Sappi Group
(Sappi Limited)
INTEGRATED REPORT FOR FISCAL YEAR 2016
FINANCIAL RESULTS
25 SEPTEMBER 2016

21 December 2016

This report is being furnished to The Bank of New York Mellon as trustee for (i) the Senior Secured Notes of Sappi Papier Holding GmbH due 2017 issued pursuant to the indentures dated as of July 05, 2012; (ii) the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; and the Senior Secured Notes of Sappi Papier Holding GmbH due 2023 issued pursuant to the indentures dated as of March 31, 2016; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

On 31 August 2016, Sappi has released all existing security previously granted to secure certain indebtedness, including these Senior Notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies; and
- currency fluctuations.

For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to this integrated annual report. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this report or as of the date specified therein and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

sappi

2016 Annual Integrated Report

About this report

Our Annual Integrated Report for the year ended September 2016 provides both an assessment of our strategy and delivery as well as an introduction of our revised strategic direction, mission and vision together with our value statement introduced in 2015. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues.

The scope of this report includes all of our operations, as set out on page 18. We aim to present information that is material, comparable, relevant and complete. The issues and indicators we cover reflect our significant economic, environmental and social impacts, and those we believe would substantively influence the assessments and decisions of investors. The materiality of the information presented has been determined on the basis of extensive ongoing engagement with our stakeholders and has been assessed against the backdrop of current business operations, as well as prevailing trends in our industry and the global economy.

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

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

Board approval

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Annual Integrated Report and, to the best of its knowledge and belief, the Sappi Limited Annual Integrated Report for 2016 addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The report has been prepared in line with best practice and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 09 December 2016.

External assurance

Currently, assurance of sustainability information is conducted by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation.

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

We are also assessed in terms of the forest certification systems we use, and in South Africa, our Broad-based Black Economic Empowerment (BBBEE) performance is assessed by an external ratings agency.

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

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

Due to our delisting from the New York Stock Exchange in 2013, we no longer publish an annual report on Form 20-F. For information on the combined assurance model relevant to the disclosure in this report, and for the independent auditor's report, please refer to page 51 of this report and page 2 in the Group Annual Financial Statements respectively. This year's report does not include summarised financials. However, the full Annual Integrated Report with financials is available on **www.sappi.com** in electronic and PDF format.

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

Navigation aids:

Online information

Further reading

Sappi's 3Ps

Prosperity

People

Planet

Group and regional sustainability reports

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

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

Annual Integrated Report and Group Annual Financial Statements:	Quarterly results announcements and analyst presentations:	Group Sustainability Report:
www.sappi.com/annual-reports	**www.sappi.com/quarterly-reports**	**www.sappi.com/sustainability**

Cover

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

one sappi – intentional evolution | delivering on strategy | proactive | achieving milestones | debt reduction | next phase – growth

One

Sappi

2016

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

sappi GalerieArt™ silk

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

Printed on 250 and 135g/m².

Our sustainable business model creates ongoing value

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

Inputs

Financial capital
We manage our financial capital, including shareholders' equity, debt and reinvested capital to maintain a solid balance between growth, profitability and liquidity.
- Total assets: **US$5.177 billion**
- Net debt: **US$1,408 million (down US$363 million)**
- Ordinary shareholders' interest: **US$1,378 million**

Manufactured capital
Investing in building, maintaining, operating and improving this infrastructure requires significant financial capital, together with human and intellectual capital.
- **Nine paper mills, two specialised cellulose and paper mills, one specialised cellulose mill, two speciality paper mills and one sawmill,** together with our manufacturing assets

Intellectual capital
Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company. Our intellectual capital is closely aligned with our human capital.
- R&D spend: **US$26 million** (including Exciter projects)
- Technology centres **in each region.**

Prosperity

Human capital
By creating a safe and healthy workplace for our people in which diversity is encouraged and valued, and providing them with ongoing development opportunities, we enhance productivity and our ability to service global markets.
- **12,000 employees, 750 fixed-term contractors**
- **US$529** average training spend per employee, of which 76% spent on skills development and 24% on compliance training.

Social capital
Building relationships with our key stakeholders in a spirit of trust and mutual respect enhances both our licence to trade and our competitive advantage, thereby enabling more tangible business value creation.
- **Ongoing** stakeholder engagement
- CSR spend: **US$4 million**

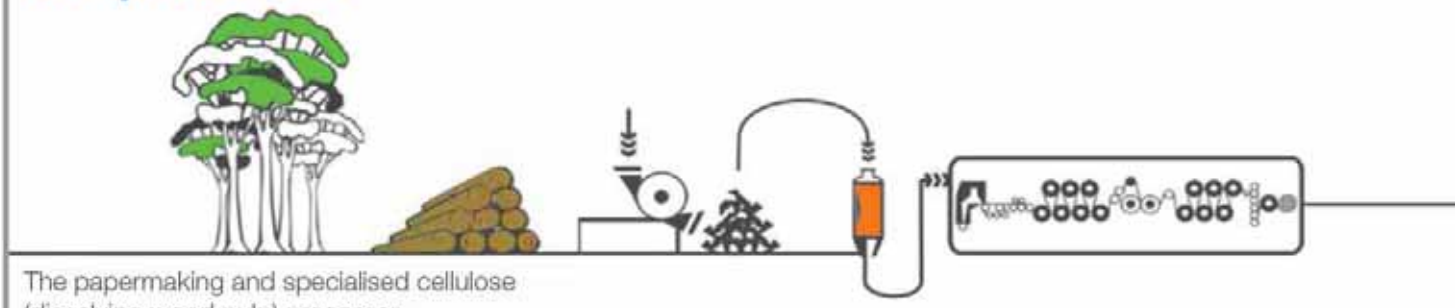
People

Natural capital
Recognising that our business depends on natural capital, we focus on managing and mitigating our impacts.
- **2,798MW energy** purchased, **1,911MW** generated
- Specific process water **extracted 33.9m³/adt**
- **388,000ha owned or leased plantations**, 100% FSC®**-certified, with approximately **28.6 million tons** of standing timber
- Contracted supply covers a further almost **103,000ha**

Planet

* *IIRC – International Integrated Reporting Council.*
** *Further information of Sappi's FSC® certification is available in the glossary.*

Our processes



The papermaking and specialised cellulose (dissolving wood pulp) processes

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

A natural capital infographic is presented on the following page.

Outlook

- New products in the speciality and packaging field promise further growth
- Further investment in dissolving wood pulp
- Good progress in adjacent markets

Governance

- Board of directors with diverse experience and expertise
- Social, Ethics, Transformation and Sustainability Committee ensures sustainability is integrated into business strategy
- Other board committees cover all governance aspects
- New Code of Ethics launched in 2016

Material issues

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

Performance

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

Outputs

Prosperity

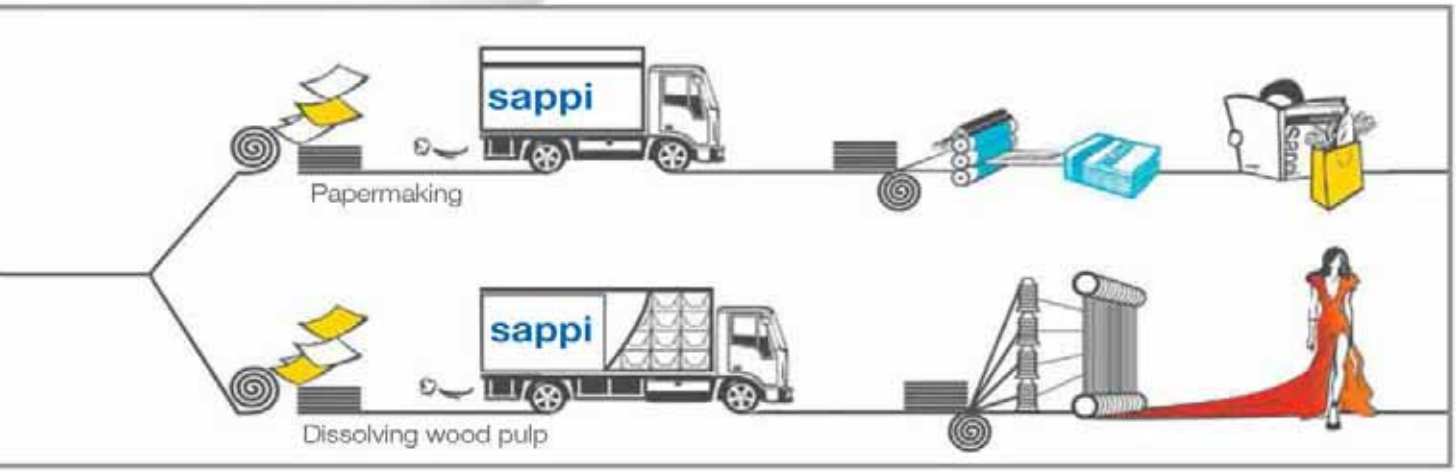
- **6.1 million tons** of production
- Reduction in net debt
- Share price up by 78%
- Nanocellulose pilot plant commissioned
- Sugar extraction pilot plant commissioned
- Anaerobic digestion pilot plant commissioned

People

- Combined own employee and contractor LTIFR: 0.46 (one own employee fatality, three contractor fatalities in our forestry division in South Africa)
- Engaged, motivated workforce – monitored by global target
- Average training hours allocated across the group per job category as follows: not graded – almost 89; semi-skilled – almost 100; skilled technical and junior management – 52; professional or middle management – 330; senior management – almost 24 and top management: almost seven

Planet

- **92% of water drawn returned** to the environment
- **48.8% renewable energy generated**, of which **95.17% own black liquor**
- **73% of fibre used certified**
- **622,850 tons of waste**, of which almost **331,248 tons** sent to landfill – in specific terms, **a decrease of 24.7%** in total waste over five years



Our use of natural capital

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

Our woodfibre resources

Europe

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

Tree species used:

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

North America

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

Tree species used:

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

South Africa

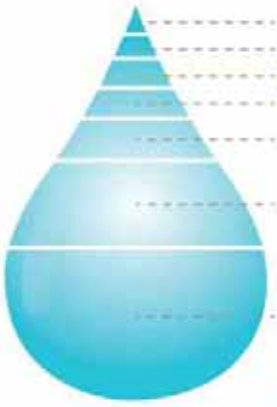
Sappi owns or leases 388,000 hectares (ha) with approximately 28.6 million tons of standing timber. Contracted supply covers almost 103,000ha.

Tree species used:

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

Our plantations are **not irrigated.**	Trees are planted **at least 30 metres** away from watercourses.	Globally, **we return 92% of water drawn for our mills** to the environment.	Our plantations require **minimal amounts of fertiliser.**

Water usage by sector in South Africa

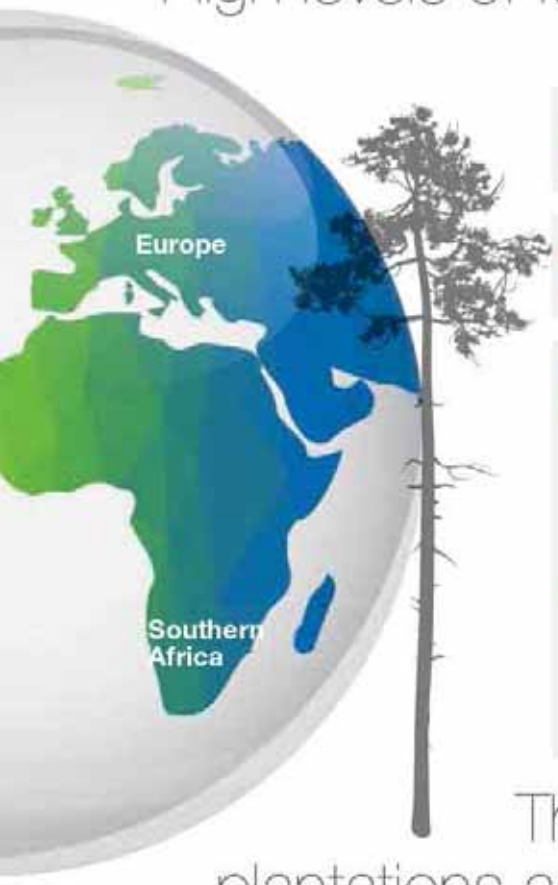


- 2% Power generation
- 2.5% Livestock and conservation
- 3% Forestry
- 3% Municipal/domestic rural
- 5.5% Mining and industry
- 24% Municipal/domestic urban
- 60% Agriculture/irrigation

Commercial forestry plantations account for just 3% of South Africa's total water use.

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

High levels of forest certification



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

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

And the rest?

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

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

Group Wood and Fibre Procurement Policy

The myth: Sappi's plantations are sterile deserts

The facts:

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

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

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

15 faunal red data species
recorded on our MPU plantations:

Endangered mammal species include Oribi and Samango Monkey, and

Near threatened species include Serval and Honey Badger.

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

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

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

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

Our activities add value to all our stakeholders

Globally, we contributed

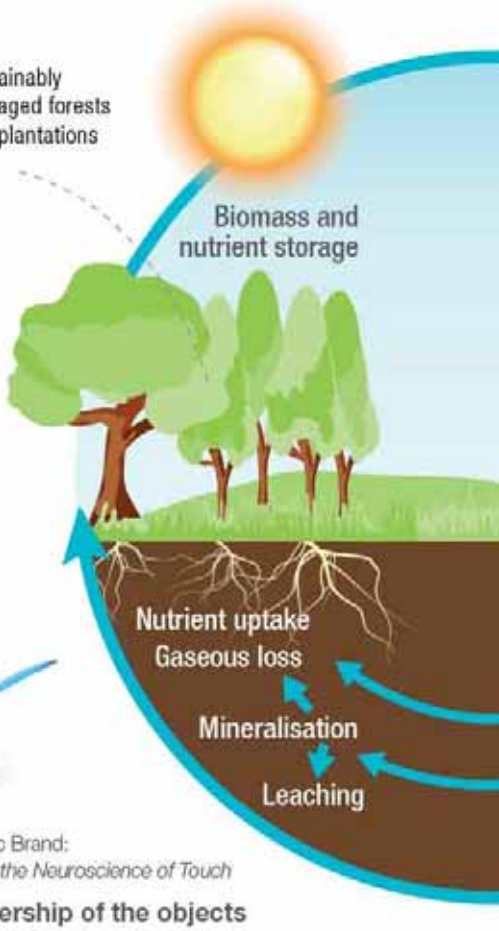
US$89 million
to governments as taxation

We reinvested
US$554 million
to grow the business

We paid
US$894 million
to employees as salaries, wages and other benefits

EBITDA amounted to
US$739 million
(excluding special items)

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



Paper quality significantly affects viewer response...

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

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

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

Our activities promote socio-economic development in rural areas where otherwise, there would be limited opportunities.

Our coatings expertise means that we can fulfil requirements for complicated prints, finishes and colours, and gives us a competitive advantage.

We invested US$4 million to enhance the wellbeing, safety and health of communities close to our areas of operation.

We help our customers to leverage the demand for environmentally friendly packaging, helping them to make their products visually distinct and processing more efficient.

By promoting the use of certified woodfibre, we have helped to increase the size of the natural forest areas across Europe and North America.

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

ALGRO Guard | M

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

TWO SIDES

www.twosides.info

PRINT POWER

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

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

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

sappi projectgrow *Khulisa Umnotho*

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

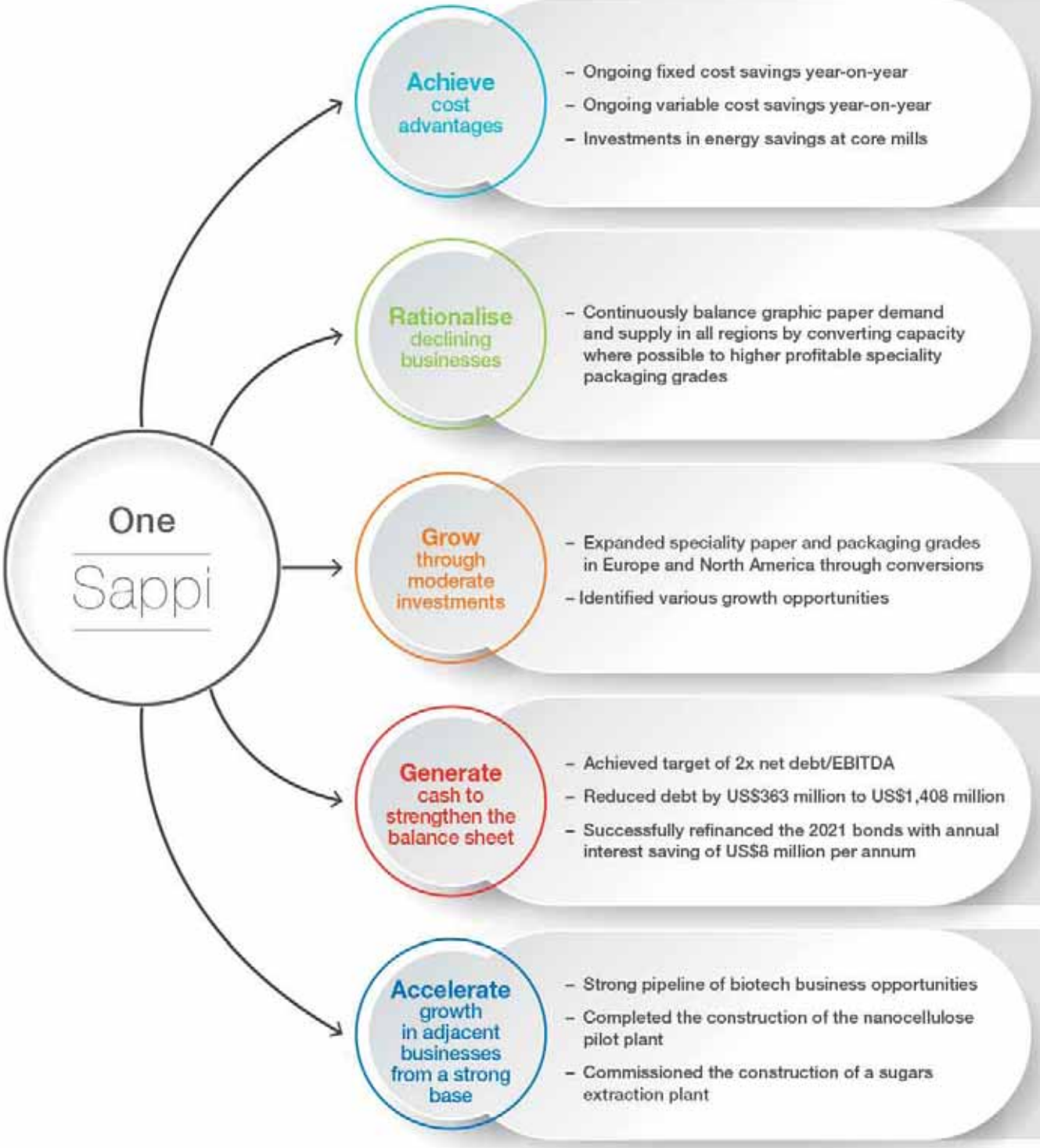
Approximately half of the **bagasse** (sugar cane waste residue) supplied to Stanger Mill is sourced from emerging farmers.

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

Our strategy

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

2016 achievements



2017 objectives

Achieve cost advantages

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

Rationalise declining businesses

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

Grow through moderate investments

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

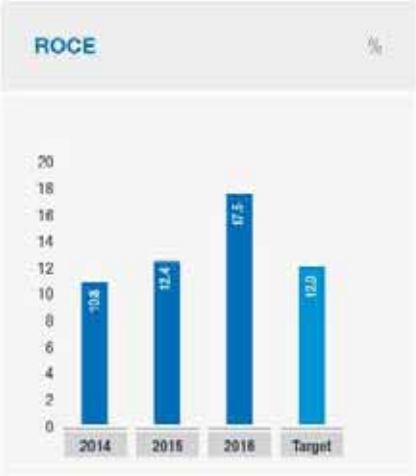
Generate cash to strengthen the balance sheet

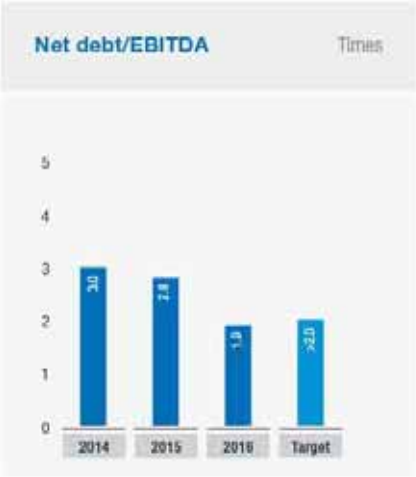
- Maintain net debt/EBITDA below 2x
- Continuously improve working capital
- Use liquidity sources to repay the maturing 2017 US$400 million bond

Accelerate growth in adjacent businesses from a strong base

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

Performance to targets





Our performance in 2016

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

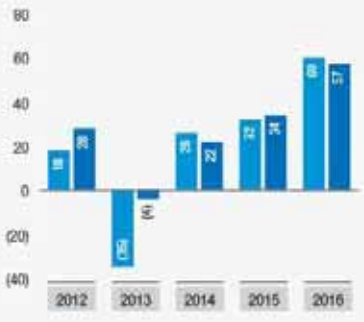
Sales US$ million

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

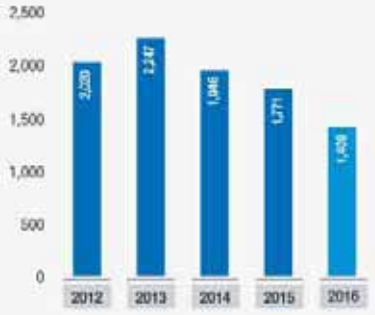
Our European graphics paper business showed an improved underlying operating performance with stable pricing and lower input costs, leading to enhanced margins. The speciality packaging business made further improvements in sales volumes and margin growth during the year.

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

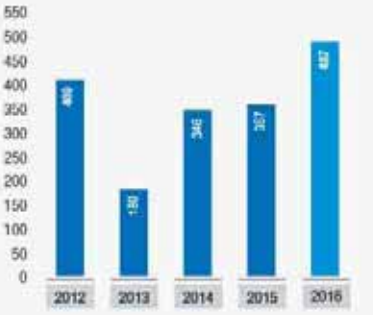
EPS and EPS excluding special items US cents



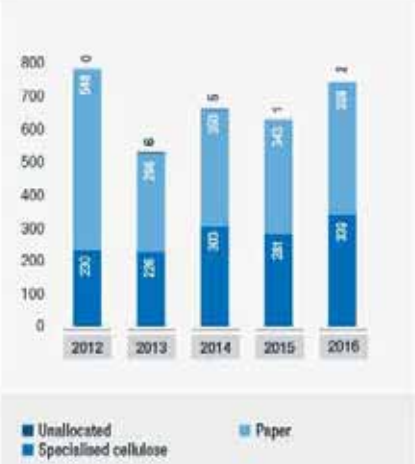
Net debt US$ million



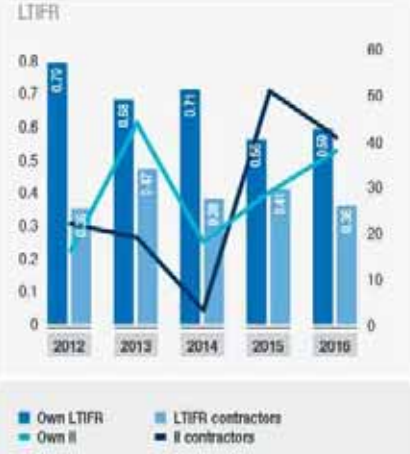
Operating profit excluding special items US$ million



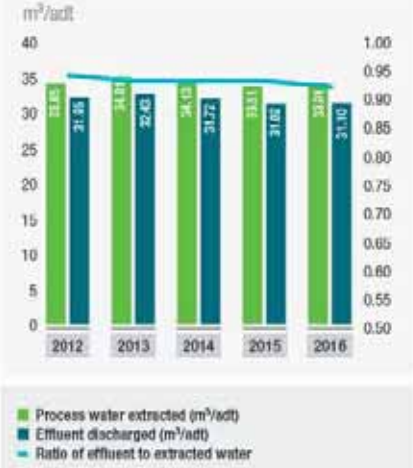
EBITDA excluding special items US$ million



Sappi Limited Lost Time Injury Frequency Rate 2012 to 2016



Specific water returned to extracted



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

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

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

Energy efficiency is our key environmental performance indicator and we continue to strive for improvement in this area. Energy efficiency brings both reduced costs, lower emissions and, since one of the key levers in improving energy efficiency is minimising water use, it has added environmental benefits too.

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

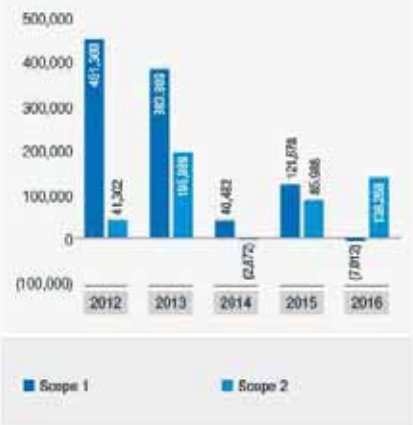
Note: In terms of water and energy, we have made certain changes to align more closely with the Global Reporting Initiatives (GRI) G4 indicators and the guidelines set out by the National Council for Air and Stream Improvement (NCASI). Changes have been backdated to 2012 to allow for trend continuity:

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

Energy intensity GJ/adt

Percentage renewable energy %

Reduction of GHG emissions tCO_2



Letter to stakeholders

from the Chairman and CEO

2016 was another successful year for Sappi

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

Operating review

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

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

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

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

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

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

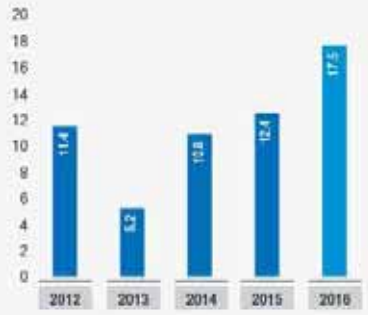
The South African paper business enjoyed record profitability notwithstanding the sale of the Cape Kraft and Enstra Mills in the first quarter of 2016. Sales demand was strong and average net sales prices rose during the year, assisted by the weaker Rand/US Dollar exchange rate, leading to increased margins. Lower energy costs as a result of investments in power generation and efficiency gains helped offset the import price component of our fibre and chemical inputs which were

Sir Nigel Rudd
Independent Chairman

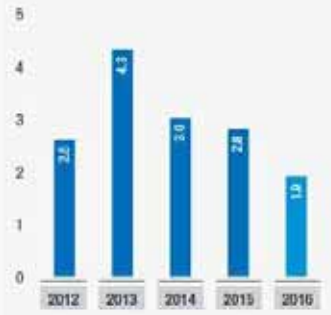
Steve Binnie
Chief Executive Officer

Net profit for the year increased by 91% to	EBITDA increased by 18% to	Our net cash generation was	Net debt declined to
US$319 million	**US$739 million**	**US$359 million**	**US$1,408 million**

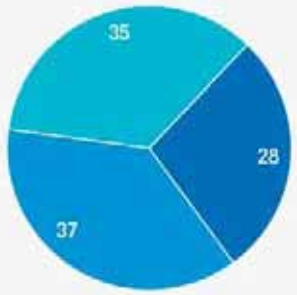
Operating profit excluding special items to capital employed (ROCE) %



Net debt to EBITDA excluding special items Times



Net operating assets %



2016: US$3,424 million

North America Europe Southern Africa

Letter to stakeholders continued

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

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

Strategic review

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

Our strategy encompasses the following five main objectives:

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

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

Achieve cost advantages

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

Optimise and rationalise declining businesses

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

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

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

In Southern Africa, we exited the waste-based packaging paper business via the sale of our Enstra and Cape Kraft Mills in December 2015 and moved the office paper produced at the Enstra Mill to our integrated Stanger Mill.

Grow through moderate investments

While we continue to focus on debt reduction and deleveraging in the short term, we are constantly looking for opportunities to make moderate investments in growth areas that can achieve improved revenue margins and returns. The speciality packaging paper market is characterised by a number of smaller producers with growing demand and reasonable margins. We will look to strengthen this business in the coming years. Concerns about climate change, recycling and the environment are resulting in encouraging growth in paper-based packaging.

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

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

Generate cash to strengthen the balance sheet

Strengthening the balance sheet is an important prerequisite in order for Sappi to make moderate investments in near and adjacent businesses. To this end we sold our non-core recycled packaging mills in Southern Africa for ZAR600 million. The improvement in our operational performance and the sale of non-core assets enabled us to lower debt by US$363 million in 2016 and to reduce our leverage to below two times.

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

Accelerate growth in adjacent businesses from a strong base

As we approached our stated aim to reduce our net debt to EBITDA to two times, we have focused more on new business development. Sappi has a proud history of research and development and the global trend and need for more renewable materials offers an opportunity to develop new products and markets for products derived from wood chemistry. In the past year, we have built a pilot scale plant for Cellulose Nano Fibrils (CNF) in the Netherlands and have announced the construction of a second generation sugar extraction demonstration plant at our Ngodwana Mill with start-up scheduled for early 2017. We have appointed a team to drive the commercialisation of R&D projects as well as seek collaboration and partnerships with other companies. Within the next five years we believe that new business could contribute as much as 10% of the group's EBITDA.

Looking forward

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

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

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

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

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

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

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

Appreciation

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

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

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

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

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

In conclusion, we value the support which our shareholders have provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the Annual General Meeting on 08 February 2017.

Q & A with the CEO

Steve Binnie

Focus on strategy

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

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

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

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

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

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

Achieving cost advantages through improved efficiencies and optimised business processes is one of our strategic pillars. This will improve returns for shareholders, and create opportunities to finance growth by making more capital available for future investments. During 2016 we initiated a project to lower costs through a greater focus on global procurement. To date, we've been able to realise US$13 million in cost reductions over and above our usual continuous improvement initiatives. In the coming financial year, we expect this pace to accelerate in order to deliver a further US$50 million towards our target of US$100 million by 2020. Improvements are expected in all three geographies in which we operate, and are across a broad range of expense categories including paper pulp, wood, energy, logistics, sea freight and non-fibre raw materials. Our investment in shared service centres for certain processes has proven to be cost-effective and we believe more savings can be achieved through further consolidation of back-office services around the world.

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

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

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

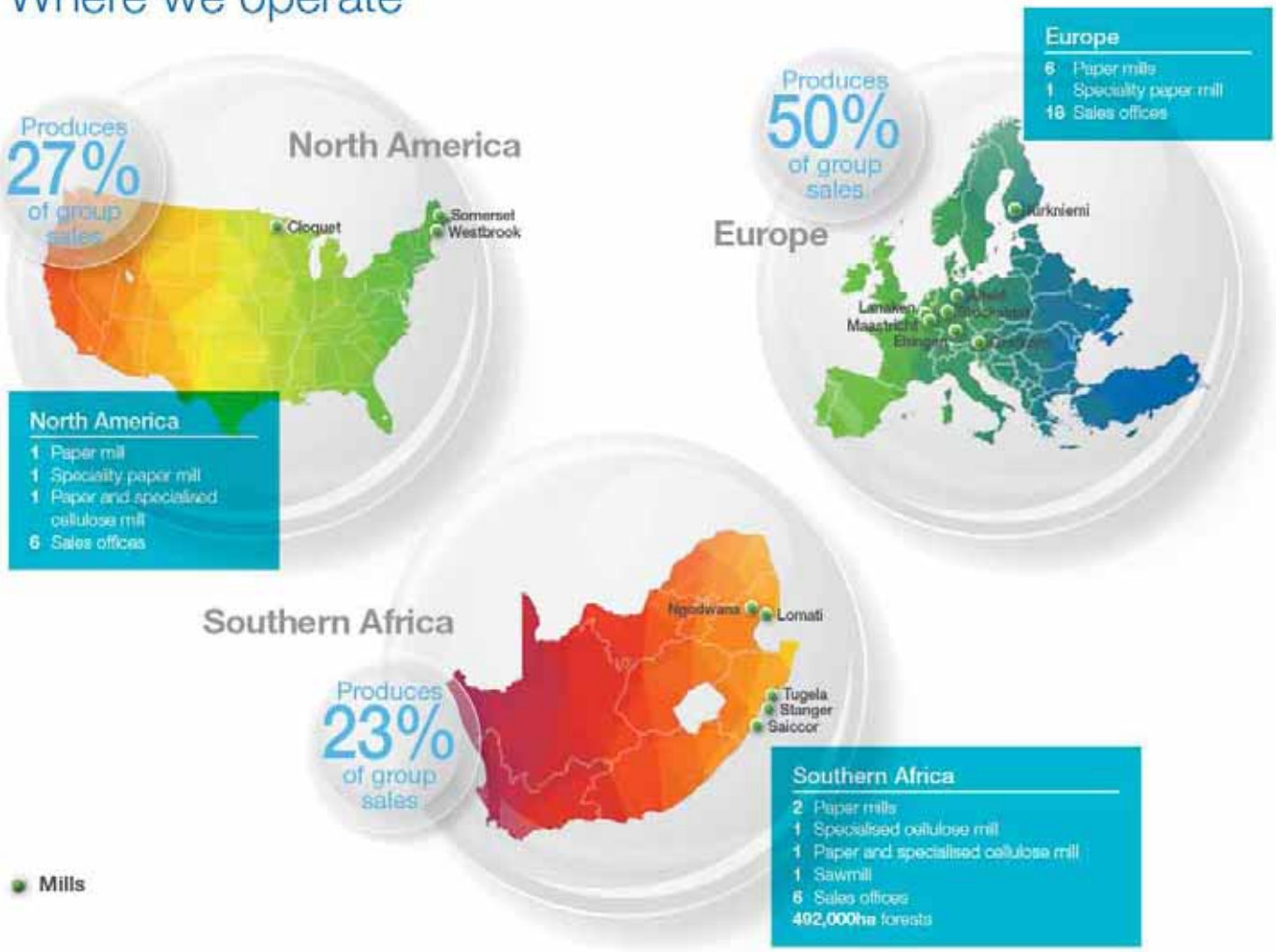
sugars, could provide us with many high-value products for sale into a wide range of markets, including vanillin, furfural and lactic acid. We are also exploring the micro- and nano-scale potential of woodfibre through our nanocellulose pilot plant in the Netherlands. Areas of interest include the production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

5 Now that you've reached your net debt to EBITDA target of below two times, what are your expected debt levels and leverage going forward?

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

We have cash on the balance sheet to repay the last of our high-cost debt, which is callable in April 2017. Our stronger balance sheet now enables us to make moderate investments in order to accelerate growth. We believe that there are a number of opportunities to profitably grow both our specialised cellulose and speciality packaging businesses. With use of the two times net debt to EBITDA leverage ratio as our guiding principle, we believe that we can make these smaller investments without going above that target ratio for any sustained period of time, and perhaps, only briefly while completing larger projects. Overall, we expect gearing to continue to reduce in 2017.

Where we operate



Sappi is a global company focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 150 countries. Our production includes:

Paper per year	Paper pulp per year	Dissolving wood pulp per year	Globally we have
5.4 million tons	**2.3 million tons**	**1.3 million tons**	**12,000 employees**

Our dissolving wood pulp products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer and household products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting and release papers used by suppliers to the fashion, textiles, automobile and household industries; and newsprint, uncoated graphic and business papers, packaging and speciality papers used and protect our customers' products especially in the agricultural sector and speciality papers used in the convenience food, confectionery, cosmetic and luxury markets, and tissue products for household, medical and industrial use in the Southern Africa region.

