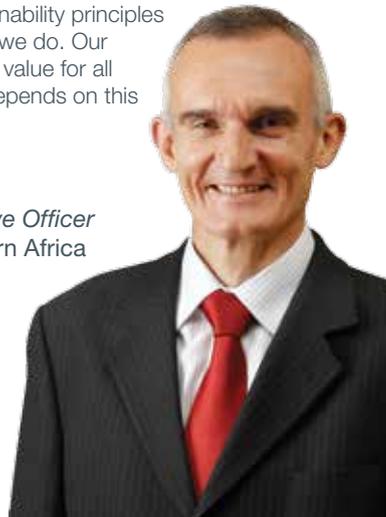
We have come a long way down the road in viewing sustainability as an opportunity, rather than a risk. To cite just a few examples: In terms of intangible benefits, fostering good community relationships and promoting socio-economic development in the communities close to our operations enhances our licence to trade.

As regards tangible benefits, eliminating waste and inefficiencies makes simple economic sense and produces real bottom line impact. A good example of this is the manner in which we are driving the development of lignosulphonates at our Tugela Mill.

In expanding our business, we are cognisant of our commitment to treading more lightly on the Planet. This is highlighted in our GoCell project where we reduced our air emissions and fossil fuel energy requirements.

Focusing on growing and profitable markets as well as improving our paper business margins remains our major strategic priority. Our journey along this road has been challenging, but rewarding and has involved focused commitment from our people. I would like to thank all our people for continuing to integrate sustainability principles into everything we do. Our ability to create value for all stakeholders depends on this commitment.

Alex Thiel
Chief Executive Officer
Sappi Southern Africa



Prosperity

Review of our 2013 targets

Sustainability is the driving force in every decision we make as a company. As we focus on creating value for our shareholders, we take cognisance of our impact on this planet and stakeholders to ensure that all benefit in the long term. In 2010, we set certain targets to be achieved by 2015 with progressive interim targets. Our current year achievements against those progressive interim targets are discussed below.

Profitability	2013 Target	Status
Return on net assets (RONA) to be equal to or greater than 15% on a five-year rolling basis	8%	8% 

Our performance for the year was on target mainly due to our specialised cellulose division's performance. The paper business struggled throughout the year with depressed local demand for print paper. We continue to be focused on reducing costs and adjusting capacity, the benefits of which will be evident in 2014.

Adherence to planned skills training for employees	2013 Target	Status
80% compliance to the Workplace Skills Plan (WSP)	70%	77.5% 

There continues to be focus on planned training to improve skills in the right areas of our business as well as improve our employees' ability to add more value to the business and improve their chances of promotion and career development.

Commitment to training employees	2013 Target	Status
Provide training and development opportunities of an average of 60 hours per employee per annum	54 hours per employee	81 hours per employee 

The type of training was dominated by learnerships, particularly apprenticeships together with knowledge and capacity building.

Corporate Social Responsibility (CSR)	2013 Target	Status
Achieve spend of 1% of net profit after tax (NPAT)	1% of NPAT	Spend of 1.59% of NPAT 

Our key areas of focus were on education (45%) and the environment (12%) as well as support of local communities (43%) in the geographic locations where we have operations.

Safety	2013 Target	Status
Combined Lost Time Injury Frequency Rate (LTIFR) for own employees and contractors to be better than best ever achieved on a continuous 12-month basis.	LTIFR of < 0.27	LTIFR of 0.43 

Our approach to sustainability

Our approach to sustainability is based on a holistic view of Prosperity, People and Planet (the 3Ps). Being a sustainable organisation means that we balance and integrate the 3Ps into our business decisions, strategies and processes to help us add value for all our stakeholders.

At the heart of our business is a renewable, recyclable natural resource – woodfibre. We use this to create pulp, paper and dissolving wood pulp solutions which enhance the lives of consumers around the world.

We have developed a number of globally and locally applicable policies which guide our performance in terms of the 3Ps, including:

- Code of Ethics
- Sustainability Charter
- Climate Change Policy
- Environmental Policy
- Corporate Social Responsibility Policy
- Human Resources Policy
- Human Rights Policy
- Stakeholder Engagement Policy
- Supplier Policy
- Wood Procurement Policy.

Policies specific to South Africa:

- Safety, Health and Environmental Policy
- Railway Safety Policy
- HIV/AIDS Policy.

These policies are all available under the sustainability tab at www.sappi.com.

External policies and charters

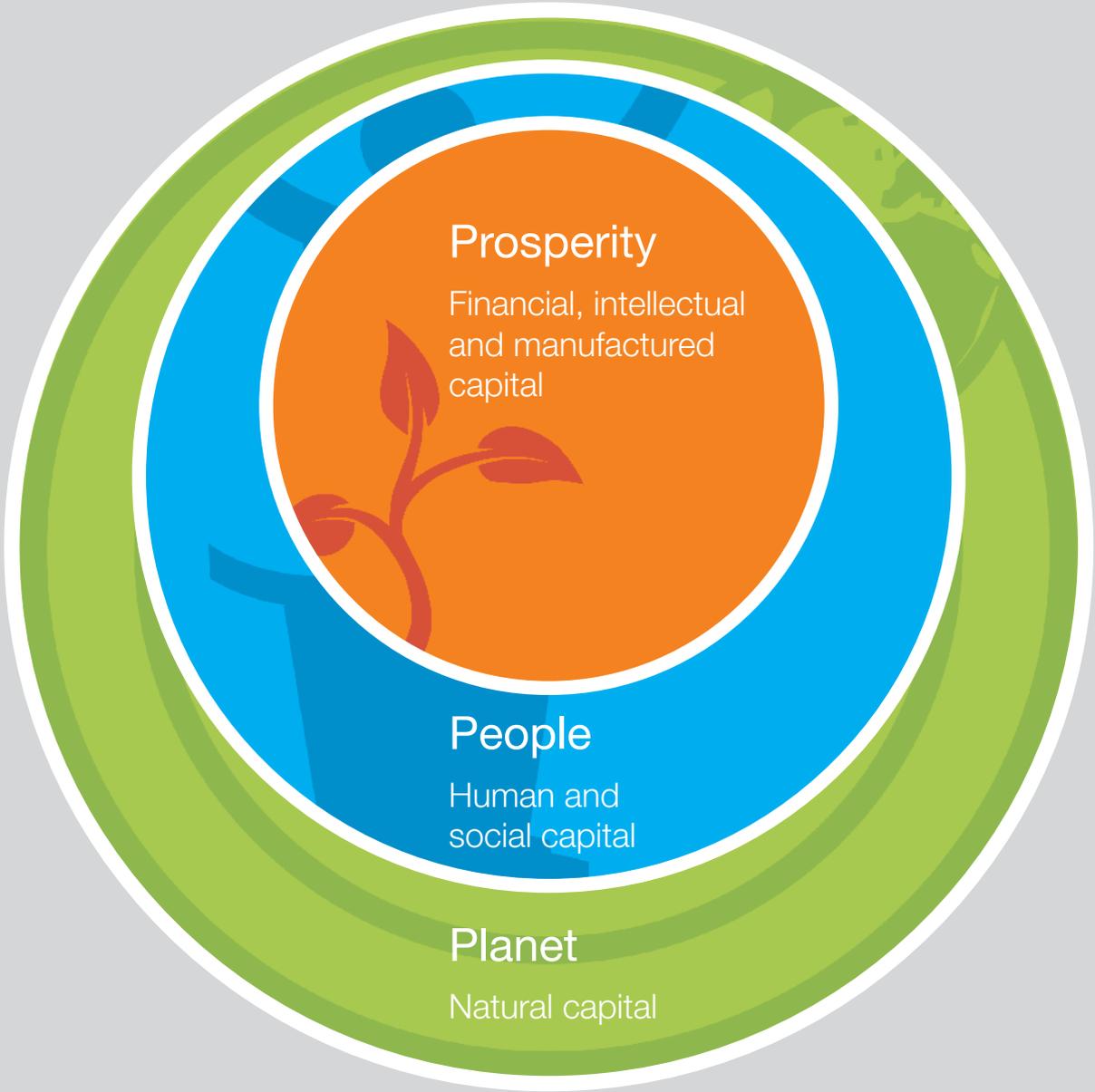
In terms of external policies and charters, we are guided by:

- The UN Global Compact (signed in 2008)
- Universal Declaration of Human Rights, International Labour Organisation
- The Organisation for Economic Cooperation and Development (OECD) Policy Guidelines for Preventing Corruption are incorporated into our Code of Ethics
- Energy Efficiency Accord
- Eskom's 49M campaign.

We belong to the following associations:

- **Industry bodies:** Forestry South Africa (FSA); Forest Stewardship Council™ (FSC™) ; Paper Manufacturers' Association of South Africa (PAMSA); Paper Recycling Association of South Africa (PRASA)
- **Business and voluntary associations:** South African Chamber of Commerce and Industry (SACCI); Business Unity South Africa (BUSA); Business Leadership South Africa (BLSA); National Business Initiative (NBI); Energy Intensive Users' Group (EIUG); Manufacturing Circle and TwoSides
- **Civil society:** World Wildlife Fund (WWFSA); Birdlife SA; Wildlife and Environment Society of South Africa (WESSA)
- South African Institute of Entrepreneurship (SAIE).

! progress



Engaging with our stakeholders

Our key stakeholders are parties who can affect or be affected by our activities, objectives and policies. We identify and prioritise stakeholders and their concerns through ongoing engagement with individuals and organisations (government, industry bodies, suppliers, NGOs and communities), and surveys of selected groups (employees, customers and investors) and audits (suppliers).

Our focus is on understanding our stakeholders' needs and building trust by engaging with them on the basis of materiality, completeness and responsiveness. Our stakeholders and the ways in which we engage with them are set out below.

Our engagement with our stakeholders has highlighted certain key issues which have formed the basis for the content of this report. These are highlighted in bold below.

Employees and unions	Our management approach	Our focus is on building a skilled, engaged workforce in which diversity is encouraged and valued, and people are provided with ongoing development opportunities so that they can develop to their full potential. In so doing, we enhance productivity and our ability to service global markets.
	Our engagement	<p>Our global and regional CEOs engage with staff through site visits and discussions, suggestion lines 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"> • Employee engagement survey • Global, regional and local newsletters • Global intranet • Letters, roadshows and presentations by the global and regional Chief Executive Officers • Various forums <ul style="list-style-type: none"> › National Employment Equity and Skills Development Forum › Shop Steward Forum › Partnership Forum • Wellbeing committees at business units • Health and safety committees at mills.
	Key issues	<p>Employee developments, particularly in respect of transformation, job security and promotional opportunities.</p> <p>Reduction in work hours and education scheme for children</p> <p>Higher levels of employee involvement in our behaviour-based safety system and wellbeing initiatives.</p>

Communities

Our management approach

Having a mutually respectful relationship with the communities in which our business units are situated is critical to our success. We also try to motivate and encourage communities situated close to our operations to share our commitment of trading more lightly on the Planet.

In terms of social projects, we engage with communities on a case-by-case basis and encourage projects which facilitate partnerships and collaboration between communities, government and the private sector.

Our engagement

Environmental issues: We have environmental liaison committees at most of the mills and forestry operations. These committees include members from various regulatory authorities, residents' associations, conservancies, municipal representatives and NGOs. Members of the public and other parties participate in the environmental impact assessments (EIAs) conducted before the start of any major project.

Social issues: Engagement takes place on a regular basis with the communities close to our operations, in respect of their needs and issues.

Key issues

Key issues discussed:

- **Water usage and quality,** effluent quality and air emissions
- **Employment and business opportunities**
- Protection of our plantations from fire
- Utilisation of non-timber products such as firewood and grazing.



Engaging with our stakeholders, continued

Customers	Our management approach	We adopt a partnership approach, whereby we offer customers innovative products and high levels of service that enable them to meet the needs of a rapidly changing world.
	Our engagement	<p>We follow 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. We communicated extensively with our customers during the current year, keeping them abreast of the changes initiated during the year.</p> <p>Paper Profiles and information sheets give details regarding the composition of our papers, as well as key environmental parameters relating to our pulp and paper production processes and information on environmental management systems and woodfibre sourcing policies.</p> <p>In 2012, we published a brochure entitled '<i>Paper. Here today. Here tomorrow</i>' which sets out the advantages of Sappi paper and dispels some of the myths around paper. There is also a series of technical brochures available on our website (www.sappi.com) regarding our products and processes.</p>
	Key issues	<p>An informal customer survey indicated that the key issues for our customers are:</p> <ul style="list-style-type: none"> • Water usage in paper production • Recycled content in our products • Investments in our communities • Certification in respect of our fibre and whether it comes from sustainably managed forests • Our carbon footprint and the carbon footprint of the paper used by our customers.
Government, civil society, industry and regulatory bodies	Our management approach	We engage with government, civil society, industry and regulatory bodies to: provide input into issues and regulations that affect the industry and society; build understanding of our operations and our contribution to society; explain our management processes and our actions to minimise any impacts we have.
	Our engagement	Consultations take place on an ongoing basis with these bodies in the regions where we operate.
	Key issues	<ul style="list-style-type: none"> • Carbon tax • Environmental legislation and compliance • Energy efficiency • Support for local employment and BBBEE.

Investors	Our management approach	Our aim is to provide investors with transparent, timely, accurate, relevant communication that facilitates informed decisions.
	Our engagement	As a public company, our shareholders can raise issues at the quarterly results presentations and the AGM. We also publicly display our Integrated Report on our website. Our investor relations (IR) team engages with shareholders 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 Chairperson also engages with shareholders on relevant issues. We also do ad hoc mill visits and roadshows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website www.sappi.com .
	Key issues	<ul style="list-style-type: none"> • Return on investment • Management of risks and opportunities, including reputational risk • Sustainability, specifically raw materials sourcing, labour, emissions, water and carbon footprint.