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

Sappi Trading

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

Sales offices

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

Logistics offices

Durban, New York

Review of operations – capacity tables

Europe

Mills	Products produced	Capacity[1] ('000 tons) Paper	Pulp	Employees
Alfeld Mill	Bleached chemical pulp for own consumption		120	
	Coated and uncoated speciality paper	275		
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		140	
	Coated woodfree paper	280		
Gratkorn Mill	Bleached chemical pulp for own consumption		250	
	Coated woodfree paper	980		
Kirkniemi Mill	Bleached mechanical pulp for own consumption		300	
	Coated mechanical paper	750		
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		165	
	Coated mechanical paper, coated woodfree paper	530		
Maastricht Mill	Coated woodfree paper	280		
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		145	
	Coated woodfree paper, uncoated woodfree paper	445		
	Total Europe	**3,540**	**1,120**	**5,097**

North America

Mills	Products produced	Capacity[1] ('000 tons) Paper	Pulp	Employees
Cloquet Mill	Dissolving wood pulp		330	
	Coated woodfree paper	330		
Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525	
	Coated woodfree paper	790		
Westbrook Mill	Coated speciality paper	40		
	Total North America	**1,160**	**855**	**2,087**

Southern Africa

Plantations*	Products produced	Capacity[1] ('000 tons) Ha	Standing tons	m³	Employees
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	230	10,944		
Mpumalanga	Plantations (pulpwood and sawlogs)**	262	17,536		
Lomati Sawmill	Sawn timber			102	
	Total forests	**492**	**28,480**	**102**	

Mills	Products produced	Capacity[1] ('000 tons) Paper	Pulp	Employees
Ngodwana Mill	Dissolving wood pulp		210	
Saiccor Mill	Dissolving wood pulp		800	
	Total specialised cellulose		**1,010**	
Ngodwana Mill	Unbleached chemical pulp for own consumption		220	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	240		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Office paper and tissue paper	110		
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption		130	
	Corrugating medium	185		
Sappi ReFibre***	Waste paper collection and recycling for own consumption		132	
	Total paper and paper packaging	675	652	
	Total Southern Africa	**675**	**1,662**	**4,644**

[1] *Capacity at maximum continuous run rate.*

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

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

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

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

Graphic papers

Brand managers are increasingly balancing the permanence, versatility, engaging nature and elegance of print with the accessibility and immediacy of online media. The roles and expectations of the two media have evolved over the last decade and with it, consumer behaviour. People use online media for product news, reviews, shopping hours and best buys. However, with print they experience the brand tactilely, making a more personal connection between the product, the company and themselves. Printed material is more engaging; more cognisant that it is 'speaking' to its target audience. It reinforces the message of quality and pride in craftsmanship. The more luxurious and expensive the product, the more likely a printed piece will be part of the marketing campaign. These engaging publications are a way to build loyalty and trust.

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

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

Coated woodfree paper

Share of sales
48%

Description and typical uses	Demand trends	Sales volumes
The uses for **coated woodfree paper** include marketing promotions and brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. In FY2016, 48% of Sappi's sales volume was in this segment, typically through large paper merchants.	The shift to digital magazines, books, catalogues and advertising have all impacted demand for graphic papers in general. Although global demand for coated woodfree paper is expected to decline 1-2% year-on-year, we do however, believe that there will always be a place for quality coated woodfree paper.	Sappi's coated woodfree paper sales volumes rose approximately 2% in 2016, while global demand fell by approximately 2%.

Coated mechanical paper

Share of sales
11%

Description and typical uses	Demand trends	Sales volumes
Coated mechanical paper is primarily used in magazines, catalogues and advertising material. In FY2016, 11% of Sappi's sales volumes constituted coated mechanical paper. Customers for this paper are typically large merchants, large printers and publishers of weekly magazine titles.	Demand for coated mechanical paper is more closely linked to that of demand for magazines and as readership, subscriptions, circulation, pagination and advertising revenue per page continues to decrease, and as coated mechanical paper is replaced with alternative grades in order to cut costs, demand for this paper is forecast to decline more than coated woodfree paper.	Sappi's sales volumes for coated mechanical paper were approximately 2% lower than last year, while the global market contracted by approximately 8%.

Uncoated woodfree paper

Share of sales
5%

Description and typical uses	Demand trends	Sales volumes
Uncoated woodfree paper is used in business forms, business stationery, photocopy paper, cut-size, preprint, and office paper, with certain brands used for books, brochures and magazines. In FY2016, 5% of Sappi's sales volume was made up of uncoated woodfree paper. Typically large paper merchants are our main customers in this sector.	Demand for uncoated woodfree paper is expected to remain flat. Adoption of paperless solutions by end-users such as financial institutions, large companies and healthcare organisations is expected to continue as companies look at cutting costs, and environmental groups advocate for less paper usage. Demand is expected to fall in mature markets, but growth is expected in emerging economies.	The uncoated woodfree market was relatively stable this financial year, with a modest decline of 0.5%.

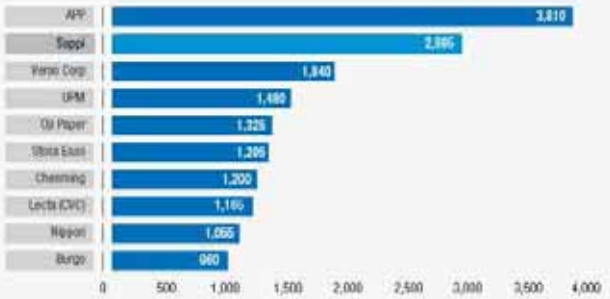
Newsprint paper

Share of sales
2%

Description and typical uses	Demand trends	Sales volumes
Newsprint, 2% of Sappi's sales volume, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers.	Demand for newsprint is highly dependent on newspaper circulation and retail advertising. As advertising spend in electronic media continues to grow worldwide with many newsprint titles moving to a 'digital-only' format, South Africa has experienced an estimated 6% decline in demand in 2016.	Volumes declined less than the overall market due to new product development.

Sappi's global position – coated woodfree paper

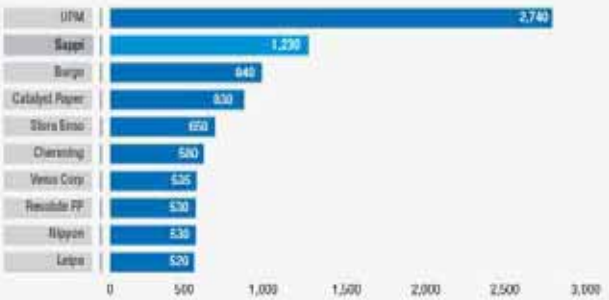
Capacity '000 tons



Source: EMGE World Graphics Paper Report, September 2016

Sappi's global position – coated mechanical paper

Capacity '000 tons



Source: EMGE World Graphics Paper Report, September 2016

Graphic papers continued

Our markets in 2016 and outlook for 2017

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

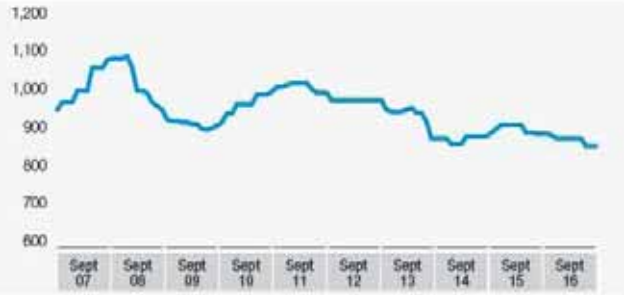
During the 2016 financial year, we transferred volumes from the Husum Mill, the output of which Sappi had previously sold on an agency basis to our own mills, raising utilisation rates and lowering costs at these mills.

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

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

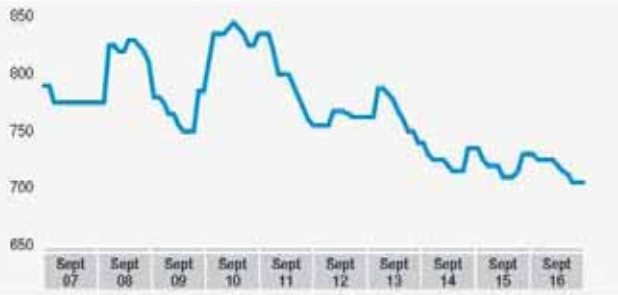
Sappi's range of graphic papers, technical support and service ensures that our customers meet their business objectives in the best and most affordable way.

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



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

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



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Source: RISI

Packaging and speciality papers

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

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

Flexible packaging and label papers

Description and typical uses

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

Label papers for pressure sensitive and wet adhesive applications.

Global market size*

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

Functional papers

Description and typical uses

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

Global market size

- Barrier and grease resistant papers
- Unlimited

Containerboard

Description and typical uses

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

Global market size

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

Rigid packaging

Description and typical uses

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

Global market size

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

Release liner

Description and typical uses

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

Global market size

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

Technical papers

Description and typical uses

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

** Market sizes are for our specific products.*

Packaging and speciality papers continued

Casting and release papers

Description and typical uses

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

Tissue paper

Description and typical uses

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

In 2013, Sappi undertook a €60 million rebuild of PM2 at Alfeld Mill, converting the coated woodfree paper machine to coated specialities in order to support growth in this market. Alfeld Mill is now producing 100% speciality papers and boards, and in the last two years we have made additional investments to further improve quality. In line with our growth strategy and to meet increasing market demand, we have also undertaken production upgrades at our Maastricht Mill, focused on producing packaging boards, and our Ehingen Mill to produce topliner. Packaging and speciality papers are also made in North America at our Somerset and Cloquet Mills and at Tugela and Ngodwana Mills in Southern Africa. We are investigating further conversion and debottlenecking opportunities in each region as we seek to expand sales in this growing higher margin segment and concurrently match capacity to demand in the declining graphic paper market. See Q&A on page 16 for more detail.

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

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

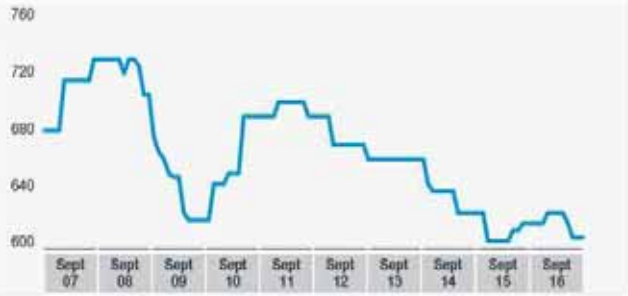
Our markets in 2016 and outlook for 2017

Demand for Sappi's wide range of products continues to grow in the speciality packaging market, reflecting the increasing needs from the food packaging industry which is responding to customer requests for more sustainable and environmentally friendly packaging solutions. We estimate global demand is growing at approximately 3% per annum. However, in 2016, with new high-margin business, our European sales grew by 14%. Pricing for our products was largely stable compared to last year, but the improved volumes and lower costs led to a significant increase in margin. In the US, Sappi's LusterCote and LusterPrint products also had an excellent year, growing by 43%, but from a low base.

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

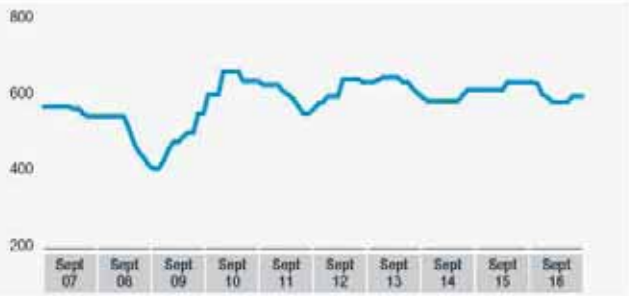
In the containerboard market in Southern Africa, a strong fruit and vegetable season boosted sales and the weaker Rand assisted pricing in 2016. Most of Sappi's containerboard sales are into the agricultural market, which is expected to grow by 4-5% per annum going forward.

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



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

Unbleached kraft liner – 175g/m² CIF Germany (Euro/metric ton)



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

Dissolving wood pulp

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

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

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

Market prices for DWP are determined by a number of factors. Approximately a quarter of current DWP capacity has the ability to switch between various fluff and paper pulp grades and DWP. Sappi's Cloquet Mill has the ability to swing between NBHK (Northern Bleached Hardwood Pulp) and DWP. The decision to switch is usually based on the pricing differential between the particular paper grade pulp and DWP. DWP is typically priced at a premium due to the lower yield per ton of wood and lower throughput when producing DWP. When the gap widens, paper pulp producers may elect to enter the DWP market, which tends to limit the DWP price, and when the gap narrows the converse occurs. Textile prices influence DWP prices as this determines the maximum affordable price our customers can bear. Lastly, the DWP supply and demand balance as well as the availability and pricing of alternative sources of cellulose to the VSF market, such as cotton linter pulp, can affect the market price for dissolving wood pulp.

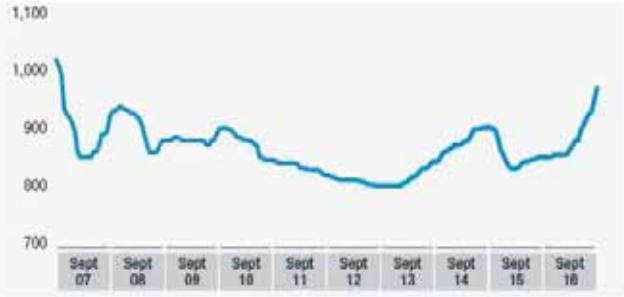
Our markets in 2016 and outlook for 2017

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

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

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

Imported hardwood dissolving wood pulp (US$/metric ton) CIF China



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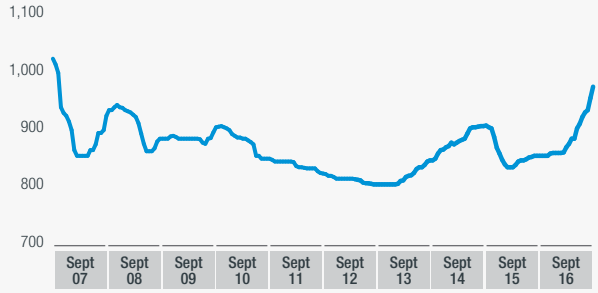


Prices are list prices. Actual transaction prices could differ from prices shown.
Source: CCF group

Our key relationships

Proactive, constructive stakeholder engagement is at the heart of our drive to integrate sustainability into our everyday business processes. We engage with those stakeholders who have the most material impact on our ability to implement our business strategy and achieve our goals, as well as those who are most affected by our activities. Building relationships with them in a spirit of trust and mutual respect enables more tangible business value creation and by understanding stakeholder rights, needs and expectations, integrating their inputs, as well as measuring and monitoring our activities, we ensure alignment with our strategic goals.

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

Sappi's main stakeholder groupings, per our Group Stakeholder Engagement Policy, are set out below, together with selected examples of engagement undertaken during the reporting period. As a global business, with our products sold into more than 150 countries, our ability to connect with stakeholders as **One Sappi**, motivated by our revised mission, strategy and shared values, gives us a clear advantage and for our stakeholders a connection they can trust to add value. Our management approach, areas of mutual interest, ongoing avenues of engagement and the value added by our stakeholder engagement processes are set out below. Details of specific stakeholder engagement can be found in our 2016 group Sustainability Report, available at www.sappi.com.

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Employees	**Management approach** We will continue to invest in future talent while challenging our people so that they are able to seize the opportunities presented by a changing global environment. We make resources available to enable our people to grow intellectually, fulfil their potential and bring new ideas to fruition. **Areas of mutual interest** • Strategy, priorities and performance of the company • Internal and external activities of the company, our staff and our communities • Organisational developments, particularly in respect of restructuring • Ongoing training and skills development • Creation of a dynamic and encouraging environment through a focus on safety, health, wellness and recognition programmes • Commitment to sustainability • Group values and Code of Ethics.	Our group and regional CEOs engage with staff through regular site visits, presentations and discussions; suggestion lines exist at some facilities, and unions have formal channels through which they engage with management. We encourage full engagement between managers and their staff. Other avenues of engagement include: • Global, regional and local newsletters • Our global Intranet • Letters, roadshows and presentations by the group CEO as well as regional CEOs • Operating unit meetings, briefings and workshops • Various forums (SA) – National Employment Equity and Learning Forum – Shop Steward Forum – National Partnership Forum – Transformation Steering Committee • Global Employee Engagement Survey (every second year) • Wellbeing committees at mills and business units • Health and safety committees at mills • In addition to the global Technical Innovation Awards, there are regional recognition awards: SEU – the annual Coryphaena awards; SNA – the quarterly Risk Taking and Ingenuity awards; SSA – the Excellence in Achievement (EAA) awards; Sappi Trading – the Gold SMART Award. Globally, there is also the Sappi Limited CEO Award for Excellence Ongoing training and development initiatives, training targets in each region. Targeted training and engagement programmes in each region regarding sustainability.	• Engaged employees are pivotal to the success of our business – alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development • Build our human capital, thereby helping to enable delivery of our 2020Vision • Build a base of the technical skills needed by our industry

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Unions	**Management approach** Given today's extremely challenging global economic conditions and the current socio-economic dynamics in the Southern African labour market, we prioritise our relationship with our employees and their representatives. Protecting the right to freedom of association and collective bargaining are fundamental to the manner in which Sappi does business. Globally, approximately 60% of our workforce is represented by unions, with 71.5% covered by collective bargaining agreements. **Areas of mutual interest** In addition to meeting with local union leadership for the purposes of remuneration, working hours, and other conditions of service as well as resolving grievances, the company relies on local unions to help with safety and wellness initiatives, as well as various forms of community outreach.	**SEU:** Negotiations occur at the various country and industry-specific collective labour associations, and the contract terms range from one to two years. The labour framework in Europe consists of works councils and collective labour agreements and differs from country to country. **SNA:** The majority of our hourly employees – generally production unit employees – are represented by the United Steelworkers (USW) union, but employees are also represented by various craft, guard and railroad unions. In this region, labour agreements are usually for three years. **SSA:** Our wage negotiations with recognised trade unions take place at the Pulp and Paper and Sawmilling Chambers under the auspices of the Bargaining Council for the Wood and Paper Sector in South Africa, and our agreements are generally annual. We also engage on broader issues with the recognised trade unions at the National Employment Equity and Skills Development Forum, the Shop Steward Forum and the National Partnership Forum.	• Meaningful engagement on a number of issues affecting both business and employees • Improved relationships • More stable labour force • Enhanced productivity
Communities	**Management approach** Having a mutually respectful relationship with the communities in which our business is situated is critical to our success. We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of conserving natural resources, uplifting people so that they are well positioned to thrive in our increasingly interconnected world. Social projects are reviewed on a case-by-case basis and we encourage projects which facilitate partnerships and collaboration between communities, government and the private sector. **Areas of mutual interest** Key issues discussed on a regular basis include water usage and quality, effluent quality and air emissions, employment, job creation and business opportunities, economic and social impacts/contributions and community support.	There are various formats of community engagement meetings held by our mills in the regions where they operate. These range from broad liaison forums for business, local government and communities to legally mandated environmental forums which form part of the licensing conditions of mills. We also engage with local communities through support of and sponsorship for local events and initiatives, and we encourage employees to participate in outreach and community projects. In **Southern Africa**, Sappi works with local government and communities to accelerate afforestation as a strong rural economy development opportunity. In particular expansion in the northern region of the Eastern Cape shows great promise. This allows Sappi to secure valuable hardwood timber resources close to Saiccor Mill in KwaZulu-Natal. Sappi has also invested in supporting social mobilisation in its communities thereby helping to break the cycle of poverty. The initiative empowers and supports them to create opportunities for income. The project, initially launched in nine communities, has seen significant success over its first two years and will now be expanded to other Sappi communities.	• Enhance our licence to operate • Promote socio-economic development which could, in the long term, lead to increased demand for our products • Initiate real social mobilisation and change to enable people to create their own opportunities and benefit from locally focused projects

Our key relationships continued

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Customers	**Management approach** We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. We offer customers innovative products and high levels of service that enable them to meet the needs of the rapidly changing world of tomorrow. We also review our go-to-market strategy where relevant to ensure that we align our interests and the interests of our end-users. Where relevant, we will also conduct R&D and develop products to suit the specific needs of a customer. **Areas of mutual interest** • High service levels • Information and campaigns to promote speciality paper and paper packaging, print-based communication, dissolving wood pulp as well as new biomaterials • Provision of technical information and support to our paper, packaging and specialised cellulose customers • Information about organisational developments, and the fibre sourcing and production processes behind our brands • New products that meet rapidly changing market demand.	The group follows an approach of regular engagement with customers by senior and executive management in support of the ongoing engagement by the relevant sales and marketing teams. In North America, we also meet annually with the Sappi Merchant Association. **Globally:** Targeted communication campaigns to help promote the value of paper-based packaging, casting and release papers as well as print-based communication. Examples include support for the TwoSides organisations in Europe, North America, South America, Southern Africa and Australia and the Print Power campaign in Europe. Also, participation in industry forums and events regarding dissolving wood pulp. Trade shows and exhibitions. Technical support through the Sappi customer portal as well as the newly released Sappi website www.sappi.com. We annually host customer and investor visits to the mills. Technical centres of excellence for each product range. These are located at Saiccor and Cloquet Mills for dissolving wood pulp; the Alfeld Mill Competence Centre for Speciality Wood Papers and Paper Laboratory; Westbrook Mill for casting and release papers and the Maastricht, Westbrook and Pretoria technology centres for coated paper. The Pretoria Technology Centre is also the centre of excellence for paper pulp.	• Meet customers' needs for products with an enhanced environmental profile • Promote our customers' own sustainability journeys • Heightened awareness of the importance of sustainability • Keep abreast of market developments • Showcase our products
Industry bodies	**Management approach** We partner with industry and business bodies to provide input into issues and regulations that affect and are relevant to our businesses and industries. We also support and partner with industry initiatives aimed at promoting the use of our products.	Sappi is a member of various industry and business associations in each region. **SEU** • Confederation of European Paper Industries (CEPI) • Eurograph • The alliance of energy-intensive industries • The Two Team Project – (focusing on breakthrough technology concepts in the industry which could enable a more competitive future) • European joint undertaking on biobased industries • TwoSides and PrintPower **SNA** • American Forests and Paper Association (AF&PA) • Paper and Paper Packaging Board • Agenda 2020 Technology Alliance • Sustainable Packaging Coalition (SPC) • Forest Products Working Group • TwoSides	• Sappi is able to create and launch new products which already meet Sustainable Packaging Coalition criteria, which is beneficial to us on a cost basis and a sustainability basis • Maintain and expand markets for our products • Demonstrate the value-add of the forest products industry • Dispel myths and promote understanding of our industry • Work with other companies through collective initiatives to support societal change and deal with societal challenges

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Industry bodies continued	**Areas of mutual interest** • Issues that affect the sustainability of our industry – woodfibre base, carbon taxes, energy and emissions etc • Energy issues in general and in particular government proposals on carbon taxation • The impact of increased regulations on business • The benefits of our industry and our economic contribution to society • Social and environmental credentials of our products.	**SSA** • Paper Manufacturers' Association of South Africa (PAMSA) • Business Unity South Africa • Business Leadership South Africa • The CEO Initiative • Manufacturing Circle • Forestry South Africa • TwoSides Sappi Forests is a founding member of the Tree Protection Cooperative Programme (TPCP) based in the Forestry and Bio-technical Institute (FABI): www.fabinet.up.ac.za at the University of Pretoria. Through the TPCP we are also members of the internationally collaborative programme BiCEP (Biological Control of Eucalyptus Pests: http://bicep.net.au/) at the Australian Centre for Industrial and Agricultural Research (ACIAR). We also belong to the Eucalyptus Genome Network (EUCAGEN) based at the University of Pretoria and to CAMCORE, an international, non-profit organisation dedicated to the conservation and utilisation of sub-tropical and tropical tree species. Sappi Speciality Papers is a member of the Save Food initiative which aims to eliminate food waste and loss globally.	
Investors	**Management approach** Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions. **Areas of mutual interest** • Information on the company strategy • Return on investment • Transparent information about risks, opportunities and ESG performance.	Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. This team has direct access to the executive directors and any issues shareholders raise that would be relevant for the board are channelled through the IR team. Our Chairman also engages with shareholders on relevant issues. We also conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website www.sappi.com. We publish our Annual Integrated Report and sustainability report on the company website. Shareholders can attend and participate in the AGM as well as the four quarterly financial results briefings. Our CFO and Head of Treasury engage with bondholders, banks and rating agencies on an ongoing basis regarding the performance of the company. We participate in the Carbon Disclosure and Forest Footprint Disclosure projects every year, making our submissions publicly available to investors who ask for these specific ESG disclosures.	• Understanding of our strategic direction • Enhanced reputation • Greater investment confidence • Broader licence to invest

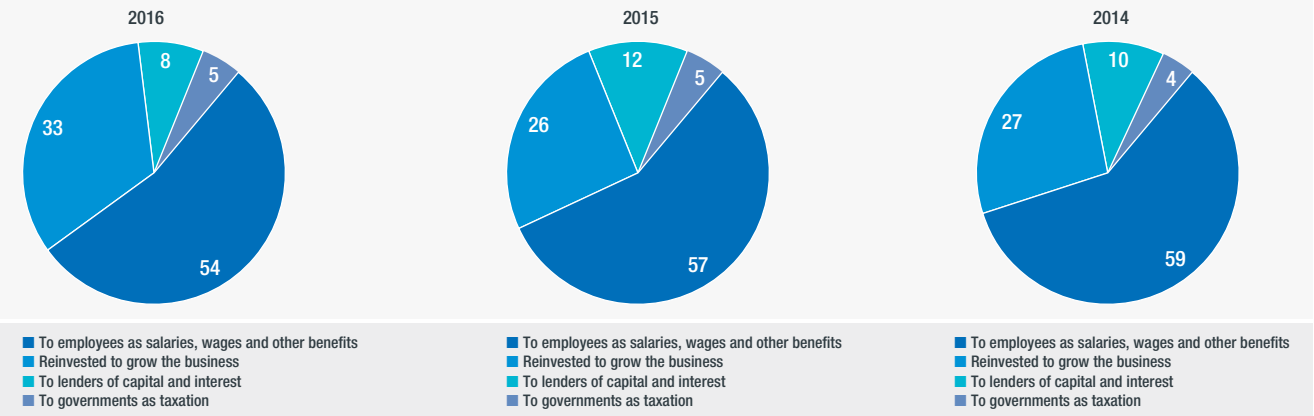
Our key relationships continued

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Suppliers and contractors	**Management approach** We are committed to establishing mutually respectful relationships with our suppliers, encouraging them to join our commitment to the 3Ps, and to creating an environment that shares our commitment to doing business with integrity and courage, making smart decisions which we execute with speed. We aim to build long-term value partnerships. We work with our contractors to ensure that they follow Sappi safety systems and rules. **Areas of mutual interest** • Transparent information • Forest certification • Increased value and decreased costs • Security of fibre supply, income generation and job creation. • Common safety standards with contractors	In **North America** and **Southern Africa**, our foresters work extensively with contractors and communities, on a number of sustainability issues. In Southern Africa we work actively with our contractors on safety issues in particular. In **Europe**, a joint sourcing partnership has been established with SCA which assists in negotiating better terms with timber and other suppliers. In addition to Sappi's internal woodfibre certification efforts, we promote certification among our suppliers and outside our own operations. SNA's ongoing forest management services and supplier outreach programmes help to increase certified lands in areas that supply fibre to its mills. SNA was the first pulp and paper company in North America to be granted a group forest management certificate by the FSC. Small landowners who agree to become a member of SNA's forest management group have their land certified in accordance with the FSC standard under this certificate. SNA's Sustainable Forestry Programme assists woodlot owners in the state of Maine to develop plans for managing and harvesting woodlands. Launched in 1983, Project Grow (Khulisa Umnotho), a tree-farming scheme that gives subsistence farmers the opportunity to participate in the forestry industry, creating sustainable livelihoods in rural areas, fostering economic growth and entrepreneurship. These growers range from small individual growers to larger community projects. We have now expanded Khulisa Umnotho to the northern part of the Eastern Cape.	• Improve supplier relations • Better understanding of the requirements of the Sappi group • Security of woodfibre supply • Expanded basket of certified fibre • Better safety performance from contractors
Civil society (media)	**Management approach** We maintain an open relationship with the media, believing that an informed media is better able to serve public reporting and debate on any issue. We continue to update the media regarding our strategic shifts to extract value from woodfibre in line with future trends. We engage with civil society organisations on issues of mutual interest. We are members of key organisations relevant to our operations.	We join key credible organisations as members. We develop personal relationships and engage on an ongoing basis. We provide support to and sponsorship for key organisations on issues of mutual interest. In **Europe** and **North America**, we maintain close engagement directly and through our industry body CEPI with the FSC and WWF® International. In **Europe**, also with the Programme for the Endorsement of Forest Certification (PEFC™). In **North America**, Sappi is a member of the economic chamber of both FSC US and SFI®. As such, we actively engage with these organisations through a variety of working groups and committee activities. In **Southern Africa**, Sappi is a member of the local WWF and Birdlife organisations as well as FSC. As fire is a key risk on our plantations, we belong to a number of fire protection associations.	

	Our stakeholder group, management approach and areas of mutual interest	Ongoing avenues of engagement	Value add
Civil society (media) continued	**Areas of mutual interest** • Business developments • The future of our industry • Our contributions to our communities • Our work to protect the environment.	In South Africa, the Centre for Environmental Rights (CER) published a follow-up report on their 2015 review of corporate reporting and non-compliance with environmental legislation based on their review of information contained in the National Environmental Compliance and Enforcement Reports (NECER) of the Environmental Management Inspectorate (EMI) of the Department of Environment Affairs (DEA). Their 2016 report can be found at http://fulldisclosure.cer.org.za/company/sappi. They commended Sappi for providing much more disclosure in its 2015 reports. They also noted "Sappi is to be commended for this reference to the NECER and the mention therein of the inspection at the Sappi Saiccor Mill. The clarification that no official report has been received from the DEA is helpful, in particular in that it explains why the details of the alleged non-compliances have not been disclosed." This remains the situation. As in our 2015 report we confirm that we had taken note of the CER's comments and their request for increased transparency. We remain committed to aligning our reporting to any mentions in the NECER. We also continue to engage with authorities regarding all issues of environmental compliance.	• Opportunity to inform and educate media • Transparent, two-way communication and opportunity for dialogue • Support for the valuable work of various NGOs
Government and regulatory bodies	**Management approach** We engage with government departments and regulatory bodies to provide input into issues and regulations that affect our industry. We also engage with regional and local governments and local authorities to obtain support for our operations and show how our activities contribute to local economic and social development. **Areas of mutual interest** • Energy issues in general and in particular government moves on carbon taxation • The impact of increased regulations on business • The social and economic benefits of our industry nationally as well as at a local level.	Consultations take place on an ongoing basis with government departments and regulatory bodies in each region.	• Opportunity to promote understanding of the issues and challenges we face and resolve certain challenges.

Value add distributed among our stakeholders and reinvested in the business

US$ million



Our global sustainability goals

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

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

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

Prosperity

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

People

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

Planet

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

Prosperity

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

People

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

Sustainable engagement: Surveys are held every second year, which means the next one will be held in 2017. We are currently implementing solutions to the gaps identified during the 2015 survey.

Planet

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

Certified fibre: We did not achieve our goal in 2016, with the percentage being 73% against a target of maintaining or exceeding our 2014 base of 79%. This was due to the following reasons: in **Europe,** we are finding there is a push back against certification by sawmills, that are finding certification requirements increasingly onerous; in **North America**, the decline was driven primarily by a change in production strategy at Cloquet Mill, which involved a change from buying 100%-certified market pulp to making our own pulp (doing so means we are limited to the amount of certified fibre available in the local wood basket), and in **Southern Africa**, where our owned and leased plantations are 100% FSC®-certified, the amount of certified fibre supplied to our mills declined slightly, from 83% in 2015 to 82%. The 1% decrease was the result of using less of our own woodfibre because of the drought, having to buy it in and being limited by the amount of certified fibre available.

Our key material issues

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

Governance

Material issue: a sound ethical culture

Background

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

Our response

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

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

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

Prosperity

Material issue: costs

Background

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

Our response

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

- A new multifuel boiler at the Kirkniemi Mill, capable of firing coal, internal and external biomass, which has reduced energy costs by approximately 26% per annum
- The gas pipeline at Somerset Mill which enables the mill to switch selectively between gas, biomass or oil for energy generation
- Improved lime preparation, also at Somerset Mill, which has sped up the recommencement time after an annual shut
- An increase in capacity of the pulverised fuel power boiler at Ngodwana Mill, and
- A rebuild of the pulp line as well as paper machine (PM11) at Gratkorn Mill in order to enhance paper quality, increase the operating windows of the mill's biggest paper machine and enhance the potential grammage range.

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

- New turbines at Tugela and Saiccor Mills
- A new woodyard at Somerset Mill
- Following an investment in Stanger Mill of approximately US$2 million in the mill's paper machine in 2015, in FY2016 we invested a further US$4.7 million in the sheeting and finishing operations with a focus on speed, increasing the throughput of our finished A4 products, as well as improving the packaging quality of our products to further benefit our customers, and
- In **Europe**, we allocated US$22.7 million for mill upgrades which will be completed by the end of 2016.
  At Lanaken Mill, the gate-roll coater on PM7 is being replaced with a state-of-the-art film-press coater. With additional adaptations to the drying system and coating preparation, the rebuild paves the way to add weight to the first coating. The investment will enable PM7 to produce the entire portfolio of grades, without compromising on web profile, coating coverage and paper properties.
  Kirkniemi Mill is undergoing a variety of modifications to its PM3 to increase energy efficiency and further improve quality consistency through better basis weight and moisture profiles.

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

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

Our key material issues continued

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

Material issue: declining demand in some of our traditional markets

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

Packaging

Background

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

Our response

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

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

- Building on the success of Algro® Guard, a product family designed to enhance the ability of packaging to protect food products and improve their safety while simultaneously removing steps from the production process, we launched Algro Guard OHG, a new high-barrier paper-based packaging solution. Algro Guard OHG provides integrated barriers that prevent the migration of oxygen and water vapour into packaged products and also make packaging production simpler and more efficient by eliminating the need to apply special coatings or lamination. This paper meets the market demand for alternatives to foil and plastics, reducing both costs and environmental footprint.
- We also enhanced our leading position in silicone base papers in the European pressure sensitive adhesive market with new additions to the range of Algro Sol silicone base papers. We introduced lower grammages for Algro Sol SNC in the form of 82, 85 and 98g/m^2. Produced on the mill's PM2, they are suitable for office applications, offering high volume, good mechanical strength, consistent thickness and outstanding siliconisation properties.

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

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

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

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

  Previously, the mill produced only high-quality matt and silk graphic papers with single to triple coatings. As a result of the production of Fusion in Ehingen Mill and the associated further quality development, a slightly adapted range of product weights is now offered. In addition to 130 and 140g/m^2, Fusion is now available in 135g/m^2 and, for the first time, 110g/m^2. This offers corrugated card processors even more options and creative possibilities, and
- In this region, we are also developing barrier solutions for corrugated card. The mineral oil barrier liner, Leine Guard, has already undergone successful market testing as an inner liner.

In **North America**

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

  As with all Sappi's release papers, Neoterix ST acts as a mould for coated fabric and laminates. It is used to transfer texture and gloss onto these surfaces and is then stripped away. According to a published study in *Antimicrobial Resistance and Infection Control*, when applied to high touch surfaces, the microtexture reduced surface contamination of methicillin-sensitive Staphylococcus aureus (MSSA) and methicillin-resistant S aureus (MRSA) by as much as 97% and 94% respectively, compared to controls.
- We expanded our LusterCote® packaging line to offer heavyweight options – 70, 80 and 95lb. Produced at Cloquet Mill, these products offer superior performance for offset, flexographic and gravure printing, including wide-format, multi-colour sheetfed presses. In combination with LusterCote 55 and 60lb, the new grades also extend Sappi's offering for cut and stack labels.

[1] *http://www.foodprocessing.com/industrynews/2015/global-packaged-food-market-by-2020-will-be-a-3-03-trillion-industry/*

Graphics paper

Background

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

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

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

Our response

We recognise that the graphics paper market is in decline, but maintain that paper is a renewable and recyclable product that, when manufactured from woodfibre originating in responsibly managed forests and plantations like ours, is an environmentally sustainable, powerful medium. We manage our capacity to strengthen our leadership position in this market, realising its strategic importance to the group and maximising its significant cash flow generation. Accordingly, we continue to develop and enhance our portfolio of products to meet the needs of customers who recognise the value of print.

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

In **North America** in FY2016

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

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

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

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

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

Dissolving wood pulp (DWP)

Background

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

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

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

[2] *http://www.forbes.com/sites/rogerdooley/2015/09/16/paper-vs-digital/#7afd38ba1aa2*
[3] *https://www.researchandmarkets.com/feats/login.asp*

Our key material issues continued

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

Our response

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

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

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

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

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

Adjacent markets: nanocellulose, sugars and lignins

Nanocellulose

Background

The raw material for nanocellulose, woodfibre, is abundant. Furthermore, nanocellulose is not only lightweight, it has very high tensile strength (eight times that of steel), the crystalline form is transparent, gas impermeable and it is highly absorbent when used as a basis for aerogels or foams.