Suppliers and contractors	Our management approach	Understanding what is required to establish a mutually beneficial relationship. We also require our suppliers and contractors to uphold ethical, social, health and safety and environmental standards consistent with our own.
	Our engagement	<p>The procurement executives from each region coordinate at global level to improve relations with suppliers and contractors and provide benefits to all parties through better understanding of the requirements of the Sappi group.</p> <p>We work with communities to help them establish and manage timber farms. In terms of Project Grow, our enterprise development initiative, we provide interest-free loans and guaranteed markets.</p>
	Key issues	<ul style="list-style-type: none"> • Security of fibre supply • Human rights • Responsible sourcing.

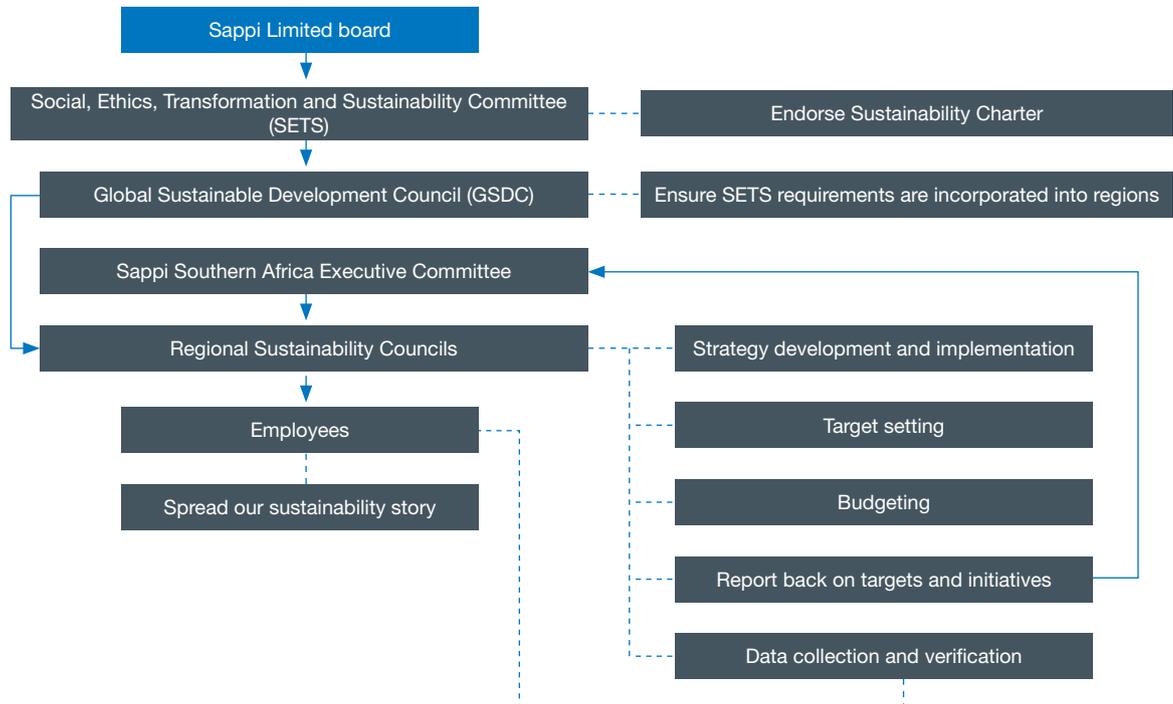
Our sustainability governance structure

Rather than having a separate sustainability department, we focus on integrating sustainability into our everyday business processes. We achieve this by allocating responsibilities, reviewing progress, setting targets, involving stakeholders, driving communication around the issues and incorporating the principles of sustainable development into our core business model. In addition to our policies, we also have an integrated sustainability governance model in place which helps to integrate sustainability into our business.

At the highest level, sustainability is overseen by the Social, Ethics, Transformation and Sustainability (SETS) Committee. This is a statutory Sappi board committee which has an independent role and accountability to the board. Further detail is available in our Integrated Report.

The Global Sustainable Development Council (GSDC) reports to the SETS Committee and oversees the work of the Regional Sustainability Councils (RSCs).

There are RSCs in Europe, North America and South Africa. Each RSC focuses on key material issues relevant to their specific region and on incorporating sustainability into everyday business processes. In South Africa, this is achieved by incorporating milestone setting on targets into the budgeting process and by reporting back on progress against targets on a quarterly basis to the South African Executive Committee.



“As consumers move towards greater ‘green’ sensitivity there are opportunities for a business based on renewable resources, one that absorbs carbon dioxide and has products that are biodegradable. These opportunities exist not only in our traditional paper businesses but also in dissolving wood pulp and other products currently under R&D development. In order to be able to leverage these opportunities, Sappi needs to be comparable, or superior, to our competitors in our environmental performance so that we have a credible record of achievements.”

**Jock Mackenzie, Chairperson
SETS Committee**

Our key issues

Like many other industries, the pulp and paper industry globally is facing many challenges, including unpredictable energy costs, slowing growth in mature markets, over-capacity and increasingly rigorous environmental regulation.

In addition to these broad challenges, there are certain issues that are key to ensuring our ongoing viability as a business. These are determined in conjunction with our risk management team and with input from stakeholders.

It’s important to note that we differentiate risk and issues in the following manner: A risk is an event that may have an impact on the company or its economic, social or natural environment. It may or may not happen. Companies can plan for a risk, based on the probability of it occurring and the potential impact on the company (and its environment). Risks may be avoided, minimised, transferred or dealt with.

An issue is a problem, concern or opportunity that has arisen within the company or within its economic, social or natural environment. It may have a real or perceived impact on the company. Importantly, an issue needs to consider the

viewpoint of all stakeholders, not simply economic stakeholders.

The key issues identified

Prosperity

- Profitability
- Project GoCell
- Restructuring our business.

People

- Skills
- Labour relations
- Community relations
- Employee health and wellbeing
- Safety
- Transformation.

Planet

- Energy
- Climate change
- Sustainably managed timber
- Land use and biodiversity
- Biorefinery
- Water
- Recycling.



Prosperity



FAQ: What about messages like ‘think before you print’ or ‘save a tree’ – or those urging you to have your statements and invoices e-Mailed to you rather than posted?

A: e-Mailing statements and invoices saves the company money and moves the burden of printing documents to the customer. In South Africa, our trees are grown specifically to be harvested so that we can create valuable products from them. In essence, our trees are an agricultural crop, just like grapes or maize. They are constantly being replaced. In South Africa, we plant between 33 and 37 million trees annually.

Profitability

Materiality focus

Our ability to create value for our shareholders is the foundation of our commitment to sustainable development. If we do not make profits, we do not have a sustainable business. Our key challenge in recent years has been to return our operations to levels of profitability sufficient to generate shareholder returns on a sustainable basis. To achieve this, we embarked on a thorough review of all our business processes, product mix and cost structures.

Driven by declining readership and circulation of newspapers and magazines in the last decade, together with increased accessibility and use of the internet, advertising spend has shifted away from paper-based media. This has led to weaker demand for some of our papers.

Our focus areas in 2013 were:

Growing the specialised cellulose business: The dissolving wood pulp business is a major contributor and we will continue to explore expansion opportunities in this business and maintain our global leadership. In May 2011, we announced the conversion of Ngodwana Mill to produce 210,000 tons per annum (tpa) of dissolving wood pulp which was completed at the end of July 2013, adding to the 800,000tpa we already produce at Saiccor Mill.

Optimising the paper and paper packaging business: One of our key strategic initiatives is to return the paper business to profitability through a programme of comprehensive restructuring. In 2012 and 2013, we restructured our paper and paper packaging business, closing kraft pulp lines at Tugela and Enstra Mills. We also mothballed the 80,000tpa sackraft machine at Tugela Mill, moving production of many of these products to Enstra Mill.

Improving asset utilisation: We announced the sale of our Usutu Forest Products Company to Swaziland’s Montigny Investments for US\$101 million. The deal is subject to several conditions, including approval from competition authorities in both countries.

Protecting local employment: We submitted an anti-dumping application to the International Trade Administration Commission of South Africa against cheap imported coated graphics papers. This was done to protect local employment and all those businesses that are dependent on our paper mills.

Growing our fibre resource: Aligned with the growth in our specialised cellulose business, is a strategic imperative that we own our fibre resource and maintain it as a globally cost competitive resource. Thus, we will continue to seek sustainable fibre expansion opportunities, including reassessing our fibre strategy post the Ngodwana Mill conversion.

Securing our future: In addition, we continue to maximise energy self-sufficiency, together with other sustainable bioenergy opportunities. We are also focusing on optimising our wood resource, as well as reducing our waste streams.

Project GoCell

Materiality focus

Project GoCell, the upgrading and transformation of Ngodwana Mill, represents a strategic move by us to gain the best possible value from our timber-derived products by increasing dissolving wood pulp capacity. The project is integral to our strategy of deriving more than 60% of our revenue from higher value-added products.

Background

The project involved modifying our kraft fibre line at Ngodwana Mill to produce a wider range of virgin linerboard products and investing US\$330 million in a dissolving wood pulp fibre line.

The basic production processes for both paper and dissolving wood pulp are similar, involving wood chipping, dissolution, cooking and bleaching. The process for dissolving wood pulp, however, is more sophisticated and results in a much higher value per tree felled.

Project GoCell, which began in mid-2012, came on line at the end of July 2013.

Environmental benefits associated with Project GoCell include a reduction in fossil fuel requirements and reduced air emissions.

Uses for dissolving wood pulp

Dissolving wood pulp can be tailored to best suit a given application. The most common dissolving pulps are used to make viscose and lyocell fibres for the manufacture of fashion and decorating textiles. They are also used to make rayon yarn for industrial products such as the cord used in tyres, rayon staple for high-quality fabrics, and various acetate and other speciality products.

Dissolving wood pulp is also used:

- In the manufacture of acetate flake, for products such as filters for cigarettes, high quality yarns and fabrics, and LCD screens
- To manufacture microcrystalline cellulose (MCC), which is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various cellulose ethers for the chemical and mining industries
- To manufacture cellophane film for use in a variety of packaging applications.

The bulk of our dissolving wood pulp product from both Saiccor and Ngodwana Mills is exported.

The dissolving wood pulp principally produced by Sappi is the type used in the manufacture of a variety of cellulose products, including viscose staple fibres or rayon, solvent spun fibres (lyocell) which have a soft, natural feel and excellent breathing properties. Given their particularly high absorbency properties, these fibres are also used in non-woven applications in the healthcare, industrial and disposable product markets.

! o r e s

Prosperity

Growth prospects in the dissolving wood pulp market

Over the next two decades, the middle class is expected to expand by another three billion, coming almost exclusively from the emerging world.¹ By 2030, so many people will have escaped poverty that the balance of geopolitical power will have changed completely, and global trade patterns will have changed.

The trends of increasing population growth and affluence in Asia are important for Sappi because currently, the bulk of our dissolving wood pulp production is sold into the Asian market for use in textiles.

With greater affluence, many Asians are already graduating from non-breathable fibres derived from oil to natural fibres and blends, which include derivatives of dissolving wood pulp.

According to RISI, global consumption of dissolving pulp (includes dissolving wood pulp, cotton linter pulp and bamboo pulps) is estimated at around six million tons and real growth in demand is forecast to grow at around 6-8% depending on the level of fibre substitution in the viscose fibre market.²

These trends hold significant growth opportunities as Sappi is positioned in the lowest cost quartile of the world's dissolving woodpulp manufacturers.



Enhancing the environmental performance of dissolving wood pulp

Historically, Saiccor Mill used a certain detergent to control extractives³ but it was identified as having a potentially negative impact on the environment. The mill tested a variety of more environmentally friendly detergents, but these were not optimal. It was found that the extractives from the Eucalyptus wood used at Saiccor Mill consisted mainly of triglycerides, sterols and sterol esters.

A wide cross section of enzymes was evaluated in the laboratory to determine which would be the most effective in breaking down these specific components. Further work was then conducted in the laboratory to compare efficacy of lipase enzymes from different suppliers, to find the optimum conditions for the enzymes in terms of temperature, pH and incubation time and to study the effect of the bleach stages at Saiccor Mill on the extractives components. The enzyme has now replaced the detergent on all the bleach lines.

This is the only known enzyme application for treatment of extractives in a dissolving pulp mill and a good example where sustained applied science was required in the laboratory and in plant trials to provide a cost effective and environmentally friendly solution. It took seven years from inception to application but this was necessary to ensure that there were no downstream customer disruptions.

There is a strong likelihood of similar commercial applications of this technique in Sappi's other mills. This breakthrough was the global winner in Sappi's Technical Innovation Awards in 2013, which acknowledge and reward the creators of technical advances and their contribution to Sappi's prosperity and long term sustainability.

¹ *Hitting the sweet spot: The growth of the middle class in emerging markets*, available at: [http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/\\$FILE/Hitting_the_sweet_spot.pdf](http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/$FILE/Hitting_the_sweet_spot.pdf)

² <http://www.risiinfo.com/magazines/March/2013/PPI/No-signs-of-this-market-dissolving.html>

³ *Fatty acids, resin acids, waxes and terpenes.*

Restructuring our business

Materiality focus

A programme of comprehensive and fundamental restructuring is key to returning our paper business to sustainable profitability.

Focus on continuous improvement and elimination of waste

The actions taken to date to return our business to profitability have had significant positive impacts.

However, we are still not as efficient and lean as we need to be to be able to compete effectively in today's very competitive local and global environment. Cost pressures and weak demand have resulted in further actions to improve profitability being implemented.

Consequently, towards year end, we announced plans to undertake a review of the activities and costs of our shared services (communications, IT, human resources, procurement and finance) to ensure that we focus on the priorities and eliminate waste wherever possible. In line with this, we have decided to combine the group (corporate) HR and finance functions with our South African team to eliminate unnecessary duplication and increase efficiencies. These processes have already commenced.

Looking ahead, we are working to finalise the sale of our Usutu business in Swaziland. We will also be considering various options to better align our paper business, particularly our graphic paper business, with market realities. We will make further announcements in this regard in due course.

New products, markets and biorefinery concept

Enstra Mill upgrade

In 2012, Enstra Mill's pulp mill was mothballed and a re-pulper with capacity of 450 tons per day to re-pulp virgin and recovered pulp grades, as well as a recovered fibre plant which is capable of processing 200 tons of recovered paper a day was installed.

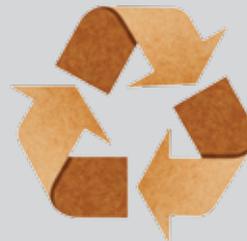
The re-pulper, which was commissioned in August 2013, has enabled the mill to supply a wide variety of pulp types to the paper machines, while the recovered fibre plant will process recycled grades. The capacity to blend recovered fibre into paper grades has given the mill more flexibility in producing competitive products that meet customer requirements and will also be able to meet increased market demand for products incorporating recovered fibre.

Other revenue streams

Reducing solid waste has positive environmental implications; as solid waste is generally sent to landfill and landfills generate methane, a greenhouse gas with approximately 25 times the global warming potential of carbon dioxide. It also offers an avenue for revenue generation. Our increasing focus in this area is evidenced through our paper mills reducing their waste to landfill by 21% over the last five years.

Myth: Print and paper is a wasteful product

Fact: Efficient use of paper is encouraged but print and paper are not wasteful products, not only is paper re-usable, but it is also recyclable. In actual fact, people's lack of commitment to re-using and recycling paper is wasteful, not the paper itself. There are many advantages associated with recycling including the fact that recycling means that one extends the lock-up period of the carbon in the paper.



Lignosulphonates

Background

The use of lignosulphonates as a by-product is not new to Sappi. In 1998, we established LignoTech SA, a joint venture with Borregaard Industries, a Norwegian-based company. LignoTech SA manufactures a variety of lignin-based products from the calcium lignosulphonate produced as a by-product at Saiccor Mill, selling these to the building, chemical, food, mining and transport industries in more than 40 countries around the world.

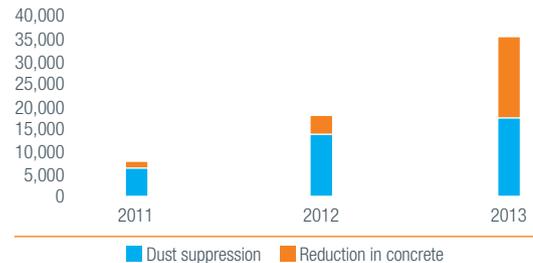
Uses of lignosulphonates

Lignosulphonates are wood extracts that contain the mineral elements naturally present in trees. Depending on the tree type and soil on which it was grown, the wood contains different kinds and amounts of minerals. The usefulness of commercial lignosulphonate products is based on their various properties:

- Binding:** Lignosulphonates are a very effective and economical adhesive, acting as a binding agent or 'glue' in pellets or compressed materials. This binding ability makes them a useful component of biodegradable plastic, coal briquettes, plywood and particle board, ceramics, animal feed pellets, carbon black, fibreglass insulation, fertilisers and herbicides, linoleum paste, dust suppressants and soil stabilisers. Lignosulphonates used on unpaved roads reduce environmental concerns from airborne dust particles and stabilise the road surface.
- Dispersing:** Lignosulphonates prevent the clumping and settling of undissolved particles in suspensions. By attaching to the particle surface, they keep the particle from being attracted to other particles and reduce the amount of water needed to use the product effectively. Their dispersing property makes lignosulphonates useful in cement mixes, leather tanning, clay and ceramics, concrete admixtures, dyes and pigments, gypsum board, oil drilling muds, pesticides and insecticides.
- Emulsifying:** Lignosulphonates stabilise emulsions of liquids like oil and water which do not form a homogenous mixture when added together, making them highly resistant to breaking. Consequently, they're used as emulsifiers in asphalt concrete, pesticides, pigments and dyes, and wax emulsions, amongst other things.

- Sequestration:** Lignosulphonates can tie up metal ions, preventing them from reacting with other compounds and becoming insoluble. Metal ions sequestered with lignosulphonates stay dissolved in solution, keeping them available to plants and preventing scaly deposits in water systems. As a result, they are used in micronutrient systems, cleaning compounds, water treatments for boilers and cooling systems.

Lignosulphonate sales and end use markets



As the graph above indicates, sales are increasing steadily and are forecast to increase further in 2014. Cement reduction in the concrete industry is increasingly accounting for a greater percentage of sales, with dust suppression anticipated to account for 25% and concrete expected to account for 75% of sales in 2014.

The primary difference between concrete and cement is that concrete is a composite material made of water, aggregate and cement. Cement is a very fine powder made of limestone and other minerals, which absorb water and act as binders to hold the concrete together. While cement is a construction material in its own right, concrete cannot be made without cement. The two terms often are incorrectly used interchangeably, but concrete and cement are distinctly separate products.

Concrete is currently the most used man-made material in the world, with three tons used annually per capita.⁴ Population growth and urbanisation are expected to lead to hundreds of millions of people moving into expanding urban centres, primarily in Asia and Africa. This in turn is expected to lead to increasing demand for sustainable building and infrastructure works. These trends mean that the opportunities for the sales and marketing of lignosulphonates will increasingly expand over time.

Enhancing environmental sustainability

Every kilogram of lignosulphonate (at 50% solid) used eliminates the need for 26.6 kilograms of cement in making concrete. By reducing the amount of cement needed in concrete production, lignosulphonates help reduce greenhouse gas (GHG) emissions. Research indicates that the manufacture of cement accounts for approximately 5% of current global man-made CO₂ emissions.⁵

Recovered fibre displacing expensive imported fibre in the local cement fibreboard industry

Ngodwana Mill loses approximately 6% of fibre annually in the production process that ends up on our landfill. In conjunction with a customer, the mill pursued the opportunity of displacing an expensive imported fibre and using this recovered fibre in their process which will result in a significant saving for them.

The customer has subsequently conducted a commercial trial with the recovered fibre and successfully managed to replace a certain percentage of their fibre requirement without a negative impact on their strength and quality specifications. This will ensure a significant cost saving for the customer and an equal benefit for us where we not only benefit from the revenue generated but also save landfill space and the costs associated with managing the volumes to the landfill site. The project is awaiting legislative approval.

⁴ Report by the Cement Sustainability Initiative, available at: http://csiprogress2012.org/CSI_ProgressReport_FullReport.pdf

⁵ Cement Technology Roadmap 2009: Carbon emission reductions up to 2050, published by the World Business Council for Sustainable Development (WBCSD) and the International Energy Agency (IEA), available at: http://www.wbcsd.org/web/projects/Cement/Cement_TechnologyRoadmap_Update.pdf.



People



Skills

Materiality focus

We are dependent on highly skilled employees to maintain our existing businesses and develop new ones. As global economic recovery progresses, competition for skills is likely to intensify. Loss of skills severely impacts our ability to operate optimally and meet customer needs, today and going forward.

Promoting skills development

Recognising that education and skills development can help to enhance both our company and our country's ability to be competitive, we have established a number of internal and external skills development initiatives.

Internal skills development

Bursaries	R1.9 million	Black		White		Total
Academic level	Profession	Male	Female	Male	Female	Total
National diploma	Forestry and electrical	3	1			4
BSc degrees	Electrical, mechanical, chemical and forestry	9	3	9	2	23
Masters degrees	Forestry and chemical engineering	1		2	1	4
PhD/Postgraduate diploma	Forestry and chemical engineering				2	2
Graduates in training	Electrical, mechanical and chemical engineering	7	7	7	2	23
TOPP	Finance		4			4
Apprentices and learnerships		9	21	9	1	40
		29	36	27	8	100



External skills development

We had 19 graduates and 86 registrations for our National Diploma in Pulp and Papermaking, together with five registrations and two graduates for BTech in Pulp and Papermaking.

In terms of our National Vocation programmes in Pulp and Paper we had the following

- Level 2 – 164 registrations
- Level 3 – 64 registrations
- Level 4 – 49 registrations with 37 expected to complete successfully and graduate at the end of this academic year.

We are currently providing in-house service training to 20 of these students with practical experience which will be completed in June 2014. We are also providing practical experience for students from Mangosuthu University of Technology in KwaZulu-Natal.

The Enstra Learning and Growth Centre

Established in 1983, the Enstra Learning and Growth Centre is accredited by merSETA (Manufacturing, Engineering and Related Services Sector Education and Training Authority) and CHIETA (Chemical Industries Education and Training Authority) for engineering training and by TETA (Transport Operator and Education Training Authority) for lifting operator training. Trade accreditation in the following:

- Fitter
- Turner
- Fitter and turner
- Electrician
- Millwright
- Instrument mechanician.

In April 2012, the Centre opened its doors to external trainees. Of the current trainees, 35% are external, with six external trainees having qualified as artisans.

The Eastern Gauteng Chamber of Commerce and Industry presented an award for Environmental and Social Skills Development to Sappi Enstra Mill on 14 November 2013.

The GoCell Training Project

Background

This training programme was aligned to Ngodwana Mill's community upliftment programmes, and was used to create a sense of ownership amongst local stakeholders and boost the local economy by creating employment opportunities in an area where these are limited.

A clear focus was on construction and civils training in order that local unemployed community members would be in a better position to be employed by contractors during our upgrade of Ngodwana Mill.

Traditionally, on construction sites, the various contractors bring their own staff to the construction

site. However, it was made clear up front to the contractors that they would be required to source their unskilled and semi-skilled labour from the pool of trainees supplied by the Training Project. A project directive in this regard was issued to ensure compliance and on-site shop stewards were informed of the intention of the training programme up front.

Over 1,100 job applications were received from the local communities around our Ngodwana Mill.

In total, 690 local unemployed community members received training and 384 were employed on site on the project. Two trainees were appointed as permanent employees in Sappi's laboratory.

In 2013, 10 trainees who excelled underwent training from master welders in specialised welding over an eight-week period.

Further training such as carpentry, using power hand tools, plumbing and basic bricklaying was also given to community members which has given them the skills to build their own homes.

The training programme was awarded two first places in the prestigious BHP Billiton Achiever Awards Competition in July 2012 in the categories: *Reskilling and Empowerment* and *Best Training Programme for Large Companies*.

Opportunities created

For local, unemployed community members, the training programme gave them an exciting opportunity to obtain new skills which they otherwise would not have been able to obtain, at no cost. More importantly for those who were employed on the Ngodwana upgrade it gave them valuable experience and exposure to industry. The combination of skills and experience has enhanced trainees' prospects in the job market and has helped to alleviate skills shortages in the country.

The Ngodwana Mill procurement department holds a data base of all trainees so that during future annual shuts, local community members who went through the training may have an opportunity for employment in future years.



People

Labour relations

Materiality focus

Committed, engaged employees and resilient, mutually respectful labour relations are key to productivity and profitability.

Engaging with our employees

The complexity of the work environment in South Africa requires that we maintain sound relations with our labour counterparts in an endeavour to ensure stability in the business. To this end, we continued to work with our established engagement structures with a view to sharing information and discussing matters of mutual interest as well as working together on matters which pertain to Sappi specifically and also at industry level. These forums include:

- The National Employment Equity and Skills Development Forum, which meets quarterly, and is attended by union officials from three unions, shop steward representatives and management representatives. The primary focus of this forum is to consult and mutually agree on the Employment Equity Plan and Workplace Skills Plan and its implementation, as well as get involved in safety issues and recommendations and employee accident investigations.
- Local shop steward committees at each mill which meet with management to discuss mill-specific issues of mutual interest. In the Forests division, we have established labour liaison committees where we have run in-sourced operations to ensure regular communication between employees and management at local level.
- The National Partnership Forum, a joint union and Sappi senior management forum meets quarterly to share information on business performance, strategy direction, industry developments and union priorities.
- The Pulp and Paper Chamber is an industry body that deals with wage negotiations and other employment relations and conditions of employment issues affecting the industry. Its scope is provided by the Bargaining Council for the wood and paper sector. It meets twice a year excluding wage negotiations. Currently, the Chamber has established

a work group to investigate a collective bargaining framework in an attempt to enhance the collective bargaining process in our industry.

The Bargaining Unit, for collective bargaining purposes, represents 38% of our total workforce. These employees are organised by five recognised trade unions: CEPPWAWU (The Chemical, Energy, Paper, Printing, Wood and Allied Workers Union), UASA (The United Associations of South Africa), FAWU (Food and Allied Workers Union) and Solidarity, as well as the new union HOCAFAWU (Hospitality, Catering and Farm Workers Union).

Membership breakdown is reflected in the table below:

Union	Percentage
CEPPWAWU	73%
UASA	15%
SOLIDARITY	6%
FAWU	2%
HOCAFAWU	4%

Collective bargaining

The new forestry minimum wage gazetted by the Minister of Labour was successfully implemented on 01 April 2013. A series of engagement sessions took place with employees in the forestry division, covered by the sectorial determination. These engagement structures have been formalised for future engagement.

Wage negotiations in the Pulp and Paper Chamber and Sawmilling were successfully completed without strike actions in both chambers.

The implementation of the reduction of work hours from 45 to 42 hours per week has been completed.

Transformation, learning and development are priority issues for the unions in our sector. Against this backdrop, local shop stewards are able to nominate their representatives to sit on their respective business unit Employment and Learning Forums which deal with these issues. In addition, a National Learning Forum has been established to engage and consult on and to ensure alignment at company level in terms of these

issues. The Forum meets on a quarterly basis and is attended by management, nominated shop stewards and our employee relations managers.