The nanocellulose market is projected to register a market size in terms of value of US$250 million by 2019, signifying an annualised compound annual growth rate of 19% between 2014 and 2019[6].

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

Our response

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

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

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

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

Biobased materials

Background

The key components of woodfibre include cellulose, hemicellulose, lignin and extractives. Both cellulose and hemicellulose are polysaccharides containing many different sugar monomers which can be extracted from pulping streams. This offers opportunities with strong, growing market demand for renewable biochemicals from non-food sources as companies intensify their search for 'green' products that offer enhanced sustainability and also offer product value chains with a lower carbon footprint.

[4] *Source: Avior Capital markets*
[5] *http://dupress.deloitte.com/dup-us-en/economy/asia-pacific-economic-outlook/2016/q1-asia-economic-growth-continues.html*
[6] *http://www.marketsandmarkets.com/PressReleases/nanocellulose.asp*

Our response

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

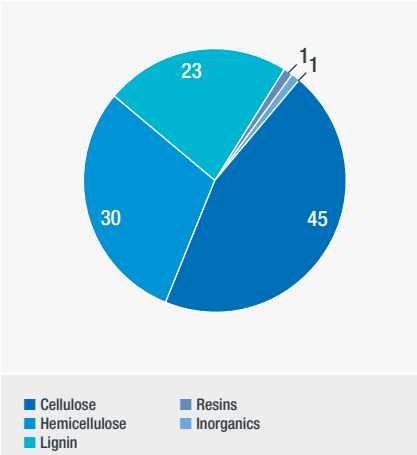
For example, we are looking into ways to use the sugars (as well as lignin and organic acids) extracted from the wood during the pulping process, including entering into partnerships to modify these extracts into higher value products for use in a wide variety of applications.

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

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

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

Components of woodfibre %



Bio-energy

Background

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

Our response

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

Material issue: innovation

Background

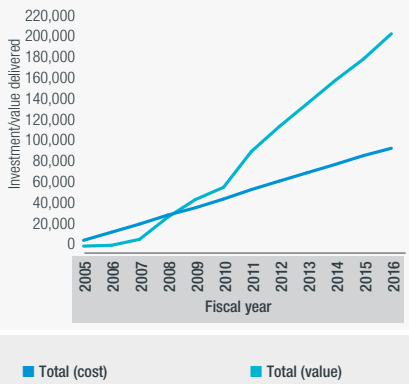
The world is increasingly recognising the value of products based on woodfibre, so that opportunities are opening up to supply products, processes and services based on this renewable, biodegradable natural resource.

Our response

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

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

Cost versus value of Exciter projects US$'000



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

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

Our key material issues continued

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

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

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

People

Material issue: safety

Background

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

Our response

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

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

In **Southern Africa**, Sappi Forests commissioned consultants from Finland and New Zealand to spend two weeks each in the forestry operations to evaluate practices and make recommendations for improvement. During 2017, the region will be embarking on a *Twice as safe* programme to halve the number of accidents by 2020.

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

Material issue: labour relations

Background

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

Our response

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

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

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

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

The overall labour relations climate in this region continued to be constructive. We concluded a collective labour agreement (CLA) at Kirkniemi Mill and are engaging with local union leaders to conclude a CLA at Maastricht Mill. The CLAs for the other mills are due for review in 2017.

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

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

In **Southern Africa**, approximately 47% of the total workforce is unionised. In 2015, a new recognition and threshold agreement was concluded with the majority union, the Chemical Energy, Paper, Printing, Wood and Allied Workers Union (CEPPWAWU). However, this agreement requires the majority union to maintain a membership threshold of 50%+1 which is currently not the case.

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

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

Material issue: investing in communities

Background

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

customer loyalty and attract talent. Community investment is particularly important in **Southern Africa**, given that it is a developing country and that our plantations and operations are situated in rural areas where economic and social development lags behind more urbanised sectors.

Our response

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

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

In each region where we operate, we invest in three key stakeholder groups: our customers, communities and employees. While each region has its own programme, these conform to common themes which are aligned with our business needs and priorities and which include education, local community support, the environment and health and welfare. We encourage employees to participate in outreach and community projects.

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

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

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

In conjunction with Natuur en Bos, **Sappi Europe** continued with their employee-led tree-planting programme, planting a further 4,000 saplings in the Forêt de Soignes in Belgium. This brings the total number of trees planted by the group to over 16,000 since the initiative started six years ago.

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

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

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

In **Southern Africa**:

- There is a proven causal link between early childhood development and success and wellbeing later in life. 2016 was the third year of our ECD project in KwaZulu-Natal, which covers 25 sites through the Training and Resources in Early Education (TREE) organisation, with the project expanding to include an additional 18 sites from the end of 2016. In Mpumalanga province, the development of an ECD Centre of Excellence at the Sappi Elandshoek community through Penreach is delivering strong results. We have also extended the ECD programme in Gauteng, with 50 practitioners in 50 ECD centres per year undergoing training through Jabulani Training and Development.
- We continue to support five Protec branches in Sappi communities (maths and science classes for over 1,000 students in grades 10, 11 and 12) as well as the KwaDukuza Resource Centre.
- Possibly the highlight of the year under review was the success of our youth development project called Abashintshi ('the Changers' in Zulu), implemented in conjunction with a development communication agency. The project involves using young people from the rural communities living in and around our operations across KwaZulu-Natal to mobilise their communities to take charge of their own futures instead of waiting for work or development to arrive from outside, in line with the asset-based community development (ABCD) model. The programme began with 18 young volunteer men and women in 2015 and has now expanded to include 36 people.

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

Social investment spend in 2016 and budgeted spend for 2017

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

Our key material issues continued

Planet

Material issue: woodfibre

Background

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

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

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

Our response

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

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

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

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

In **Southern Africa**, the fact that we own and lease 388,000 hectares (ha) of plantations gives us a competitive advantage. Of this 388,000ha, 249,000ha is used to grow trees, with a further 139,000ha being used for other purposes such as conservation. We have access to wood from a further 103,000ha via contracted timber suppliers. Our aim is to produce low-cost wood with the required pulping characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock. Work to enhance the sustainable management of our plantations and fibre base in FY2016 included:

- The acquisition of LiDAR (Light Detection and Ranging) data for all Sappi land holdings primarily for the purpose of determining ground roughness and slope (important variables for harvesting). LiDAR produces a very accurate three-dimensional point cloud (six points per m^2). In addition to slope and ground roughness, these data were used to extract tree heights at a compartment level. Tree measurement, using LiDAR, is significantly better than the conventional 3% sampling approach conducted by Sappi as it is essentially a census of the tree growth in a compartment. It measures tree height, a main driver of growth, very accurately. Extensive testing was carried out, and the LiDAR data correlated extremely well with recent in-field conventional measurements (correlation greater than 90%). Growth data for approximately 50% of Sappi's planted area was updated using this methodology
- We continued to focus on the development of genomic methods for the selection of superior individuals to potentially shorten the breeding cycle. Pure species development is ongoing, with selected individual genotypes being captured through grafting. Trials on seed use efficiency, aiming to make best use of scarce seed resources, whether for breeding or in the nursery continue
- Hybrid production of both pines and eucalypts continues, and various hybrid combinations are being tested across Sappi land holdings. Work is being done to improve the growing environment for cutting production, to refine plant quality specifications and to investigate media and media enhancements to promote growth
- In the field, cold tolerance trials and insecticide investigations look for ways to counter biotic and abiotic threats, while methods of land preparation, fertiliser treatment and site selection seek to give plants the best possible growth, while studies on wood properties seek to add value to the pulping process
- We began to test *Corymbia henryi*, a promising potential new species choice which can tolerate salt-laden coastal winds and is slightly tolerant to frost (0 to -5°C), and
- We have used near infrared spectroscopy (NIRS) to develop baseline models representing a range of wood chemical traits. These models are being used to predict the wood property of large numbers of genotypes in tree breeding trials and the technique is being investigated as tool for scanning chips in our pulp mills for rapid assessment of important traits such as moisture and wood density.

In terms of climate change, we mitigate risks by:

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

[7] *http://www.pulpapernews.com/2016/02/wood-pulp-and-paper-prices-continue-to-rise*

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

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

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

  In recent years, we have expanded Khulisa Umnotho beyond the borders of KwaZulu-Natal to the Eastern Cape. We have signed a Memorandum of Understanding with the Eastern Cape Rural Development Agency (ECRDA) to facilitate forestry development in this region. To date, the total area planted covers 3,297ha and a further 4,812ha is in the Environmental Impact Assessment phase, with records of decision awaited on a further 1,250ha. For further details, please see our Khulisa Umnotho FAQ, available at www.sappi.com
- We are also active in land reform. As at the end of September 2016, Sappi was involved in 51 land reform projects with the average farm size of 218ha to the largest project of approximately 6,900ha belonging to the Somhlolo Community Trust. Many of these properties previously belonged to commercial farmers who had supply agreements with Sappi. To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and have also provided assistance. This depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive Forestry Enterprise Development Agreement (FEDA). The latter is a supply agreement but also incorporates development objectives whereby Sappi provides technical and business training as well as administrative support, and
- To further assist with the development of small growers and other forestry value chain participants, we have established a training centre at Richmond in KZN. The training centre has Khulisa Ulwazi ('Growing Knowledge') as its slogan and will be providing training to small growers, land reform beneficiaries and small-scale contractors in the technical and business aspects of forestry and small business management. (See the 2016 Sappi SA Sustainability Report available on www.sappi.com for further details.)

Material issue: emissions regulations and carbon tax

Background

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

We believe that any policies aimed at curbing emissions and introducing carbon tax need to take due recognition of the industry's high use of renewable energy or of the important role that sustainably managed natural forests and plantations play in mitigating global warming.

Our response

The success of our industry depends, in part, on fair, consistent and predictable environmental regulations that take account of the high level of renewable energy used by our industry. In 2016, globally Sappi's generation of renewable energy (derived from black liquor, sludges and biomass) was 52.9% – an increase of 5.1% over five years. Of this amount, just over 75% (2015: 73%) is own black liquor. In addition, over five years we have achieved a reduction in direct (Scope 1) emissions of 4.7% and 20.55% in indirect (Scope 2) emissions, representing a decrease in absolute emissions intensity (Scope 1 and 2) of 8.8%.

As forests grow, carbon dioxide (CO_2) is removed from the atmosphere via photosynthesis. This CO_2 is converted into organic carbon and stored in woody biomass. Trees release the stored carbon when they die, decay or are combusted. As the biomass releases carbon as CO_2, the carbon cycle is completed. The carbon in biomass will return to the atmosphere regardless of whether it is burned for energy, allowed to biodegrade or lost in a forest fire.

The net impact of these processes is that CO_2 flows in and out of forests and through the forest products industry by both biomass combustion and sequestration in products. Overall, the flow of forest CO_2 is carbon positive when forests are sustainably managed and the forest system remains a net sink of CO_2 from the atmosphere. Thus, the carbon neutrality of sustainably managed forest biomass is a scientifically supported fact.

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

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

Our key material issues continued

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

Material issue: energy

Background

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

Our response

Even though globally our energy costs as a percentage of cost of sales have declined over five years due to actions taken, it makes business sense for Sappi to aggressively manage energy usage and promote the generation of renewable energy. We aim to reduce our carbon footprint by improving energy efficiency and decreasing our reliance on fossil fuels. We have and will continue to achieve this by making process changes, installing more efficient equipment, reducing purchased energy (electricity and fossil fuel) by increasing our use of renewable energy – an approach that ultimately results in a reduction in CO_2 emissions.

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

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

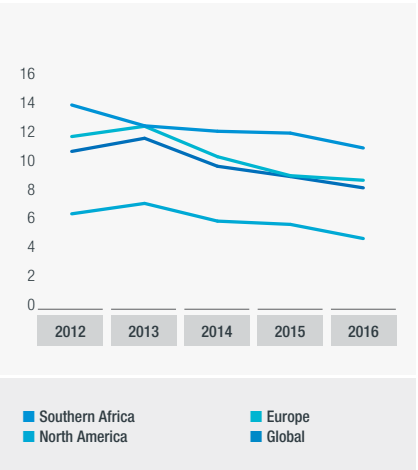
Most Sappi mills generate power on site from fossil or renewable resources for internal consumption. In some instances (Westbrook Mill (North America), Gratkorn and Maastricht Mills (Europe) and Ngodwana Mill (South Africa)), excess energy generated is sold back into the power grid. This energy is used for district heating in the vicinity of Sappi's plants and for export into the public grid, thereby replacing fossil fuels. In this way, roughly 100,670 metric tons CO_2e emissions were avoided during the past five-year cycle[8].

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

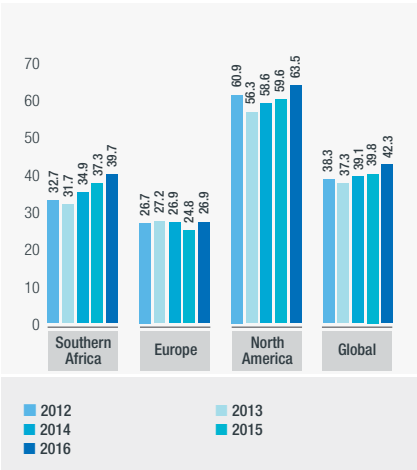
In **Southern Africa**, we have embarked on two new energy projects:

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

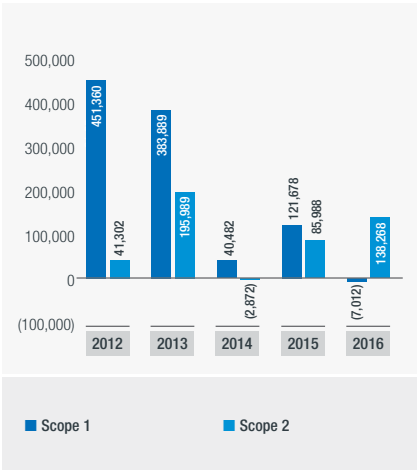
Purchased energy costs as a percentage of cost of sales (COS) %



Percentage energy self-sufficiency %



Reduction of GHG emissions tCO_2



[8] *The emissions avoidance value was calculated by taking each regional power utility's emissions factor and comparing it with Sappi's internal power generation emissions factor. The difference between the two factors indicates that Sappi's internal power generation is less carbon intensive in certain regions and therefore results in carbon emission avoidance.*

[9] *https://www.eia.gov/forecasts/aeo/data/browser/#/?id=37-AEO2016&cases=ref2016~ref_no_cpp&sourcekey=0*

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

Also at Saiccor Mill, in FY2016, we established a pilot scale plant at the mill to assess the use of anaerobic digestion to treat Saiccor Mill's waste condensate. Rich in organic matter, the condensate could be treated via a process which uses organic acids to produce biogas in the form of methane. This in turn could be used to produce energy, either for internal use or external sales to the national grid. This has significant implications for the mill's energy costs, as evaluations show that the condensate has the potential to generate enough energy to replace 30 tons of coal per day. We are also evaluating the extraction of chemicals from the condensate stream.

Material issue: water

Background

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

Our response

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

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

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

Our leadership

Non-executive management

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

Qualifications DL, Chartered Accountant
Nationality British

Sappi board committee memberships

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

Godefridus Peter Franciscus Beurskens (Frits)** (69)
Independent

Qualifications BSc Mechanical Engineering, MSc Industrial Engineering and Management Science
Nationality Dutch

Sappi board committee memberships

Audit Committee
Audit Committee of Sappi Europe (Chairman)

Robert John DeKoch (Bob) (64)
Independent

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

Sappi board committee memberships

Social, Ethics, Transformation and Sustainability Committee

Michael Anthony Fallon (Mike) (58)
Independent

Qualifications BSc (Hons) (First class)
Nationality British
Appointed September 2011

Sappi board committee memberships

Human Resources and Compensation Committee (Chairman)
Audit Committee

Dr Deenadayalen Konar (Len) (62)
Independent

Qualifications BCom, MAS, DCom, CA(SA), CRMA
Nationality South African
Appointed March 2002

Sappi board committee memberships

Audit Committee (Chairman)
Nomination and Governance Committee

Nkateko Peter Mageza (Peter) (62)
Independent

Qualifications FCCA (UK)
Nationality South African
Appointed January 2010

Sappi board committee memberships

Audit Committee
Human Resources and Compensation Committee

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

John David McKenzie (Jock) (69)
Lead independent director

Qualifications BSc Chemical Engineering (Cum laude), MA
Nationality South African
Appointed September 2007

Sappi board committee memberships

Human Resources and Compensation Committee
Nomination and Governance Committee

Mohammed Valli Moosa (Valli) (59)
Non-independent

Qualifications BSc (Mathematics)
Nationality South African
Appointed August 2010

Sappi board committee memberships

Social, Ethics, Transformation and Sustainability Committee (Chairman)

Robertus Johannes Antonius Maria Renders (Rob Jan) (63)
Independent

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

Sappi board committee memberships

Human Resources and Compensation Committee

Dr Rudolf Thummer (69)
Independent

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

Sappi board committee memberships

Social, Ethics, Transformation and Sustainability Committee

Karen Rohn Osar (67)
Independent

Qualifications MBA, Finance
Nationality American
Appointed May 2007

Sappi board committee memberships

Audit Committee
Audit Committee of Sappi North America (Chairperson)

Bridgette Radebe* (56)
Independent

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

Sappi board committee memberships

Social, Ethics, Transformation and Sustainability Committee

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

Our leadership continued

Executive directors

Stephen Robert Binnie (Steve) (49)
Chief Executive Officer

Qualifications BCom, BAcc, CA(SA), MBA
Nationality British
Appointed September 2012

Sappi board committee memberships

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

Glen Thomas Pearce (53)
Chief Financial Officer

Qualifications BCom (Hons), CA(SA)
Nationality South African
Appointed July 2014

Sappi board committee memberships

Expected to attend Audit Committee meetings by invitation

Executive management

Mark Gardner (61)
President and Chief Executive Officer of Sappi North America

Qualifications BSc (Industrial Technology)

Alexander van Coller Thiel (Alex) (55)
Chief Executive Officer of Sappi Southern Africa

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

Executive management continued

Berend John Wiersum (Berry) (61)
Chief Executive Officer of Sappi Europe
Qualifications MA (Medieval and Modern History)

Gary Bowles (56)
Executive Vice President Specialised Cellulose
Qualifications BSc Electrical Eng, PMD, EDP

Andrea Rossi (62)
Group Head Technology
Qualifications BSc Eng (Hons), C Eng, FCMI

Fergus Marupen (51)
Group Head Human Resources
Qualifications BA Hons (Psychology), BEd (Education Management), MBA

Maarten van Hoven (43)
Group Head Strategy and Legal
Qualifications BProc, LLM (International Business Law)

Corporate governance

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

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

The board of directors

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

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

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

			Board committees											
Name	Status	Board	Audit			Nomination and Governance			Human Resources and Compensation			Social, Ethics, Transformation and Sustainability (SETS)		
SR Binnie	Chief Executive Officer	5/5		B	5/5		B	3/3		B	4/4	✓		4/4
GT Pearce	Chief Financial Officer	5/5		B	5/5									
DC Cronjé[1]	Independent non-executive Chairman – until 29 Feb 2016	2/2		E	2/3	✓	C	2/2						
ANR Rudd[2]	Lead independent director – until 29 Feb 2016	2/2		E	3/3	✓		2/2	✓		2/2			
	Independent non-executive Chairman – from 01 March 2016	3/3		E	2/2	✓	C	1/1	✓		2/2		E	2/2
GPF Beurskens	Independent non-executive	3/5	✓		4/5									
RJ DeKoch	Independent non-executive	5/5										✓		4/4
MA Fallon[3]	Independent non-executive	5/5	✓		5/5				✓	C	4/4			
D Konar	Independent non-executive	5/5	✓	C	5/5	✓		3/3						
JD McKenzie[4]	Independent non-executive – until 29 Feb 2016	2/2							✓		2/2	✓	C	2/2
	Lead independent director – from 01 March 2016	3/3				✓		1/1	✓		2/2			
NP Mageza	Independent non-executive	5/5	✓		5/5				✓		4/4			
MV Moosa[5]	Non-executive	5/5										✓	C	2/2
KR Osar	Independent non-executive	5/5	✓		5/5									
B Radebe	Independent non-executive	5/5										✓		4/4
RJAM Renders[6]	Independent non-executive	5/5							✓		2/2			
R Thummer	Independent non-executive	5/5										✓		4/4

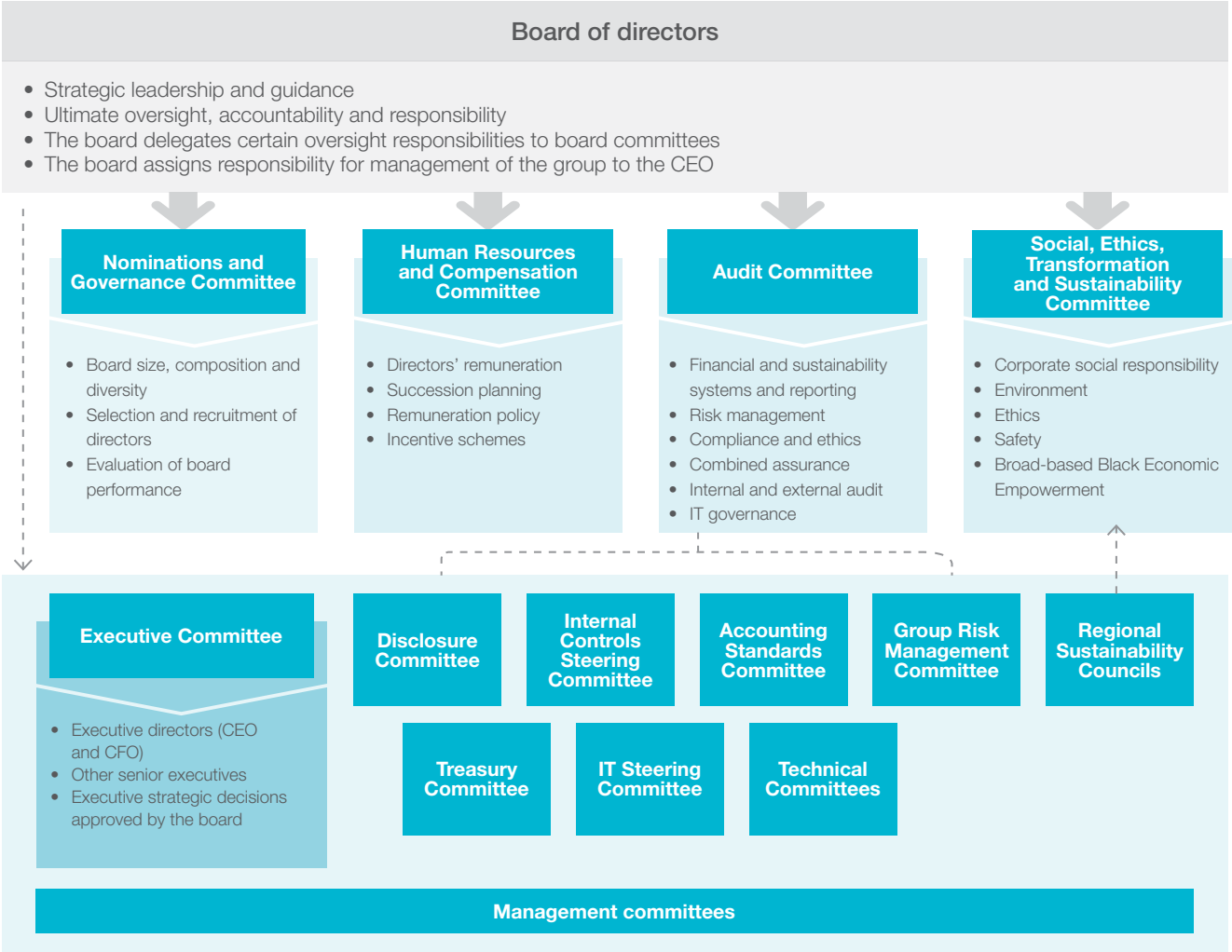
(1) Dr Danie C Cronjé retired as Chairman from the board of Sappi Limited with effect from 01 March 2016.
(2) Sir Nigel Rudd was appointed Independent non-executive Chairman of the Sappi Limited board and chairman of the Nomination and Governance Committee, with effect from 01 March 2016.
(3) Mr MA Fallon was appointed chairman of the Human Resources and Compensation Committee with effect from 01 March 2016.
(4) Mr JD McKenzie was appointed lead independent director with effect from 01 March 2016.
(5) Mr MV Moosa was appointed chairman of the SETS Committee with effect from 01 March 2016.
(6) Mr RJAM Renders was appointed non-executive director to the board of Sappi Limited with effect from 01 October 2015 and member of the Human Resources and Compensation Committee with effect from 01 March 2016.
✓ Indicates board committee membership, C indicates board committee chairman, B indicates attendance by invitation, and E indicates attendance ex officio. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated.

Induction and training of directors

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

Sappi board and management committees

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



Board committees

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

Audit Committee

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

- Safeguarding and efficient use of assets
- Oversight of the risk management function
- Operation of adequate systems and control processes
- Reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- Reviewing sustainability information included in the Annual Integrated Report
- Reviewing compliance with the group's Code of Ethics and external regulatory requirements
- Oversight of the external auditors' qualifications, experience and performance
- Oversight of the performance of the internal audit function, and
- Oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit Committee report in the group annual financial statements.

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

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

Corporate governance continued

Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent directors and considers the leadership requirements of the company, including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders' approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. The function and performance of Sappi's board and board committees were assessed internally in 2016 and established that the board and board committees functioned well.

Human Resources and Compensation Committee

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

The compensation report can be found on page 55.

Social, Ethics, Transformation and Sustainability Committee

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

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

For more information on sustainability at Sappi refer to pages 26 to 43 and for a summary of the group's initiatives go to www.sappi.com.

Management committees

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

Executive Committee

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

Disclosure Committee

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

Treasury Committee

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

Technical Committees

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

Group Risk Management Team

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

Internal Control Steering Committee

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

Group IT Steering Committee

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

Financial statements

The directors are responsible for overseeing the preparation and final approval of the group annual financial statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

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

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

Sappi's internal controls and combined assurance framework

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

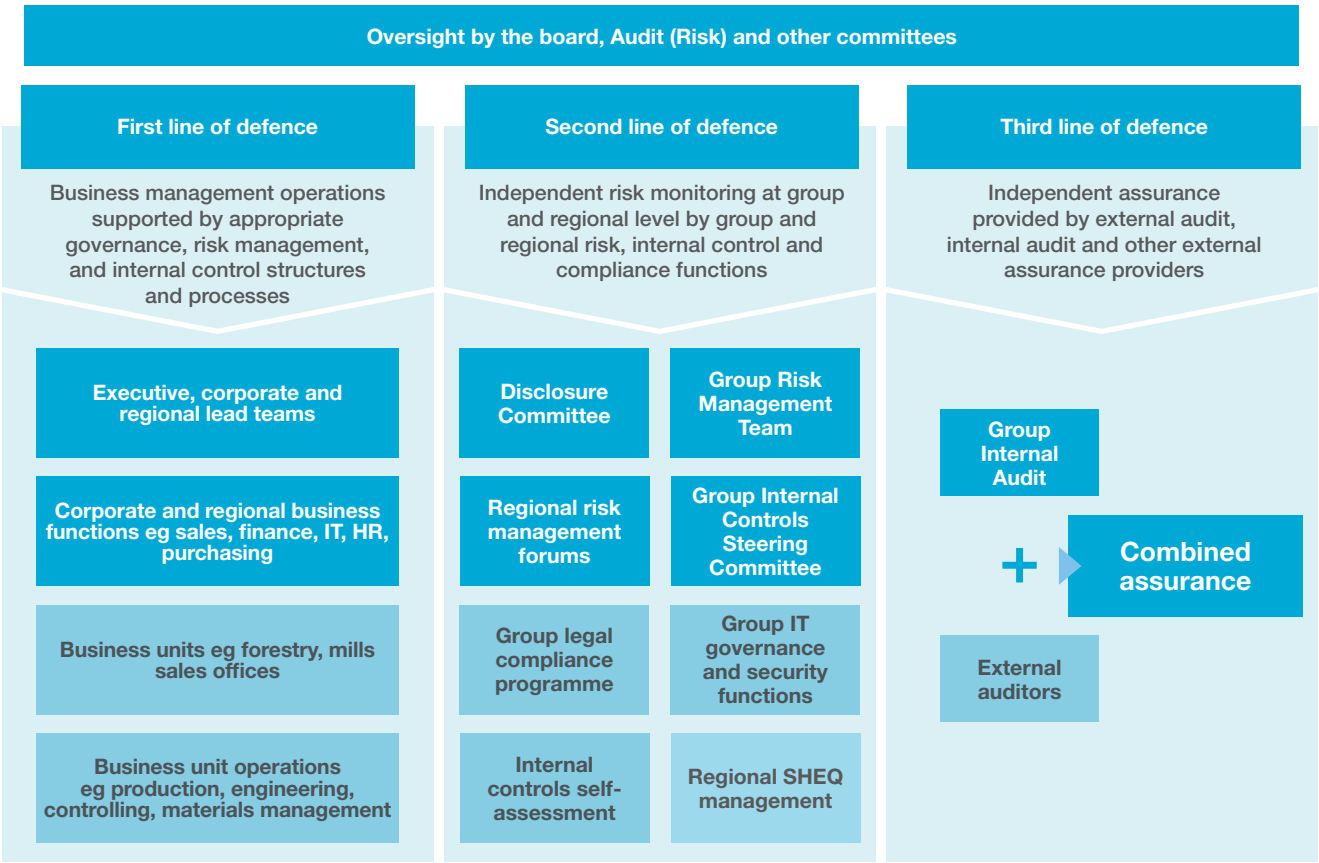
The group's internal controls and systems are designed in accordance with the COSO* control framework, to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information, that assets are adequately safeguarded against material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

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

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

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

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



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

Corporate governance continued

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

- Financial data is independently audited by Deloitte & Touche, and
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit. Specific Planet (environment) related processes are subject to review by third parties during the year. No external assurance was obtained on the consolidated sustainability indicators reported, although certain local data is subject to external audits. Currently we do not perceive external assurance as being a cost-effective alternative to internal auditing of our indicators, particularly given our global spread of operations and the industry specific nature of many of our indicators.

Internal audit

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

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

Group Internal Audit value proposition

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

During 2016, apart from the ongoing focus on financial controls, Group Internal Audit undertook reviews of non-financial risk areas such as energy and water management. These reviews formed part of the combined assurance model, which is coordinated by Group Internal Audit. Group Internal Audit maintains an internal quality assurance programme, which includes periodic external review. In 2015, an external validation was conducted by the Institute of Internal Auditors (IIA). A generally conforms (GC) rating was received, which is the highest of the three levels of conformance to the IIA's standards.

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

The board is responsible for the group's systems of internal financial and operational control. As part of an ongoing comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by Group Internal Audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The board has assessed the combined assurance provided in 2016. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment, are considered to be effective and provide a sound basis for the preparation of the financial statements.

Group Company Secretary

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

Code of Ethics

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

Legal compliance programme

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

Conflict of interests

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

Insider trading

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

Whistle-blower hotlines and follow up of tip-offs

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

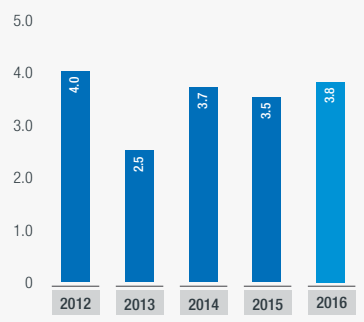
Corporate governance continued

Stakeholder communication

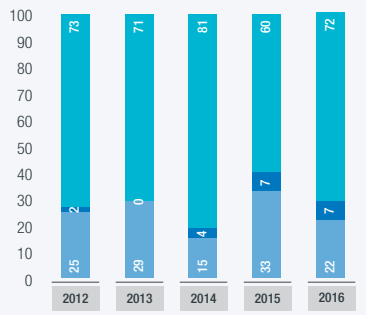
The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed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

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

Hotline report rate per 1,000 employees

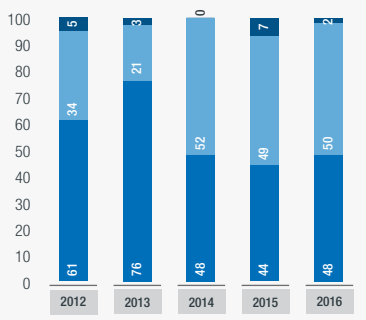


Analysis of hotline reports by category %



- Employment-related matters
- Safety, health, environment
- Corruption, fraud and theft

Analysis of hotline report case outcomes %



- Termination
- Disciplined, counselled or other management action
- Cleared, no action

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

Compensation report

The compensation report explains the company's compensation policy for executive directors, Executive Committee members and non-executive directors.

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

Compliance statement

The Human Resources and Compensation Committee is committed to maintaining high standards of corporate governance and supports and applies the principles of good governance advocated by the South African Institute of Directors (IOD) and the King Code of Governance Principles of South Africa 2009 (King III). The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

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

Independent advice

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

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

Human Resources and Compensation Committee

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

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

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

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

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

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

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

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

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

The key activities of the committee during 2016 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the performance share plan awards which were awarded on 02 December 2011
- Approved the allocation of 2015 performance share plan awards to executive directors and all other eligible participants
- Reviewed and approved salary increases and bonus payments for executive directors and other key senior managers 2016
- Recommended fee levels to the Sappi Limited board for consideration and recommendation to shareholders for approval
- Approved the allocation model and the comparator peer group for the 2016 performance share plan
- Reviewed the compensation report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the Annual General Meeting in February 2016
- Approved the 2017 Management Incentive Bonus Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan, and
- Reviewed the succession and retirement plans for key management positions.

Compensation strategy and policy

Our compensation packages:

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

Compensation report continued

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

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

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

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

Compensation structure

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

Benchmarking

Executive compensation is benchmarked to data provided in national executive compensation surveys, for countries in which executives are domiciled, as well as information disclosed in the annual reports of listed companies of the Johannesburg Stock Exchange.

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

Compensation mix

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

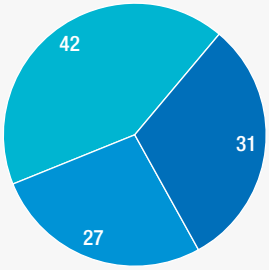
The term target in terms of short-term incentive refers to the annual bonus award if all performance criteria were met at 100% achievement.

Compensation report continued

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

Executive directors (Average) %

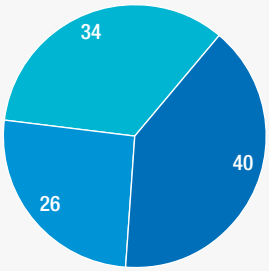
(Number of employees at 25 September 2016 = 2)



- Total guaranteed package (Base salary and benefits)
- Short-term incentive (On-target)
- Face value of performance shares issued in December 2015

Executive Committee (Average) %

(Number of employees at 25 September 2016 = 7)



- Total guaranteed package (Base salary and benefits)
- Short-term incentive (On-target)
- Face value of performance shares issued in December 2015

Base salary

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

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

The 2016 salary increases were based on individual performances and contributions, internal relativities, inflation rates in the countries of operation, general market salary movement and overall affordability.

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

Mr Binnie received a salary increase of 5.5% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Binnie's salary with effect from 01 January 2016 was US$386,767 per annum.

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

Retirement benefits

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

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

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

Short-term incentive

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

For the 2016 financial year, the financial business performance criteria were: EBITDA (60%), working capital (30%) and safety (10%) – which accounted for 80% of the bonus calculation, with the remaining 20% being based on individual performance during the course of the year.

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

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

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

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

The group's performance for the 2016 financial year:

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

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

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

Changes to the short-term incentive scheme

There were no changes to the 2016 Management Incentive Scheme (MIS) rules compared to 2015.

Long-term incentive

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

The performance criteria are relative TSR and relative CFRONA.

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

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

Verso and Borrogaard have been added in 2016.

Performance Share Plan

The vesting schedule for 2012 allocation for both TSR and CFRONA

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

For the four-year period ended September 2016, Sappi's performance relative to the peer group measured on TSR was ranked in third place out of 16 companies, which meant that 100% TSR component shares vested on the due date in December 2016.

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

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

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

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

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

The historical vesting of Performance Share Plan awards:

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

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

Mr Pearce was awarded 90,000 conditional performance plan shares in December 2015, in line with the plan rules.