The average training hours for our employees in 2013 was 81 hours per employee; a breakdown by gender and race is given in the table below:

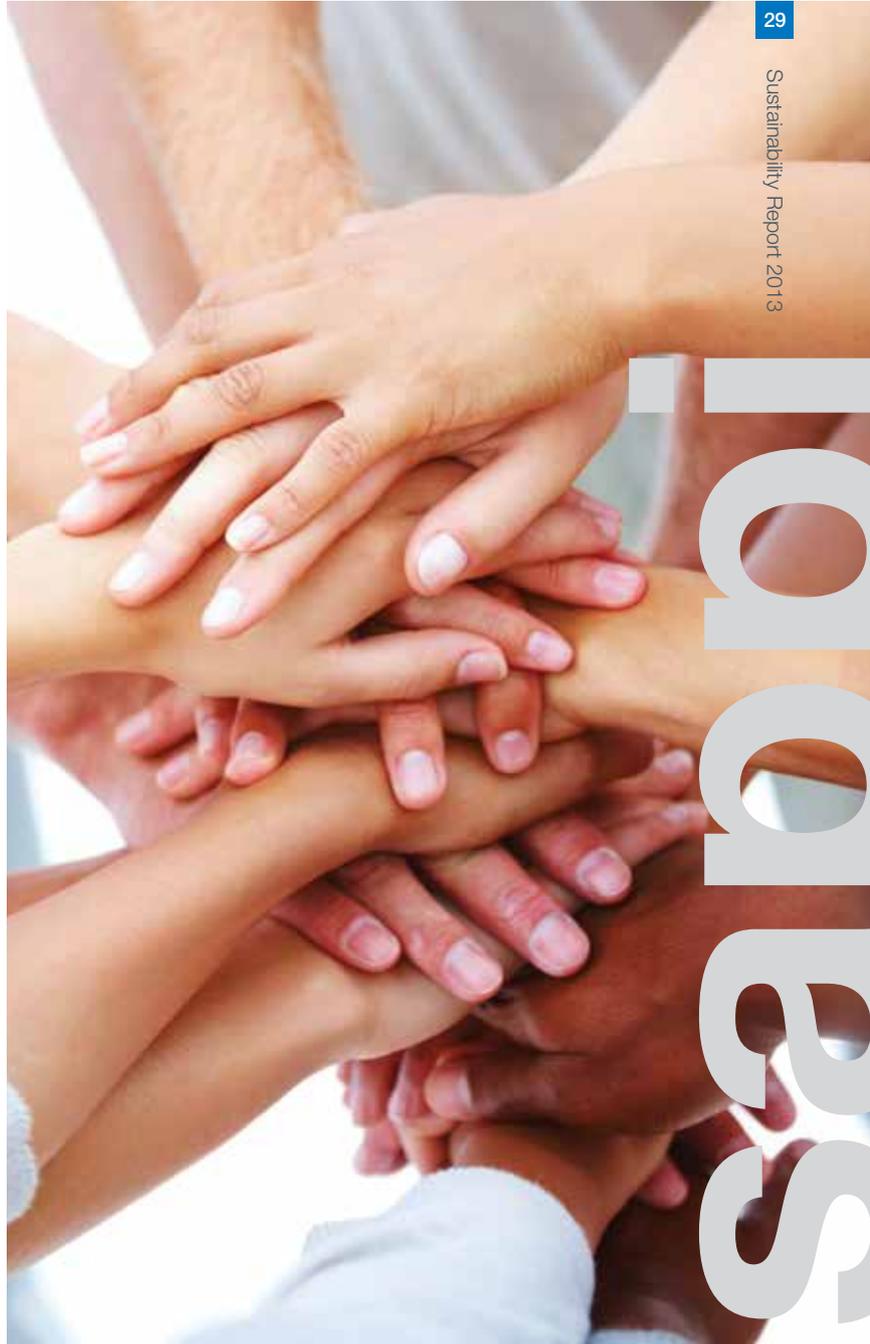
Race and Gender		Headcount	Ave TM Hrs pp
Female	Total	1,243	84
	African	734	110
	Coloured	55	25
	Indian	114	86
	White	340	38
Male	Total	4,357	80
	African	2,748	95
	Coloured	81	45
	Indian	506	68
	White	1,059	50
Grand Total		5,637	81

Implementing a minimum agricultural wage

In 2013, government implemented a minimum wage of R102.90 per day for the agricultural sector, which includes forestry. Sappi voluntarily implemented a minimum wage of R105 per day for its contractor employees.

Our position

Sappi supports the need to alleviate poverty, especially in the rural areas of our country; however, with the cost increase should come improved productivity to minimise the impact thereof.



People

Community relations

Materiality focus

Maintaining sound relationships with communities underpins our licence to trade and our reputation. By enhancing skills within communities we increase the skills pool from which we draw labour and by increasing prosperity through socio-economic development projects, we create a greater market for our products. By involving communities in environmental awareness and environmental projects, we help to conserve the natural resources on which our business depends.

Corporate Social Responsibility (CSR) (Direct)

Background

We prioritise spend in the communities close to our areas of operation. The various engagement forums which incorporate our key stakeholders and are in place at all our mills assist us in determining our CSR priorities. We believe that our CSR approach and programmes should be aligned with and support the achievement of our business objectives, forming part of our engagement and partnering initiatives with our key stakeholder groups throughout our businesses.

Areas of investment

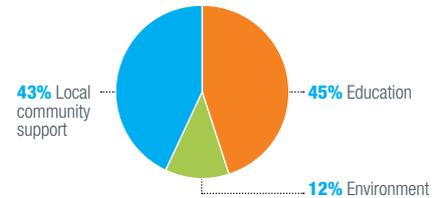
Education: We continue to support the nine PROTEC branches in our communities (maths and science

A comparison of 2012 PROTEC Mandeni matric results versus 2012 Illembe region matric results

	PROTEC Mandeni (%)	Illembe District (%)
No that wrote	60	7,165
No that passed	60 (100%)	5,038 (70%)
No with bachelor passes	39 (65%)	1,524 (21%)
No with diploma passes	17 (28%)	2,150 (30%)
No with higher certificate passes	4 (7%)	1,343 (19%)

Note: Learners with a bachelor's pass qualify for university entrance, with a diploma pass for a university of technology and with a higher certificate pass at a further education and training (FET) college.

Socio-economic development spend



classes for over 1,000 students in Grades 10, 11 and 12). Our support for PROTEC dates back to 1995.

We also continue to support the **KwaDukuza and Umjindi Resource Centres** situated in KwaDukuza (Stanger) and Barberton respectively. The centres were created in response to requests for this kind of facility by the communities themselves – and their nature and scope was developed in consultation with local schools, civic organisations and community leaders. Their main objective is to provide learner and school support, support for community members looking for work and support for

About Early Childhood Development

The Commission on Social Determinants of Health, established by the World Health Organisation (WHO) in 2005, identified early childhood development as a priority issue. According to WHO:

- Early childhood is the most important phase for overall development throughout the lifespan
- Brain and biological development during the first years of life is highly influenced by an infant's environment
- The more stimulating the early environment, the more a child develops and learns. Language and cognitive development are especially important during the first six months to three years of life
- Early experiences determine health, education and economic participation for the rest of life
- High levels of adversity and stress during early childhood can increase the risk of stress-related disease and learning problems well into the adult years
- Every year, more than 200 million children under five years old fail to reach their full cognitive and social potential.

students undergoing tertiary education. They also aim to enable all members of the communities in which they are situated to enter the economic mainstream.

Both resource centres are based on an innovative model, focused on self-study and self-empowerment, as well as on providing support for the broader schools syllabus. Resources and facilities at both centres include a digital village, a technolab, a reference library, a televideo centre, a conference centre, a teacher and learner resource centre, a print room and an administration centre.

We have identified **Early Childhood Development (ECD)** as a new focus area to help break the cycle of poor education results by investing in the 0-7 age group within our communities, in particular our forestry communities. We are partnering with Penreach, a not-for-profit school development programme focused on creating 'communities of learning', to establish an ECD Centre at Elandshoek close to our Ngodwana Mill. The centre is expected to begin operating in 2014.

Sappi honoured as one of Mpumalanga's leaders and achievers

Sappi was awarded three Diamond Awards from Professional Management Review (PMR) in Mpumalanga in November 2013. The awards recognise the company's contribution to economic growth and development in the province.

Ngodwana Mill and our forestry division each received a Diamond Award, the highest accolade in their respective categories. We were placed top in the forestry industry, and Ngodwana Mill was the top producer. Sappi also took top honours in the category 'Companies held in high esteem for doing most to conserve the environment.'

PMR runs surveys on all SA provinces and neighbouring countries to showcase companies, government departments and people perceived as leaders, achievers and role models in each area.

Ratings/nominations were sourced from CEOs, MDs, and other senior management at companies, SOEs and NGOs across Mpumalanga and also from provincial and local government directors/deputy directors.

We also support our forestry schools by providing access to fresh water, and providing ablution facilities, fencing, buildings and structures and vegetable gardens.

Environment: We provide support for the activities of SANBI (South African National Biodiversity Institute), Birdlife SA, Miss Earth SA as well as Environment magazine, the official publication of 15 environmental NGOs.

Community support: We support 'Reach for a Dream' and CANSAs as national projects, along with hospices in each of our communities. This is in addition to our HIV/AIDS programme. Furthermore, through local Employee Wellbeing Committees (EWB) each of our mills support local community projects based on annual requests and identified needs.

Through the Sappi ReFibre business we provide support for and promote paper recycling.

Promoting appreciation of the environment

As a major land owner in South Africa, we recognise that we have an important role to play in promoting multiple use of our landholdings, so that people can experience and understand better how we manage our extensive natural areas and commercial plantations. We have partnered with mountain biking clubs and event organisers, allowing access to our plantations and natural areas in Mpumalanga and KwaZulu-Natal. To date, we have provided sponsorship and/or land access to several events, including the Sappi Howick Classic, Sappi Karkloof MTB Festival, Sappi Mankele Challenge, Isuzu 3 Towers Stage Race, MTN Barberton Classic, SANI2C and Joburg2C and DCSR Misty Valley Challenge.

We also recently launched the mountain biking app to provide people with details of the top mountain biking trails in South Africa. The app aims to help riders make the most of their mountain biking experience on our property. It currently features the Karkloof and Mankele trail networks, which are widely regarded as two of the top mountain biking trail destinations in the country. It is a planning tool aimed at enhancing the rider's experience on the trails and also includes additional information on restaurants and accommodation. Ongoing development will see further trails being added in the future.



Employees' health and wellbeing

Materiality focus

Employee wellbeing has a direct impact on productivity, job satisfaction and employee engagement.

Overview

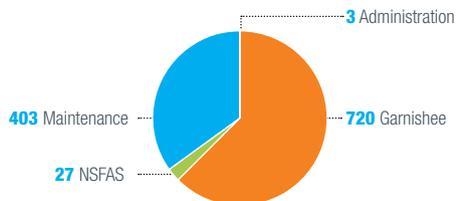
There are employee wellbeing programmes (EWPs) in place at all our operating units. Health programmes include health monitoring such as HIV/AIDS testing and initiatives focused on issues such as diabetes, heart health and sexually transmitted diseases. Wellbeing programmes include alcohol and breast cancer awareness, stress management and trauma counselling. Financial wellbeing is also covered, with money management sessions held with an outside service provider, as well as financial skills training and assistance with tax returns.

Financial wellbeing

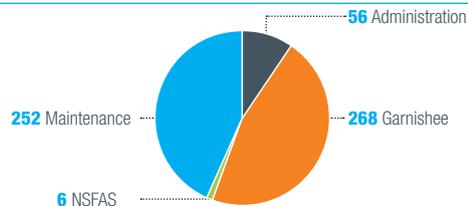
The financial demands on employees are increasing. This has led to poor personal financial and debt management. Of all our employees, 7.6% had deductions in the form of garnishee orders and others. This compares favourably with a comparison of six companies in our sector, which indicated an average of 12.7%.

The two charts below indicate the extent to which deductions have decreased over five years, indicating that financial training initiatives are paying off.

2008 Total orders of 1,153



2013 Total orders of 582 (50% reduction)



NSFAS – National Student Financial Aid Scheme

From 2008, our external financial wellness service provider offered a service in terms of which all new and existing garnishee orders are reviewed for irregularities. Between December 2008 and the end of September 2013, savings and refunds to our employees effected through this service amounted to approximately R450,000.

HIV/AIDS

HIV/AIDS prevalence in South Africa

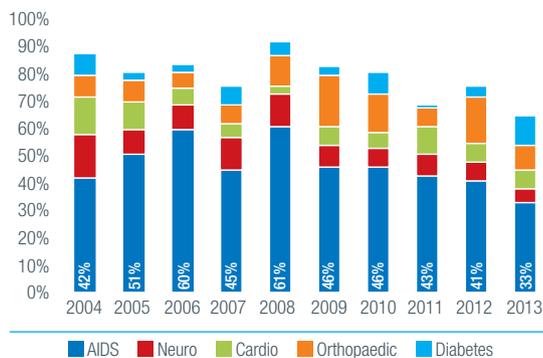
The result of the 2012 report released by the Human Sciences Research Council (HSRC) results show that the estimated prevalence of HIV (the proportion of people living with HIV in South Africa) increased from 10.6% in the 2008 HIV Household Survey, to 12.3% in 2012. Another key finding of the 2012 survey was that over two million people were on antiretroviral (ARV) treatment by mid-2012. This dramatic increase of ARV treatment coverage in the country has had a major impact on the survival of people living with HIV, which was more prominent in the older age groups.⁶

HIV/AIDS prevalence in and impact on Sappi

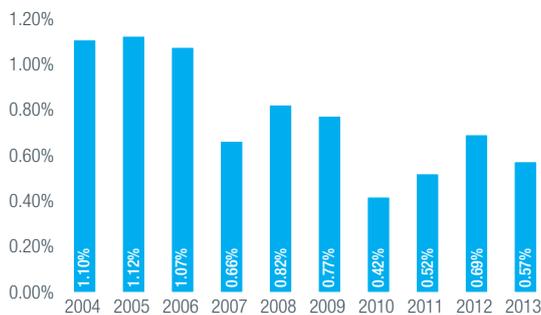
While HIV/AIDS has not had the dramatic impacts on population and productivity that were first indicated when the pandemic came to light, nevertheless HIV/AIDS accounts for the most significant proportion of disability claims within Sappi, as shown in the graph.

⁶ <http://www.hsrc.ac.za/en/media-briefs/hiv-aids-stis-and-tb/plenary-session-3-20-june-2013-hiv-aids-in-south-africa-at-last-the-glass-is-half-full>

The five main diseases as a percentage of the total



Mortality rate (National Mortality Rate: 2%)



Note that the statistics here differ slightly from those published by Statistics SA in 2013, which estimate an overall HIV-prevalence of 10%, <http://www.statssa.gov.za/publications/P0302/P03022013.pdf> Statistics SA estimates that of adults aged 15–49 years, an estimated 15.9% of the South African population is HIV positive.

The fifth anonymous voluntary prevalence comprehensive HIV study was conducted during 2012 in all our operations. Based on a participation rate of greater than 80%, at the locations tested, we estimate that the overall infection rate in our operations has stabilised at approximately 14.9%, slightly above the national average.

We estimate that approximately 63% of our employees that are HIV/AIDS positive participate in our HIV/AIDS managed care programme. The impact of HIV/AIDS on a company is generally reflected in the mortality rate of its employees. The disability statistics have decreased from 1.6% in 2008 to 1.1% in 2013 and there has been a decrease in the mortality rate. Our mortality rate has halved from a high of 1.12% in 2005 to a rate of 0.57% in 2013.

Management of HIV/AIDS in Sappi

Testing is the entry point of our preventative care and support programme. Approximately 41% of our employees voluntarily check their HIV/AIDS status on an annual basis.

Our onsite clinics are responsible for disease management and treatment. From August 2002, medical care for employees included the provision of treatment to prevent mother-to-child transmission and antiretroviral treatment was offered to HIV-infected employees from the beginning of 2003. The beneficiaries of employees who belong to medical aid schemes also have access to the HIV/AIDS benefit. Where employees resign or are retrenched, cases of known HIV/AIDS patients are handed over to the local clinic to ensure continuity of treatment.

Nominated Sappi employees, who have been trained, act as peer educators and present education programmes focused on changing behavioural patterns in the workplace and surrounding communities. The ratio of peer educators to employees is approximately 1:50, although this ratio changes according to needs and circumstances. Peer educators attend annual training conducted by an accredited service provider. The training is planned in cooperation with the relevant role-players at each unit.

People

Safety

Materiality focus

The safety of our employees is not only a moral issue, but it also affects productivity, morale and profitability. Our focus is on creating a culture where responsibility for the safety and health of employees and contractors is shared and has top of mind awareness.



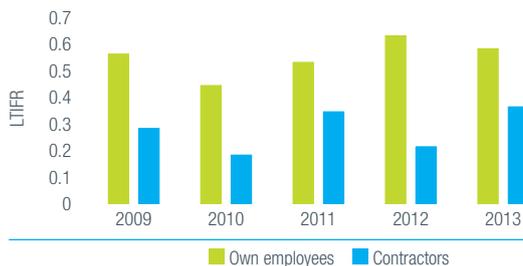
The Sappi group initiative 'What's in Your Safety Circle?' was implemented by all our units with focus on one of the 12 safety elements every month of the year.

Overview

We revitalised behaviour based safety (BBS) training at all our mills in response to a safety audit that was conducted during the year and established steering committees. This paid off, with safety performance improving in the last quarter of the financial year.

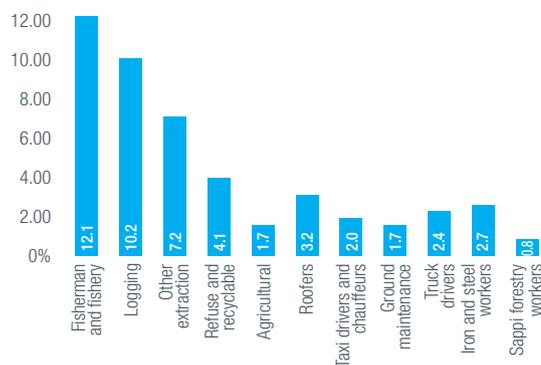
We ended the year with a combined Lost Time Injury Frequency Rate (LTIFR) of 0.43, compared to 0.35 achieved during 2012, for all personnel employed. The All Injury Frequency Rate (AIFR) for the year was 4.2, the Lost Time Injury Severity Rate (LTISR) for the year was 54.9, which indicates that, although the number of injuries was not well contained, the severity was much less than 2012 when the LTISR was 60.3.

Lost Time Injury Frequency Rate



On the contractor side, the good performance of the previous year was not maintained with an LTIFR of 0.37 for the year achieved compared to the 2012 figure of 0.24.

Profession annual fatality rate per 10,000 in USA



Source: US Bureau of Labor Statistics, published on Bloomberg.com on 03 May 2013

Note: Data from 2011 (Sappi – 2013) and includes the Bloomberg's revised figures released on 25 April 2013.

Fatalities



Tragically, during the year there was one own employee and one contractor fatality. Although this equals our best ever performance it still falls short of our goal of zero fatalities. One of these fatalities (own employee) took place in the railway yard at Saiccor Mill, the other in one of our plantations. Forestry is inherently dangerous work and the contractor fatality has to be viewed in the context of a recent Bloomberg survey, which rated jobs in the USA in terms of fatalities. Logging was rated as the second most dangerous occupation, with an annual fatality rate of 10.2 per 10,000 workers. Approximately 11,700 contractor employees work for our forestry division.

The GoCell project at Ngodwana Mill achieved an excellent LTIFR of 0.07 with the project ending at 4.5 million man-hours without a lost time incident. This is even more remarkable considering that the total man-hours worked during the project ended at 5.7 million with only one lost time injury (LTI) recorded.

Going forward

We plan to bringing the 'heart and soul' of every employee back into safety so that we improve on our current performance and progress to our ultimate goal of zero injuries.



Transformation (Broad-based Black Economic Empowerment)

Materiality focus

Following South Africa's transition to democracy in 1994, legislation relating to Broad-based Black Economic Empowerment (BBBEE) was introduced to accelerate economic and social transformation. As a company headquartered in South Africa, with significant assets and people, BBBEE is an important component of our reputation and licence to trade.

Overview

The Department of Trade and Industry recently issued the revised Code of Good Practice amending the framework for measuring BBBEE. The revised code proposes a reduction in the generic score card elements from 7 to 5 with the employment equity element being incorporated into the management control element and is due for implementation by 2015.

The table below indicates our current BBBEE status:

Elements	Our 2013 score-card	Target score	Our 2014 score-card
Ownership	15.74	20	15.28
Management control	4.49	10	5.13
Employment equity	3.69	15	2.54
Skills development	9.55	15	9.55
Preferential procurement	18.76	10	17.29
Enterprise development	14.96	15	15.00
Socio-economic development	8.00	5	8.00
Overall score	75.19	100	72.79

The score for the 2014 scorecard shown in the last column of the table above has not been verified yet and verification will be completed in December 2013 by an external ratings agency. This score results in a level 4 rating for us. We have been restructuring the business

over the last two years and this has had a major impact on our ability to improve our rating. We are confident that going forward we will be able to allocate more time and focus to improving our status.

Key aspects of our transformation strategy

We have decided to place a greater emphasis on employment equity during 2014 and have adopted a 10-point action plan which includes the following specific deliverables:

- A review of employment equity targets by all business units, focusing on the professional category of employees as this is viewed as a pipeline into both the senior management and ultimately the top management category
- The preparation of a replacement plan for all employees due to retire within eight years
- Reviewing the employee personal development plans
- Establishing a retention strategy in relation to the remuneration structure that would assist us in attracting and most importantly, retaining previously disadvantaged employees
- The formalisation of the coaching and mentorship programme to assist with talent management
- The alignment of our recruitment process with employment equity targets as well as creating awareness and communicating success stories in relation to transformation
- Identification and removal of potential barriers to employment equity targets.

About our National Employment Equity and Learning Forum (NEELF)

The NEELF, together with 10 business unit forums, deals with issues of transformation in all our operations. The forum has established two task teams to work on the elimination of barriers to employment equity and to assess our skills and development initiatives:

- The one task team is reviewing and identifying all barriers to employment equity and is developing a plan to remove them
- The other task team is developing a quality assurance tool and visiting all business units to assess their performance in relation to transformation initiatives and engagement at unit level.

Enterprise development in our communities

Sjonajona plantation

In 2010, our forestry division extended its plantation holdings in Mpumalanga with the purchase of the 14,500ha Sjonajona plantation from Mondi. The plantation, which adjoins our other plantations in the area, has been providing Ngodwana Mill with approximately 150,000tpa of softwood fibre.

We integrated the new land into our crop rotation cycle and land management practices and also maintained the plantation's independently assessed certification. At the time of purchase, we were aware of the land claim against certain portions of the property. The government has now purchased 4,007ha of which 2,577ha is planted to trees. This portion is in the process of being handed over to the community.

Recognising that land reform projects in South Africa have a high failure rate because of lack of funding, management expertise and skills, we are working with government and the community in terms of a post settlement management model.

In return for securing the fibre, we will co-manage the plantation for the first five years and will provide:

- Technical support in the form of site species matching, mapping and planning
- Free seedlings and seedling transport in relation to the timber volumes committed to us
- A guaranteed market at market-related prices
- Technical training which involves 'on the job' training through accredited service providers which would be funded through the Department of Rural Development and Land Reform (DRDLR) which has a Recapitalisation and Development Programme (RECAP) to assist land reform beneficiaries
- Sponsorship of two learners from the community for a three-year diploma in forestry at a suitable tertiary institution. On completion of their diplomas, the students would be put through the Sappi Forester in Training (FIT) programme to provide them with practical forestry experience.

Project Grow⁷: Celebrating 30 years of developing tree growers

Project Grow together with Sappi's long-standing support of the KwaDukuza Resource Centre received the inaugural Sunday Times Top 100 Companies CSI Award in 2012.

Background

Project Grow forms the foundation of our enterprise development focus in keeping with government's strategy of promoting forestry as a means of sustainable livelihoods in rural areas. It is aimed at promoting access to and developing the timber farming industry. In 2013, the project celebrated its 30th anniversary.

The project has grown from three farmers managing 12ha in 1983 to more than 4,500 growers, from small individual growers to larger community projects, farming just over 19,250ha. It is estimated that approximately 1,750 people are directly employed in these projects.

Although the scheme initially focused on subsistence farmers who have access to between one and 20ha of land, the project has now expanded to include community forestry projects and forestry projects handed to land reform beneficiaries.

Our involvement

We provide growers in the project with:

- **Free seedlings:** To ensure optimum production, ie tree growth per site; it is important that growers are provided with the seedlings best suited for that specific area. All seedlings supplied are produced by our nurseries to ensure that the growers are supplied with the best genetic material available. To date, the value of the seedlings made available to growers since 1998 is R21 million. Growers are not expected to repay us for the seedlings. On the larger community projects, we provide free seedlings and seedling transport equivalent to the percentage of timber committed to us.
- **An interest-free loan:** The loan covers all input farming costs, including the annual maintenance of the plantations until they are harvested. We also assist larger projects with obtaining grant funding

⁷ Project Grow figures given in this report are as at the end of October 2013



People

for their projects, failing which we will assist these projects with a loan at a subsidised interest rate.

- **Technical advice:** We employ 19 qualified extension officers and two managers who assist the growers in selecting the most appropriate areas. The extension officers also offer advice and assist in preparing, fertilising and planting the land. They visit the growers frequently after the trees have been established to provide assistance with weed control and the preparation of firebreaks. The assistance of the extension officers helps to ensure skills transfer, in addition to economic benefits.
- **A guaranteed market when the trees are felled:** This is important, because community projects often fail owing to the absence of a secure market for the final product. At the time of harvesting, we buy the timber from the growers and pay them a market-related price less the advance payments already made to them.

Benefits of the project

These include:

- Participation in an industry from which growers would otherwise be excluded because of high costs of entry
- Positive cash flow in the form of ongoing payments for work done on the land, annual advances on the timber crop and multiplier employment benefits as growers employ people in their communities to assist in managing the plantation
- Empowerment of women in rural areas – 80% of the workforce is comprised of women. It allows them to work from home and perform maternal duties, whilst supplementing household incomes
- Communities are provided with fencing, building material and firewood
- Transfer of skills and creation of entrepreneurial thinking
- Provision of an integrated development service to empower individuals and communities to manage their own development initiatives
- Contribution to the South African government's programme of land reform, rural development and promotion of long term job creation and training
- Over 1,747 jobs (80% women) and over 100 small, medium and micro enterprises (SMMEs) have been established through this programme.

RECAP funding

We have signed a Service Level Agreement (SLA) with the National Department of Rural Development and Land Reform (DRDLR). As part of the SLA, government appointed us as a Strategic Partner to assist land reform beneficiaries with the management of the timber on their property. As the Strategic Partner, we and the community must develop and submit for each project a business plan to the DRDLR for funding through their RECAP programme. Once the funding is approved the parties will sign a tripartite agreement for each project, specifying the roles and responsibilities of government, Sappi and the community. We have signed the SLA and await government signature for five land reform projects, totalling 438ha, currently under consideration. We are hoping to fund some of our Eastern Cape expansions through the RECAP programme.

Fibre supply to Sappi

Project Grow currently provides us with timber valued in excess of R123 million. The volumes provided by Project Grow represent 7.5% of our hardwood woodfibre intake in South Africa.

Assisting communities in the Eastern Cape

We are assisting a number of communities in the Eastern Cape with afforestation projects (see page 15 of our 2011 Sappi SA sustainability report for further details). All afforestation in South Africa is subject to the granting of water licences issued by the Department of Water Affairs (DWA). To date, we have assisted several communities in the Eastern Cape in obtaining a total of 4,546ha of water licences, including 584ha of new licences awarded during 2013. A further 3,403ha has been progressed through the Environmental Impact Assessment (EIA) phase and waits the issuing of licences, with a further 5,983ha in the Environmental Impact Assessment (EIA) phase.

To date we have bought R13.5 million worth of timber from communities in the Eastern Cape, and advanced R6 million to communities to assist them with the establishment and management of their plots. We have assisted the Eastern Cape Rural Development Agency (ECRA) to secure a further R47.1 million grant

from the Jobs Fund for the Mkambathi, Sinawo and Izini projects. The money from the Jobs Fund will be disbursed over a three year period. We are also assisting the communities in the Eastern Cape who have been successful in obtaining water licences in securing Recapitalisation and Development Funds (RECAP) from the Department of Rural Development and Land Reform.

In this regard, Sappi in association with the South African Institute of Entrepreneurship (SAIE) developed training materials and programmes to develop the capacity of these organisations with special reference to corporate governance, conflict management, financial management and controls. We will also be responsible for the transfer of technical, business and managerial skills and to provide administrative support to these projects.