Changes to the long-term incentive scheme

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

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

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

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

Compensation report continued

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

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

Dilution

If all outstanding options and performance shares were to be exercised or vest as at September 2016, the resulting dilution effect would be 3.24% (2015: 3.27%) of issued ordinary share capital excluding treasury shares. To the extent possible, treasury shares will continue to be used to meet future requirements for shares arising from the exercise of options and vesting of awards.

Share ownership guidelines and restrictions

The Chief Executive Officer, Mr Binnie, volunteered to hold a target number of shares equal to twice his annual base salary. This arrangement is from December 2015 and the Chief Executive Officer has five years until December 2020 to achieve this requirement. There is no requirement for the Chief Financial Officer and Executive Committee members to hold a specific number of shares during their employment with the company.

Service contracts

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

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

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

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

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

Remuneration disclosure of executive directors and prescribed officers

Executive directors' emoluments for 2016

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

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

Prescribed officers/Executive Committee members

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

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

Social, Ethics, Transformation and Sustainability Committee report

Introduction

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

The committee was established during FY2012 in response to the requirements of section 72(4) of the South African Companies Act 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a social and ethics committee, to which were added the transformation and sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

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

Objectives of the committee

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

Membership of the committee

The members of the SETS Committee during FY2016 were:

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

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

Committee activities reviewed and actioned during the year

- Reviewed and revised the committee terms of reference and annual work plan
- Approved the public affairs and CSR programmes and policy
- The corporate social development programme
- Sappi's standing in terms of social and economic development in terms of the goals and purposes of:
  - the principles set out in the United Global Compact Principles
  - the OECD recommendations regarding corruption
  - the Employment Equity Act, and
  - the Broad-based Black Economic empowerment (BBBEE) Act.
- Reviewed the updated and revised Code of Ethics, ethics programme and their effectiveness
- Reviewed the South African Skills Audit as well as the training and development plan
- Reviewed the staff training progress
- Reviewed the company performance relative to the Employment Equity Act, BBBEE Act and the company's transformation strategies
- Reviewed the implications for Sappi of the changes to the BBBEE Act and the revised forestry sector BBBEE codes
- Reviewed the Sappi Southern Africa Transformation Charter
- Reviewed Sappi's policy and standing in terms of the International Labour Organisation (ILO) protocol on decent work and working conditions
- Reviewed the group safety programmes and safety performance
- Reviewed the Group Unfair Discrimination and Equality Policy
- Reviewed the Group Sustainability Charter and Group Environmental Policy
- Reviewed regional sustainability performance against goals for 2016
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2016
- Reviewed sustainability matters pertaining to Sappi Europe – in particular the European emissions trading system
- Reviewed the impacts of changing environmental legislation in South Africa on our operations
- Reviewed the SETS Committee report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

Conclusion

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

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

MV Moosa
Chairman
Social, Ethics, Transformation and Sustainability Committee

Risk management

Philosophy

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

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

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

Group Internal Audit provides independent assurance on the risk management process.

For an analysis of the principal financial risks to which Sappi is exposed, please see note 31 contained in the Group Annual Financial Statements.

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

Top 10 key risks

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

2. **The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.**
   There is a trend towards consolidation in the pulp and paper industry creating larger, more focused companies. We continue to drive good customer service, innovation and efficient manufacturing and logistics. We are focused on improving the performance and competitiveness of our businesses. We continue to drive down costs across all our businesses.

   During the first quarter, we sold our South African Enstra and Cape Kraft Mills. This was in line with our strategic focus on the virgin fibre packaging business in Southern Africa.

3. **We require a significant amount of financing to fund our business and service our debt. Our ability to generate sufficient cash depends on many factors, some of which are beyond our control.**
   Our ability to fund our working capital, capital expenditure, research and development requirements and to make payments on our debt principally depends on cash available from our operating performance, credit facilities and other debt arrangements.

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

   During the first quarter, we sold our South African Enstra and Cape Kraft Mills. Proceeds received from the sales further reduced net debt.

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

4. **New technologies or changes in consumer preferences may have a material adverse effect on our business.**
   Trends in advertising, electronic data transmission and storage, the Internet and mobile devices continue to have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Digital alternatives to many traditional paper applications,

Risk management continued

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

5. **The cost of complying with environmental, health and safety laws may be significant to our business.**
Our aim is to minimise our impact on the environment. The principles of ISO 14000, Forest Stewardship Council® (FSC®), SFI®, PEFC™ and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, wastewater discharges and waste generation. (For further detail, see our sustainability report on page 26.)
However, we are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We closely monitor the potential for changes in pollution control laws, including GHG emissions requirements, and take action with respect to our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in a sustainable manner.

6. **Fluctuations in the value of currencies, particularly the Rand and the Euro in relation to the US Dollar, have in the past had, and could in the future have, a significant impact on our earnings in these currencies.**
We are exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging being applied thereafter. External hedging techniques consist primarily of foreign exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval). For further detail, see note 31 contained in the Group Annual Financial Statements, which are available online at www.sappi.com.

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

8. **A limited number of customers account for a significant amount of our sales. Therefore, should adverse changes in economic market conditions have a negative impact on them, it could materially adversely affect our results of operations and financial position.**
We sell a significant portion of our products to several significant customers. During FY2016, however, no single customer individually represented more than 10% of our total sales. Any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. We are, on a continuous basis, working to expand and diversify our customer base.

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

10. **Injuries and fatalities.**
    We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. The health and safety of our own employees and contractors remain a top priority. We minimise on-the-job injuries and fatalities by:
    - Performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board
    - Group- and industry-wide sharing of all incidents and associated mitigating steps thereby helping to ensure that all our regions remain in the top 10% quartile for our industry
    - Enforcing compliance with behaviour-based safety (BBS) principles, and
    - Providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors.

Insurance

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

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

Chief Financial Officer's report

Glen Pearce

Section 1
Financial highlights

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

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

Consolidated sales volumes and prices reduced during the year as demand for graphic paper products came under pressure. Partially offsetting this decline was growth in the packaging and specialities products, including increased revenue in the dissolving wood pulp products. Substantial reductions in variable and fixed costs, in excess of the reduced revenue, resulted in improved profitability and margins. EBITDA excluding special items improved by 18% to US$739 million as EBITDA margins increased from 11.6% to 14.4%. The sale of the Enstra and Cape Kraft Mills during the first quarter of FY2016, and the increased sales in the packaging and specialities segment in our North American and European regions contributed towards a favourable mix and an improved rationalisation of our remaining asset base.

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

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

Segment reporting

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

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

Exchange rates and their impact on the group's results

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

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

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

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

Chief Financial Officer's report continued

Section 2
Financial performance – group

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

Income statement

Our group financial results can be summarised as follows:

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

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

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

Sales volume

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

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

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

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

In North America, the increased coated paper market share and the additional dissolving wood pulp volumes, improved total sales volumes by 2% to 1,329kt. The additional dissolving wood pulp volumes compensated for the reduced volumes at Saiccor Mill following production problems and the effects of a drought in Southern Africa.

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

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

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

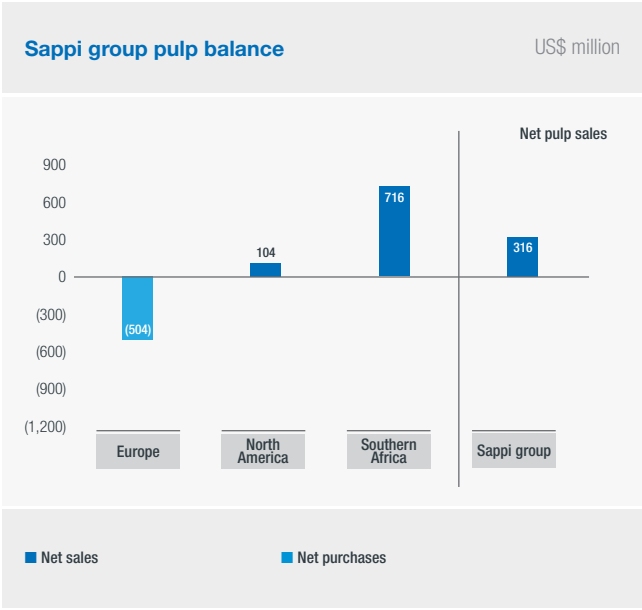
Sales revenue

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

Variable and delivery costs

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

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



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

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

Fixed costs

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

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

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

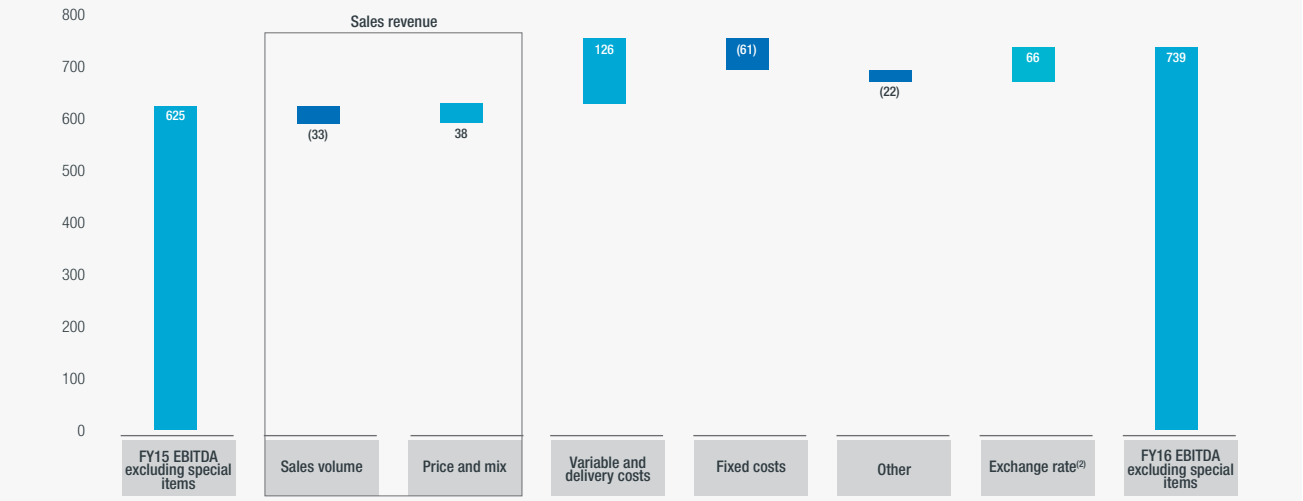
EBITDA and operating profit excluding special items

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

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

Reconciliation of EBITDA excluding special items: 2016 compared to 2015[1]

US$ million



Notes:
(1) All variances were calculated excluding forestry.
(2) 'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.

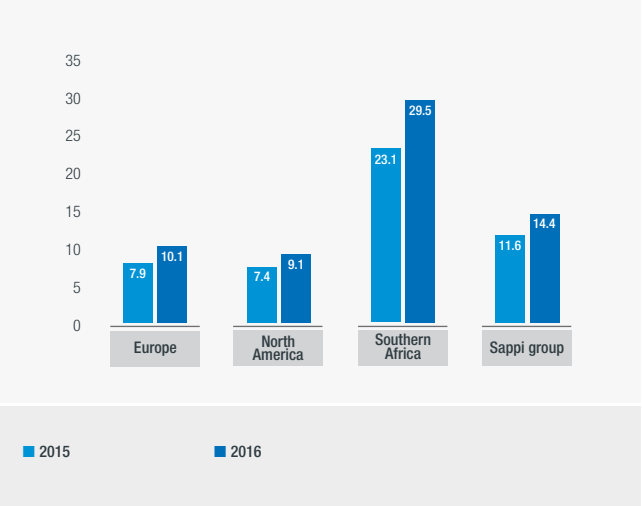
Chief Financial Officer's report continued

Financial performance – group continued

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

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

EBITDA margin* by region %

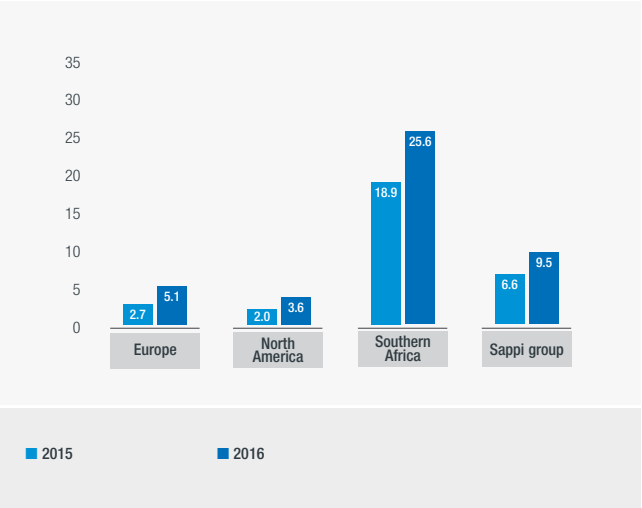


** EBITDA excluding special items divided by sales.*

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

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

Operating profit margin* by region %



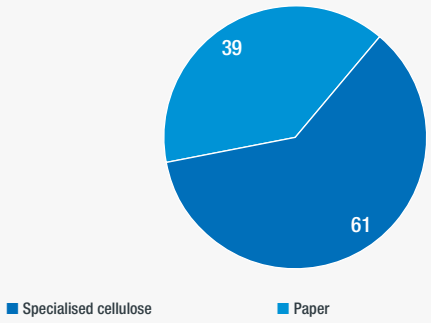
** Operating profit excluding special items divided by sales.*

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

The charts below illustrate that although the paper business only provides 39% of the operating profit, it contributes 54% of the group's EBITDA excluding special items. Consequently, it still generates the majority of cash for Sappi and remains an important strategic component of our business.

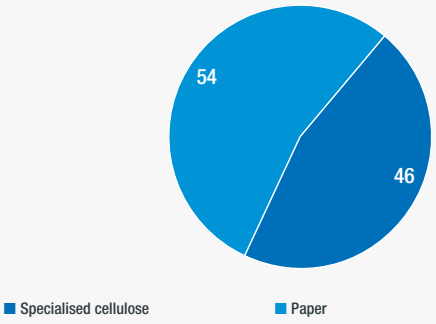
Operating profit excluding special items
2016: US$487 million

%



EBITDA excluding special items
2016: US$739 million

%



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

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

Key operating targets

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

Special items

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

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

Chief Financial Officer's report continued

Financial performance – group continued

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

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

Finance costs

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

Finance costs include a refinancing charge from the 2021 bonds of US$23 million. In addition to lower interest costs, finance charges were US$33 million lower than last year as a result of favourable exchange rate movements.

Taxation

A regional breakdown of the tax charge is provided below:

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

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

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

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

Net profit, earnings per share and dividends

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

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

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

Chief Financial Officer's report continued

Section 3
Financial performance – regional

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

North America

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

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

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

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

Europe

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

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

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

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

Chief Financial Officer's report continued

Financial performance – regional continued

Southern Africa*

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

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

** Excludes forestry.*

The average rate of the ZAR weakened by 24% for the year, and had a significant positive impact on the results of the Southern African operations. Sales volumes were down on the previous period due to the sale of the Enstra and Cape Kraft Mills. Additionally, production problems and extreme drought conditions at Saiccor Mill lowered dissolving wood pulp volumes. Increased selling prices, aided by the weaker Rand on export sales, and strong local market conditions reversed the effect of the lower volumes. The cost of imported variable cost items increased in local currency terms, as did local wood costs which are adjusted to import parity prices. The realignment of businesses and simplification of product offerings improved efficiencies and output. The net result of the above is an increase in EBITDA margin from 24% to 31% and a record Rand annual operating profit of ZAR4,510 million.

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

Major sensitivities

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

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

** Based on currency impact on translation of EBITDA.*

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

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

Section 4

Cash flow

In the table below, we present the group's cash flow statement for FY2016 and FY2015 in a summarised format:

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

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

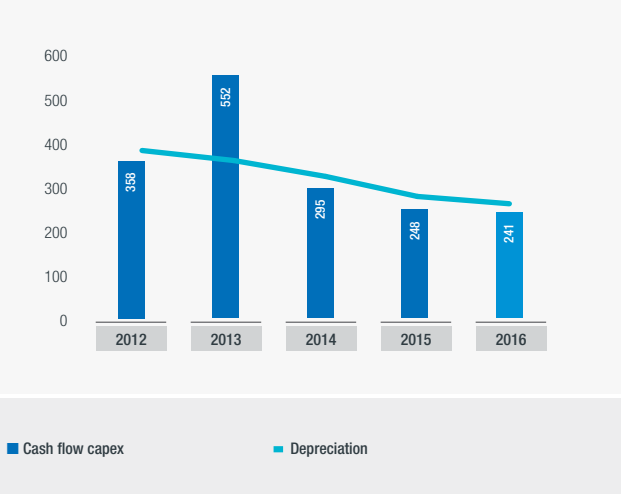
Working capital levels were well controlled and remained in line with last year. Working capital management remains a high priority and is discussed in more detail in the balance sheet in section 5.

Capital expenditure was actively managed to a level below US$250 million. Sappi incurred US$71 million on projects to increase capacity or improve efficiency. These projects mainly relate to the paper machine upgrade at the Gratkorn Mill and the energy project at Kirkniemi Mill. The remainder of the expenditure was spent on projects to maintain our production facilities. We estimate our future annual maintenance capital expenditure to be approximately US$150 million.

Cash finance costs for the year of US$91 million were US$44 million lower than last year due to the refinancing of the 2021 bonds at a lower coupon and overall lower net debt levels.

Investment in fixed assets versus depreciation

US$ million



Chief Financial Officer's report continued

Section 5
Balance sheet

Summarised balance sheet

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

Sappi has 14 mills in seven countries, capable of producing approximately four million tons of pulp and six million tons of paper. For more information on our mills, their production capacities and products, please refer to page 19.

During FY2016, capital expenditure for property, plant and equipment was US$241 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US$20 billion.

Property, plant and equipment

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

Book value of property, plant and equipment

(US$ million)	2016	2015
Cost	**8,130**	7,908
Accumulated depreciation and impairment	**5,629**	5,400
Net book value	**2,501**	2,508

Plantations

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

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

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

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

Working capital

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

Net working capital

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

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

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

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

Post-employment liabilities

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

Defined benefit liabilities

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

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

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

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

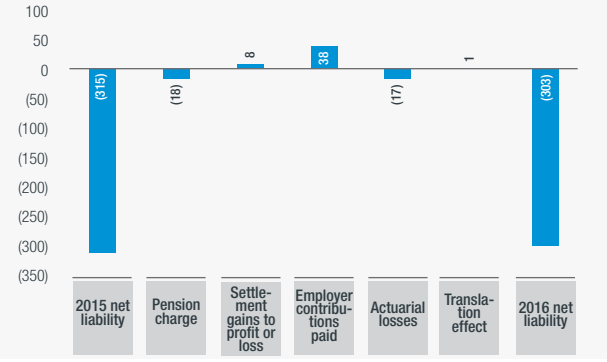
Fair value of plan assets increased by US$53 million over the year due to opposing factors: investment strategies of our funded plans include a portion of assets invested to hedge against actuarial losses of the corresponding liabilities, contributing to the strong investment returns of our plan assets over the year.

Currency movements relative to our reporting currency were relatively insignificant.

Since the increase in liabilities was smaller than the increase in assets, the overall net liability reduced by US$11 million as at September 2016. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in note 28 on page 48 of the Annual Financial Statements.

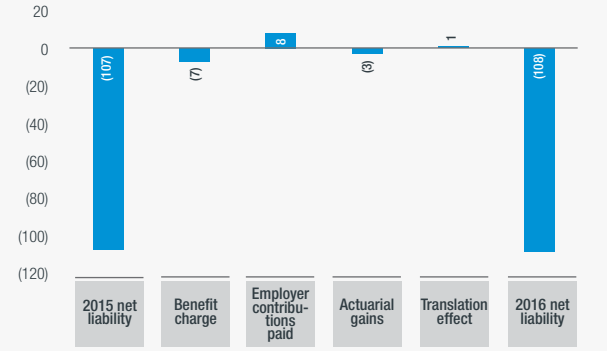
Sappi Limited
Defined benefit pensions balance sheet movement

US$ million



Sappi Limited
Post-retirement medical aid liability balance sheet movement

US$ million



Equity

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

Equity reconciliation

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

Chief Financial Officer's report continued

Balance sheet continued

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

Debt

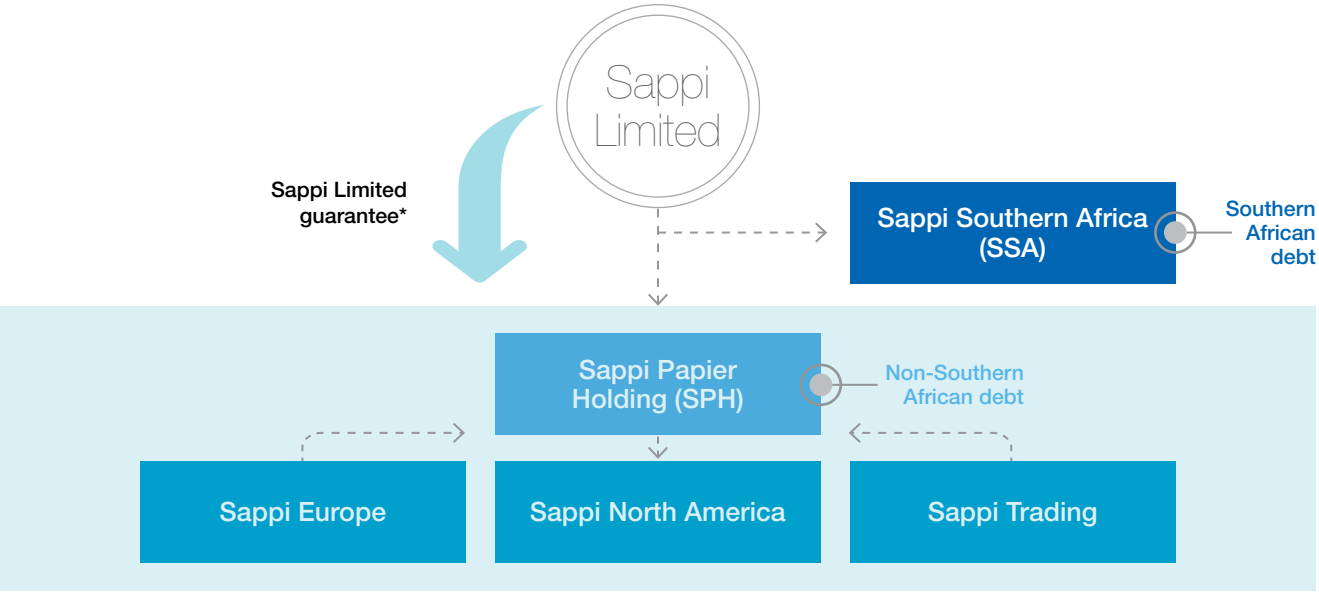
Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local South African market for its own funding requirements and Sappi Papier Holding GmbH, which is the international holding company, issues debt in the international money and capital markets to fund our non-South African businesses. Sappi Papier Holding's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debt are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed below.

The diagram below depicts our debt funding structure:

Our debt funding structure



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

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

- In March 2016 SPH accessed the European high-yield bond market and raised a new €350 million seven-year bond with a coupon of 4%. The proceeds of the new bond were used to repay in full the existing 2021 US$350 million bond. The annual savings in interest costs from this refinancing amounts to approximately US$8 million.
- Sappi Southern Africa's ZAR500 million SSA01 and ZAR255 million SSA04 bonds matured during the year and local cash resources were used to repay these bonds in full.
- During the year all existing security previously granted to secure certain indebtedness of SPH was released. In order to release the security, Sappi was required to meet various release conditions and having met these conditions the bank and public debt of SPH has now reverted to a senior unsecured status.

Structure of net debt and liquidity

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

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

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

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

Movement in net debt

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

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

Group debt profile

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

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

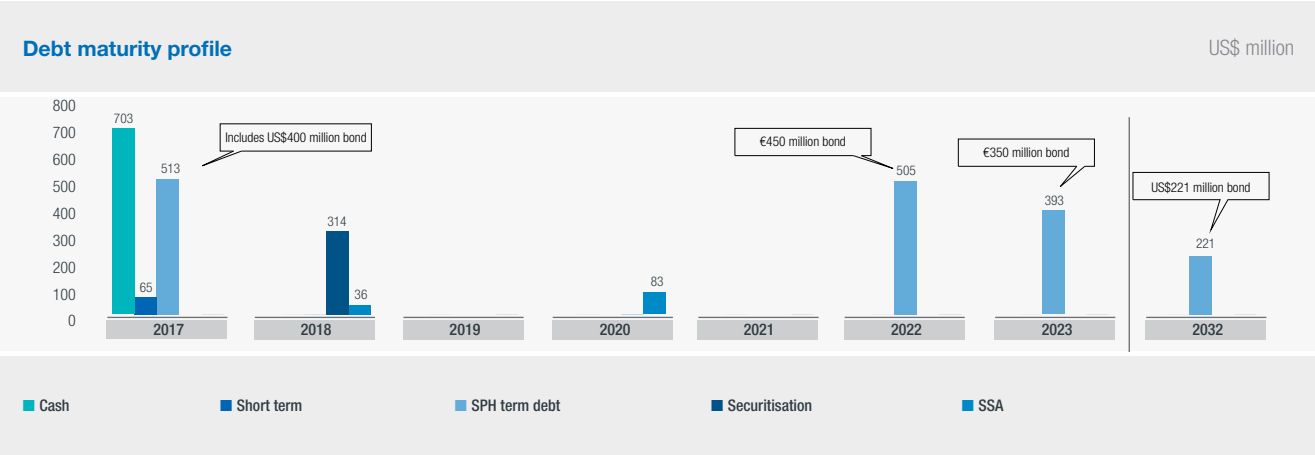
** Floating rate bonds/bank loans swapped to fixed.*

Chief Financial Officer's report continued

Balance sheet continued

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

A diagram of the debt maturity profile is shown below:



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

Covenants

Non-Southern African covenants

Financial covenants apply to US$113 million of our non-Southern African bank debt, the EUR465 million revolving credit facility and our securitisation borrowings.

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

- the ratio of group net debt to EBITDA be not greater than 4.00 to 1 at the end of September 2016, reducing over the term of the facility to 3.75 to 1 by June 2019
- the ratio of group EBITDA to net interest expense be not less than 2.50 to 1 at the end of September 2016 and remain at this level over the term of the facility.

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

Non-Southern African covenants	2016	Covenant
Net debt to EBITDA	**1.89**	<4.00
EBITDA to net interest	**7.40**	>2.50

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

Southern African covenants

Separate covenants also apply to the revolving credit facility of our Southern African business.

These covenants are calculated on a last four quarter basis and require that at the end of March and September, with regard to Sappi Southern Africa Limited and its subsidiaries:

- the ratio of net debt to equity is not at the end of any quarter greater than 65%, and
- at the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2.00 to 1.

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

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

Credit ratings

Global credit ratings

South African national rating

Sappi Southern Africa Limited: A/A1/Stable Outlook (August 2016).

Moody's*

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

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

S&P global ratings*

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

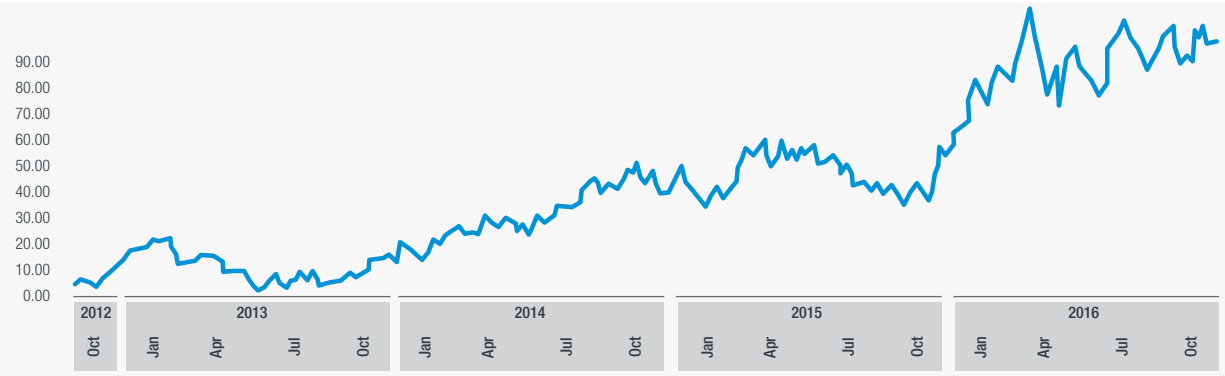
** With the release of the security package during the year the ratings no longer differentiate between secured and unsecured debt ratings.*

Section 6

Share price performance

Sappi share price – October 2012 to September 2016

ZAR



Sappi ordinary shares (ZAR)

Conclusion

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

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

GT Pearce
Chief Financial Officer

09 December 2016

Five-year review

for the year ended September 2016

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

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

(US$ million)	2016	2015	2014	2013	2012
Statistics					
Number of ordinary shares (millions)[1]					
In issue at year-end	**530.6**	526.4	524.2	521.5	520.8
Basic weighted average number of shares in issue during the year	**529.4**	525.7	522.5	521.3	520.8
Per share information (US cents)					
Basic earnings (loss)	**60**	32	26	(35)	18
Diluted earnings (loss)	**59**	31	26	(35)	18
Headline earnings (loss)	**58**	32	31	(10)	7
Diluted headline earnings (loss)	**57**	31	31	(10)	7
EPS excluding special items (US cents)	**57**	34	22	(4)	28
Net asset value	**260**	193	199	219	293
Profitability ratios (%)					
Operating profit to sales	**10.6**	7.6	5.2	0.3	6.7
Operating profit excluding special items to sales	**9.5**	6.6	5.7	3.0	6.4
EBITDA excluding special items to sales	**14.4**	11.6	10.9	8.9	12.3
Operating profit excluding special items to capital employed (ROCE)	**17.5**	12.4	10.8	5.2	11.4
Net debt to EBITDA excluding special items	**1.9**	2.8	3.0	4.3	2.6
Interest cover	**7.3**	4.4	3.6	3.1	3.9
Return on average equity (ROE)	**26.7**	16.2	12.3	(13.6)	6.2
Debt ratios (%)					
Net debt to total capitalisation	**50.5**	63.6	65.1	66.3	57.0
Efficiency ratios					
Asset turnover (times)	**1.0**	1.1	1.1	1.0	1.0
Inventory turnover ratio	**7.0**	7.9	7.8	7.3	7.6
Liquidity ratios					
Current asset ratio	**1.4**	1.6	1.6	1.6	1.6
Trade accounts receivable days outstanding (including receivables securitised)	**44**	45	45	47	44
Cash interest cover (times)	**5.6**	3.0	3.1	2.7	2.4
Other non-financial information[2]					
Sales volumes	**7,253**	7,306	7,524	7,466	7,705
Number of full-time equivalent employees	**12,051**	12,548	13,064	13,665	14,039
Lost time injury frequency rate (including contract employees)	**0.46**	0.48	0.53	0.56	0.56
Energy					
Specific net purchased energy (GJ/adt)	**13.36**	13.75	13.95	14.20	14.61
Renewable energy to total energy (%)	**52.87**	52.44	53.07	51.27	50.31
Water					
Specific process water drawn (m^3/adt)	**33.91**	33.51	34.13	34.81	33.85
Specific process water returned (m^3/adt)	**31.10**	31.02	31.72	32.43	31.95
Waste					
Specific total landfill (ton/adt)	**0.070**	0.085	0.070	0.073	0.075
Emissions					
Specific scope 1 emissions (ton CO_2 eq/adt)	**0.62**	0.60	0.60	0.61	0.65
Specific scope 2 emissions (ton CO_2 eq/adt)	**0.18**	0.20	0.21	0.21	0.23

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

[1] *Net of treasury shares (refer to note 18 to the group annual financial statements).*

[2] *Certain energy, water, waste and emissions data for the comparative years have been restated using the latest reporting standards and measurement methodology.*

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

Share statistics

for the year ended September 2016

Shareholding

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

[1] *The number of shares excludes 10,882,622 treasury shares held by the group.*

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2016 was 6,157)	99.8
	100.0

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

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2016, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

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

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

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

Share statistics

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

[1] The number of shares excludes 10,882,622 treasury shares held by the group.

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

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

Glossary

General definitions

AF&PA – American Forest and Paper Association

air dry tons (ADT) – meaning dry solids content of 90% and moisture content of 10%

biofuels – organic material such as wood, waste and alcohol fuels, as well as gaseous and liquid fuels produced from these feedstocks when they are burned to produce energy

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

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

casting and release paper – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. The term also applies to backing paper for self-adhesive labels

CEPI – Confederation of European Paper Industries

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

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

CHP – combined heat and power

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

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

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

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

COSO – the Committee of Sponsoring Organisations of the Treadway Commission

CSI and CSR – corporate social investment and corporate social responsibility

dissolving pulp – highly purified chemical pulp derived primarily from wood, but also from cotton linters intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

dissolving wood pulp – highly purified chemical pulp derived from wood intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

energy – present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy

fibre – generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process

fine paper – paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper

Forestry SA – largest forestry organisation representing growers of timber in South Africa

FSC® – in terms of the Forest Stewardship Council® (FSC®) scheme, there are two types of certification. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC's 10 principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product

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

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

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

JSE Limited – the main securities exchange in South Africa

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

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

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

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

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

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

managed forest – naturally occurring forests that are harvested commercially

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

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

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

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

NPO – non-profit organisation

natural/indigenous forest – pristine areas not used commercially

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

OHSAS – an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards

OTC – over-the-counter trading of shares

packaging paper – paper used for packaging purposes

PAMSA – Paper Manufacturers' Association of South Africa

PEFC™ – the world's largest forest certification system, the PEFC™ is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

plantation – tree farms

power – the rate at which energy is used or produced

PM – paper machine

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

sackkraft – kraft paper used to produce multiwall paper sacks

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

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

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

solid waste – dry organic and inorganic waste materials

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

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

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

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

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

Glossary continued

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

ton/tonne – term used in this report to denote a metric ton of 1,000kg

total suspended solids (TSS) – refers to matter suspended or dissolved in effluent

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

viscose staple fibre (VSF) – a natural fibre made from purified cellulose, primarily from dissolving wood pulp that can be twisted to form yarn

woodfree paper – paper made from chemical pulp

World Wide Fund for Nature (WWF) – the world's largest conservation organisation, focused on supporting biological diversity

General financial definitions

acquisition date – the date on which control in respect of subsidiaries, joint control in respect of joint arrangements and significant influence in associates commences

associate – an entity over which the investor has significant influence

basic earnings per share – net profit for the year divided by the weighted average number of shares in issue during the year

commissioning date – the date that an item of property, plant and equipment, whether acquired or constructed, is brought into use

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

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

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

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

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

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

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

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

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

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

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

joint venture – a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement

operation – a component of the group:
- That represents a separate major line of business or geographical area of operation, and
- Is distinguished separately for financial and operating purposes

presentation currency – the currency in which the financial results of an entity are presented

qualifying asset – an asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use

recoverable amount – the recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, expected future cash flows are discounted to their net present values using the discount rate

related party – parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited

segment assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft)

share-based payment – a transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered

significant influence – the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- These measures are used by the group for internal performance analysis
- The presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies, and
- It is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

asset turnover (times) – sales divided by total assets

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

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

capital employed – shareholders' equity plus net debt

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

current asset ratio – current assets divided by current liabilities

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

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

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

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

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

headline earnings – as defined in Circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

inventory turnover (times) – cost of sales divided by inventory on hand at balance sheet date

net assets – total assets less total liabilities

net asset value per share – net assets divided by the number of shares in issue at balance sheet date

net debt – current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits)

net debt to total capitalisation – net debt divided by capital employed

net operating assets – total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft)

ordinary dividend cover – profit for the period divided by the ordinary dividend declared, multiplied by the actual number of shares in issue at year-end

ordinary shareholders' interest per share – shareholders' equity divided by the actual number of shares in issue at year-end

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

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

ROE – return on average equity. Profit for the period divided by average shareholders' equity

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

SG&A – selling, general and administrative expenses

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

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

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

Notice to shareholders

Notice of Annual General Meeting

This document is important and requires your immediate attention

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

Sappi Limited
(Registration number: 1936/008963/06)
("Sappi" or "the Company")

The eightieth Annual General Meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, on Wednesday, 08 February 2017 at 14:00. The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the Company for the purposes of determining which shareholders are entitled to attend and vote at the Annual General Meeting is Friday, 03 February 2017.