Forest Biz

All the projects in the Eastern Cape are community based projects and use Trust, Communal Property Associations and/or Co-operatives to manage their projects. Sappi, in association with the South African Institute of Entrepreneurship (SAIE), has developed Forest Biz, which introduces communities to the business management aspects related to managing their forestry projects.

Sappi and the SAIE are currently in the process of developing a programme to strengthen and develop the social aspects of community projects. Special attention is given to corporate governance, conflict resolution, decision making and the roles and responsibilities of the community managers (trustees) in the project.

All community projects will be exposed to Forest Biz and the social development programme. A total of three of the larger community forestry projects have been exposed to Forest Biz and the feedback received from the communities has been very positive. Once fully developed, the Forest Biz as well as social programmes will be implemented in all the larger community projects.

As with the Project Grow plots, we guarantee a market for timber from these communities at a market-related price.



Planet



Energy

Materiality focus

Carbon tax: According to Accountancy SA, South Africa's greenhouse gas (GHG) emissions rank in the top 20 in the world, amounting to 42% of Africa's emissions.¹¹ The South African government is planning to introduce legislation that would reduce GHG emissions by 34% below the business-as-usual baseline by 2020 and 42% below the business-as-usual baseline by 2025.

The proposal is to introduce a carbon tax of R120 per ton of carbon dioxide equivalent (CO₂e) emitted.

Energy: Together with fibre, chemicals and water, energy is a key input for our business.

The issues of carbon tax and rising energy costs hold serious potential negative impacts to our business and to our communities who are reliant on our business units..

Carbon tax

Background

During photosynthesis, trees use energy from the sun to convert carbon dioxide (CO₂) into organic compounds essential for their growth, storing carbon and releasing oxygen in the process. Without this vital daily exchange, life on earth would simply not be possible.

Trees absorb significantly more CO₂ than smaller plants because of their size, extensive root systems and rate of growth. While all responsible people and businesses are fighting to prevent the destruction of existing carbon sinks through illegal logging of old growth and the conservation of significant forests, as well as the destruction of tropical rainforests, the increasing demand for responsibly grown and harvested commercial timber has led to a significant expansion of commercial forests and plantations across the globe, adding millions of hectares of carbon sinks every year.

¹¹ <http://www.accountancysa.org.za/resources/ShowItemArticle.asp?ArticleId=1787andIssue=1086>

The increased demand for woodfibre and products made from woodfibre, such as paper packaging, is actually helping to increase the amount of carbon which can be absorbed each year.

Our position

We subscribe to PAMSA's view that "climate change will have a significant impact on South Africa, its economy and its people and we recognise the importance of reducing greenhouse gas (GHG) emissions in mitigating the effects of climate change. We further recognise that the proposed carbon tax is viewed as a means of driving behavioural changes towards low carbon and energy efficient technologies".

However, in line with PAMSA's 2013 submission to Treasury, we maintain that when plantations and the pulping and papermaking process are

considered as an integrated entity, together with process emissions and plantation absorptions, the net result is GHG absorption. We believe that a tax offset mechanism be developed to recognise the sequestration effect of our plantations.

This sequestration effect can be demonstrated by using the Forest Industries Carbon Assessment Tool (FICAT™) methodology, a GHG accounting tool developed specifically for the forestry and paper industries by the National Council for Air and Stream Improvement, a powerful US environmental NGO.

The use of FICAT™ demonstrates that the trees in our plantations absorb 12.5 million tons of CO₂ and emit eight million tons of oxygen annually. This estimation is based on an average absorption of 27 tons of CO₂ per hectare of plantation per year.

Carbon dioxide balance		
	Carbon dioxide <i>from</i> the atmosphere	Million tons CO ₂ per annum
1	Above ground adsorptions in plantations used for pulp and paper manufacture	12.5
Carbon dioxide to the atmosphere		
1	Own fuels (black liquor)	2.5
2	Purchased fuels (coal, oil, gas, transport fuel) [Scope 1]	3.2
3	Emissions from purchased power, steam [Scope 2]	1.5
4	Scope 3 emissions ⁸	1.3
5	Plantation decay, fires, disease	4.0
	Total to the atmosphere	11.8
	Net emission (absorption)	(0.7)

The International Council of Forest and Paper Associations (ICFPA) acknowledges that Forest Industry Carbon Accounting Tool (FICAT™) software was designed for circumstances unique to the forest products sector and recognises that it is an appropriate method to measure the overall lifecycle greenhouse gas impact of activities associated with producing forest products.

Letter from ICFPA to PAMSA, July 15 2013

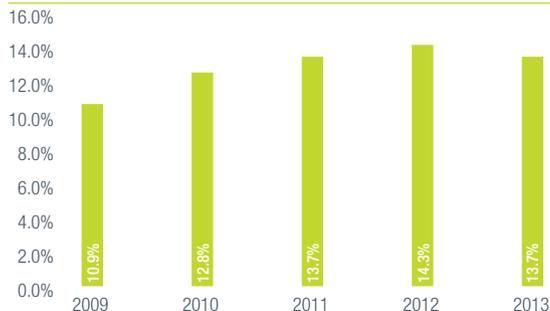
Carbon storage by plantations

Plantations store carbon in the biomass below and above the soil. This varies over time in response to environmental conditions. Pine and eucalyptus trees store on average 260 and 300 tons of carbon per hectare respectively which is more than in grasslands and crops such as maize.

⁸ CO₂e of GHG emissions associated with the production of all goods, materials and services supplied to the company. This definition excludes GHG emissions in purchased energy (steam, power, heat) which are calculated under Scope 2.

Energy security, reduction in fossil fuel usage and costs

Energy costs as a % of cost of sales

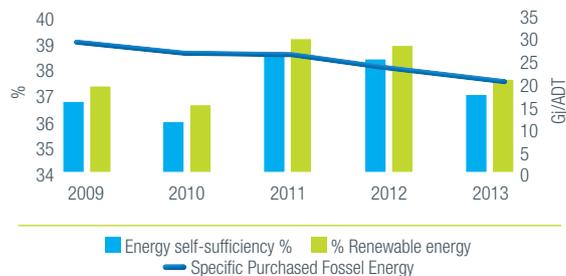


In South Africa, energy costs are rising as a percentage of costs of sales. This has, to some extent been offset by power sales from our Ngodwana and Saiccor Mills. In addition to the carbon sequestration benefits outlined above, we are to a certain extent, cushioned from rising costs and carbon tax because of the energy we use, where 37% is derived from the combustion of black liquor, which is classified as a biofuel and is a primary source of renewable fuel for steam and power production.

Simply put, black liquor is the spent cooking liquor from the pulping process which results when pulpwood is digested into paper pulp by 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 process. Black liquor contains more than half of the energy content of the wood fed into the digester.

Our focus is on reducing costs – and our carbon footprint – by improving energy use efficiency and decreasing our reliance on fossil fuels. We are achieving this by making process changes, installing more efficient equipment, reducing purchased energy (electricity and fossil fuels) and by increasing our use of renewable energy. Over five years, our Scope 1 (direct) and Scope 2 (indirect) CO₂ emissions have decreased by 17% and 26% respectively.

Renewable energy, energy self-sufficiency and Specific Purchased Fossil Energy



Adt = air dry ton and specific = per adt of saleable production. The percentage of renewable energy versus total energy usage has declined in recent years mainly as a result of our Tugela Mill closing their kraft pulp plant and selling the black liquor and our Ngodwana Mill not generating any black liquor during the Project GoCell upgrade. We should see the percentage of renewable energy used increase in the coming years.

Scope 1 and 2 CO₂ emissions



We are a proud member of the 49M initiative. '49M' refers to South Africa's population of 49 million people) developed by Eskom to highlight the importance of saving electricity, and also to develop practical solutions in achieving electricity savings at home and in the workplace.

Collaborating to solve South Africa's energy crisis

South Africa is battling with energy supply. Power outages in 2008 cost the South African economy an estimated R50 billion, and since that time, the spectre of rolling blackouts has haunted the economy, particularly in winter. Eskom has begun a R300 billion build programme, with about 20,000MW of additional capacity, but this is only due to be completed by 2025.

Under the Medium-Term Risk Mitigation (MTRM) determination, the Department of Energy (DoE) is seeking to procure 800MW of near-term cogeneration capacity, which could arise from biomass, industrial waste and combined heat and power sources.

Through the Paper Manufacturers' Association of South Africa (PAMSA), we have engaged with government on the cogeneration issue and the potential for us to participate in adding to the electricity we already sell to Eskom looks promising.

We have a number of cogeneration and renewable biomass power plant projects in the pipeline that can

About cogeneration

Most conventional power generation is based on burning a fuel to produce steam. It is the pressure of the steam which turns the turbines and generates power. Cogeneration, or combined heat and power (CHP) makes use of more than one form of energy provided from a combustion source – most commonly excess heat, usually in the form of relatively low-temperature steam exhausted from the power generation turbines. Such steam is suitable for a wide range of heating applications and effectively displaces the combustion of carbon-based fuels.

The efficiency ratio of condensing power plants is well below 40%. In other words, more than 60% of the energy content of the primary fuel is lost through the conversion into usable energy. However, CHP plants convert a much higher share of the primary fuel at levels of 60% to 90% into usable energy.

be implemented relatively quickly should a positive COGEN programme be implemented by government.

An announcement regarding the status of the programme is expected early in 2014.

Climate change

Materiality focus

As demonstrated by the use of FICAT™ software (see pages 41), at Sappi we maintain that we are part of the low carbon future solution.

Nevertheless, as with other agricultural crops, climate change could affect our plantation trees. Drought, changing weather patterns, increased risk of fire and pest infestations are some of the potential impacts on the sustainability of our fibre supply.

Our exposure to climate change-related risk is moderated by:

- Maintaining wide genetic variability in our planting material. This enables us to breed trees for a wide range of conditions allowing us to respond to changes in climatic conditions
- Continually monitoring and reviewing forest best practices in the light of changing environmental factors, thus helping to mitigate any increased threat from drought
- Measuring permanent sample plots annually (eucalypts) or bi-annually (pines) to determine the effect of drought and other climatic change impacts on current annual growth as an input to long term planning
- Engaging in research and collaboration with industry and tertiary institutions to develop biocontrol measures and breed genetically more resistant planting stock
- Implementing extensive planting of more drought-tolerant eucalypt hybrids
- Fire risks are mitigated via an integrated Fire Risk Management System comprising a comprehensive risk assessment, monthly compliance checks for monitoring, management procedures, standards, and general back-up information. We also involve our neighbours and communities in fire prevention.



Planet

Our research centre in KwaZulu-Natal plays an important role in improving our woodfibre base. Our tree breeding programme at the centre continuously tests and selects genotypes best suited to the range of sites where we plant trees, including harsh sites that are susceptible to drought. In this way more drought tolerant trees have been identified.

Biotechnology tools – such as DNA fingerprinting – help improve our tree breeding, seed production and propagation efficiencies by allowing us to keep track of our elite pine and eucalypt breeding. We also use biotechnology to develop trait-linked molecular markers for breeding and for understanding host defence mechanisms to important tree pests and diseases such as *Lepitocybe invasa* and *Fursarium circinatum*.

Did you know?

Burning fossil fuels such as coal and gas removes carbon which has been stored safely within the earth for millions of years and releases it into the atmosphere as greenhouse gas.

Burning fossil fuels continually adds additional carbon into the atmosphere. Burning renewable fuels, though, releases the carbon which was stored in the biomass into the atmosphere, a carbon neutral process.

Myth: Cutting down on paper usage saves trees

Fact: We in South Africa plant trees which, like any other crops, are harvested when ready. You might as well say that not choosing to buy a tomato saves that tomato. We plant between 33 and 37 million trees annually and supply approximately 12 million saplings to outgrowers, which is, more than we harvest annually.

Responding to stakeholder concerns

Currently, harvesting residue (slash) is left behind in our plantations when harvesting takes place. Some stakeholders have expressed concern that removing biomass from plantations for the proposed Biomass Energy Plants could influence soil quality, nitrogen content in particular.

Given that globally, concerns about climate change have driven a move to renewable woody biomass away from fossil fuels, residues from conventional forestry will increasingly be used for fuel in the future.

The positive effects of biofuel harvesting on plantations include savings in regeneration operations after removal of logging residues and reduced risk of wildfire. However, there are possible negative impacts, which we recognise. Maintaining and enhancing forest soil function is a crucial component of sustainable forest management, because soil is the foundation of the forest system. Organic matter that accumulates on the forest floor is a key pool of available nutrients for the next crop and should be appropriately managed during harvesting and site preparation.

The greatest nutrient concentration of plant nutrient elements occurs in the parts of the tree where essential life processes take place – foliage, vascular tissue, inner bark and root tips. The stem wood is less rich in nutrients than the previously mentioned parts.

Accordingly, we would mitigate the impact of harvesting biomass for bioenergy by utilising woody biomass that is currently left in-field after harvesting (large branches, stem tops, non-utilisable wood, ie broken trees or non-commercial species). Nutrient removal would be minimised by leaving nutrient-rich leaves and needles behind. Sensitive sites that have low nutrient reserves (ie sandy soils, very shallow soils, soils on very steep slopes) will not be utilised for intensive bioenergy biomass removal.

Our view is that the sustainability of the natural fertility and protection of soil should have precedence over the production of biomass. However, forest biofuel is a potential resource that can be utilised responsibly, and with careful planning and applying measures to negate negative effects it is possible to utilise forest biofuels and retain long term production.

Sustainably managed timber

Materiality focus

Given that woodfibre is our most important input, the availability of inexpensive sustainably managed fibre is critical to our sustainability as a business.

We are currently largely self-sufficient in terms of timber supply requirements for our mills.

Currently, our planting mix is 53%: hardwood (eucalyptus); 47%: softwood (pines). There is sufficient timber from our own plantations and from existing contracted external timber to meet the hardwoodfibre requirement following the Ngodwana expansion. We are investigating conversions in Mpumalanga, as a means of reducing the cost and managing the risks associated with forestry in general.