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

   The complete Group Annual Financial Statements for the year ended September 2016 are available on the Sappi website: www.sappi.com.

   "Resolved that the Group Annual Financial Statements for the year ended September 2016 of the company, including the directors' report, the report of the auditors and the report of the Audit Committee, be and are hereby received and accepted."

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

2. **Ordinary resolutions numbers 2.1 to 2.4: Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation**
   The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them. For brief biographical details of those directors, refer to note 1 under Notes on page 97.

   It is intended that all the directors who retire by rotation will, if possible, attend the Annual General Meeting, either in person or by means of video-conferencing.

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

   Ordinary resolution number 2.1
   "Resolved that Mr MA Fallon is re-elected as a director of Sappi."

   Ordinary resolution number 2.2
   "Resolved that Dr D Konar is re-elected as a director of Sappi."

   Ordinary resolution number 2.3
   "Resolved that Mr JD McKenzie is re-elected as a director of Sappi."

   Ordinary resolution number 2.4
   "Resolved that Mr GT Pearce is re-elected as a director of Sappi."

3. **Ordinary resolution number 3: Election of Audit Committee members**
   Ordinary resolution number 3 is proposed to elect the members of the Audit Committee in terms of section 94(2) of the South African Companies Act 71 of 2008 (as amended) ("the Companies Act") and the King Report on Corporate Governance for South Africa ("King III").

   Section 94 of the Companies Act requires that, at each Annual General Meeting, shareholders of the company must elect an Audit Committee comprising at least three members.

   The Nomination and Governance Committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the Audit Committee and the board considered and accepted the findings of the Nomination and Governance Committee. The board is satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King III and that they possess the required qualifications and experience as prescribed in Regulation 42 of the Companies Regulations, 2011, which requires that at least one-third of the members of a company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

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

Brief biographical details of each member of the Audit Committee are included in the biographies of all directors on our website www.sappi.com.

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

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

in terms of the Companies Act, to hold office until the conclusion of the next Annual General Meeting and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King III and to perform such other duties and responsibilities as may from time to time be delegated to it by the board."

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

* *Subject to his re-election as a director pursuant to ordinary resolution number 2.2.*
** *Subject to his re-election as a director pursuant to ordinary resolution number 2.1.*

4. **Ordinary resolution number 4: Appointment of auditors**
The board has "Resolved to appoint KPMG Inc. (with the designated registered auditor to be Mr Peter MacDonald) as the auditors of Sappi for the financial year ending September 2017 and to remain in office until the conclusion of the next Annual General Meeting."

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

5. **Ordinary resolutions numbers 5.1 and 5.2: Provision of Sappi shares required by The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust**
The passing of resolutions 5.1 and 5.2 will enable the directors to continue to meet the share requirements of The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust (collectively "the Schemes"), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited (JSE). The passing of resolution 5.2 will provide directors with the flexibility to utilise shares repurchased from time to time by a wholly owned subsidiary of Sappi and held in treasury by the subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

The combined maximum number of shares that can be issued pursuant to the Schemes is 42,700,870 shares (being 7.89% of the issued ordinary share capital of Sappi at 30 September 2016). As at 30 September 2016, 12,313,341 shares pursuant to offers made under the Schemes after 07 March 2005, have already been issued to, or transferred to the Schemes since the approval by shareholders of The Sappi Limited Performance Share Plan on 07 March 2005, leaving a balance of up to 30,387,529 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 14,031,774 Performance Share Plan awards which are still subject to vesting and 2,825,679 options which have not yet been exercised.

Since 2012, the Company has ceased allocating share awards which are not subject to any performance criteria. Instead, only performance share plan awards are granted to participants eligible for awards in terms of the company's share-based incentive programmes. The Company will, however, still need to meet its obligations to deliver any shares which might arise from the vesting of share options which were made up until 2012 in terms of The Sappi Limited Share Incentive Scheme, hence the inclusion of a reference to The Sappi Limited Share Incentive Trust in ordinary resolution number 5.2.

Ordinary resolution number 5.1
"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Trust ("the Plan"), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to issue those shares in terms of the Plan."

Notice to shareholders continued

Ordinary resolution number 5.2
"Resolved as an ordinary resolution that any subsidiary of Sappi (Subsidiary) be and is hereby authorised in terms of the Listings Requirements of the JSE to sell at the price at which the participant is allowed to acquire the company's shares and to transfer to The Sappi Limited Share Incentive Trust and/or The Sappi Limited Performance Share Incentive Trust (collectively "the Schemes") those numbers of Sappi's shares acquired by that subsidiary from time to time but not exceeding the maximum number of Sappi's shares available to the Schemes as may be required by the Schemes when a participant to whom Sappi's shares will be allocated has been identified."

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

6. Ordinary resolution number 6: Remuneration policy
"Resolved as an ordinary resolution, that the company's remuneration policy as contained in the compensation report on pages 55 to 61 of the Annual Integrated Report, be and is hereby endorsed by way of a non-binding advisory vote."

This non-binding advisory vote is being proposed in accordance with the recommendations of King III.

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

7. Special resolution number 1: Non-executive directors' fees
"Resolved that, with effect from 01 October 2016 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

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

* *Inclusive of all board committee fees.*
[1] *Fees per annum unless indicated otherwise.*

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

[1] *Fees per annum unless indicated otherwise.*

	From	To
3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees[1]		
Chairperson		
If South African resident	ZAR231,080	ZAR244,950
If United Kingdom resident	£26,270	£26,660
If United States resident	US$38,380	US$39,150
If European resident	€35,320	€35,850
Other members		
If South African resident	ZAR120,260	ZAR127,480
If United Kingdom resident	£18,415	£18,690
If United States resident	US$23,455	US$23,920
If European resident	€24,760	€25,130

	From	To
4. Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/ video-conference		
If South African resident	ZAR37,100 per meeting	ZAR39,330 per meeting
If United Kingdom resident	£4,310 per meeting	£4,380 per meeting
If United States resident	US$6,480 per meeting	US$6,610 per meeting
If European resident	€5,800 per meeting	€5,890 per meeting
5. Travel compensation For more than 10 flight hours return	US$3,400 per meeting	US$3,500 per meeting

[1] *Fees per annum unless indicated otherwise.*

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 1.5% and 6% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2016. The fees were last increased with effect from 01 October 2015 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The review also takes into account that the responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance developments and requirements in South Africa and elsewhere.

Non-executive directors' fees are paid quarterly (in March, June, September and December each year) and the proposed increase, if approved, will be applicable to payments to be made in December 2016 onwards. Initially the December 2016 payment will be made on the basis of the existing fee structure, and following shareholder approval of the proposed increases, the shortfall in the December 2016 payment will be made up in the March 2017 payment.

The practice has been and will continue to be that directors' fees and board committee fees are paid to non-executive directors only.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the Annual General Meeting and entitled to exercise voting rights on the resolution is required.

8. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

The Companies Act provides, among other things, that, except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the company be and are hereby authorised, in accordance with the Companies Act, to authorise the company to provide direct or indirect financial assistance to any company or

Notice to shareholders continued

corporation which is related or inter-related to the company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the Annual General Meeting and entitled to exercise voting rights on the resolution is required.

9. **Ordinary resolution number 7: Signature of documents**
"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the Annual General Meeting held on 08 February 2017 or any adjournment thereof."

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

10. **To receive a report from the Social, Ethics, Transformation and Sustainability Committee**
Shareholders are referred to the Social, Ethics, Transformation and Sustainability Committee report on page 62.

Proxies

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

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

Shareholders who have dematerialised their shares and who are not registered as 'own name' dematerialised shareholders and who wish to:

- Attend the Annual General Meeting must instruct their CSDP or brokers to provide them with a letter of representation to enable them to attend such meeting, or
- Vote, but not to attend the Annual General Meeting, must provide their CSDPs or brokers with their voting instructions in terms of the relevant custody agreement between them and their CSDPs or brokers.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the Annual General Meeting to be held on 08 February 2017 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the Annual General Meeting by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or the shareholder's representative or proxy, can be contacted) to so participate to the transfer secretaries, at their address as reflected on page 98, to be received by the transfer secretaries at least five business days prior to the Annual General Meeting in order for the transfer secretaries to arrange for the shareholder (or the shareholder's representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or the shareholder's representative or proxy) with details as to how to access any electronic participation to be provided. The Company reserves the right to elect not to provide for electronic participation at the Annual General Meeting in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the Notice of meeting.

Questions

The board encourages shareholders to attend and to ask questions at the Annual General Meeting. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the Group Company Secretary by 17:00 on Friday, 03 February 2017 at:
7th floor
48 Ameshoff Street
Braamfontein
2001 Johannesburg

or

PO Box 31560
2017 Braamfontein

or by eMail to
Amanda.Tregoning@sappi.com

Sappi Southern Africa Limited

Secretaries: per AJ Tregoning
48 Ameshoff Street
Braamfontein
2001 Johannesburg

09 December 2016

Notes

Directors retiring by rotation who are seeking re-election

Michael Anthony Fallon (Mike) (58)
(Independent)

Qualifications: BSc (Hons) (First class)

Nationality: British

Appointed: September 2011

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

Skills, expertise and experience
Mr Fallon retired as an executive director of Nippon Sheet Glass Company Limited (NSG Group) at the end of June 2012. Prior to retirement, Mr Fallon was President of NSG's global automotive division, with 17,500 employees, and where he headed up all the glass and glazing operations in the key automotive regions across the world. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisition experience. He was President of Pilkington operations in North America and has been director and chairman of companies in the United Kingdom, New Zealand and Finland.

Dr Deenadayalen Konar (Len) (62)
(Independent)

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

Nationality: South African

Appointed: March 2002

Sappi board committee memberships
- Audit Committee (Chairman)
- Nomination and Governance Committee

Other board and organisation memberships
- Alexander Forbes Equity Holdings Limited
- Exxaro Resources Limited (Chairman)
- Lonmin plc
- Steinhoff International Holdings Limited (Deputy Chairman)

Skills, expertise and experience
Previously Professor and Head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South African and the SA Institute of Directors, past member and Chairman of the external Audit Committee of the International Monetary Fund and past member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (co-Chairman). Dr Konar is currently a professional director of companies.

John David McKenzie (Jock) (69)
(Lead independent director)

Qualifications: BSc Chemical Engineering (Cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships
- Human Resources and Compensation Committee
- Nomination and Governance Committee

Other board and organisation memberships
- Capitec Bank
- Coronation Fund Managers
- Carleton Lloyd Education Trust (Chairman)
- Rondebosch Schools Education Trust (Chairman)
- University of Cape Town Foundation (Chairman)
- Zululand Distilling Proprietary Limited (Chairman)

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

Glen Thomas Pearce (53)
(Chief Financial Officer)

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

Nationality: South African

Appointed: July 2014

Sappi board committee memberships
Expected to attend Audit Committee meetings by invitation

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

Shareholders' diary

Annual General Meeting	08 February 2017
First quarter results released	February 2017
Second quarter and half-year results released	May 2017
Third quarter results released	August 2017
Financial year-end	September 2017
Preliminary fourth quarter and year results	November 2017
Annual Integrated Report posted to shareholders and posted on website	December 2017

Administration

Sappi Limited

Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284

Group Company Secretary and Corporate Counsel
Amanda Tregoning

Secretaries
Sappi Southern Africa Limited
48 Ameshoff Street
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South Africa
PO Box 31560
2017 Braamfontein
South Africa

Tel +27 (0)11 407 8111
Fax +27 (0)11 339 1881
eMail Amanda.Tregoning@sappi.com
www.sappi.com

Transfer secretaries
South Africa
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
2196 Rosebank

PO Box 61051
2107 Marshalltown
Tel +27 (0)11 370 5000
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eMail proxy@computershare.co.za
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Investor relations
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Tel +27 (0)11 407 8391
eMail Graeme.Wild@sappi.com

JSE sponsor
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64 Wierda Road East
2196 Sandton
South Africa
Tel +27 (0)11 407 8391
eMail Yvette.Labuschagne@ubs.com

United States ADR Depositary
BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
United States of America
eMail shrrelations@cpushareownerservices.com
Tel (US only) 1 888 BNY ADRS
Tel (Outside the US) +1 201 680 6825
www.mybnymdr.com

Proxy form for the annual general meeting

Sappi Limited
(Registration number: 1936/008963/06)
(Incorporated in the Republic of South Africa)
(Sappi or the company)
Issuer code: SAP
JSE code: SAP
ISIN code: ZAE000006284

For use by shareholders who:

- Hold shares in certificated form; or
- Hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depositary system (Strate Limited) of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration) (ie shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the eightieth Annual General Meeting of the members to be held at 14:00 on Wednesday, 08 February 2017 in the Auditorium, Ground Floor, 48 Ameshoff Street, 2001 Braamfontein, Johannesburg, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:00 South African time on Monday, 06 February 2017, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, Republic of South Africa, or by way of postal delivery to PO Box 61051, 2107 Marshalltown, Republic of South Africa.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the Annual General Meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We _____

of _____

being a shareholder(s) of Sappi holding _____ Sappi shares and entitled to vote at the above mentioned

Annual General Meeting, appoint _____

or failing him/her _____

or failing him/her _____

or failing him/her, the Chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the Annual General Meeting of Sappi to be held at 14:00 on Wednesday, 08 February 2017 or any adjournment thereof, as follows.

	Number of shares		
	For	**Against**	**Abstain**
Ordinary resolution number 1 – Receipt and acceptance of 2016 annual financial statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Re election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 2.1 – Re-election of Michael Anthony Fallon (Mike) as a director of Sappi			
Ordinary resolution number 2.2 – Re-election of Dr Deenadayalen Konar (Len) as a director of Sappi			
Ordinary resolution number 2.3 – Re-election of John David McKenzie (Jock) as a director of Sappi			
Ordinary resolution number 2.4 – Re-election of Glen Thomas Pearce (Glen) as a director of Sappi			
Ordinary resolution No 3 – Election of Audit Committee			
Ordinary resolution number 3.1 – Election of Dr D Konar as chairman of the Audit Committee			
Ordinary resolution number 3.2 – Election of Mr MA Fallon as a member of the Audit Committee			
Ordinary resolution number 3.3 – Election of Mr NP Mageza as a member of the Audit Committee			
Ordinary resolution number 3.4 – Election of Mrs KR Osar as a member of the Audit Committee			
Ordinary resolution number 3.5 – Election of Mr RJAM Renders as a member of the Audit Committee			
Ordinary resolution number 4 – Appointment of KPMG Inc. as auditors of Sappi for the year ending September 2017 and until the next Annual General Meeting of Sappi			
Ordinary resolution number 5.1 – The placing of all ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Plan (the Plan) under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 5.2 – The authority for any subsidiary of Sappi to sell and to transfer to The Sappi Limited Share Incentive Scheme and The Sappi Limited Performance Share Incentive Plan (collectively the Schemes) such shares as may be required for the purposes of the Schemes			
Ordinary resolution number 6 – Non-binding endorsement of remuneration policy			
Special resolution number 1 – Increase in non-executive directors' fees			
Special resolution number 2 – Authority for loans or other financial assistance to related or inter-related companies or corporations			
Ordinary resolution number 7 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at _____ on _____

Assisted by me (where applicable) _____

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the Annual General Meeting or any adjournment thereof.

** Refer notes to notice of Annual General Meeting on page 92.*

Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the Annual General Meeting proxy form

1 A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.

2 The Chairman shall be entitled to decline to accept the authority of the signatory:
2.1 Under a power of attorney, or
2.2 On behalf of a company,

if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, 2196 Rosebank, Republic of South Africa, or posted to PO Box 61051, 2107 Marshalltown, Republic of South Africa.

3 The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.

4 When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.

5 The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

6 Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, 2196 Rosebank, Republic of South Africa, (for hand delivery) or PO Box 61051, 2107 Marshalltown, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 06 February 2016.

7 If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

8 The Chairman of the Annual General Meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

Summary in terms of section 58(8)(b)(i) of the SA Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation
- A shareholder may revoke a proxy appointment in writing
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder, and
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- The impact on our business of adverse changes in global economic conditions
- Unanticipated production disruptions (including as a result of planned or unexpected power outages)
- Changes in environmental, tax and other laws and regulations
- Adverse changes in the markets for our products
- The emergence of new technologies and changes in consumer trends including increased preferences for digital media
- Consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- Adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems
- The impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies, and
- Currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

sappi

Inspired by life

www.sappi.com
Sappi Limited, 48 Ameshoff Street, 2001 Braamfontein, Johannesburg, South Africa
Tel +27 (0)11 407 8111

sappi

Group Annual Financial Statements
for the year ended September 2016

One Sappi

2016

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

GROUP ANNUAL FINANCIAL STATEMENTS

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

Navigation aids:

Online information

Directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the Group Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the Group Annual Financial Statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the Group Annual Financial Statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Group Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the group's budget and cash flow forecasts. This review, together with the group's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the group will continue as a going concern for the foreseeable future. The group, therefore, continues to adopt the going concern basis in preparing its Group Annual Financial Statements.

The Directors' Report and the Group Annual Financial Statements appear on pages 5 to 86 and were approved by the board of directors on 09 December 2016 and signed on its behalf by:

SR Binnie
Chief Executive Officer

GT Pearce
Chief Financial Officer

Sappi Limited

09 December 2016

Group Company Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2016, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa Limited

Secretaries

per AJ Tregoning
Group Company Secretary

09 December 2016

Independent auditor's report

To the shareholders of Sappi Limited

We have audited the consolidated financial statements of Sappi Limited set out on pages 7 to 86, which comprise the balance sheet as at September 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended September 2016, we have read the Directors' Report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in *Government Gazette* Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Sappi Limited for 80 years.

Deloitte & Touche
Registered Auditor

Per P Smit
Partner

09 December 2016

Johannesburg, South Africa

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

** Partner and Registered Auditor.*

A full list of partners and directors is available on request

BBBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Audit Committee report

for the year ended September 2016

Introduction

The Audit Committee presents its report for the financial year ended September 2016. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions, and
- To perform duties that are attributed to it by the South African Companies Act 71 of 2008 (the Companies Act), the JSE Limited Listings Requirements and King III.

Committee performance:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the Group Internal Audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Annual Integrated Report
  - The Group Annual Financial Statements, and
  - The quarterly financial results
- Considered the effectiveness of Group Internal Audit, approved the annual operational strategic internal audit plan and monitored adherence of Group Internal Audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the Group Internal Audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved Internal Audit Charter
- Undertook a full audit tender process resulting in a recommendation to the board to change the external auditors for the group.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee comprises independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(Appointed in January 2004, Chairman from January 2007)
Mr GPF Beurskens	(Appointed in January 2012)
Mr MA Fallon	(Appointed in January 2012)
Mr NP Mageza	(Appointed in February 2010)
Mrs KR Osar	(Appointed in November 2007)

Mr GPF Beurskens announced his retirement as independent non-executive director and member of the Audit Committee with effect from 28 February 2017. Subject to shareholder approval, the board of Sappi Limited and the Audit Committee have resolved to appoint Mr RJAM Renders to the Audit Committee with effect from 01 March 2017 to replace Mr Beurskens.

Biographical details of the current members of the committee are set out on our website, www.sappi.com.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Risk Executive and the external auditors are also permanent invitees to the meeting. The Chairman of the board attends meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

Audit Committee report continued

for the year ended September 2016

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2016. Meetings were held with the auditors where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

It was decided during the year, however, that in the interests of good governance, that the external audit would be put out to tender. Following a thorough audit tender process it was decided to recommend KPMG Inc. as the group's auditors for 2017 to the board, who after careful consideration, agreed with this recommendation.

The committee has consequently nominated, for approval at the Annual General Meeting, KPMG Inc. as the external auditor for the 2017 financial year of whom Mr Peter McDonald is the designated auditor. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Annual Integrated Report and the Group Annual Financial Statements

The Audit Committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2016. The Audit Committee has also considered the sustainability information as disclosed in the Annual Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The Group Annual Financial Statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Annual Integrated Report and the Group Annual Financial Statements for approval to the board. The board has subsequently approved the report and the Group Annual Financial Statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the Group Internal Audit function and external auditors, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

D Konar
Chairman of the Audit Committee

09 December 2016

Directors' report

for the year ended September 2016

The directors have pleasure in presenting their report for the year ended September 2016.

Nature of business

Sappi Limited, the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 150 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting and release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

Financial results

The group generated a profit of US$319 million for the year ended September 2016 (basic earnings of 60 US cents) compared to US$167 million profit (32 US cents) for the prior year.

The increase in profit can be attributed to the successful delivery of the group's strategy which resulted in improved operating performances in all our regions in local currencies.

Detailed commentary on the 2016 financial results is contained in various reviews throughout this Annual Integrated Report.

Dividends

The directors have decided in light of the group's improved financial performance and its reduction in net debt/EBITDA ratio to below the targeted two times level, to declare a dividend of 11 US cents representing a five times earnings cover adjusted for non-cash items.

Going concern

The directors believe that the group has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our corporate governance section contained in our Annual Integrated Report for full details and to our website for Sappi's application of the principles of King III.

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability review in our Annual Integrated Report.

Significant announcements during the year under review and subsequent to year-end

The announcements were:

- In March 2016, the group announced the offering of a €350 million bond, the proceeds of which would be used to repay its existing US$350 million senior secured notes due 2021. The new €350 million senior secured notes due 2023 were priced at a coupon of 4% per annum. The refinancing reduced the group's annual interest charge by approximately US$8 million, and
- In August 2016, the group announced the release of its existing security granted to secure indebtedness of its senior secured notes due 2017 and 2023 as well as the group's €465 million revolving credit facility due to the group having achieved certain financial covenants in terms of the respective agreements.

Liquidity and financing

At September 2016, we had liquidity comprising US$703 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US$576 million, and US$595 million available from undrawn committed facilities in Europe and South Africa.

Net debt decreased to US$1,408 million (2015: US$1,771 million) largely due to an improved group operating performance resulting in net cash generation of US$359 million (2015: US$145 million). Lower net interest charges from refinancing activities were offset by higher tax payments. In addition, the proceeds from the sale of Enstra and Cape Kraft Mills of US$39 million were received.

Details of our non-current borrowings are set out in note 21.

Risks and insurance

Details of the group's risks and insurance are set out in the top risks section of our Annual Integrated Report.

Directors' report continued

for the year ended September 2016

Property, plant and equipment

There were no major changes in the nature of the group's property, plant and equipment during the period under review.

Capital expenditure for the year ended September 2016 was US$241 million (2015: US$248 million) in line with the prior year. Maintenance expenditure of US$155 million was incurred with US$86 million spent largely on efficiency projects.

Subsequent events

Details of events after the reporting period are set out in note 33.

Directorate

The composition of the board of directors is set out in our leadership section in our Annual Integrated Report. During the year (01 October 2015 to 25 September 2016), the following changes were announced:

- The appointment of Mr RJAM Renders as an independent non-executive director with effect from 01 October 2015 and his appointment as a member of the Human Resources and Compensation Committee with effect from 01 March 2016
- The retirement of Dr DC Cronjé as independent non-executive Chairman to the board from 28 February 2016 and the appointment of Sir Nigel Rudd as independent non-executive Chairman to the board with effect from 01 March 2016
- The appointment of Mr JD McKenzie as Lead Independent Director with effect from 01 March 2016
- The appointment of Mr MV Moosa as Chairman of the Social, Ethics, Transformation and Sustainability Committee with effect from 01 March 2016
- The appointment of Mr MA Fallon as Chairman of the Human Resources and Compensation Committee with effect from 01 March 2016, and
- The retirement of Mrs B Radebe as independent non-executive director and Mr GPF Beurskens as independent non-executive director with effect from 28 February 2017.

At the end of September 2016, there were 14 directors, two of whom were executive directors. Eleven of the 12 non-executive directors were considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee. This included a more rigorous review of the independence of the directors who have served more than nine years on the board, viz Dr D Konar, Mrs B Radebe, Mrs KR Osar and Sir Nigel Rudd. The conclusion was that the independence of character and judgement of Dr Konar, Mrs Radebe, Mrs Osar and Sir Nigel Rudd were not in any way affected or impaired by their respective lengths of service.

In terms of the company's Memorandum of Incorporation, Messrs MA Fallon, JD McKenzie, GT Pearce and Dr D Konar will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for reappointment.

Details of the secretaries and their business and postal addresses are set out in the administration section of the Annual Integrated Report.

Details of the directors and prescribed officers' shareholding and remuneration are set out in notes 35 to 37.

Directors' and officers' disclosure of interests in contracts

During the period under review, no significant contracts were entered into in which directors and officers had an interest and which affected the business of the group.

Directors' liabilities

Directors and officers of the group are covered by directors' and officers' liability insurance.

Subsidiary companies

Details of the company's significant subsidiaries are set out in note 38.

Group income statement

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Sales		**5,141**	5,390	6,061
Cost of sales	4	**4,270**	4,693	5,370
Gross profit		**871**	697	691
Selling, general and administrative expenses	4	**336**	333	352
Other operating (income) expenses		**–**	(35)	33
Share of profit from joint ventures		**(9)**	(12)	(8)
Operating profit	4	**544**	411	314
Net finance costs	5	**121**	182	177
Finance costs		**140**	194	194
Finance revenue		**(16)**	(14)	(9)
Net foreign exchange gains		**(2)**	(11)	(7)
Net fair value (gain) loss on financial instruments		**(1)**	13	(1)
Profit before taxation		**423**	229	137
Taxation charge	6	**104**	62	2
Profit for the year		**319**	167	135
Basic earnings per share (US cents)	7	**60**	32	26
Weighted average number of ordinary shares in issue (millions)		**529.4**	525.7	522.5
Diluted earnings per share (US cents)	7	**59**	31	26
Weighted average number of ordinary shares in issue on a fully diluted basis (million)		**540.3**	531.2	526.6

Group statement of comprehensive income

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Profit for the year		**319**	167	135
Other comprehensive income (loss), net of tax	19	**30**	(208)	(247)
Item that will not be reclassified subsequently to profit or loss		**(12)**	(63)	(152)
Actuarial losses on post-employment benefit funds		**(20)**	(96)	(152)
Deferred tax on above item		**8**	33	–
Items that may be reclassified subsequently to profit or loss		**42**	(145)	(95)
Exchange differences on translation to presentation currency		**38**	(148)	(71)
Movement on available-for-sale financial assets		**–**	(1)	(2)
Movement in hedging reserves		**4**	4	(23)
Deferred tax on above items		**–**	–	1
Total comprehensive income (loss) for the year		**349**	(41)	(112)

Group balance sheet

as at September 2016

(US$ million)	Note	2016	2015
ASSETS			
Non-current assets		**3,171**	3,174
Property, plant and equipment	10	**2,501**	2,508
Plantations	11	**441**	383
Deferred tax assets	12	**152**	162
Goodwill and intangible assets	13	**17**	19
Joint ventures	14	**20**	18
Other non-current assets	15	**39**	43
Derivative financial instruments	30	**1**	41
Current assets		**2,006**	1,711
Inventories	16	**606**	595
Trade and other receivables	17	**642**	645
Derivative financial instruments	30	**44**	5
Taxation receivable		**11**	10
Cash and cash equivalents	24.6	**703**	456
Assets held for sale	9	**–**	28
Total assets		**5,177**	4,913
EQUITY AND LIABILITIES			
Shareholders' equity		**1,378**	1,015
Ordinary share capital and share premium	18	**879**	851
Non-distributable reserves	20	**114**	113
Foreign currency translation reserve		**(147)**	(170)
Hedging reserves		**(43)**	(47)
Retained earnings		**575**	268
Non-current liabilities		**2,325**	2,806
Interest-bearing borrowings	21	**1,535**	2,031
Deferred tax liabilities	12	**272**	245
Other non-current liabilities	22	**518**	530
Current liabilities		**1,474**	1,091
Interest-bearing borrowings	21	**576**	196
Derivative financial instruments	30	**2**	5
Trade and other payables		**839**	844
Taxation payable		**42**	30
Provisions	23	**15**	16
Liabilities associated with assets held for sale	9	**–**	1
Total equity and liabilities		**5,177**	4,913

Group statement of cash flows

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Cash retained from operating activities		**550**	382	437
Cash generated from operations	24.1	**693**	544	566
– Decrease (increase) in working capital	24.2	**4**	(11)	34
Cash generated from operating activities		**697**	533	600
– Finance costs paid	24.3	**(107)**	(148)	(170)
– Finance revenue received		**16**	13	8
– Taxation paid	24.4	**(56)**	(16)	(1)
Cash utilised in investing activities		**(191)**	(237)	(194)
Investment to maintain operations		**(155)**	(175)	(148)
Investment to expand operations		**(86)**	(73)	(147)
Cash outflows on disposal of business		**–**	–	(23)
Proceeds on disposal of assets held for sale	9	**39**	–	104
Proceeds on disposal of other non-current assets	24.5	**5**	1	6
Other decrease in non-current assets		**6**	10	14
Cash effects of financing activities		**(130)**	(127)	(36)
Proceeds from interest-bearing borrowings		**389**	588	–
Repayment of interest-bearing borrowings		**(499)**	(647)	(35)
Cash costs attributable to refinancing transactions		**(20)**	(68)	–
Movement in bank overdrafts		**–**	–	(1)
Net movement in cash and cash equivalents		**229**	18	207
Cash and cash equivalents at beginning of year		**456**	528	352
Translation effects		**18**	(90)	(31)
Cash and cash equivalents at end of year	24.6	**703**	456	528

Group statement of changes in equity

for the year ended September 2016

(US$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2013	521.5	52	1,096	1,148	158	(288)	(40)	166	**1,144**
Transfer to retained earnings	–	–	–	–	(15)	–	–	15	**–**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	2.6	–	12	12	(7)	–	–	–	**5**
Translation of parent company's ordinary share capital and share premium	–	(5)	(111)	(116)	–	116	–	–	**–**
Total comprehensive loss	–	–	–	–	(10)	(67)	(18)	(17)	**(112)**
Balance – September 2014	524.1	47	997	1,044	133	(239)	(58)	164	**1,044**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	2.3	–	10	10	(5)	–	–	–	**5**
Translation of parent company's ordinary share capital and share premium	–	(9)	(194)	(203)	–	203	–	–	**–**
Total comprehensive (loss) income	–	–	–	–	(22)	(134)	11	104	**(41)**
Balance – September 2015	526.4	38	813	851	113	(170)	(47)	268	**1,015**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	4.2	–	14	14	(7)	–	–	–	**7**
Translation of parent company's ordinary share capital and share premium	–	1	13	14	–	(14)	–	–	**–**
Total comprehensive income	–	–	–	–	1	37	4	307	**349**
Balance – September 2016	530.6	39	840	879	114	(147)	(43)	575	**1,378**
Note				*18*	*20*				

Notes to the Group Annual Financial Statements

for the year ended September 2016

1. Basis of preparation

The consolidated financial statements (the Group Annual Financial Statements) have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council
- the Listings Requirements of the JSE Limited, and
- the requirements of the Companies Act of South Africa.

The Group Annual Financial Statements are prepared on the historical cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Group Annual Financial Statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:

- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- Cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- The net interest on post-employment benefits is included in finance costs
- Property, plant and equipment is accounted for using the cost model, and
- The step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

The Group Annual Financial Statements are presented in United States Dollar (US$) as it is the major trading currency of the pulp and paper industry and are rounded to the nearest million except as otherwise indicated.

The preparation of the Group Annual Financial Statements was supervised by the Chief Financial Officer, GT Pearce CA(SA).

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 28 September 2015 to 25 September 2016 (52 weeks)
- 29 September 2014 to 27 September 2015 (52 weeks), and
- 30 September 2013 to 28 September 2014 (52 weeks).

(ii) Underlying concepts

The Group Annual Financial Statements are prepared on the going concern basis.

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group Annual Financial Statements are presented in US Dollar, which is the group's presentation currency.

The functional currency of the parent company is Rand (ZAR). The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate, and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2016	2015	2014
Period-end rate			
US$1 = ZAR	**13.7139**	13.9135	11.2285
€1 = US$	**1.1226**	1.1195	1.2685
Annual average rate			
US$1 = ZAR	**14.7879**	11.9641	10.5655
€1 = US$	**1.1111**	1.1501	1.3577

2. Accounting policies continued

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

Intra-group balances and transactions, and profits or losses arising from intra-group transactions are eliminated in the preparation of the Group Annual Financial Statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment, including goodwill, is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- ***Financial assets and financial liabilities at fair value through profit or loss***
  Financial instruments at the fair value through profit and loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- ***Financial liabilities at amortised cost***
  All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- ***Loans and receivables***
  Loans and receivables are carried at amortised cost.

- ***Available-for-sale financial assets***
  Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

(iv) *Embedded derivatives*

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) *Derecognition*

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) *Impairment of financial assets*

- ***Loans and receivables***
  An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- ***Available-for-sale financial assets***
  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

  Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) *Interest income and expense*

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 *Government grants*

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 *Intangible assets*

(i) *Research activities*

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) *Development activities*

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) *Brands and patents*

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) *Licence fees*

Licence fees are amortised on a straight-line basis over the useful life of each licence.

2. Accounting policies continued

2.2.6 *Inventories*

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

2.2.7 *Leases*

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except, where the transfer of ownership at the end of the lease period is uncertain, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 *Assets held for sale*

Non-current assets (or disposal groups) are classified as held for sale when their carrying values will be recovered principally through a sale rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

2.2.9 *Segment reporting*

The group's reportable segments, which have been determined in accordance with how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

2.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

2.2.12 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

2. Accounting policies continued

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based Payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate, and dividend payout rates.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.3 Critical accounting policies and key sources of estimation uncertainty

Management of the group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results.

The group believes that the following accounting policies are critical due to the degree of management judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or, for intangible assets other than goodwill, whether an impairment reversal is required.

Intangible assets not yet available for use are tested at least annually for impairment.

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's Accounting Policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of owner-occupied property or equipment is capitalised to the cost of owner-occupied property and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings	Straight-line	10 to 40 years
Plant	Straight-line	5 to 30 years
Vehicles	Straight-line	5 to 10 years
Furniture and equipment	Straight-line	3 to 6 years

The group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

2.3.3 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI, in which case it is also recognised in OCI.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

The various group entities are subject to examination by tax authorities. The outcome of tax audits cannot be predicted with certainty. If any matters addressed in these tax audits are resolved in a manner not consistent with management's expectations or tax positions taken in previously filed tax returns, then the provision for income tax could be required to be adjusted in the period that such resolution occurs.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Before recognising a deferred tax asset, the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

Refer to note 12 for the movement in unrecognised deferred tax assets.

(iii) Dividend withholding tax

Dividend withholding tax is payable on dividends distributed to certain shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

For the purpose of hedge accounting, hedges are classified as follows:

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

2. Accounting policies continued

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

Refer to notes 30 and 31 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimated prices, discount rates, and volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 11.

- ***Estimated prices less cost of delivery***
  The group uses a 12-quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

  Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

  The fair value is derived by using the prices as explained above and reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

- ***Discount rate***
  The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

- ***Volume and growth estimations and cost assumptions***
  The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between eight and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

Depletion costs include the fair value of timber felled which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of eight to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees.

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.6 Post-employment benefits

Defined benefit and defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group's policy is to recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 28 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations (refer to note 2.3.8).

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

2. Accounting policies continued

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Refer to note 23 for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected present value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

Refer to note 34 for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations, and the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

The group adopted the following standards and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IFRS 2 *Share-based Payment* – Classification and measurement of share-based payment transactions
- IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* – Applying the Consolidation Exception
- IFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 *Regulatory Deferral Accounts*
- IAS 1 *Presentation of Financial Statements* – Disclosure Initiative
- IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – Bearer Plants
- IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements, and
- Annual Improvements 2012 – 2014 Cycle.

2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and which have not yet been adopted by the group. The impact of these standards is still being evaluated by the group:

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – September 2019
- IFRS 15 *Revenue from Contracts with Customers* – provides a single, principle-based five-step model to be applied to all contracts with customers – September 2019
- IFRS 16 *Leases* – provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases* – September 2020, and
- IAS 7 *Statement of Cash Flows* – Disclosure Initiative – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities – September 2018.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue mostly comprises the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp, and uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and paper pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit excluding special items.