Reducing exposure to Pitch Canker Fungus

The focus of our research is on providing improved, site matched material that supplies the furnish for our mills. Due to opportunities for increased gains in wood properties and emerging disease and insect pests, the emphasis in the breeding programme is shifting from deploying pure species as seedlings, to specific hybrids as clones or families.

Of our total planted area, 47% is under pines, 67% of which is planted with *Pinus patula*. The sustainability of this species is being threatened by disease caused by the fungal pathogen, *Fusarium circinatum* which in turn causes Pitch Canker Fungus (PCF). This disease has resulted in high levels of mortality of *Pinus patula* seedlings in forestry nurseries and has also caused poor post-planting survival of newly established compartments.

During the last 20 years, our research centre has been working on a programme to develop and commercialise the *Pinus patula* x *Pinus tecunumanii* hybrids, as a replacement for *Pinus patula*. This work demonstrates that the hybrid could be utilised as a replacement for *Pinus patula* and it was apparent that the range of the latter species could be extended into the lower, warmer sites not suitable for the pure species.

This work gained further impetus when the impact of PCF became apparent on post-planting survival of newly established compartments of *Pinus patula*, threatening the long term sustainability of the latter species as a major commercial species. *Pinus tecunumanii*, has been shown to be tolerant to this disease and thus a second, more comprehensive hybrid production and testing phase was implemented. Improvements in controlled pollination techniques and propagation methods, access to genetically improved parent-stock and molecular marker technology for fingerprinting have increased the level of field-testing of this hybrid during the last 10 years.

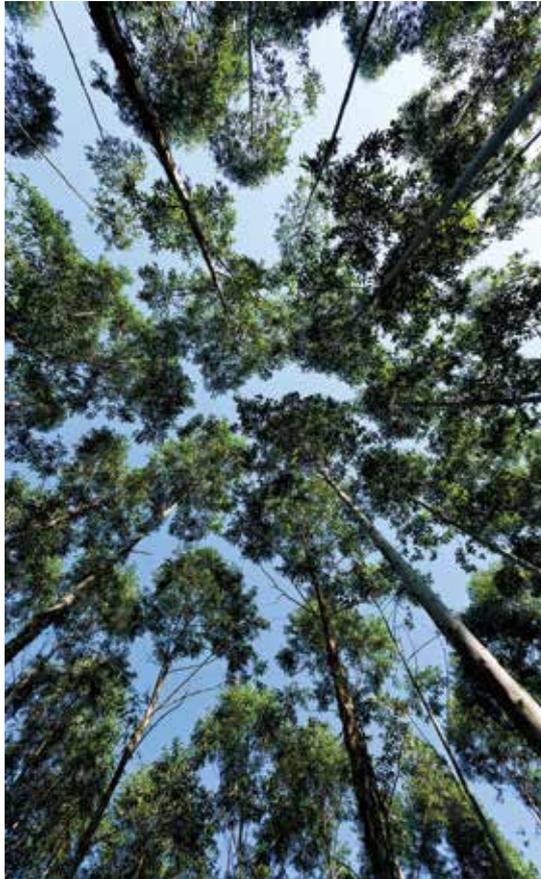
The results have been highly successful:

- Substantial increases in tolerance to *Fusarium circinatum*,
- Large volume-growth improvements over *Pinus patula*, as well as intermediate levels of frost tolerance. Frost damage on certain sites is a challenge that is being tackled both through breeding and more accurate mapping of frost risk.

We are now planting the hybrid commercially and this has meant a gradual reduction in planting *Pinus patula*. In the past year, the hybrid planting was around 10% of *Pinus patula*. It is planned to increase this dramatically in the next few years.

Woodfibre certification

- 100% of the wood grown on Sappi owned, leased or managed land is FSC-C012316 certified
- Approximately 86% of the wood supplied to Sappi Mills is FSC™ certified (this number is limited due to the timber we commit to buy from individual timber growers who cannot afford the high costs of certification). The wood that is not certified is controlled, which means we know where it comes from and it meets the five requirements of controlled wood, ie it is not illegally harvested, it does not impinge on any indigenous peoples rights, it does not come from a high conservation value forest, none of it contains genetically modified organisms (GMOs) and no child labour is used to grow and harvest wood.



Certification of mills

- Enstra Enstra FSC-C022126, Ngodwana FSC-C021636, Saiccor FSC-C011012, Stanger FSC-C019831 and Tugela Mills FSC-C012468 have achieved FSC Chain-of-Custody certification
- All mills have achieved ISO 9001 certification
- All mills have achieved ISO 14001 certification
- All mills have achieved OSHAS 18001 certification.

Other fibre sources

- Cape Kraft Mill runs on 100% recycled paper
- Stanger Mill uses mainly bagasse, or sugar cane waste.

The key to forest certification is a system that combines auditing forest practices with tracing forest products. The certification process begins in the forest and continues through the entire CoC, so the end-consumers can be certain they are buying an environmentally sound product. Essentially, certification is a tool which helps environmentally and socially conscious consumers make the right choice when they buy paper products.



Land use and biodiversity

Materiality focus

Biodiversity is key to the healthy functioning of the plantations (from which we source woodfibre). Our plantations would not be productive without biotic processes taking place. The vitality of our stands of trees is dependent on biological processes such as soil regeneration, nutrient cycling, pollination, decomposition and predator prey relationships. In addition, the landscapes we grow trees in rely on biological processes to function, including water, carbon, oxygen and nutrient cycles, species dispersal, disturbance and refugia.

Biodiversity is an essential component for the sustainable existence of mankind and has been recognised as one of the nine planetary boundaries that if crossed could jeopardise our ability to sustain human existence on earth. As a large land owners in the country, we have a particularly important role to play.

We do not convert natural forests, wetlands or protected areas into plantations. All afforestation is subject to a water use licence. Of our landholdings, approximately a third is managed for conservation purposes. This is where it is found to be unsuitable for tree growth or is stipulated in our water use licences.

We use systematic conservation planning to identify important conservation areas and all our unplanted areas have been evaluated against provincial conservation plans. Based on this methodology, we have ranked unplanted areas and have comprehensive management plans for all important areas.

Some stakeholders have queried our management of High Conservation Value (HCV) forests. 100% of our own and leased plantations is certified to the FSC™ standard. Principle 9 of the FSC™ certification standards deals with the maintenance of high conservation value forests. While we own small areas of unplanted indigenous forest, none of these possess any HCV attributes and we thus have no HCV forests under our management.

Our approach to biodiversity

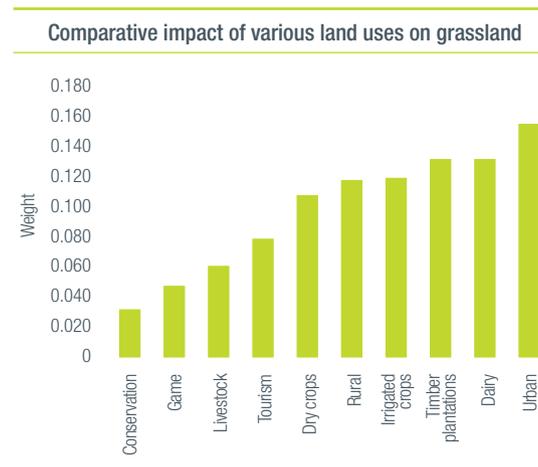
Biodiversity is an essential component for the sustainable existence of mankind and Sappi as a large land owner in the country has a particularly important role to play.

Simply stated, biodiversity describes the variety of life on earth.

At Sappi we take an inclusive and holistic view of biodiversity to include:

- Our genetic material
- Our trees
- Our plantation ecosystems
- Our plantation landscapes
- Our stewardship responsibility to society.

Many of our stakeholders are concerned about the impact timber plantations have on South Africa's grasslands and the subsequent biodiversity loss. The graph below sets out a comparison on grassland of various forms of land use which shows commercial plantations having a comparatively higher impact than most other commercial land uses.



Source: O' Connor and Kuyler 2005



Mitigating our impact

We restrict our impact on grasslands by:

- Optimising fertiliser and chemical use
- Controlling the spread of weeds
- Minimising impacts of harvesting (erosion, compaction and pollution)
- Appropriate land preparation (slash burning, pitting and weeding) for replanting
- Practising silviculture in accordance with best practice and standards that meet the requirements of the FSC™.

The plantation estate is an ecological network which if designed correctly supports diverse habitats. In managing our estates, we:

- Manage permanently unplanted areas according to best practice
 - Minimise disturbance
 - Control weed infestations
 - Implement appropriate burning programme
 - Control grazing
 - Control poaching and medicinal plant collection
- Manage infrastructure to minimise impacts
 - Appropriate road construction and maintenance to avoid disturbance and especially erosion
 - Construct and maintain appropriate stream crossings
 - Siting of villages and offices to avoid pollution.

Important conservation areas

We manage over 115,000ha for conservation purposes and we have used systematic conservation planning to identify important conservation areas (ICAs). These are areas that are important at the local level and are classified using a systematic conservation planning approach based on the presence of both plant and animal red data species, the size, connectedness, condition and aesthetic and recreational value of the area. Currently, 166 sites covering over 30,000ha are classified as ICAs. The sites, which include important grassland, wetland, forest and woodland habitats, are managed to enhance their specific values. All sites are in good condition and make a valuable contribution to habitat and species conservation. Many important (rare and threatened) species are protected on the sites.

Mainstreaming biodiversity

We participate in a grasslands programme run by the South African National Biodiversity Institute aimed at mainstreaming biodiversity in the sector. One of the key objectives of the programme is to facilitate the declaration of grasslands sites as protected areas. We are currently in the process of having an initial five sites declared as Nature Reserves through the Grassland Stewardship Programme, which aims to mainstream biodiversity best practices in terms of grasslands management.

Further detail about these sites is available in our 2013 Group Sustainability Report, available at www.sappi.com.





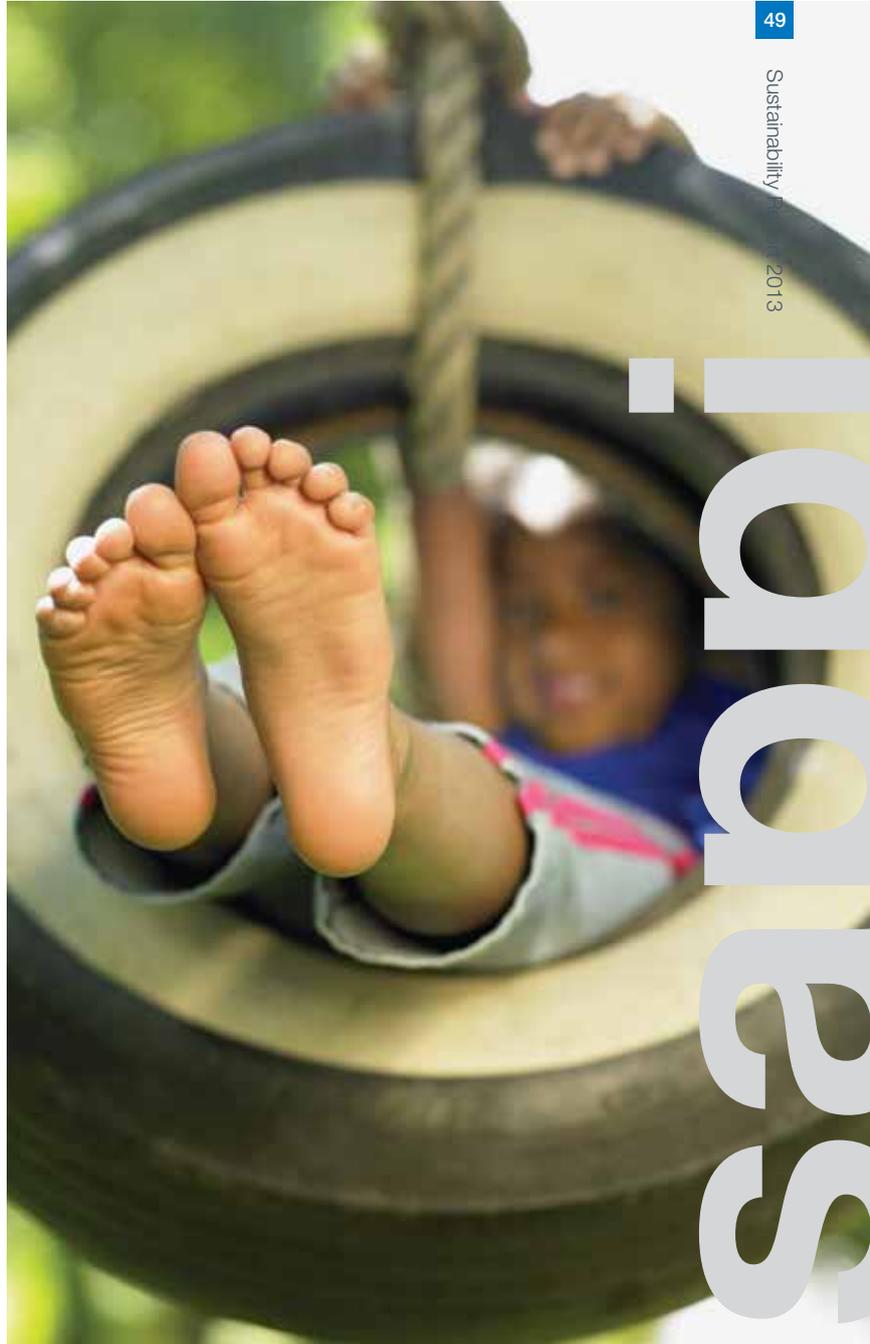
Hodgsons Liff Bush

Hodgsons Liff Bush is a patch of Eastern Mistbelt Forests (old classification was Mistbelt Mixed Podocarpus Forest) located in the Karkloof area of KZN. This patch of forest was declared a site of conservation significance (Site no 83) by KZN Wildlife and is regarded as an important conservation area by our forestry division. This high conservation status is driven by the fact that it falls into the Short Mistbelt Grassland (Natal Mistbelt Ngongoni Veld, Acocks veldt type 45) which is poorly conserved in the province.

There are a number of old saw pits in the forest, which indicate that it was exploited for large timber trees in the past but the presence of some large *Podocarpus falcatus* (Outeniqua Yellowwood), *Podocarpus henkelii* (Drooping-leaved Yellowwood) and *Ptaeroxylon obliquum* (Sneezewood) trees indicates that it is an important forest.

The following bird species specialised to forest habitats have been recorded: Terrestrial Brownbul, Narina Trogon, Dark-backed Weaver, Lemon Dove, White-starred Robin, Chorister Robin-Chat, African Emerald Cuckoo, Yellow-throated Woodland Warbler, Cape Batis, Orange Ground-Thrush and Knysna Turaco.

Mammal species recorded on the site include Bushbuck, Bushpig, Porcupine, Samango Monkey, Large-spotted Genet, Caracul, Black-backed Jackal, Water Mongoose and Ratel.



Planet

Supporting conservation through the Typek™ green promotion

In September 2013, we showed our support for the Kruger National Park (KNP) *Warburgia Salutaris* project at a ceremonial cheque handover event that took place at the Lowveld National Botanical Gardens. The presentation was the culmination of the Typek Earth Kind™ green promotion.

Our commitment is to be Earth Kind™ and inspire a better life. Typek™ carrying the Earth Kind™ seal is a key brand for Sappi that consumers have come to trust. The Typek Green promotion was a vehicle to translate the message of responsible corporate citizenship.

To further build on the Typek™ brand equity and environmental consciousness, Sappi in conjunction with Makro launched a promotion during January to February 2013 whereby consumers were encouraged to purchase a box of Typek™ from any Makro store nationwide. This qualified them to nominate any community greening or tree planting project or a project involved in protecting biodiversity or rehabilitating the environment. For every box of Typek™ sold, R1.00 would be donated towards the selected green cause.

Eye catching in-store promotional material was used to persuade Makro shoppers to make a responsible choice in paper and in the process make a difference to the environment. Their nominations were placed on www.typek.co.za and from these, the Kruger National Park *Warburgia Salutaris* Project was selected as the beneficiary, receiving R100,000 in support of the project.

The *Warburgia Salutaris* (common name Pepper Bark Tree) is of medicinal and mythological importance to indigenous African people as well as western homeopathy. It is one of the protected trees of South Africa and a red data species that is classed endangered. The tree is heavily poached for the commercial muti (medicine) market and in some areas is under armed guard.

Funding will be used for various projects ranging from workshops with communities to identify tree custodians, increasing the holding of bagged nursery grown trees in the KNP Nursery for distribution to identified community traditional healers, training the tree guards in seed planting and propagation, providing bicycle transportation for tree guards and to build up the supply of seedlings.



Biorefinery (Bioenergy and biochemicals)

Materiality focus

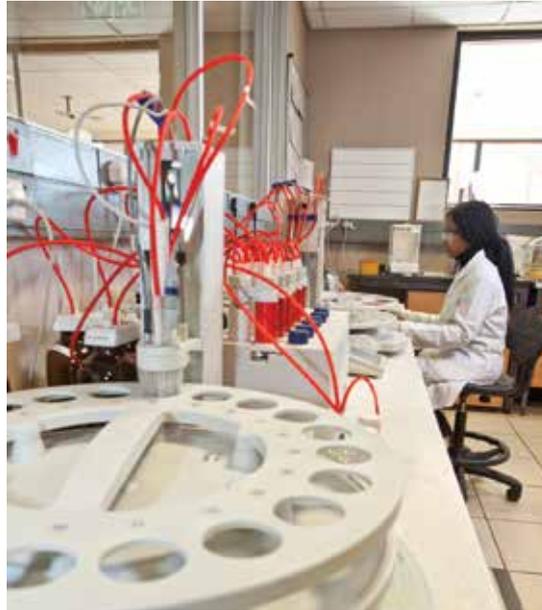
Bioenergy and biochemicals represent an avenue for revenue generation from our existing processes which could have the added advantage of reducing greenhouse gas emissions.

Our Technology Centre in Pretoria is currently examining a number of biochemical initiatives. Through very advanced fermentation and/or chemical technologies, sugars can be extracted from woody biomass, purified and processed into a wide array of platform chemicals such as n-butanol, isobutanol, isoprene, succinic acid, and lactic acid.

The centre is also looking at various conversion technologies for lignin.

The torrefaction⁹ of lignin produces biochar, while pyrolysis of lignin produces bio-oil, biochar and producer gas. In collaboration with the Chemical Engineering Department at the University of Pretoria, the centre has built and run a bench scale dual-stage pyrolysis reactor. Amongst other things, this has allowed the construction of a mass balance of raw materials and end products as well as a thorough evaluation of the resulting syngas, biochar and bio-oil. The next step is to improve on the design and then to scale up.

⁹ *Torrefaction – Involves heating biomass in the absence of oxygen to a temperature of 250-320°C. At these temperatures, a dry, torrefied product is obtained, which is stable, brittle and water resistant. This makes it much easier to grind than the parent biomass material and reduces biological degradation in storage. By combining torrefaction with pelletisation or briquetting, biomass materials can be converted into a high-energy-density commodity solid fuel or bioenergy carrier with improved behaviour in long-distance transport, handling and storage, and also with superior properties in many major end-use applications.*



FAQ: Is paper made from crops like grass, hemp and kenaf more environmentally friendly than paper made from woodfibre?

A: No. The processes used to manufacture non-woodfibres are usually more resource intensive. Non-woodfibres are only available at certain times of the year, are difficult to store and generally more complex to manage. However, non-woodfibres make up half the virgin pulp production in some developing countries such as China and India and can support smaller mills, which is important for rural livelihoods.



!ropes

Water

Materiality focus

South Africa's National Development Plan reiterates the scarcity of water in our country and the need to come up with creative water management programmes that will ensure water security for South Africa. Water has been identified by both our customers and our investors as a key material issue.

The recent draft National Water Policy review emphasises equity in access to water services and resources, and the benefits from its use through economic, social and environmental development and management. The review envisages that farmers in the agricultural sector, which uses 60% of the country's water, will have to justify how they are using the water currently allocated to them in terms of a 'validation and verification' process managed by the Department of Water Affairs.

Other major policy changes being proposed by the government include the removal of the right to trade water between authorised users, the application of the 'use it or lose it' principle for the holders of existing water rights, the annual determination of water tariffs by the department in consultation with Treasury, prioritising 'social and economic equity' in the reallocation of water, and the removal of the Water Users Association and the various irrigation boards.

We welcome increased levels of governance in the water chain, and are currently clarifying whether there is recognition the forestry's significant contribution to socio-economic development, despite using only 3% of the country's total water resources.

Using water in our mills

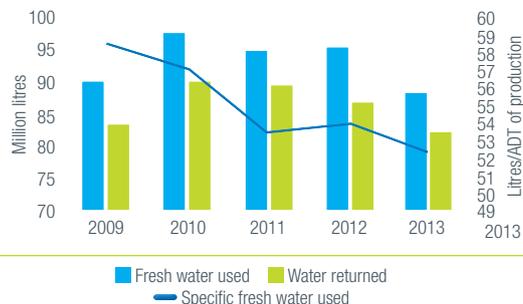
When considering any projects or expansions, we carefully evaluate the most efficient water use technology. Furthermore, water management is included in our operational environmental management plans, which are reviewed and updated annually.

In our production processes, water is needed to hold, transport and distribute the fibre that becomes the sheet of paper and is also an integral part of the steam systems used to generate energy. Trees themselves hold a high percentage of water and this becomes part of the pulping production process. Water used in the pulp and paper production processes is recycled many times in the system. However, minerals from woodfibre mean that some water has to be discharged. Unlike most other industries, we return approximately 88% of the water we extract back into the environment after cleaning and treating it, mostly into the same rivers from which it was extracted or into agricultural irrigation systems.

Using water in our forestry operations

We optimise water quantity by delineating riparian zones and wetlands and ensuring these are kept free of trees. Water quality is managed by regulating drainage and minimising erosion, thereby preventing run-off into streams and rivers. In addition, we use very little fertiliser and only use pesticides that are short lived with little or no impact on downstream ecosystems. Consequently, water is very seldom polluted by forestry operations. We also have a number of procedures to ensure runoff after harvesting is kept to a minimum. These include ensuring that the correct harvesting and extraction methods are used and leaving harvesting residue on the ground.

Water use by our mills



Recycling (recovered fibre)

Materiality focus

By promoting the recovery and use of recycled paper, we increase the amount of fibre available and also provide significant benefits to society; the lifespan of landfills is extended; collection and disposal costs are reduced and previously unemployed people can earn a living through recycling. However, recovered paper is not suitable for all purposes and is not always the best choice. For this reason, we produce a range of papers with differing amounts of recycled fibre and virgin fibre.

Re-use, Recycle, ReFibre

We recycle post-converter and post-consumer waste, which is procured from homes, offices, wholesalers and retailers, as well as manufacturers in both the formal and informal sectors by an extensive network of independent agents across the country. We have developed an outsourced business model that enables us to support entrepreneurial development and job creation, while also providing a secure market for recyclable paper.

This business model has economic, social and environmental benefits. From an economic perspective, recovered fibre which is used exclusively by our Cape Kraft Mill and in our Enstra, Ngodwana and Tugela Mills to supplement virgin fibre in the pulp and papermaking process, is a valuable fibre source for which there is local and international demand.

In social terms, while it's difficult to give an accurate assessment, it's estimated that our outsourced baling suppliers have about 2,500 informal collectors linked to our network. The total industry in South Africa probably supports approximately 20,000 informal collectors.

The most important environmental benefit lies in reducing the amount of paper sent to landfills which produce methane, a powerful greenhouse gas (GHG) with approximately 25 times the global warming potential of carbon dioxide. The amount of recovered fibre used at our mills amounted to 202,000 tons in 2013.

Fast facts about Sappi ReFibre

- Network throughout Southern Africa: South Africa, Malawi, Mozambique, Namibia, Swaziland, Botswana
- 140 baling units
- 57 suppliers
- 110 supply points
- 10,000 transport legs per annum.

Sappi ReFibre participates in innovative recycling initiative

In August 2013, a ground-breaking partnership between Sappi ReFibre, Georgetown University's McDonough School of Business, PETCO¹⁰ and other local companies to transform a buy back centre in Langa, Cape Town's oldest township, was launched. The previously rundown centre has been renamed HLAZA Innovation Centre.

The project aims to encourage entrepreneurship and assist the local community with access to sustainable livelihoods. The aim is that the community members take recyclables from home, offices, shebeens and municipal offices and exchange them for cash.

Sappi ReFibre is responsible for recovered fibre which is used to supplement virgin fibre in the papermaking process.

The centre will partner with local recycling companies to educate community members on the value of recycled commodities. We have secured a market for all the recyclables that the centre will buy-in on a daily basis. K and C Waste, our outsourced collection partner, will purchase the majority of the recyclables from Hlaza.

Benefits to the community include income generation as well as a cleaner and healthier environment through landfill diversion.

¹⁰ PETCO aims to minimise the environmental impact of post-consumer PET on the South African landscape and supported through the PET industry, strives to contribute to the sustainable growth of the PET plastic recycling industry, supporting existing and encouraging new PET collection and recycling networks.

Did you know?

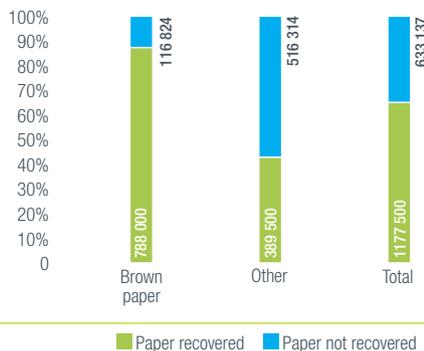
Sappi specialises in the manufacturing of high quality coated printing papers – something not easily accomplished with high recovered fibre content. There is some confusion in the marketplace as to why uncoated papers can be manufactured with very high levels of post-consumer waste content, yet coated papers, such as those manufactured by Sappi, often cannot.

For the same weight of coated paper versus uncoated paper, the coated papers have more clay and less fibre which reduces their strength.

Adding recovered fibre reduces the strength even further which can affect the runnability of paper on a printing press. A constant input of virgin fibre into the manufacturing of high quality papers will always be necessary because recycled woodfibres are typically worn out after five to eight cycles, depending on the type of fibre and products recycled.

In South Africa in 2012, the recovery rates of brown packaging paper was 87%, and other paper which mainly includes newsprint and white paper was 43%.

Recovery rate of paper (tons)



Message from the Chairperson, Regional Sustainability Council

Sappi, like many others has embarked on a journey of becoming a sustainable business and to do this we have developed a Sustainability Charter which sets out our approach to the 3Ps. Integrating sustainability into our everyday business which remains a challenging journey – only one in five companies today has been able to fully integrate sustainability into their business according to the BSR/Global State of Sustainable Business Survey 2013, (www.bsr.org). We, however, are still on this journey and still have a way to go as is evident from one of my colleagues who asked me recently, “Why are we doing this sustainability thing, it just adds cost to the business?”

In practice we identify those material and relevant issues impacting on our business as well as on our stakeholders and then address these issues either through targets, correcting perceptions or by immediate actions.

We have embarked on a number of ambitious projects over the last few years, changing our business for the better. We believe that going forward we will be in a position not only to improve our returns to shareholders and give our customers better service and quality products, but also improve the livelihoods of our communities and to give our employees a sense of pride in their company.

Lastly, not to be contentious, I have to state that you as the reader have the final say, as to where this world will end up and how corporates and governments behave. You as the consumer, supplier, customer, civil society representative, employee or employer of people, legislator or parent... it is you who will make the difference, mostly through your behaviour but also through your influence. It is imperative that our actions are focused on creating solutions that ensure our continued progress towards a sustainable future.

Tyrone Hawkes

Chairperson

South African Regional Sustainability Council



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www.sappi.com

sappi | Magno™

Printed on Sappi Magno Satin 250g/m² and 135g/m².

Magno™ coated fine papers, manufactured at Sappi's European mills, are made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests and plantations. These mills are certified with ISO 9001 quality and ISO 14001 and EMAS environmental certification. Magno™ is acid-free and fully recyclable.

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