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
Income statement						
External sales[1]	**1,367**	1,377	1,517	**2,582**	2,660	3,107
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[2]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42
EBITDA excluding special items[2]	**124**	102	92	**261**	209	249
Share of profit of equity investments	**–**	–	–	**1**	3	–
Depreciation and amortisation	**(75)**	(75)	(74)	**(130)**	(136)	(174)
(Impairment) impairment reversals of assets and investments	**–**	–	–	**(2)**	–	2
Profit (loss) on assets held for sale, businesses and other assets	**–**	–	–	**1**	–	(32)
Fellings	**–**	–	–	**–**	–	–
Plantation fair value adjustment	**–**	–	–	**–**	–	–
Restructuring provisions (raised) released and closure costs	**–**	–	(3)	**(3)**	(4)	11
Employee benefit liability settlement	**8**	–	–	**–**	68	21
Other non-cash items	**(14)**	(16)	(16)	**(10)**	(8)	2
Balance sheet						
Capital expenditures	**44**	50	53	**90**	127	153
Segment assets[2]	**967**	1,007	1,013	**1,256**	1,313	1,472
Property, plant and equipment	**788**	819	843	**968**	1,003	1,145

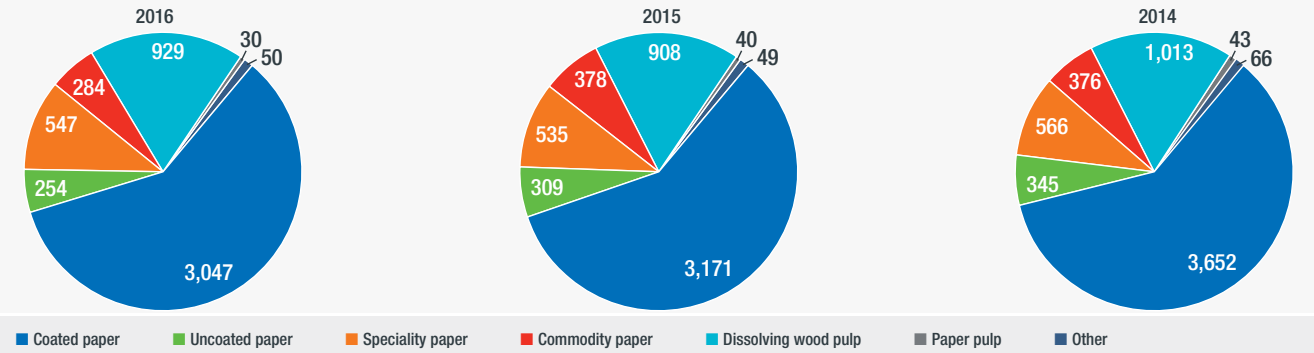
Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[2]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the glossary in the Annual Integrated Report for the definition of the term.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

Sales by products

US$ million



Southern Africa			Unallocated and eliminations[3]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
1,192	1,353	1,437	**–**	–	–	**5,141**	5,390	6,061
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314
352	313	312	**2**	1	5	**739**	625	658
8	9	8	**–**	–	–	**9**	12	8
(47)	(57)	(64)	**–**	–	–	**(252)**	(268)	(312)
–	–	(3)	**–**	–	–	**(2)**	–	(1)
14	–	3	**–**	–	–	**15**	–	(29)
(56)	(57)	(59)	**–**	–	–	**(56)**	(57)	(59)
120	106	86	**–**	–	–	**120**	106	86
(1)	(1)	(2)	**–**	(1)	–	**(4)**	(6)	6
–	–	–	**–**	–	–	**8**	68	21
(22)	(6)	4	**6**	(2)	3	**(40)**	(32)	(7)
90	70	49	**5**	1	1	**229**	248	256
1,182	1,066	1,289	**19**	13	(35)	**3,424**	3,399	3,739
738	684	852	**7**	2	1	**2,501**	2,508	2,841

Southern Africa			Unallocated and eliminations[3]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

3. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
EBITDA excluding special items[1]	**124**	102	92	**261**	209	249
Depreciation and amortisation	**(75)**	(75)	(74)	**(130)**	(136)	(174)
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[1]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42
Net finance costs						
Profit before taxation						

Reconciliation of segment assets to total assets:

(US$ million)	
Segment assets[1]	
Deferred tax assets	
Cash and cash equivalents	
Derivative financial instruments (included in current liabilities)	
Trade and other payables	
Provisions	
Taxation payable	
Liabilities associated with assets held for sale	
Total assets	

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which comprise:

(US$ million)	
Sales	
Specialised cellulose	
Paper	
Forestry	
Total	
Operating profit excluding special items	
Specialised cellulose	
Paper	
Unallocated and eliminations[2]	
Total	
EBITDA excluding special items	
Specialised cellulose	
Paper	
Unallocated and eliminations[2]	
Total	

[1] *Refer to the glossary in the Annual Integrated Report for the definition of the term.*
[2] *Primarily includes the group's treasury operations and its self-insurance captive.*

Southern Africa			Unallocated and eliminations[2]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
352	313	312	**2**	1	5	**739**	625	658
(47)	(57)	(64)	**–**	–	–	**(252)**	(268)	(312)
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314
						(121)	(182)	(177)
						423	229	137

	Group	
2016	2015	2014
3,424	3,399	3,739
152	162	138
703	456	528
2	5	7
839	844	996
15	16	32
42	30	25
–	1	–
5,177	4,913	5,465

	Group	
2016	2015	2014
929	908	1,013
4,156	4,422	4,979
56	60	69
5,141	5,390	6,061
294	231	243
191	125	98
2	1	5
487	357	346
339	281	303
398	343	350
2	1	5
739	625	658

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

4. Operating profit

Operating profit has been arrived at after charging (crediting):

(US$ million)	2016 Cost of sales	2016 Selling, general and administrative expenses	2015 Cost of sales	2015 Selling, general and administrative expenses	2014 Cost of sales	2014 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**2,630**	**–**	2,940	–	3,355	–
Wood (includes growth and felling adjustments[1])	**624**	**–**	603	–	664	–
Energy	**355**	**–**	443	–	529	–
Chemicals	**726**	**–**	773	–	914	–
Pulp	**740**	**–**	911	–	1,039	–
Other variable costs	**185**	**–**	210	–	209	–
Plantation price fair value adjustment	**(64)**	**–**	(41)	–	(18)	–
Employment costs	**739**	**155**	770	160	860	190
Depreciation	**241**	**9**	254	12	296	14
Delivery charges	**431**	**–**	474	–	532	–
Maintenance	**201**	**–**	215	–	238	–
Other overheads	**92**	**–**	81	–	107	–
Marketing and selling expenses	**–**	**74**	–	78	–	97
Administrative and general expenses	**–**	**98**	–	83	–	51
	4,270	**336**	4,693	333	5,370	352

(US$ million)	2016	2015	2014
Silviculture costs (included within cost of sales)	**46**	52	58
Leasing charges for premises	**14**	14	13
Leasing charges for plant and equipment	**14**	15	15
Remuneration paid other than to employees of the company in respect of	**25**	25	26
Technical services	**12**	13	9
Administration services	**13**	12	17
Auditor's remuneration	**5**	6	7
Audit and related services	**5**	5	6
Tax planning and tax advice	**–**	1	1
Research and development costs	**26**	21	22
Amortisation	**2**	2	2
Cost on derecognition of loans and receivables[2]	**8**	9	9
Impairments of assets and investments	**2**	–	1
Restructuring provisions and closure costs raised (reversed)	**4**	6	(6)
(Profit) loss on assets held for sale, businesses and other assets	**(15)**	–	29
Post-retirement plan settlements and amendments	**(8)**	(68)	(21)
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	2	2
Employment costs consist of	**894**	930	1,050
Wages and salaries	**814**	863	978
Defined contribution plan expense	**34**	34	34
Defined benefit pension plan expense	**12**	2	–
Post-retirement healthcare subsidy expense	**3**	–	3
Share-based payment expense	**6**	5	5
Other	**25**	26	30

[1] *Changes in plantation volumes.*

Fellings.	**56**	57	59
Growth.	**(56)**	(65)	(68)

[2] *The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in Southern Africa and to the sale of letters of credit in Hong Kong.*

(US$ million)	2016	2015	2014
5. Net finance costs			
Interest and other finance costs on liabilities carried at amortised cost	**129**	183	177
Interest on overdrafts	**1**	1	1
Interest on redeemable bonds and other loans	**111**	136	175
Premium and costs on early redemption of redeemable bonds and other loans	**12**	36	–
Accelerated amortisation on early settlement of redeemable bonds and other loans	**5**	10	–
Interest cost on finance lease obligations	**–**	–	1
Net interest on employee benefit liabilities	**11**	11	17
Finance revenue received on assets carried at amortised cost	**(16)**	(14)	(9)
Interest on bank accounts	**(15)**	(13)	(7)
Interest revenue on other loans and investments	**(1)**	(1)	(2)
Net foreign exchange gains	**(2)**	(11)	(7)
Net fair value loss (gain) on financial instruments	**(1)**	13	(1)
Realised loss on termination of swaps	**–**	14	–
Hedge ineffectiveness			
Loss on hedging instrument (derivative)	**3**	4	5
Gain on hedged item	**(4)**	(5)	(6)
	121	182	177

(US$ million)	2016	2015	2014
6. Taxation charge			
Current taxation			
Current year	**63**	37	19
Prior year overprovision	**(2)**	(7)	(2)
Other company taxes	**3**	(1)	–
Deferred taxation			
Current year	**44**	33	36
Recognition of deferred tax asset	**–**	–	(53)
Prior year underprovision	**(4)**	–	2
	104	62	2
Reconciliation of the tax rate			
Profit before taxation	**423**	229	137
Profit-making regions	**423**	314	278
Loss-making regions	**–**	(85)	(141)
Taxation at the average statutory tax rate	**119**	62	35
Profit-making regions at 28% (2015: 27%; 2014: 27%)	**119**	83	74
Loss-making regions at 29% (2015: 25%; 2014: 28%)	**–**	(21)	(39)
Net exempt income and non-tax deductible expenditure	**–**	11	(53)
No tax relief on losses	**–**	18	75
No tax charge on profits	**(12)**	(21)	(2)
Recognition of deferred tax assets	**–**	–	(53)
Prior year adjustments	**(6)**	(7)	–
Other taxes	**3**	(1)	–
Taxation charge	**104**	62	2
Effective tax rate for the year	**25%**	27%	1%

In addition to income taxation charges to profit or loss, taxation relief of US$8 million (2015: US$33 million relief; 2014: US$1 million relief) has been recognised directly in other comprehensive income (refer to note 12).

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2016			2015			2014		
	Profit US$ million	**Shares million**	**Earnings per share US cents**	Profit US$ million	Shares million	Earnings per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**319**	**529.4**	**60**	167	525.7	32	135	522.5	26
Share options and performance shares under Sappi Limited Share Trust	**–**	**10.9**		–	5.5		–	4.1	
Diluted EPS calculation	**319**	**540.3**	**59**	167	531.2	31	135	526.6	26

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR64.88 (2015: ZAR44.62; 2014: ZAR35.98). For the 2014 and 2015 financial years, the effect of certain share options granted under the Sappi Limited Share Incentive Trust as well as share options granted under the BBBEE transaction were excluded as they were neither dilutive nor antidilutive.

In the current financial year, all share options that could potentially dilute EPS in the future are included in the calculation above. However, the calculation of the dilutive weighted average number of shares for the 2014 and 2015 financial years exclude the effect of 1.3 million and 1.7 million respective share options on ordinary shares as well as the effect of the 'A' ordinary shares as the issue price exceeds either the average market price per share or the hurdle rate. Refer to notes 18 and 29 for a discussion on the 'A' ordinary shares.

Headline earnings per share[1]

Headline earnings per share are based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

	2016			2015			2014		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**423**	**104**	**319**	229	62	167	137	2	135
Impairments of assets and investments	**2**	**–**	**2**	–	–	–	1	–	1
Profit on disposal of assets held for sale, businesses and other assets	**(15)**	**(3)**	**(12)**	–	–	–	29	1	28
Headline earnings	**410**	**101**	**309**	229	62	167	167	3	164
Weighted average number of ordinary shares in issue (millions)			**529.4**			525.7			522.5
Headline earnings per share (US cents)			**58**			32			31
Weighted average number of ordinary shares in issue on a fully diluted basis (million)			**540.3**			531.2			526.6
Diluted headline earnings per share (US cents)			**57**			31			31

[1] *Headline earnings – as defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.*

7. Earnings per share continued

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2016			2015			2014		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**423**	**104**	**319**	229	62	167	137	2	135
Special items	**(57)**	**(18)**	**(39)**	(54)	(7)	(47)	32	1	31
Refinancing costs	**23**	**–**	**23**	61	–	61	–	–	–
Certain once-off tax items	**–**	**–**	**–**	–	–	–	–	53	(53)
Earnings excluding special items	**389**	**86**	**303**	236	55	181	169	56	113
Weighted average number of ordinary shares in issue (million)			**529.4**			525.7			522.5
EPS excluding special items (US cents)			**57**			34			22
Weighted average number of ordinary shares on a fully diluted basis (million)			**540.3**			531.2			526.6
Diluted EPS excluding special items (US cents)			**56**			34			21

8. Dividends

The directors have resolved to declare a gross dividend (number 86) of 11 US cents per share, payable in ZAR at an exchange rate of (US$1 = ZAR13.56686), being ZAR149.23546 cents per share, for the year ended September 2016 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi 'A' ordinary unlisted shares in issue on the record date are entitled to receive 5.5 US cents per share being 50% of the ordinary dividend declared.

In compliance with the requirements of STRATE, the JSE Limited's electronic settlement system which is applicable to Sappi, the salient dates in respect of the dividend will be as follows:

Last day to trade to qualify for dividend	10 January 2017
Date on which shares commence trading ex dividend	11 January 2017
Record date	13 January 2017
Payment date	17 January 2017

Dividends payable to shareholders on the South African register will be paid in South African Rand and dividends attributable to holders of ADR shares on the NYSE will be dealt with in accordance with their custody agreements in place with their local custodian.

Certificated shareholders who previously held their shares on the UK register, which has subsequently been discontinued, shall be paid in Pound Sterling at the ruling exchange rate at the time.

No currency elections are permitted.

There will not be any dematerialisation or rematerialisation of Sappi Limited share certificates from Wednesday, 11 January 2017 to Tuesday, 13 January 2017, both days inclusive.

This dividend declared after year-end is not included as a liability in these financial statements.

9. Assets held for sale

2016

During the financial year, the conditions precedent related to the sale of the group's Enstra and Cape Kraft mills were fulfilled. Proceeds of US$39 million were received and a combined profit on disposal of US$13 million was recorded.

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

(US$ million)	**2016**	2015
Property, plant and equipment	**–**	14
Inventories	**–**	14
Assets held for sale	**–**	28
Deferred tax liabilities	**–**	1
Liabilities associated with assets held for sale	**–**	1

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
10. Property, plant and equipment		
Land and buildings[1]		
At cost	**1,317**	1,290
Accumulated depreciation and impairments	**(800)**	(780)
	517	510
Plant and equipment[2]		
At cost	**6,401**	6,208
Accumulated depreciation and impairments	**(4,419)**	(4,212)
	1,982	1,996
Capitalised leased assets[3]		
At cost	**412**	410
Accumulated depreciation and impairments	**(410)**	(408)
	2	2
Aggregate cost	**8,130**	7,908
Aggregate accumulated depreciation and impairments	**(5,629)**	(5,400)
Aggregate book value[4]	**2,501**	2,508

The movement of property, plant and equipment is reconciled as follows:

(US$ million)	Land and buildings	Plant and equipment	Capitalised leased assets	**Total**
Net book value at September 2014	597	2,242	2	**2,841**
Additions	15	232	1	**248**
Disposals	–	(1)	–	**(1)**
Depreciation	(32)	(233)	(1)	**(266)**
Transfers to assets held for sale	(4)	(12)	–	**(16)**
Translation differences	(66)	(232)	–	**(298)**
Net book value at September 2015	510	1,996	2	**2,508**
Additions	10	218	1	**229**
Disposals	–	(2)	–	**(2)**
Depreciation	(28)	(221)	(1)	**(250)**
Transfers	22	(22)	–	**–**
Translation differences	3	13	–	**16**
Net book value at September 2016	517	1,982	2	**2,501**

[1] Details of land and buildings are available at the registered offices of the respective companies that own the assets.
[2] Plant and equipment include vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.
[3] Capitalised leased assets consist primarily of plant and equipment.
[4] An amount of US$124 million (2015: US$170 million) relates to assets under construction.

Refer to note 25 for details of encumbrances.

(US$ million)	2016	2015
11. Plantations		
Fair value of plantations at beginning of year	**383**	430
Gains arising from growth	**56**	65
Fire, flood, storms and related events	**(13)**	(7)
In-field inventory	**(1)**	(1)
Gain arising from fair value price changes	**64**	41
Harvesting – agriculture produce (fellings)	**(56)**	(57)
Disposals	**(1)**	–
Translation differences	**9**	(88)
Fair value of plantations at end of year	**441**	383

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations comprise pulpwood and sawlogs and are managed to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than 20 years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSCTM standards.

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 9.95%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprises approximately 105,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell, and volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

(US$ million)	2016	2015	2014
Market price changes			
1% increase in market prices	**2**	2	2
1% decrease in market prices	**(2)**	(2)	(2)
Discount rate (for immature timber)			
1% increase in rate	**(2)**	(2)	(2)
1% decrease in rate	**2**	2	2
Volume assumption			
1% increase in estimate of volume	**4**	4	4
1% decrease in estimate of volume	**(4)**	(4)	(4)
Costs to sell			
1% increase in costs to sell	**(2)**	(1)	(2)
1% decrease in costs to sell	**2**	1	2
Growth assumptions			
1% increase in rate of growth	**1**	1	1
1% decrease in rate of growth	**(1)**	(1)	(1)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016 Assets	2016 Liabilities	2015 Assets	2015 Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	**(63)**	**(63)**	(53)	(20)
Inventory	**10**	**2**	9	2
United States of America (USA) tax credits carry forward	**20**	**–**	55	–
Tax loss carry forward	**119**	**30**	119	36
Property, plant and equipment	**(5)**	**(207)**	(14)	(206)
Plantations	**–**	**(48)**	–	(66)
Other non-current assets	**40**	**2**	5	–
Other non-current liabilities	**31**	**12**	41	9
	152	**(272)**	162	(245)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

(US$ million)	2016	2015
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**36**	97
Tax losses	**712**	680
USA tax credits carry forward[1]	**–**	59
	748	836
Attributable to the following tax jurisdictions:		
Austria	**552**	566
Belgium	**115**	124
Finland	**38**	41
The Netherlands	**43**	46
USA	**–**	59
	748	836
Expiry between one and five years	**86**	166
Expiry after five years	**24**	9
Indefinite life	**638**	661
	748	836
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**836**	937
No tax relief on losses	**–**	10
No tax charge on profits	**(31)**	(8)
Expired[1]	**(59)**	–
Movement in foreign exchange rates	**2**	(103)
Balance at end of year	**748**	836

[1] *Our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses had to be utilised prior the utilisation of the CBTC. As the CBTC expired unused at the end of the 2016 financial year, the company has recharacterised the tax effected amount of the credit as a net tax loss carry forward of US$35 million, and reduced the tax credit carry forward of US$94 million and related unrecognised deferred tax asset of US$59 million. This has no impact on the net tax expense.*

(US$ million)	2016	2015
12. Deferred tax continued		
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**162**	138
Deferred tax liabilities	**(245)**	(272)
	(83)	(134)
Deferred tax benefit (charge) for the year	**(40)**	(33)
Other liabilities, accruals and prepayments	**(38)**	(46)
Inventory	**–**	3
USA tax credits	**–**	(1)
Tax loss carry forward	**(53)**	136
Property, plant and equipment	**11**	8
Plantations	**18**	16
Other non-current assets	**(27)**	(34)
Other non-current liabilities	**49**	(115)
Amounts recorded directly in other comprehensive income	**8**	33
Transfer to assets held for sale	**–**	1
Translation differences	**(5)**	50
Deferred tax balances at end of year	**(120)**	(83)
Deferred tax assets	**152**	162
Deferred tax liabilities	**(272)**	(245)

13. Goodwill and intangible assets

	2016					2015				
(US$ million)	**Goodwill**	**Licence fees**	**Brands**	**Other[1]**	**Total**	Goodwill	Licence fees	Brands	Other[1]	Total
Net carrying amount at beginning of year	**4**	**3**	**7**	**5**	**19**	4	3	10	–	17
Additions	**–**	**–**	**–**	**4**	**4**	–	–	–	5	5
Amortisation	**–**	**–**	**(2)**	**–**	**(2)**	–	–	(2)	–	(2)
Impairment[1]	**–**	**–**	**–**	**(2)**	**(2)**	–	–	–	–	–
Translation difference	**(1)**	**–**	**–**	**(1)**	**(2)**	–	–	(1)	–	(1)
Net carrying amount	**3**	**3**	**5**	**6**	**17**	4	3	7	5	19
Cost (gross carrying amount)	**3**	**3**	**20**	**9**	**35**	5	3	20	5	33
Accumulated amortisation and impairments	**–**	**–**	**(15)**	**(3)**	**(18)**	(1)	–	(13)	–	(14)
Net carrying amount	**3**	**3**	**5**	**6**	**17**	4	3	7	5	19

[1] *Other intangible assets comprise (i) development costs of US$5 million (2015: US$2 million); and (ii) costs incurred in acquiring emission rights to meet the shortfall of allowances in our European reporting segment of US$1 million (2015: US$3 million). During the 2016 financial year, a reduction in the market value of these allowances resulted in an impairment loss of US$2 million being recognised.*

The net carrying amount of goodwill relates to the coated woodfree cash-generating unit in Sappi Europe. The goodwill is not significant but has been assessed for impairment by comparing the carrying amount with the recoverable amount.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
14. Joint ventures		
Group's share of carrying amount of joint ventures		
Material joint venture	**14**	13
Joint ventures that are not individually material	**6**	5
	20	18

Dividends received from joint ventures for the 2016 financial year were US$7 million (2015: US$7 million; 2014: US$9 million).

Details of material joint venture

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa, and the development, production and sale of products based on lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with International Financial Reporting Standards are used to account for the joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2016	2015
Current assets	**21**	20
Non-current assets	**14**	11
Current liabilities	**(6)**	(3)
Non-current liabilities	**(1)**	(2)
The above assets and liabilities include the following:		
Cash and cash equivalents	**6**	4
Current financial liabilities (excluding trade and other payables, and provisions)	**(6)**	(6)
Non-current financial liabilities (excluding trade and other payables, and provisions)	**(1)**	(2)

(US$ million)	2016	2015	2014
Sales	**56**	64	67
Depreciation and amortisation	**1**	2	2
Finance costs	**–**	–	–
Finance revenue	**–**	–	–
Taxation charge	**7**	7	6
Profit from continuing operations	**16**	18	16
Other comprehensive income	**–**	–	–
Total comprehensive income	**16**	18	16

Reconciliation of the financial information to the carrying amount of the joint venture:

(US$ million)	2016	2015
Net assets of the joint venture	**28**	26
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	13

14. Joint ventures continued

Details of joint ventures that are not individually material

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December which is a common date for entities operating in the joint ventures' countries of incorporation and which is also the year-end of the other venturers.

Aggregate financial information for joint ventures that are not individually material:

(US$ million)	**2016**	2015	2014
Profit from continuing operations	**1**	1	–
Profit from discontinued operations	**–**	–	–
Other comprehensive income	**–**	–	1
Total comprehensive income	**1**	1	1

(US$ million)	**2016**	2015
Carrying amount of these joint ventures	**6**	5

Included in the carrying value above is a small investment made during the year in a forestry company in Colombia.

(US$ million)	**2016**	2015
15. Other non-current assets		
Investment funds	**7**	8
Defined benefit pension plan assets (refer to note 28)	**23**	26
Advances to tree growers	**3**	3
Other financial assets	**4**	5
Other	**2**	1
	39	43

(US$ million)	**2016**	2015
16. Inventories		
Raw materials	**134**	124
Work in progress	**56**	56
Finished goods	**281**	285
Consumable stores and spares	**135**	130
	606	595

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$8 million (2015: US$11 million; 2014: US$9 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$3,896 million (2015: US$4,262 million; 2014: US$4,854 million).

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
17. Trade and other receivables		
Trade accounts receivable, gross	**531**	561
Allowance for credit losses	**(14)**	(11)
Trade accounts receivable, net	**517**	550
Prepayments and other receivables	**125**	95
	642	645

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.1% (2015: 12.2%) of turnover.

(US$ million)	2016	2015
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	**11**	9
Raised during the year	**8**	7
Released during the year	**(1)**	(1)
Utilised during the year	**(4)**	(3)
Translation differences	**–**	(1)
Balance at end of year	**14**	11

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2016

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	**7**	**–**	**7**
Between 7 and 30 days overdue	**7**	**–**	**7**
Between 30 and 60 days overdue	**2**	**1**	**3**
More than 60 days overdue	**2**	**12**	**14**
	18	**13**	**31**

September 2015

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	12	–	12
Between 7 and 30 days overdue	10	1	11
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	–	10	10
	24	11	35

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2015: US$2 million) against trade receivables past contractual repayment terms.

17. Trade and other receivables continued

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2018. This programme has a limit of US$370 million (€330 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$392 million (2015: US$434 million) have been pledged as collateral for amounts received as funding under the programme of US$314 million (2015: US$343 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

If this securitisation facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, among others, an amount of defaults above a specified level, terms and conditions of the agreement not being met, or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement is entered into.

The total amount of trade receivables sold at the end of September 2016 amounted to US$91 million (2015: US$98 million).

Details of the securitisation programme at the end of the 2016 and 2015 financial years are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2016				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,249 million**	**Unlimited[1]**	**Linked to 3-month JIBAR**
2015				
Rand Merchant Bank Limited	ZAR	ZAR1,368 million	Unlimited[1]	Linked to 3-month JIBAR

[1] The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain letters of credit to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico) and Citibank (São Paulo) by utilising the customers' credit facilities with the discounting bank.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) that wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheckwechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). Subsequently, the financial guarantee contract is measured at the higher of:
(i) The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
(ii) The amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$10 million (2015: US$12 million) has been disclosed in this respect.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

17. Trade and other receivables continued

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2016 and September 2015.

Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$642 million (2015: US$645 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following trade receivable amounts due from single customers:

	2016			2015		
Threshold	**Number of customers**	**US$ million**	**Percentage**	Number of customers	US$ million	Percentage
Greater than US$10 million	**5**	**96**	**19**	7	103	19
Between US$5 million and US$10 million	**8**	**49**	**9**	6	39	7
Less than US$5 million	**2,315**	**372**	**72**	2,360	408	74
	2,328	**517**	**100**	2,373	550	100

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

18. Ordinary share capital and share premium

	2016		2015	
	Number of shares	**US$ million**	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each[1]	**19,961,476**		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**541,446,223**	**40**	541,446,223	39
Fully paid 'A' ordinary shares of ZAR1 each[1]	**19,961,476**	**1**	19,961,476	1
Treasury shares[2]	**(30,844,098)**	**(2)**	(35,002,688)	(2)
Share premium		**840**		813
	530,563,601	**879**	526,405,011	851
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**851**		1,044
Transfers from Sappi Limited Share Incentive Trust		**14**		10
Translation movements		**14**		(203)
Closing balance		**879**		851

[1] *The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.*

[2] *Includes 10,882,622 (2015: 15,041,212) ordinary shares as well as 19,961,476 (2015: 19,961,476) 'A' ordinary shares that are held by group entities, including the Sappi Limited Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.*

18. Ordinary share capital and share premium continued

The movement in the number of treasury shares is set out in the table below:

Number of shares	2016	2015
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**15,041,212**	17,286,615
Treasury shares issued to participants of the Scheme	**(4,158,590)**	(2,245,403)
Share options (refer to note 29)	**(3,396,445)**	(1,687,520)
Share plan options (refer to note 29)	**(762,145)**	(557,883)
Ordinary treasury shares at end of year	**10,882,622**	15,041,212
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	30,844,098	35,002,688

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of the Sappi Limited Share Incentive Trust (the Scheme) and/or the Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the Annual General Meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:

- Issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- Debt, which includes interest-bearing borrowings as disclosed in note 21, and
- Cash and cash equivalents.

The objectives of the group in managing capital are:

- To safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- To ensure sufficient resilience against economic turmoil
- To maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints, and
- To ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2016 and 2015 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015	2014
19. Other comprehensive income (loss)			
Item that will not be reclassified subsequently to profit or loss			
Actuarial losses on post-employment benefit funds	**(12)**	(63)	(152)
Gross amount	**(20)**	(96)	(152)
Tax[1]	**8**	33	–
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency	**38**	(148)	(71)
Translation of foreign operations	**37**	(134)	(67)
Exchange differences arising on non-distributable reserves	**1**	(21)	(8)
Exchange differences arising on hedging reserves	**–**	7	4
Tax	**–**	–	–
Fair value adjustment on available-for-sale financial instruments	**–**	(1)	(2)
Gross amount	**–**	(1)	(2)
Tax	**–**	–	–
Hedging reserves	**4**	4	(22)
Movements during the year	**4**	(28)	(26)
Reclassified to profit or loss	**–**	32	3
Reclassified to property, plant and equipment	**–**	–	–
Tax[1]	**–**	–	1
Other comprehensive income (loss) recorded directly in equity	**30**	(208)	(247)
Profit for the year	**319**	167	135
Total comprehensive income (loss) for the year	**349**	(41)	(112)

[1] *Due to the effect of different effective tax rates being applied in different tax jurisdictions, the net tax relief for the 2016 financial year is US$8 million (2015: US$33 million relief; 2014: US$1 million charge).*

(US$ million)	2016	2015
20. Non-distributable reserves		
Legal reserves in subsidiaries	**58**	58
Share-based payment reserve	**53**	52
Other	**3**	3
Capital reduction	**1**	1
Capitalisation of distributable reserves	**1**	1
Revaluation of available-for-sale financial assets	**1**	1
	114	113

(US$ million)	2016 Legal reserves[1]	2016 Share-based payment reserve	2016 Other	2016 Total	2015 Legal reserves[1]	2015 Share-based payment reserve	2015 Other	2015 Total
20. Non-distributable reserves continued								
Opening balance	**58**	**52**	**3**	**113**	65	64	4	133
Transfers of vested share options	**–**	**(7)**	**–**	**(7)**	–	(5)	–	(5)
Share-based payment expense	**–**	**7**	**–**	**7**	–	7	–	7
Movement on available-for-sale financial assets	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Translation differences	**–**	**1**	**–**	**1**	(7)	(14)	–	(21)
	58	**53**	**3**	**114**	58	52	3	113

[1] *Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.*

(US$ million)	2016	2015
21. Interest-bearing borrowings		
Secured borrowings[1][2]	**314**	1,638
Unsecured borrowings[2]	**1,797**	589
Total borrowings (refer to note 31)	**2,111**	2,227
Less: Current portion included in current liabilities	**(576)**	(196)
Total non-current interest-bearing borrowings	**1,535**	2,031
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2016		196
2017	**576**	509
2018	**350**	380
2019	**–**	–
2020	**83**	82
2021 (September 2015: thereafter)	**–**	1,060
Thereafter	**1,102**	
	2,111	2,227

[1] *Consists of mortgage and pledge over trade receivables and certain assets (refer to note 25 for details of encumbered assets).*
[2] *In August 2016, Sappi released security previously granted to secure certain indebtedness.*

Capitalised lease liabilities

As at financial year-end, the group had no material capitalised finance lease liabilities.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

21. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2016:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed[2]	US$400 million	US$398 million[3][4][5]	Unsecured	July 2017	No financial covenants
Public bond	EUR	Fixed	€450 million	€442 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€343 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$219 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed[7]	ZAR500 million	ZAR500 million[4]	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€183 million	€183 million[4]	Trade receivables (securitisation programme)	August 2018	EBITDA to net interest and net debt to EBITDA[8]
UniCredit Bank	US$	Variable	US$109 million	US$109 million[4]	Trade receivables (securitisation programme)	August 2018	EBITDA to net interest and net debt to EBITDA[8]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2016	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€101 million	€100 million[4][9]		June 2017	EBITDA to net interest and net debt to EBITDA[8]
GroCapital Financial Services	ZAR	Fixed[7]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

[1] The nature of the rates for the group bonds are explained in note 31. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

[2] US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

[3] Under the relevant indenture, certain limitations exist including dividend distributions and other payments, indebtedness, asset sales, liens, guarantees, and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

[4] The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

[5] Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem any public bonds (the securities), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

[6] Under the relevant indenture, limitations exist on liens, sale and leaseback transactions, and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.

[7] ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

[8] Financial covenants relate to the Sappi Limited group.

[9] The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

	Local currency million	US$ million
21. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
US Dollar[1]	726	**726**
Euro	1,128	**1,266**
Rand	1,644	**119**
		2,111

[1] *This amount includes debt of US$400 million that is swapped into Euro.*

A detailed analysis of total interest-bearing borrowings has been disclosed in note 31.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions above certain de minimis amounts. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2016 and 2015 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$370 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi North America, and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2016, a funding reserve, that is reset on a monthly basis, amounted to 19.75% (2015: 20.31%).

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between US$337 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

21. Interest-bearing borrowings continued

Unutilised facilities

The group monitors its availability of funds on a daily basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

(US$ million)	Currency	Interest rate	2016	2015
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**595**	536
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**56**	26
			651	562
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**20**	20
Cash management overdraft facility	EUR	Variable (EURIBOR)	**20**	20
			40	40
Total unutilised facilities (committed and uncommitted) excluding cash			**691**	602

[1] *Two syndicated loans with a consortium of banks with revolving facilities available of €465 million (2015: €465 million) and ZAR1,000 million (2015: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €465 million facility matures in April 2020, is subject to financial covenants relating to the Sappi Limited group and is unsecured. The ZAR1,000 million facility is an evergreen facility with a 15-month notice period and is subject to financial covenants relating to the financial position of Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$4.7 million (2015: US$4.3 million) in respect of the two facilities.*

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

(US$ million)	2016	2015
22. Other non-current liabilities		
Defined benefit pension plan liabilities (refer to note 28)	**326**	341
Post-employment healthcare subsidy (refer to note 28)	**108**	107
Long-term employee benefits	**1**	1
Workmen's compensation	**20**	22
Long service awards	**21**	20
Land restoration obligation	**13**	13
Restructuring provisions	**9**	11
Deferred income	**1**	1
Other	**19**	14
	518	530

(US$ million)	2016	2015
23. Provisions		
Restructuring provisions	**23**	26
Long-term (refer to note 22)	**9**	11
Short-term	**14**	15
Other provisions	**1**	1
Balance at September	**24**	27

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs	Other closure costs	Total
Balance at September 2014	44	1	45
Increase in provisions	8	1	9
Utilised	(16)	(2)	(18)
Released during the year	(3)	–	(3)
Other movements	(3)	–	(3)
Translation effect	(4)	–	(4)
Balance at September 2015	26	–	26
Increase in provisions	6	–	6
Utilised	(8)	–	(8)
Released during the year	(2)	–	(2)
Other movements	–	1	1
Balance at September 2016	**22**	**1**	**23**

Sappi North America

In May 2014, Sappi North America announced that it would reduce its central overhead costs resulting in a restructuring provision of US$3 million for severance and retrenchment costs being raised. The US$1 million that remained unutilised at the 2015 financial year-end was utilised during the 2016 financial year.

Sappi Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost-saving measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2017 with the long-term provisions expected to be fully utilised by September 2024.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

	(US$ million)	2016	2015	2014
24.	Notes to the group statement of cash flows			
24.1	**Cash generated from operations**			
	Profit for the year	**319**	167	135
	Adjustment for:			
	Depreciation	**250**	266	310
	Fellings	**56**	57	59
	Amortisation	**2**	2	2
	Taxation charge	**104**	62	2
	Net finance costs	**121**	182	177
	Restructuring provisions and closure costs raised (reversed)	**4**	6	(6)
	Fair value adjustment gains and growth on plantations	**(120)**	(106)	(86)
	Post-employment benefits funding	**(51)**	(56)	(70)
	Non-cash post-retirement plan settlements and amendments	**(8)**	(68)	(21)
	Profit (loss) on disposal of assets and businesses	**(15)**	–	29
	Other non-cash items	**31**	32	35
		693	544	566
24.2	**Decrease (increase) in working capital**			
	(Increase) decrease in inventories	**(2)**	12	(9)
	Decrease (increase) in receivables	**9**	29	(24)
	(Decrease) increase in payables	**(3)**	(52)	67
		4	(11)	34
24.3	**Finance costs paid**			
	Interest and other finance costs on liabilities carried at amortised cost	**(123)**	(148)	(194)
	Premium and costs on early redemption of redeemable bonds and other loans	**(17)**	(46)	–
	Net foreign exchange gains	**2**	11	7
	Net fair value gain (loss) on financial instruments	**1**	(13)	1
	Transfers to financing activities and non-cash items	**30**	48	16
		(107)	(148)	(170)
24.4	**Taxation paid**			
	Net amounts (payable) receivable at beginning of year	**(20)**	(11)	6
	Translation effects	**(2)**	4	(1)
	Amounts recognised directly in other comprehensive income	**(1)**	–	–
	Taxation charge to profit or loss	**(64)**	(29)	(17)
	Less: Net amounts payable (receivable) at end of year	**31**	20	11
		(56)	(16)	(1)
24.5	**Proceeds on disposal of other non-current assets**			
	Book value of non-current assets disposed of	**3**	1	11
	Gain (loss) on disposal	**2**	–	(5)
		5	1	6
24.6	**Cash and cash equivalents**			
	Cash and deposits on call	**697**	449	517
	Money market instruments	**6**	7	11
		703	456	528

(US$ million)	2016	2015

25. Encumbered assets

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third-party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

	2016	2015
Trade receivables	**392**	434
Land and buildings	**–**	215
Plant and equipment	**–**	1,019
Inventory	**–**	195
	392	1,863

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$370 million (€330 million), of which US$314 million (€280 million) was utilised at financial year-end (refer to notes 17 and 21).

In the prior year, the US$400 million, US$350 million and €450 million public high yield bonds as well as the €465 million revolving credit facility were secured by land and buildings, plant and equipment and inventory. During the current year, the group completed a refinancing transaction whereby the US$350 million high yield bond was replaced by a €350 million public bond due in 2023. Subsequent to the refinancing, the security provided in terms of the above high yield bonds was released due to the group having achieved certain financial covenants in terms of the respective agreements.

(US$ million)	2016	2015

26. Commitments

	2016	2015
Capital commitments		
Contracted but not provided	**42**	60
Approved but not contracted	**71**	73
	113	133
Future forecast cash flows of capital commitments at September:		
2016		116
2017	**90**	11
2018	**15**	6
2019	**4**	–
2020	**4**	–
	113	133

These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

Lease commitments

Future undiscounted minimum operating lease obligations payable in the year ended September:

	2016	2015
2016		20
2017	**20**	13
2018	**13**	8
2019	**7**	4
2020	**4**	3
2021 (2015: thereafter)	**2**	5
Thereafter	**4**	
	50	53

Further information on capital commitments relating to environmental matters can be found in note 34.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
27. Contingent liabilities		
Guarantees and suretyships	**10**	13
Other contingent liabilities	**11**	11
	21	24

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third-party funding of payments to Sappi for certain German accounts receivable. Refer to note 17.3 for further detail.

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2016 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	2016	2015	2016	2015	2016	2015
Post-employment plan costs (credits) recognised in profit or loss	**34**	34	**10**	(48)	**7**	5
Employer contributions paid during the financial year			**38**	45	**8**	7
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to note 22)			**326**	341	**108**	107
Net pension assets (refer to note 15)[1]			**(23)**	(26)	**–**	–
Net balance sheet liabilities			**303**	315	**108**	107
Development in the balance sheet for the pension/ healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(315)**	(341)	**(107)**	(113)
Net pension/healthcare subsidy costs for the year			**(18)**	5	**(7)**	(8)
Settlement gains for the year[2]			**8**	43	**–**	3
Employer contributions			**38**	45	**8**	7
Net actuarial losses for the year			**(17)**	(96)	**(3)**	–
Translation differences			**1**	29	**1**	4
Net pension/healthcare subsidy liabilities at end of year			**(303)**	(315)	**(108)**	(107)

[1] Defined benefit plans in South Africa.

[2] During the year, regional management undertook various settlement projects, as follows:

- *A vested-member settlement offer was made to deferred members of our plans in North America. The acceptance by 50% of the members resulted in a gain of US$8 million being recorded in profit or loss.*
- *Management in Southern Africa undertook further tranches of settlement offers to active and pensioner members in qualifying for the post-employment healthcare subsidy. This resulted in a negligible amount being recorded in profit or loss.*

Actuarial valuations of all plans are performed annually with the exception of our Southern African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

28. Post-employment benefits continued

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of US$34 million (2015: US$34 million; 2014: US$34 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$33 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, topups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local tax payers, usually on residence-based criteria in accordance with domestic laws.

State benefits vary widely in value and accrual formulae from country to country. Contributions are normally paid with domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in state plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included with other employee costs reported elsewhere in the group accounts, and excluded from figures reported in this note.

Defined benefit pension or retirement lump sum plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of association to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value Euro benefits and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit	United Kingdom, North America (salaried plan)
Fixed €-value	Germany
Nominal US$-value (periodically revalued)	North America (works plans)

Plans remain open to new hires except for plans in North America, Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies with varying degrees of complexity according to the needs of each plan, analysing risk and return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- **Southern Africa:** Asset mix based on 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- **Europe including United Kingdom (UK)[1]:** Asset mix based on 35% equity and real estate instruments, 47% debt instruments, 18% multi-asset and other instruments.
- **North America:** Asset mix based on 38% equity instruments, 44% debt instruments, 18% multi-asset and other instruments.

[1] *Weighted average of plans in this region.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

28. Post-employment benefits continued

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- **Inflation:** The risk that future inflation indices is higher than expected and uncontrolled
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the group
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- **Administration:** Administration of this liability poses a burden to the group.

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

Funding policy

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis, with the exception of one plan in South Africa, where employees contribute a fixed percentage of pensionable salary. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are, to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$33 million.

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and Southern African operations. Employees are generally eligible for benefits upon retirement and on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in Southern Africa is partially funded with assets held in a local cell captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$6 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

(US$ million)	**2016**	2015
Jubilee (long service award) in continental Europe in other long-term liabilities	**21**	20
Early retirement (temporary pension) benefit in Belgium[1]	**1**	6
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**13**	12
Workmen's compensation benefit obligations in North America	**20**	22

[1] *This benefit was reduced significantly due to a change in local agreements.*

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans			Post-employment healthcare subsidy		
	2016	2015	2014	**2016**	2015	2014
Components of defined benefit cost recognised in profit or loss						
Current service cost	**16**	19	23	**3**	3	3
Past service credit	**(6)**	(31)	(23)	**–**	–	–
Interest on net defined benefit	**6**	5	8	**4**	5	7
Fund administration costs	**2**	2	3	**–**	–	–
Non-routine settlement gain	**(8)**	(43)	(3)	**–**	(3)	–
Net amount recognised in profit or loss	**10**	(48)	8	**7**	5	10
Components of defined benefit cost recognised in other comprehensive income						
Actuarial gains (losses) arising from membership experience	**6**	2	3	**5**	3	(1)
Actuarial (losses) gains arising from changes in demographic assumptions	**(2)**	(57)	–	**(2)**	(2)	–
Actuarial (losses) gains arising from changes in financial assumptions	**(145)**	(57)	(286)	**(6)**	–	(5)
Return on plan assets (excluding amounts included in interest income)	**124**	16	137	**–**	(1)	–
Net amount recognised in other comprehensive income	**(17)**	(96)	(146)	**(3)**	–	(6)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2016	Defined benefit pension plans 2015	Post-employment healthcare subsidy 2016	Post-employment healthcare subsidy 2015
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,365**	2,005	**118**	150
Current service cost	**16**	19	**3**	3
Past service credit	**(6)**	(31)	**–**	–
Interest expense	**53**	57	**5**	6
Plan participants' contributions	**1**	2	**–**	–
Remeasurements	**141**	112	**3**	(1)
Membership experience changes	**(6)**	(2)	**(5)**	(3)
Demographic assumption changes	**2**	57	**2**	2
Financial assumption changes	**145**	57	**6**	–
Non-routine plan settlements	**(46)**	(586)	**(7)**	(27)
Benefits paid	**(80)**	(71)	**(5)**	(5)
Translation difference	**(35)**	(142)	**(1)**	(8)
Defined benefit obligation at end of year	**1,409**	1,365	**116**	118
– Present value of wholly unfunded obligation	**157**	171	**92**	89
– Present value of wholly or partially funded obligation	**1,252**	1,194	**24**	29
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,050**	1,664	**11**	37
Interest income	**47**	52	**1**	1
Employer contributions	**38**	45	**8**	7
Plan participants' contributions	**1**	2	**–**	–
Remeasurements				
Return (loss) on plan assets net of interest income	**124**	16	**–**	(1)
Non-routine plan settlements	**(38)**	(543)	**(7)**	(24)
Benefits paid	**(80)**	(71)	**(5)**	(5)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**(34)**	(113)	**–**	(4)
Fair value of plan assets at end of year	**1,106**	1,050	**8**	11
Net balance sheet defined benefit liability	**303**	315	**108**	107

28. Post-employment benefits continued

The major categories of plan assets at fair value are presented as follows:

(US$ million)	Funded pension plans 2016	Funded pension plans 2015	Funded subsidy plans 2016	Funded subsidy plans 2015
Investments quoted in active markets				
– Equity and high yield investments	**409**	413	**–**	–
– Investment grade debt instruments	**207**	157	**–**	–
– Property investment funds	**15**	15	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**445**	439	**7**	10
Cash	**30**	26	**1**	1
	1,106	1,050	**8**	11

[1] *Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.*

As at financial year-end, there were no investments in the group's own quoted equity instruments (2015: US$1 million).

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

(US$ million)	2016 North America	2016 Europe (incl UK)	2016 Southern Africa	2015 North America	2015 Europe (incl UK)	2015 Southern Africa
Discount rate – pension (%)	**3.24**	**1.60**	**9.40**	4.00	2.80	8.60
Discount rate – post-employment healthcare subsidy (%)	**3.01**	**n/a**	**9.50**	3.70	n/a	9.25
Future salary increase rate – pension (%)	**–**	**0.90**	**8.50**	–	0.90	7.40
Cost of living adjustment for pensions in payment (%)[1]	**–**	**2.00**	**6.00**	–	2.30	5.10
Healthcare cost trend rate (%)[2]	**7.80 – >5.00**	**n/a**	**8.50**	8.10 – >5.00	n/a	8.25
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**26.00**	**23.80**	**19.20**	26.00	24.20	19.20
– For future retiring beneficiaries	**28.00**	**25.70**	**20.20**	28.00	26.20	20.10

[1] *Weighted average for plans granting cost of living adjustment whether fixed or variable.*
[2] *North America: Initial rate – > long-term rate trend over nine years (2015: nine years).*
[3] *Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.*

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for the year ended September 2016

28. Post-employment benefits continued

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation (pension and healthcare subsidy) would decrease by US$188 million (increase by US$235 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation (pension and healthcare subsidy) would increase by US$36 million (decrease by US$30 million).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$56 million (decrease by US$47 million).
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation (pension and healthcare subsidy) would increase by US$43 million (decrease by US$39 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	13 years	10 years
Europe (including UK)	14 years	–
Southern Africa	18 years	16 years

Regional split of results

	2016			2015		
(US$ million)	**North America**	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Defined benefit obligation (pension)	**(763)**	**(510)**	**(136)**	(733)	(492)	(140)
Defined benefit obligation (healthcare)	**(92)**	**n/a**	**(24)**	(89)	n/a	(29)
Fair value of plan assets (pension)	**667**	**280**	**159**	626	258	166
Fair value of plan assets (healthcare)	**–**	**n/a**	**8**	–	n/a	11
Net defined benefit liability	**(188)**	**(230)**	**7**	(196)	(234)	8
Net defined benefit cost (credit) recognised in profit or loss (pension)	**4**	**3**	**3**	11	(63)	4
Net defined benefit cost recognised in profit or loss (healthcare)	**5**	**n/a**	**2**	5	n/a	–
Total	**9**	**3**	**5**	16	(63)	4
Net (loss) gain recognised in other comprehensive income (pension)	**(4)**	**(8)**	**(5)**	(87)	(12)	3
Net (loss) gain recognised in other comprehensive income (healthcare)	**(3)**	**n/a**	**–**	1	n/a	(1)
Total	**(7)**	**(8)**	**(5)**	(86)	(12)	2

29. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior Annual General Meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (share options) and (b) may be offered the opportunity to acquire ordinary shares (scheme shares).

Under the rules of the Scheme:
- Share options entitle the participant to purchase one ordinary share per share option, and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant share options or scheme shares, as the case may be.

The share options and scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may share options be exercised by the participants and may scheme shares be released from the Scheme to participants.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, inter alia, undertakes:
- A rights offer, or
- Is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:
- The company undergoes a change in control after an allocation date other than a change in control initiated by the board itself, or
- The persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

29. Share-based payments continued

Movements in share options and performance shares for the financial year ended September 2016 and September 2015 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2014	11,132,725	8,266,958	34.29	**19,399,683**
– Offered	3,410,100	–	–	**3,410,100**
– Paid for/vested	(557,883)	(1,687,520)	31.40	**(2,245,403)**
– Returned, lapsed and forfeited	(1,970,799)	(146,190)	43.57	**(2,116,989)**
Outstanding at September 2015	12,014,143	6,433,248	34.77	**18,447,391**
– Offered	3,765,350	–	–	**3,765,350**
– Paid for/vested	(762,145)	(3,396,445)	37.93	**(4,158,590)**
– Returned, lapsed and forfeited	(985,574)	(211,124)	48.90	**(1,196,698)**
Outstanding at September 2016	14,031,774	2,825,679	30.23	**16,857,453**
Exercisable at September 2014	–	5,956,994	37.28	
Exercisable at September 2015	–	5,785,544	36.10	
Exercisable at September 2016	–	2,825,679	30.23	

[1] *Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares vest.*

The following table sets out the number of share options and performance shares outstanding:

	2016	2015	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
12 December 2007		742,200	Time	Vested	12 December 2015	52.57
19 March 2008		442,860	Time	Vested	19 March 2016	55.97
22 December 2008	**347,140**	824,460	Time	Vested	22 December 2016	35.50
09 December 2009	**629,540**	1,142,050	Time	Vested	09 December 2017	33.85
03 December 2010	**768,450**	1,368,450	Time	Vested	03 December 2018	35.20
02 December 2011	**1,080,549**	1,913,228	Time	Vested	02 December 2019	22.90
Performance shares:						
02 December 2011		1,524,287	Performance	02 December 2015	n/a	n/a
07 December 2012	**3,226,303**	3,274,042	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,750,723**	3,839,389	Performance	13 December 2017	n/a	n/a
04 December 2014	**3,307,105**	3,376,425	Performance	04 December 2018	n/a	n/a
07 December 2015	**3,747,643**		Performance	07 December 2019	n/a	n/a
	16,857,453	18,447,391				

29. Share-based payments continued

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 41	Issue 41
Date of grant	07 December 2015	07 December 2015
Type of award	Performance	Performance
Share price at grant date	ZAR59.92	ZAR59.92
Vesting period	4 years	4 years
Vesting conditions	Market-related – relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	78%	80%
Number of shares offered	1,882,675	1,882,675
Volatility	31%	n/a
Risk-free discount rate	1.7% (US yield)	n/a
Expected dividend yield	2.4%	2.4%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR53.29	ZAR47.94

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 37 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Broad-based Black Economic Empowerment

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (BBBEE) transaction (the BBBEE transaction) that enabled Sappi to meet its BBBEE targets in respect of BBBEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (HDSAs) in the South African economy and, through BBBEE legislation, formalised the country's approach in this regard. Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BBBEE transaction (the Plantation BBBEE transaction) that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BBBEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE in the forestry industry and includes the BBBEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BBBEE transaction and to implement the BBBEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BBBEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:
- Sappi's South African employees (62.5%)
- South African black managers (15%)
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the Southern African mill operations and plantations (10%).

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:
- The value created through the Plantation BBBEE transaction was settled by the issue of 4.3 million fully paid-up ordinary shares at a price based on the 30-day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50, and
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the ESOP Trust), a trust formed for the benefit of certain Sappi managers that are HDSAs (the MSOP Trust) and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in Southern Africa (the Sappi Foundation Trust, and together with the ESOP Trust and the MSOP Trust, the BBBEE trusts). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE trusts and the strategic partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's Southern African business under the Forestry Charter and BBBEE legislation in general.

Notes to the Group Annual Financial Statements continued

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29. Share-based payments continued

The BBBEE transaction continued

The number of ordinary shares allocated to the strategic partners and Sappi employees who were participants of the Plantation BBBEE transaction are as follows:

Entity	Ordinary share allocation
Strategic partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,227
	3,047,762
Employees (Through the ESOP Trust)	1,280,597
Total	4,328,359

The number of 'A' ordinary shares allocated to the BBBEE trusts are as follows:

Entity	'A' ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group incurred a share-based payment expense of US$1 million (2015: US$2 million, 2014: US$2 million) during the 2016 financial year that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
Model used to value	Black Scholes model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the ESOP Trust and MSOP Trust is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0 – 35	–	–
36 – 48	40	40
49 – 60	10	50
61 – 72	10	60
73 – 84	10	70
85 – 96	10	80
97 – 108	10	90
109 – termination date	10	100

Refer to note 18 for further details regarding the 'A' ordinary shares.

(US$ million)		2016	2015
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Non-current assets			
Interest rate currency swap	Secured notes due July 2017	–	39
Interest rate swap	Unsecured ZAR500 million bond due April 2018	1	1
Interest rate swap	Unsecured ZAR400 million loan due May 2020	–	1
		1	41
Current assets			
Fair value hedge	Secured notes due April 2021[1]	–	4
Interest rate currency swap	Secured notes due July 2017	38	–
Forward exchange contracts	Various	6	1
		44	5
Current liabilities			
Pulp swaps	Raw materials	1	–
Foreign exchange contracts	Various	1	5
		2	5

[1] *This fair value hedging instrument was settled as part of the refinancing transaction undertaken during the year.*

Refer to note 31 for more details on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

a) Market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
   - Interest rate risk
   - Currency risk, and
   - Commodity price risk

b) Liquidity risk, and

c) Credit risk.

Sappi's Group Treasury comprises two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities. These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

Notes to the Group Annual Financial Statements continued

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31. Financial instruments continued

a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2016 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 25 September 2016. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
(US$ equivalent in millions)	2017	2018	2019	2020	2021	2022+	**2016 Carrying value**	**2016 Fair value**	2015 Carrying value	2015 Fair value
US Dollar										
Fixed rate debt[1]	398	–	–	–	–	219	**617**	**643**	614	687
Average interest rate (%)	7.78	–	–	–	–	7.61	**7.72**		7.75	
Variable rate debt[2]	–	109	–	–	–	–	**109**	**109**	468	504
Average interest rate (%)	–	2.71	–	–	–	–	**2.71**		6.05	
Euro										
Fixed rate debt	1	–	–	–	–	883	**884**	**971**	496	495
Average interest rate (%)	1.41	–	–	1.34	–	3.72	**3.71**		3.44	
Variable rate debt[3]	177	205	–	–	–	–	**382**	**383**	477	476
Average interest rate (%)	2.22	1.37	–	–	–	–	**1.76**		2.25	
Rand										
Fixed rate debt[4]	–	36	–	83	–	–	**119**	**125**	172	178
Average interest rate (%)	–	7.46	–	7.99	–	–	**7.83**		8.09	
Total										
Fixed rate debt	399	36	–	83	–	1,102	**1,620**	**1,739**	1,282	1,360
Average interest rate (%)	7.77	7.42	–	7.98	–	4.49	**5.54**		6.13	
Variable rate debt	177	314	–	–	–	–	**491**	**492**	945	980
Average interest rate (%)	2.22	1.84	–	–	–	–	**1.97**		4.13	
Fixed and variable	576	350	–	83	–	1,102	**2,111**	**2,231**	2,227	2,340
Current portion							**576**	**600**	196	182
Long-term portion							**1,535**	**1,631**	2,031	2,158
Total interest-bearing borrowings (refer to note 21)							**2,111**	**2,231**	2,227	2,340

[1] US Dollar fixed rates of US$400 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.
[2] The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
[3] The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
[4] ZAR floating rates of ZAR900 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

31. Financial instruments continued

a) Market risk continued

Interest-bearing borrowings continued

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.37% and 7.99% (depending on currency). At September 2016, after giving effect to interest rate swaps, 76.74% of Sappi's borrowings were at fixed rates of interest and 23.26% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

Sappi uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The valuation of the hedging instruments includes an adjustment for credit risk, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 (the US$300 million Senior Secured Notes due 2019 and the corresponding swaps have been early redeemed in March 2015). The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2016, the above mentioned hedges were effective. The swaps showed a total positive fair value of US$37.8 million. The positive fair value of the currency leg of the swaps related to the principal amount of US$40.5 million was booked to profit or loss to offset the unrealised corresponding foreign currency loss on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of US$2.7 million was deferred in OCI for the negative effective portion of US$3.5 million and due to the inclusion of the credit risk, a positive ineffective portion of US$0.8 million was booked to the income statement.

Interest rate swaps floating to fixed

In April and May 2013, Sappi issued floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective. In April 2016, ZAR255 million floating rate debt and the corresponding swaps came to maturity.

At September 2016, the remaining hedges were highly effective and the swaps had in total a net positive fair value of US$1.5 million which was deferred to equity.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

a) Market risk continued

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

On 31 March 2016, the 2021 bond and the corresponding interest rate swap have been early redeemed. The unwinding of the swap resulted in a net positive settlement amount of US$0.2 million (excluding any interest accruals).

Summary of outstanding cash flow and fair value hedges

(US$ million)	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2016						
Cash flow hedges						
IRCS	**US Dollar 7.75% into EUR 7.56%**	**July 2017**	**US$400 million**	**38**	**(3)**	**41**
IRS	**ZAR variable (JIBAR) to ZAR 7.46% fixed**	**April 2018**	**ZAR500 million**	**1**	**1**	**–**
IRS	**ZAR variable (JIBAR) to ZAR 7.85% fixed**	**May 2018**	**ZAR400 million**	**–**	**1**	**–**
				39	**(1)**	**41**
September 2015						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	39	(3)	42
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	April 2016	ZAR255 million	–	–	–
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	1	1	–
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	1	1	–
Fair value hedges						–
IRS	US Dollar 6.63% fixed to variable (LIBOR)	April 2016	US$350 million	4	–	–
				45	(1)	42

[1] *This refers to the carrying value.*

31. Financial instruments continued

a) Market risk continued

Summary of outstanding cash flow and fair value hedges continued

The total fair values of the IRCSs and IRSs are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately US$3 million.

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of US$0.5 million.

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below its current rating, an additional margin would be added to the contractual funding rate.

(US$ million)	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
Securitisation – Elektra N°29 Limited	314	1
Commitment fee on unused revolving credit facility	522	1
Interest on utilised bank syndicated loans	113	1
	949	3
Impact calculated on total portfolio amounts to	0.32%	

Sensitivity analysis: interest rate risk of floating rate debt

(US$ million)	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
Total debt	2,111	1,620	491	2
Ratio fixed/floating to total debt		76.74%	23.26%	

The floating rate debt represents 23.26% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$2.45 million.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

a) Market risk continued

Currency risk

The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed. Sappi is exposed to the following currency risks:

- Economic exposures consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts, and
- Translation exposures arise from translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2016 and 2015 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement,* classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2016							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**39**	**10**	–	10	–	–	–
Derivative financial instruments	**1**	**1**	–	–	1	–	–
Current assets							
Trade receivables	**517**	**517**	224	226	11	29	27
Prepayments and other receivables	**125**	**39**	9	17	13	–	–
Derivative financial instruments	**44**	**44**	(420)	421	42	1	–
Cash and cash equivalents	**703**	**703**	309	94	279	1	20
		1,314	122	768	346	31	47
Non-current liabilities							
Interest-bearing borrowings	**1,535**	**1,535**	327	1,088	120	–	–
Other non-current liabilities	**518**	**1**	1	–	–	–	–
Current liabilities							
Interest-bearing borrowings	**576**	**576**	398	178	–	–	–
Derivative financial instruments	**2**	**2**	(15)	1	16	–	–
Trade payables	**455**	**455**	161	162	130	–	2
Other payables and accruals	**384**	**164**	25	99	39	–	1
		2,733	897	1,528	305	–	3
Foreign exchange gap		**(1,419)**	(775)	(760)	41	31	44

31. Financial instruments continued

a) Market risk continued

Currency risk analysis continued

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2015							
Classes of financial instruments							
Non-current assets							
Other non-current assets	43	10	–	10	–	–	–
Derivative financial instruments	41	41	(407)	446	2	–	–
Current assets							
Trade receivables	550	550	232	245	9	36	28
Prepayments and other receivables	95	27	7	12	7	–	1
Derivative financial instruments	5	5	4	–	–	1	–
Cash and cash equivalents	456	456	174	26	241	2	13
		1,089	10	739	259	39	42
Non-current liabilities							
Interest-bearing borrowings	2,031	2,031	1,082	831	118	–	–
Other non-current liabilities	530	–	–	–	–	–	–
Current liabilities							
Interest-bearing borrowings	196	196	–	142	54	–	–
Derivative financial instruments	5	5	27	–	(22)	–	–
Trade payables	461	461	129	197	120	4	11
Other payables and accruals	384	180	42	97	36	–	5
		2,873	1,280	1,267	306	4	16
Foreign exchange gap		(1,784)	(1,270)	(528)	(47)	35	26

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

(US$ million)		**2016** Contract amount (notional amount)	**2016** Fair value (unfavourable) favourable	2015 Contract amount (notional amount)	2015 Fair value (unfavourable) favourable
Foreign currency					
Bought:	USD	**5**	**–**	8	–
	EUR	**72**	**1**	44	1
	ZAR	**49**	**2**	33	(1)
Sold:	USD	**(95)**	**3**	(128)	(4)
	EUR	**–**	**–**	(38)	–
	ZAR	**(23)**	**(1)**	(11)	–
		8	**5**	(92)	(4)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

a) Market risk continued

Foreign currency forward exchange contracts continued

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2016 financial year.

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being May 2017.

As at September 2016, there was an open exposure of US$18 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10%	-10%
AUD	9.2	0.8	(1.0)
DKK	1.5	(0.1)	0.1
EUR	(11.4)	(1.0)	1.3
GBP	3.2	0.3	(0.4)
USD	5.4	0.5	(0.6)
ZAR	(24.3)	(2.2)	2.7
Other currencies	(1.3)	0.1	(0.1)
Total	(17.7)	(1.6)	2.0

Based on the exposure at the end of September 2016, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$1.6 million or a gain of US$2 million respectively.

During 2016, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$271 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a gain of US$7 million (including positive forward points of US$4 million).

Cash flow hedges

Saiccor Mill export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in Rand, any change in the foreign currency exchange rate between the US Dollar and the Rand would result in a different Rand selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts which were designated as hedging instruments.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2016 financial year, the hedge was highly effective and a net realised gain of US$3.1 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of US$1.7 million was deferred in equity.

31. Financial instruments continued

a) Market risk continued

Foreign currency forward exchange contracts continued

Net investment hedges

The hedge of the net investment designated in February 2010 has been de-designated in March 2016. At the moment of the de-designation, the life-to-date negative foreign exchange differences amounting to €36.9 million (US$41.5 million) will remain into equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (Sappi North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/Rand spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2016 financial year, the hedge was 100% effective.

	2016		2015	
(US$ million)	**Hedged notional**	**Foreign exchange result deferred in OCI**	Hedged notional	Foreign exchange result deferred in OCI
Bond 2021	**–**	**–**	29	(5)
Bond 2032	**49**	**(1)**	217	(40)
Previous designations	**–**	**(41)**	–	–
	49	**(42)**	246	(45)
Net investment value of Sappi North America	**733**		577	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

During 2016, pulp swaps in Sappi Europe were contracted for a limited volume of pulp (24,000 tons). Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp Index which is adjusted with a premium depending on the pulp market conditions. As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap whereby the variable price was swapped for an annual fixed price.

The group's pulp swap contracts outstanding at September 2016 are detailed below:

		2016		2015	
(US$ million)	Base currency	**Contract amount (notional amount)**	**Fair value (unfavour-able) favourable**	Contract amount (notional amount)	Fair value (unfavour-able) favourable
Bleached Hardwood Kraft Pulp (BHKP)					
Bought	Euro	**6**	**(1)**	9	–
		6	**(1)**	9	–

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:
- Managing its bank balances, cash concentration methods and cash flows
- Managing its working capital and capital expenditure
- Ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements, and
- Ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

Liquidity risk management

The following tables for the 2016 and 2015 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

(US$ million)	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	>5 years	Total
September 2016								
Non-current assets								
Other non-current assets	**10**	**10**	2	2	–	5	1	10
Derivative financial instruments	**1**	**1**	–	–	1	–	–	1
Current assets								
Trade receivables	**517**	**517**	517	–	–	–	–	517
Prepayments and other receivables	**39**	**39**	38	1	–	–	–	39
Derivative financial instruments	**44**	**44**	8	42	–	–	–	50
Cash and cash equivalents	**703**	**703**	703	–	–	–	–	703
			1,268	45	1	5	1	1,320
Non-current liabilities								
Interest-bearing borrowings	**1,535**	**1,632**	16	30	393	247	1,351	2,037
Other non-current liabilities	**1**	**1**	–	–	1	–	–	1
Current liabilities								
Interest-bearing borrowings	**576**	**576**	105	508	–	–	–	613
Derivative financial instruments	**2**	**2**	2	–	–	–	–	2
Trade payables	**455**	**455**	455	–	–	–	–	455
Other payables and accruals	**164**	**164**	165	–	–	–	–	165
			743	538	394	247	1,351	3,273
Liquidity surplus (gap)			525	(493)	(393)	(242)	(1,350)	(1,953)

31. Financial instruments continued

b) Liquidity risk continued

Liquidity risk management continued

(US$ million)	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years	Total
September 2015								
Non-current assets								
Other non-current assets	10	10	–	–	7	1	6	14
Derivative financial instruments	41	41	2	2	4	43	–	51
Current assets								
Trade receivables	550	550	550	–	–	–	–	550
Prepayments and other receivables	27	27	26	1	–	–	–	27
Derivative financial instruments	5	5	5	3	–	–	–	8
Cash and cash equivalents	456	456	456	–	–	–	–	456
			1,039	6	11	44	6	1,106
Non-current liabilities								
Interest-bearing borrowings	2,031	2,163	20	51	614	657	64	1,406
Current liabilities								
Interest-bearing borrowings	196	197	143	56	–	–	–	199
Derivative financial instruments	5	5	5	–	–	–	–	5
Trade payables	461	461	461	–	–	–	–	461
Other payables and accruals	180	180	180	–	–	–	–	180
			809	107	614	657	64	2,251
Liquidity surplus (gap)			230	(101)	(603)	(613)	(58)	(1,145)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2016 and 2015 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

(US$ million)	**Total**	**Fair value hedge**	**Cash flow hedge**	**No hedge accounting**	Maturity analysis Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
September 2016									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**1**	**–**	**1**	**–**	–	1	1	1	–
receiving leg	**10**	**–**	**10**	**–**	3	3	6	5	–
paying leg	**(9)**	**–**	**(9)**	**–**	(3)	(2)	(5)	(4)	–
Foreign exchange risk									
IRCS and FX forward contracts	**44**	**–**	**38**	**6**	7	47	–	–	–
receiving leg	**344**	**–**	**421**	**(77)**	(62)	297	–	–	–
paying leg	**(300)**	**–**	**(383)**	**83**	69	(250)	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	**1**	**–**	**–**	**1**	1	–	–	–	–
receiving leg	**39**	**–**	**–**	**39**	41	52	–	–	–
paying leg	**(38)**	**–**	**–**	**(38)**	(40)	(52)	–	–	–
Commodity price risk	**1**	**–**	**–**	**1**	1	–	–	–	–

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

(US$ million)	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
September 2015									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	6	4	2	–	4	4	1	1	10
receiving leg	36	20	16	–	15	15	6	5	41
paying leg	(30)	(16)	(14)	–	(11)	(11)	(5)	(4)	(31)
Foreign exchange risk									
IRCS and FX forward contracts	40	–	39	1	3	3	3	42	51
receiving leg	372	–	446	(74)	(58)	(58)	31	400	315
paying leg	(332)	–	(407)	75	61	61	(28)	(358)	(264)
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	5	–	–	5	5	5	–	–	10
receiving leg	(156)	–	–	(156)	(158)	(131)	–	–	(289)
paying leg	161	–	–	161	163	136	–	–	299

Fair values

All financial instruments are carried at fair value. The carrying amounts for cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate fair value due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available-for-sale financial assets.

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and re-ceivables	Held to maturity	Available-for-sale	Fair value
September 2016								
Classes of financial instruments								
Non-current assets								
Other non-current assets	**39**	29	10	–	3	–	7	10
Derivative financial instruments	**1**	–	1	1	–	–	–	1
	40	29	11	1	3	–	7	11
Current assets								
Trade receivables	**517**	–	517	–	517	–	–	517
Prepayments and other receivables	**125**	86	39	–	39	–	–	39
Derivative financial instruments	**44**	–	44	44	–	–	–	44
Cash and cash equivalents	**703**	–	703	–	703	–	–	703
	1,389	86	1,303	44	1,259	–	–	1,303

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
September 2016						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**1,535**	–	1,535	–	1,535	1,632
Other non-current liabilities	**518**	517	1	–	–	1
	2,053	517	1,536	–	1,535	1,633
Current liabilities						
Interest-bearing borrowings	**576**	–	576	–	576	576
Derivative financial instruments	**2**	–	2	2	–	2
Trade payables	**455**	–	455	–	455	455
Other payables and accruals	**384**	220	164	–	164	164
	1,417	220	1,197	2	1,195	1,197

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and re-ceivables	Held to maturity	Available-for-sale	Fair value
September 2015								
Classes of financial instruments								
Non-current assets								
Other non-current assets	43	33	10	–	2	–	8	10
Derivative financial instruments	41	–	41	41	–	–	–	41
	84	33	51	41	2	–	8	51
Current assets								
Trade receivables	550	–	550	–	550	–	–	550
Prepayments and other receivables	95	68	27	–	27	–	–	27
Derivative financial instruments	5	–	5	5	–	–	–	5
Cash and cash equivalents	456	–	456	–	449	7	–	456
Assets held for sale	28	28	–	–	–	–	–	–
	1,134	96	1,038	5	1,026	7	–	1,038

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
September 2015						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	2,031	–	2,031	–	2,031	2,163
Other non-current liabilities	530	530	–	–	–	–
	2,561	530	2,031	–	2,031	2,163
Current liabilities						
Interest-bearing borrowings	196	–	196	–	196	197
Derivative financial instruments	5	–	5	5	–	5
Trade payables	461	–	461	–	461	461
Other payables and accruals	384	204	180	–	180	180
Liabilities associated with assets held for sale	1	1	–	–	–	–
	1,047	205	842	5	837	843

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2016				2015			
	Total fair value	**Fair value hierarchy**			Total fair value	Fair value hierarchy		
(US$ million)		**Level 1**	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	**7**	**7**	**–**	**–**	8	8	–	–
Derivative financial instruments	**1**	**–**	**1**	**–**	41	–	41	–
Current assets								
Derivative financial instruments	**44**	**–**	**44**	**–**	5	–	5	–
	52	**7**	**45**	**–**	54	8	46	–
Current liabilities								
Derivative financial instruments	**2**	**–**	**2**	**–**	5	–	5	–
	2	**–**	**2**	**–**	5	–	5	–

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific groupwide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

Overall, 64% of the group's total trade receivables, both on- and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 17.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

32. Related-party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	**2016**	2015
Joint ventures and associates:										
– Sapin SA[1]	**–**	0.4	0.6	**–**	24.9	31.2	**–**	–	**–**	0.8
– proNARO GmbH	**–**	–	–	**125.8**	138.3	162.7	**–**	–	**1.2**	5.9
– Umkomaas Lignin Proprietary Limited	**4.8**	6.3	7.2	**0.1**	–	–	**0.5**	0.7	**–**	–
– Papierholz Austria GmbH	**–**	–	–	**82.5**	60.1	115.7	**–**	–	**4.8**	4.3
	4.8	6.7	7.8	**208.4**	223.3	309.6	**0.5**	0.7	**6.0**	11.0

[1] *During the financial year, Sapin SA became a wholly owned subsidiary of the group.*

Sales of goods and purchases to and from related parties were on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in the Sappi Limited share schemes are disclosed in notes 35 to 37.

Shareholders

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

[1] *The number of shares excludes 10,882,622 treasury shares held by the group.*

32. Related-party transactions continued

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2016 was 6,157)	99.8
	100.0

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

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2016 that the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

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

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

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

33. Events after balance sheet date

The directors declared a gross dividend of 11 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR13.56686 being ZAR149.23546 cents per share on 10 November 2016. See note 8 for further details.

Other than the non-adjusting event as described above, there have been no reportable events that occurred between financial year-end and the date of authorisation for issue of these financial statements.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

34. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gasses (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and takes actions with respect to its operations accordingly.

Sappi North America

Sappi North America (SNA) is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act as well as their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the Commissioner), issued a decision requiring SNA to install a fish passage at the Cumberland Mills dam, associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage is substantially complete and overall costs are approximately US$5 million.

Pursuant to the US Federal Energy Regulatory Commission (FERC) licence for the Saccarappa hydrofacility (the next dam upstream), the fish passage at this dam was required to be operational two years after the Cumberland Mills dam fish passage was completed (ie during the spring of 2015). Since 2013, SNA has entered into discussions with certain interested non-governmental organisations (the NGOs), and state and federal regulators, including US Fish and Wildlife Service and the Maine Department of Marine Resources in order to consider the removal of the dam as well as the design and timing of construction of the fish passage. In December 2016, the parties reached agreement on surrender of the Saccarappa hydro facility, removal of the dam, and design and construction of fish passage in exchange for a significant extension of fish passage deadlines at the upriver dams. The parties have also requested FERC to extend the deadline for the construction of fish passage at Saccarappa to May 2019.

Installation of the Cumberland Mill's and Saccarappa fish passages may also trigger, over a period of approximately 10 years, the obligation to install fishways at some of the other upstream hydrofacilities. Construction of additional fishways depends on several future contingencies, including the results of data gathering on fish populations in the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River over a number of years is estimated to range from approximately US$18 million to approximately US$28 million.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. The Environmental Protection Agency (EPA) has finalised several rules relating to emissions reporting and emissions reductions, including rules finalised in January 2013 known as 'Boiler MACT'. These establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers including particulate matter, hydrogen chloride, mercury and carbon monoxide. Under the rules, companies had three years to comply, but individual states have the authority to allow an additional year for compliance. The states where SNA's mills are located have authorised an additional year, with compliance required by January 2017, and Sappi's boilers currently meet all limits under the rules due to past capital investments and optimisation of fuel mix. On 29 July 2016, the US Court of Appeals for the District of Columbia Circuit (the Court) issued a ruling on the consolidated cases challenging Boiler MACT. The Court vacated key portions of the rule, including emission limits for certain subcategories of solid fuel boilers, and remanded other issues to the EPA for further rulemaking. At this time, Sappi cannot predict with certainty how the recent decision will impact its existing Boiler MACT strategies or whether Sappi will incur additional costs to comply with any revised Boiler MACT standards.

Sappi Europe

The group's European facilities are subject to extensive environmental regulation in the various countries from which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The BAT conclusions for the production of pulp, paper and board were published on 30 September 2014. Within four years, our European mills will need to have considered the new requirements through their permits.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or refuse derived fuel) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble)
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes and some wastes to ensure future possible material use

34. Environmental matters continued

Sappi Europe continued

- A timber and timber product regulation has been adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place
- The European Emission Trading System, in which all our European mills participate, is exposed to decisions that further increase the risk of carbon leakage. For 2014 to 2016, the European Commission decided to postpone the auctioning of 900 million allowances until 2019 to 2020 (back-loading). The Commission also intends to increase the annual reduction of the allowance caps of our mills from 1.74% annually today to 2.2% annually as of 2021, and
- The German Federal Ministry for Food and Agriculture (BMEL) published a report in 2012 on the migration of mineral oil hydrocarbons from recycled paper and board packaging into food which concluded that the introduction of functional barriers will be necessary. The European Food Safety Authority published a scientific opinion on mineral oil hydrocarbons and concluded that exposure to these mineral oil hydrocarbons via food is of potential concern and that the acceptable daily intake should be revised. Sappi has developed a paper-based solution called AlgroGuard M that can serve as a functional barrier, advancing packaging legislation.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

Sappi Southern Africa

In Southern Africa, our operations are regulated by various environmental laws, regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act recognises that water is a scarce resource. The Act ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent and the growing and management of forests are all regulated through a general authorisation and/or licensing system in terms of this Act
- The National Environmental Management Act establishes the procedures and institutions to facilitate and promote cooperative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm
- The National Environmental Management: Air Quality Act imposed more stringent compliance limits on the South African operations in 2020. The potential impact of these stricter standards as per the Air Quality Act are being evaluated and where possible quantified, and
- The National Environmental Management: Waste Act regulates the use, reuse, recycling and disposal of waste and regulates waste management by way of a licensing system, with the storage of waste being regulated by norms and standards.

South Africa has signed the COP21 Paris Agreement on Climate Change in April 2016. South Africa had been identified as the swing vote, the last realistic country that could push the agreement over the 55% carbon emission threshold needed for the deal to take full binding effect. Government is developing a broad mitigation system which include:

- The assessment of mitigation potential
- Setting carbon budgets for companies
- Pollution prevention plans for companies with carbon budgets and annual GHG reporting, and
- Implementation of carbon tax.

Sappi Southern Africa's proposed carbon budget has been accepted by government and voluntary reporting will commence in 2017. The implementation date of the carbon tax legislation is uncertain, the latest indication is end of 2017 or more likely beginning of 2018. Work is progressing well in terms of developing a carbon intensity factor for members of our industry representative, the Paper Manufacturers Association of South Africa and more critically, the recognition of carbon sequestration as part of the carbon tax calculation methodology.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

35. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is translated into US Dollar, the group's reporting currency, at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees; however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2016			
(US$)	Board fees	Committee fees	Travel allowance	Total
D Konar	25,031	47,228	10,200	82,459
B Radebe[1]	25,031	8,132	3,400	36,563
KR Osar	64,840	65,640	17,000	147,480
JD McKenzie	32,277	19,387	10,200	61,864
DC Cronje[2]	71,480	–	–	71,480
ANR Rudd[3]	286,549	26,495	6,800	319,844
NP Mageza	25,031	21,128	10,200	56,359
R Thummer	65,603	27,722	6,800	100,125
MV Moosa	25,031	12,504	10,200	47,735
MA Fallon	61,973	64,373	6,800	133,146
GPF Beurskens[1]	65,603	67,761	3,400	136,764
RJ DeKoch	64,840	23,455	13,600	101,895
RJAM Renders[4]	65,603	16,047	6,800	88,450
	878,892	399,872	105,400	1,384,164

[1] Subsequent to year-end, it was announced that Mrs B Radebe and Mr GPF Beurskens will retire from the board at the end of February 2017.
[2] Retired as independent Chairman of the board at the end of February 2016.
[3] Appointed as independent Chairman of the board from March 2016.
[4] Appointed to the board from October 2015.

35. Directors' and prescribed officers' remuneration continued

(US$)	2015 Board fees	Committee fees	Travel allowance	Total
D Konar	29,187	55,069	6,600	90,856
B Radebe	29,187	9,483	6,600	45,270
KR Osar	62,350	63,100	16,500	141,950
JD McKenzie	29,187	27,704	6,600	63,491
DC Cronje	200,040	–	3,300	203,340
ANR Rudd	99,136	67,741	9,900	176,777
NP Mageza	29,187	24,636	6,600	60,423
R Thummer	66,039	27,916	9,900	103,855
MV Moosa	29,187	9,483	6,600	45,270
MA Fallon	66,039	61,632	9,900	137,571
GPF Beurskens	66,039	68,205	6,600	140,844
RJ DeKoch	62,350	22,550	16,500	101,400
	767,928	437,519	105,600	1,311,047

(US$)	2014 Board fees	Committee fees	Travel allowance	Total
D Konar	31,033	58,544	6,400	95,977
B Radebe	31,033	10,080	3,200	44,313
KR Osar	61,080	61,805	12,800	135,685
JD McKenzie	31,033	29,447	6,400	66,880
DC Cronje	212,693	–	3,200	215,893
ANR Rudd	104,011	71,066	9,600	184,677
NP Mageza	31,033	26,191	6,400	63,624
R Thummer	69,692	29,437	9,600	108,729
MV Moosa	31,033	10,080	6,400	47,513
MA Fallon	69,310	64,623	9,600	143,533
GPF Beurskens	69,692	71,849	9,600	151,141
RJ DeKoch	61,080	22,070	12,800	95,950
	802,723	455,192	96,000	1,353,915

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

35. Directors' and prescribed officers' remuneration continued

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2016				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie[1]	386,767	438,082	12,050	91,638	928,537
GT Pearce[2]	269,960	300,613	8,249	69,630	648,452
	656,727	738,695	20,299	161,268	1,576,989

	2015				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie	433,014	351,842	12,265	128,333	925,454
GT Pearce	303,510	240,923	16,114	89,513	650,060
	736,524	592,765	28,379	217,846	1,575,514

	2014				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
RJ Boëttger[3]	5,264,892	501,857	–	151,225	5,917,974
SR Binnie[4]	375,121	355,990	–	109,229	840,340
GT Pearce[5]	333,053	201,486	58,843	64,551	657,933
	5,973,066	1,059,333	58,843	325,005	7,416,247

[1] SR Binnie received a 5.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Both percentage increases were below that of the budgeted mandate for general staff in the respective countries.

[2] GT Pearce received a 5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary).

[3] RJ Boëttger retired due to ill health on 30 June 2014 and, in terms of the guidance per the company's permanently disabled policy, received a lump sum payment of US$4,738,717.

[4] SR Binnie was promoted to group Chief Executive Officer on 01 July 2014 resulting in a further adjustment to his salary package as from this date.

[5] GT Pearce was promoted to group Chief Financial Officer on 01 July 2014. Earnings disclosed cover the whole financial year, including the period prior to his promotion. His expense allowance comprise a relocation allowance and a schooling allowance for his children.

The remuneration figures shown above are affected by the translation into US Dollar.

Please see the compensation report in the Annual Integrated Report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding 12 months' gross remuneration and benefits-in-kind.

35. Directors' and prescribed officers' remuneration continued

Prescribed officers[1]

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2016				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	706,507	660,006	2,773	219,964	1,589,250
Officer 2	519,115	373,598	–	51,258	943,971
Officer 3	282,526	215,780	9,187	69,215	576,708
Officer 4	288,804	171,064	9,581	–	469,449
Officer 5	141,784	122,025	4,862	44,061	312,732
Officer 6	183,583	169,402	6,220	84,861	444,066
Officer 7	157,701	134,583	5,111	47,917	345,312
	2,280,020	1,846,458	37,734	517,276	4,681,488

	2015				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	720,488	525,808	2,875	203,344	1,452,515
Officer 2	505,179	67,472	–	51,623	624,274
Officer 3	315,241	221,675	7,030	87,934	631,880
Officer 4	312,053	134,546	8,543	–	455,142
Officer 5	153,876	94,511	4,916	49,785	303,088
Officer 6	205,448	184,337	6,331	93,294	489,410
Officer 7	104,229	61,797	2,882	33,346	202,254
Officer 8	89,972	–	83,319	26,184	199,475
	2,406,486	1,290,146	115,896	545,510	4,358,038

	2014				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	837,782	525,051	3,394	138,668	1,504,895
Officer 2	494,541	–	–	49,631	544,172
Officer 3	333,243	281,892	–	64,124	679,259
Officer 4	453,945	179,854	–	46,104	679,903
Officer 5	163,453	118,682	–	51,638	333,773
Officer 6	226,368	199,020	341	100,942	526,671
Officer 8	305,845	217,871	409	86,863	610,988
	2,815,177	1,522,370	4,144	537,970	4,879,661

[1] *The prescribed officers of the group consist of G Bowles, M Gardner, F Marupen (appointed 01 March 2015), A Rossi (retired 28 February 2014, but retained on contract until December 2016), L Swartz (resigned 31 January 2015), A Thiel, M van Hoven and B Wiersum. They form the group Executive Committee together with the executive directors. The salaries of prescribed officers are affected by the translation into US Dollar.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

36. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of The Sappi Limited Share Incentive Trust.

	2016			2015		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	**7,542**	**–**	**–**	7,542	–	–
MV Moosa[1]	**–**	**–**	**576,542**	–	–	626,998
MA Fallon	**5,000**	**–**	**–**	5,000	–	–
Executive directors						
SR Binnie	**40,022**	**–**	**–**	22,762	–	–
GT Pearce	**30,162**	**–**	**–**	3,681	–	–
Prescribed officers						
Officer 1	**181,194**	**–**	**–**	134,678	–	–
Officer 2	**70,964**	**–**	**–**	70,964	–	–
Officer 3	**192,434**	**–**	**–**	142,434	–	–
Officer 4	**76,668**	**–**	**–**	62,115	–	–
Officer 5	**19,789**	**–**	**–**	5,689	–	–
Officer 6	**19,540**	**–**	**–**	9,540	–	–
Officer 7	**2,234**	**–**	**–**	–	–	–
	645,549	**–**	**576,542**	464,405	–	626,998

[1] *In June 2016, there was an off-market unbundling by Lereko Investment Proprietary Limited of 1,971,693 Sappi Limited shares in which Mr MV Moosa held a 31.8% to Lereko's underlying shareholders including to Amathabo Proprietary Limited.*

Subsequent to year-end and as per our SENS announcements to the date of this report, the directors and prescribed officers have acquired a net 428,494 Sappi shares.

Directors' interests in contracts

The directors have certified that they do not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Executive directors

	SR Binnie		GT Pearce		**Total 2016**	Total 2015
	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
Outstanding at beginning of year						
Number of shares held		585,000		215,100	**800,100**	564,250
Share option issue 32		–	ZAR52.57	6,600		
Performance shares 37		–		55,500		
Performance shares 38		100,000		35,000		
Performance shares 39		310,000		33,000		
Performance shares 40		175,000		85,000		
Offered and accepted during the year						
Performance shares 40						260,000
Performance shares 41		190,000		90,000	**280,000**	
Exercised during the year						
Number of shares		–		(34,350)	**(34,350)**	(12,075)
Returned, lapsed and forfeited during the year						
Number of shares		–		(27,750)	**(27,750)**	(12,075)
Outstanding at end of year						
Number of shares		775,000		243,000	**1,018,000**	800,100
Performance shares 38		100,000		35,000		
Performance shares 39		310,000		33,000		
Performance shares 40		175,000		85,000		
Performance shares 41		190,000		90,000		

Performance shares are issued when all conditions per note 29 are met.

Vesting dates	
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Prescribed officers

	Officer 1		Officer 2		Officer 3	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		415,000		429,000		610,000
Share option issue 32		–		–		–
Performance shares 37		105,000		105,000		100,000
Performance shares 38		100,000		114,000		100,000
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Offered and accepted during the year						
Performance shares 40						
Performance shares 41		105,000		105,000		105,000
Exercised during the year						
Number of shares		(52,500)		(52,500)		(50,000)
Returned, lapsed and forfeited during the year						
Number of shares		(52,500)		(52,500)		(50,000)
Outstanding at end of year						
Number of shares		415,000		429,000		615,000
Performance shares 38		100,000		114,000		100,000
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000

Performance shares are issued when all conditions per note 29 are met.

Vesting dates	
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019

Officer 4		Officer 5		Officer 6		Officer 7		**Total 2016**	Total 2015
Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
	134,551		275,000		284,700		–	**2,148,251**	2,350,700
	–		–	ZAR52.57	7,700		–		
	49,051		45,000		53,000		–		
	85,500		60,000		39,000		–		
	–		90,000		100,000		–		
	–		80,000		85,000		–		
									465,000
	–		85,000		90,000		70,000	**560,000**	
	(24,526)		(22,500)		(34,200)		–	**(236,226)**	(177,768)
	(24,525)		(22,500)		(26,500)		–	**(228,525)**	(489,681)
	85,500		315,000		314,000		70,000	**2,243,500**	2,148,251
	85,500		60,000		39,000		–		
	–		90,000		100,000		–		
	–		80,000		85,000		–		
	–		85,000		90,000		70,000		

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

		Exercised	Number of shares	Allocation price	Market value at date of payment
Executive directors					
September 2016					
GT Pearce	Performance plan 37	02 December 2015	27,750	ZAR0.00	ZAR62.95
	Share option issue 32	10 December 2015	6,600	ZAR52.57	ZAR58.38
September 2015					
GT Pearce	Performance plan 36	03 December 2014	12,075	ZAR0.00	ZAR40.93
Prescribed officers					
September 2016					
Officer 1	Performance plan 37	02 December 2015	52,500	ZAR0.00	ZAR62.95
Officer 2	Performance plan 37	02 December 2015	52,500	ZAR0.00	ZAR62.95
Officer 3	Performance plan 37	02 December 2015	50,000	ZAR0.00	ZAR62.95
Officer 4	Performance plan 37	02 December 2015	24,526	ZAR0.00	ZAR62.95
Officer 5	Performance plan 37	02 December 2015	22,500	ZAR0.00	ZAR62.95
Officer 6	Performance plan 37	02 December 2015	26,500	ZAR0.00	ZAR62.95
	Share option issue 32	10 December 2015	7,700	ZAR52.57	ZAR57.71
September 2015					
Officer 1	Performance plan 36	03 December 2014	44,000	ZAR0.00	ZAR40.93
Officer 2	Performance plan 36	03 December 2014	44,000	ZAR0.00	ZAR40.93
Officer 3	Performance plan 36	03 December 2014	32,500	ZAR0.00	ZAR40.93
Officer 4	Performance plan 36	03 December 2014	22,268	ZAR0.00	ZAR40.93
Officer 6	Performance plan 36	03 December 2014	10,000	ZAR0.00	ZAR40.93

38. Investments

Set out below are the more significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2016	Effective holding (%) 2015
Elektra Purchase Nº 29 Limited	Ireland	Securitisation of receivables	–	–
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving wood pulp/paper pulp	**100**	100
Sappi Deutschland GmbH	Germany	Sales	**100**	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Europe SA	Belgium	Sales	**100**	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	**100**	100
Sappi International Holdings Proprietary Limited	South Africa	Treasury	**100**	100
Sappi International SA	Belgium	Treasury	**100**	100
Sappi Lanaken NV	Belgium	Manufacture of paper	**100**	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	**100**	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	**100**	100
Sappi Papier Holding GmbH	Austria	Holding company/sales	**100**	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	**100**	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
SD Warren Company	United States of America	Manufacture of paper and paper pulp	**100**	100

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sappi

2016 Our leadership and executive management

Our leadership and executive management

Non-executive directors

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

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

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

Other board and organisation memberships
- BBA Aviation plc (Chairman)
- Business Growth Fund (Chairman)
- Meggitt plc (Chairman)

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

** Sir Nigel Rudd replaced Dr Cronjé as Independent Chairman of the Sappi board from 01 March 2016.*

Godefridus Peter Franciscus Beurskens (Frits)** (69)
(Independent)

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

Nationality: Dutch

Appointed: October 2011

Sappi board committee memberships
- Audit Committee
- Audit Committee of Sappi Europe (Chairman)

Other board and organisation memberships
- Board Director of the Smurfit Kappa Group plc
- Member of the Nominations Committee of the Smurfit Kappa Group
- Chairman of the Supervisory Board of Smurfit Kappa Netherlands

Skills, expertise and experience
The Smurfit Kappa Group is a listed company and a leader in paper-based packaging with annual sales of more than €8 billion globally. As President and Chief Executive Officer of Kappa Packaging (€3 billion turnover) prior to its late 2005 merger with the Smurfit Group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sale of container board, corrugated board, solid board packaging, graphic board and speciality board. He is a past Chairman of the Confederation of European Paper Industries (CEPI) and of the International Corrugated Case Association (ICCA). In December 2007, he was appointed by the Dutch Queen as officer of the Order of Oranje Nassau and received a knighthood.

*** Mr Beurskens will retire from the Sappi board at the end of February 2017.*

Robert John DeKoch (Bob) (64)
(Independent)

Qualifications: BA (Chemistry), MBA

Nationality: American

Appointed: March 2013

Sappi board committee memberships
Social, Ethics, Transformation and Sustainability Committee

Other board and organisation memberships
- The Boldt Company (President)
- New North, Inc (Chairman)
- The Building for Kids

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

Michael Anthony Fallon (Mike) (58)
(Independent)

Qualifications: BSc (Hons) (First class)

Nationality: British

Appointed: September 2011

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

Skills, expertise and experience
Mr Fallon retired as an Executive Director of Nippon Sheet Glass Company Limited (NSG Group) at the end of June 2012. Prior to retirement, Mr Fallon was President of NSG's global automotive division, with 17,500 employees, heading up all the glass and glazing operations in the key automotive regions across the world. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extends across a wide range of functions from plant management, sales and marketing and

supply chain to general management, including mergers and acquisition experience. He was President of Pilkington operations in North America and has been director and Chairman of companies in the United Kingdom, New Zealand and Finland.

Dr Deenadayalen Konar (Len) (62)
(Independent)

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

Nationality: South African

Appointed: March 2002

Sappi board committee memberships
- Audit Committee (Chairman)
- Nomination and Governance Committee

Other board and organisation memberships
- Alexander Forbes Equity Holdings Limited
- Exxaro Resources Limited (Chairman)
- Lonmin plc
- Steinhoff International Holdings Limited (Deputy Chairman)

Skills, expertise and experience
Previously Professor and Head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South African and the SA Institute of Directors, past member and Chairman of the external Audit Committee of the International Monetary Fund and member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (co-Chairman). Dr Konar is currently a professional director of companies.

Nkateko Peter Mageza (Peter) (62)
(Independent)

Qualifications: FCCA (UK)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships
- Audit Committee
- Human Resources and Compensation Committee

Other board and organisation memberships
- Anglo American Platinum
- Ethos Private Equity Proprietary Limited
- RCL Foods Limited (formerly Rainbow Chickens Limited)
- Remgro Limited
- MTN Group Limited

Skills, expertise and experience
Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former group Chief Operating Officer and executive director of Absa Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics division of Transnet Limited.

John David McKenzie (Jock) (69)
(Lead independent director)

Qualifications: BSc Chemical Engineering (Cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships
- Human Resources and Compensation Committee
- Nomination and Governance Committee

Other board and organisation memberships
- Capitec Bank
- Carleton Lloyd Education Trust (Chairman)
- Coronation Fund Managers
- Rondebosch Schools Education Trust (Chairman)
- University of Cape Town Foundation (Chairman)
- Zululand Distilling Proprietary Limited (Chairman)

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

Mohammed Valli Moosa (Valli) (59)
(Non-independent)

Qualifications: BSc (Mathematics)

Nationality: South African

Appointed: August 2010

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

Other board and organisation memberships
- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Lereko Investments Proprietary Limited
- Sanlam Limited
- Sun International Limited (Chairman)
- WWF – SA (Chairman)

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

Our leadership and executive management continued

Robertus Johannes Antonius Maria Renders (Rob Jan) (63)
(Independent)

Qualifications: MSc (Mechanical Engineering), MDP

Nationality: Dutch

Appointed: October 2015

Sappi board committee memberships
- Human Resources and Compensation Committee

Skills, expertise and experience
Currently a business consultant, Mr Renders was a member of the board of Duropack GmbH from 2012 until the end of May 2015, as well as CEO of Duropack from May 2013 until May 2015. He has also served (from 2006 to 2010) as Chairman of the board of OTOR Société Anonyme, a leading packaging provider in France. Between 1989 and 2006 he held various positions at Svenska Cellulosa Aktiebolaget (SCA), a leading global producer of hygiene products and packaging solutions, including Mill Manager at SCA Packaging De Hoop, Managing Director of SCA Packaging De Hoop, President of SCA Packaging Containerboard, President of SCA Packaging Europe and Senior Vice-President Special Project Global Packaging for SCA Group. He has various consulting positions.

Dr Rudolf Thummer (69)
(Independent)

Qualifications: Dr Techn, Dipl-Ing

Nationality: Austrian

Appointed: February 2010

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee

Skills, expertise and experience
Dr Thummer joined the Sappi board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld Mill. In 1990, he was appointed Technical Director of Alfeld Mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels, as Technical Director and executive board member. He served as group Head Technology of Sappi Limited from 01 January 2006 up to his retirement at the end of December 2007.

Karen Rohn Osar (67)
(Independent)

Qualifications: MBA, Finance

Nationality: American

Appointed: May 2007

Sappi board committee memberships
- Audit Committee
- Audit Committee of Sappi North America (Chairperson)

Other board and organisation memberships
- Innophos Holdings, Inc (Audit Committee and Nominating and Governance Committee)
- Webster Financial Corporation (Chairperson of Audit Committee)

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

Bridgette Radebe (56)**
(Independent)

Qualifications: BA (Pol Sc and Socio)

Nationality: South African

Appointed: May 2004

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee

Other board and organisation memberships
- Mmakau Mining Proprietary Limited (Executive Chairperson)
- South African Mining Development Association (President)

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

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

Non-executive and executive management

Executive directors

Stephen Robert Binnie (Steve) (49)
(Chief Executive Officer)

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

Nationality: British

Appointed: September 2012

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

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

Glen Thomas Pearce (53)
(Chief Financial Officer)

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

Nationality: South African

Appointed: July 2014

Sappi board committee memberships
- Expected to attend Audit Committee meetings by invitation

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

Executive management

Mark Gardner (61)
(President and Chief Executive Officer of Sappi North America)

Qualifications: BSc (Industrial Technology)

Skills, expertise and experience
Mr Gardner joined Sappi in 1981 and his experience includes serving as the Vice-President of Manufacturing and Vice-President of Supply Chain, prior to which he worked in a variety of production management roles at Sappi, including Production Manager at the Westbrook Mill, Paper Mill Manager at the Somerset Mill, Managing Director at the Muskegon Mill and Director of Engineering and Manufacturing Technology at the regional head office in Boston. Mr Gardner was named President and Chief Executive Officer of Sappi North America (SNA) in 2007 responsible for leading all Sappi operations in the region and was also appointed to the Sappi North America board. In 2009, Mr Gardner received the Technical Association of the Pulp and Paper Industry (TAPPI) Paper Industry Management Association (PIMA) Executive of the Year Award. The award is the highest recognition for leadership and management given by PIMA. Mr Gardner recently completed his term as Chairman on the board of directors of the American Forest & Paper Association. In September 2012, he was appointed to the Board of Trustees for the University of Maine System.

Alexander van Coller Thiel (Alex) (55)
(Chief Executive Officer of Sappi Southern Africa)

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

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

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

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

Qualifications: MA (Medieval and Modern History)

Skills, expertise and experience
Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Europe. Prior to joining Sappi, Mr Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director of Kappa Packaging and member of the management board in Eindhoven (the Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Middle East and North Africa. Mr Wiersum was Chairman of CEPI (Confederation of European Paper Industries) from 2011 to 2012. Until 31 December 2016, he remains Chairman of the board of directors of Euro-Graph (European Association of Graphic Paper Producers).

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

Qualifications: BSc Electrical Eng, PMD, EDP

Skills, expertise and experience
Mr Bowles joined Saiccor Mill in 1990. He served in various engineering and production positions at the mill until he was appointed as General Manager of Sappi Saiccor Mill in 2004.

Non-executive and executive management continued

In January 2011, he was appointed as Managing Director of Sappi Specialised Cellulose and in July 2011, Mr Bowles joined the group management team with responsibility for the increased need to coordinate the global marketing, sales and customer technical engagement responsibilities of the Sappi Specialised Cellulose business, while continuing to be responsible for dissolving wood pulp production at the Saiccor Mill in South Africa. In October 2013, he joined the group Executive Committee as Executive Vice-President Sappi Specialised Cellulose and joined the Sappi North American board releasing his manufacturing role at the Sappi Saiccor Mill. Mr Bowles is a board member of the LignoTech SA JV.

Andrea Rossi (62)
(Group Head Technology)

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

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

Fergus Marupen (51)
(Group Head Human Resources)

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

Skills, expertise and experience
Mr Marupen joined Sappi on 01 March 2015. Prior to Sappi, Mr Marupen held various positions at Business Unity South Africa (BUSA) where he was the Acting Chief Operating Officer, Group Executive Human Resources for Absa and executive management positions with Kumba Resources, Kumba Iron Ore and BHP Billiton (Energy Coal).

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

Qualifications: BProc, LLM (International Business Law)

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

Ages as at 31 December 2016.

sappi

2016 Risk management report

Risk management

Risk factors

In addition to other information contained in our Annual Integrated Report, you should carefully consider the following factors before deciding to invest in our ordinary shares. The following summary is dated 09 December 2016 and describes many of the risks that could affect Sappi Limited. However, the risks and uncertainties our company faces are not limited to those described below. There may be additional risks that we do not know of or that we deem immaterial based on information available to us as of the date of this summary which may also adversely affect our business. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares.

Risks related to our industry

We operate in a cyclical industry, which has in the past resulted in substantial fluctuations in our results.

The markets for our pulp and paper products are commodity markets to a significant extent and are affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply and demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices.

In recent years, turmoil in the capital and credit markets, coupled with uncertainty created by the European sovereign debt crises, has led to the decreased availability of credit, which continues to have an adverse effect on the world economy and consequently has already affected, and may continue to adversely affect the markets for our products through either a decrease in demand and/or a decrease in achievable selling prices. The timing and magnitude of demand and price increases or decreases in the pulp and paper market have generally varied by region and by type of pulp and paper.

A significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased costs. Other input cost increases including (but not limited to) energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently.

The majority of our woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed six to 12 months. In Southern Africa, we have entered into longer-term fixed-price agreements of between six and 12 months duration primarily for packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 4.2% of consolidated group sales during fiscal 2016.

Most of our dissolving wood pulp sales contracts are multi-year contracts. The pricing is generally based on a formula linked to the NBSK price as adjusted to reflect market prices for dissolving wood pulp where there is a divergence. These prices are mostly reset on a quarterly basis.

As a result of the short-term duration of paper and dissolving wood pulp pricing arrangements, we are subject to cyclical decreases in market prices for these products. A downturn in paper or dissolving wood pulp prices could have a material adverse effect on our business, results of operations and financial condition.

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

We compete against a large number of pulp and paper producers located around the world. A trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that produce pulp and paper products at a lower cost than our mills, or are government subsidised. Some of our competitors have advantages over us, including lower raw material, energy and labour costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including as a result of a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs, which could lead to a loss in market share and aggressive pricing by competitors, and may force us to decrease prices in an attempt to maintain market share.

During the first quarter, we sold our Southern African Enstra and Cape Kraft Mills. This was in line with our strategic focus on the virgin fibre packaging business in Southern Africa.

Global economic conditions could adversely affect our business, results of operations and financial condition.

During the latter half of fiscal 2008 and during fiscal 2009, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or cancelled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. Despite the aggressive measures taken by governments and central banks thus far,

the economic recovery remains slow. Certain countries have fallen back into recession and a significant risk remains that the measures taken may not prevent the global economy from falling back into recession. The turmoil in the sovereign debt markets as a result of the European debt crisis further resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

We are still negatively impacted by the slow recovery of the world economies, and the results of our European business have been adversely affected by the economic conditions in Europe. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing, duration or effect of any other downturn in the economy that may occur in the future.

The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in us paying higher premiums and periodically being unable to maintain appropriate levels or types of insurance.
The insurance market remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and unavailability of coverage due to reasons totally unconnected with our business. In addition, volatility in the global financial markets can adversely affect the insurance market and could result in some of the insurers in our insurance portfolio failing and being unable to pay their share of claims.

We have successfully negotiated the renewal of our 2016 asset and business interruption insurance cover at more favourable rates to those of 2015. Maximum self-insured retention for any one property damage occurrence is €20.5 million, with an annual aggregate of €33 million. We are unable to predict whether past or future events will result in more or less favourable terms for 2017. For property damage and business interruption insurance, cost-effective cover is not generally available to full value.

Since 2011, our property damage insurance policy has been Euro denominated as most of our assets are based in Euro denominated jurisdictions.

We place the insurance for our plantations on a standalone basis into international insurance markets. While the impact of fires on our plantations during fiscal 2012 to fiscal 2016 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

While we believe our insurance policies provide adequate coverage for reasonably foreseeable losses, we are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

New technologies may affect our ability to compete successfully.
We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect our operations and product range could render the technologies we utilise or the products we produce obsolete or less competitive in the future. Difficulties in assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely impact our results of operations.

Developments in alternative media and changes in consumer preferences may affect the demand for our products.
Consumer preferences may change as a result of the availability of alternative products or services, including less expensive product grades, or as a result of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage, mobile devices and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Over the last 10 to 15 years, the pulp and paper industry has encountered a growing transformation in consumer preference. During this time, readership and circulation of newspapers and magazines has been declining, accessibility to, and use of, the Internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications, including print publishing and advertising and the storage, duplication, transmission and consumption of written information generally, are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising on the Internet, mobile phones and other electronic devices, which tend to be less expensive. While neither the exact timing nor the extent of these trends can be predicted with certainty, competition from electronic media, for example, has led and may continue to lead to weaker demand for certain of our products, including coated woodfree and mechanical paper historically used in print publishing and advertising, as well as graphic paper more generally. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and consequently, could have a material and adverse impact on our results of operations.

The cost of complying with environmental, health and safety laws may be significant to our business.
Our operations are subject to a wide range of environmental, health and safety laws in the various jurisdictions in which we operate. Such laws govern, among other things, the control of emissions and discharges, the management and disposal of hazardous substances and wastes, the clean-up of contamination, the purchase and use of safety equipment, workplace safety training and the monitoring of workplace hazards.

Although we actively strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental requirements. Impacts from historical operations, including the land disposal of waste materials, or our own activities may require costly investigation and clean-up. In addition, we could become subject to environmental liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental requirements and the costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade pollution control equipment at our mills and to meet new regulatory requirements, including those in the United States, Southern Africa and Europe.

Risks related to our business

We require a significant amount of financing to fund our business and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.
Our ability to fund our working capital, capital expenditure and research and development requirements, to engage in future acquisitions, to make payments on our debt, to fund post-retirement benefit programmes and to pay dividends depend on our future operating performance. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions, which would result in a decline in global demand for our products, such as the current decline in demand in Europe, and a softening of prices for some of our products.

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness or reduce or delay our capital expenditures and research and development. We may not be able to accomplish these alternatives on a timely basis or on satisfactory terms. The failure to do so could have an adverse effect on our business, results of operations and financial condition.

During the first quarter, we sold our Southern African Enstra and Cape Kraft Mills. Proceeds received from the sale further reduced net debt.

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

We may not be successful in implementing, or may not realise all the expected benefits from, our strategic initiatives.
As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including high-cost capacity reductions, cost-saving projects, measures to enhance productivity and investment in our higher-margin speciality business. For example, during the first quarter, we sold our Southern African Enstra and Cape Kraft Mills. This was in line with our strategic focus on the virgin fibre packaging business in Southern Africa. Any future growth, cost savings or productivity enhancements that we realise from such efforts may differ materially from our estimates, or we may not be able to successfully implement part or all of our initiatives. The benefit of cost savings or productivity enhancements that we realise may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for our products may decline. With respect to our recent investments in additional dissolving wood pulp capacity, a number of our competitors have also announced additional production capacities, and total announced supply capacity currently significantly outstrips announced demand capacity for dissolving wood pulp, which may adversely affect the price of dissolving wood pulp. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

Continued volatility in equity markets and declining yields or defaults in the bond markets could adversely affect the funded status and funding needs of our post-employment defined benefit funds.
Several global economic factors currently make the general outlook for the forthcoming fiscal years uncertain. The equity and bond markets (including sovereign debt markets) may remain volatile and move in uncertain and unusual ways in the forthcoming fiscal years leading to significant swings in the value of the assets and liabilities of our funded and unfunded defined benefit schemes.

Generally, but not always, rising corporate bond yields reduce our net balance sheet liabilities whereas falling bond yields increase our net balance sheet liabilities. There is a risk that equity markets will deteriorate and bond yields will remain low in North America and Europe, which could negatively affect the funded status of our post-employment defined benefit arrangements. In addition, volatility in our net balance sheet liabilities resulting from the relative change in the value of assets and liabilities may be further enhanced by investment strategies resulting in exposure to various classes of assets.

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or inter-bank interest rate swap curves, depending on the basis. Although recent statutory easements in the pace of funding on these bases have provided some contribution relief to us, as long as yields on these asset classes remain low, we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

In addition, our pension and post-retirement funds hold various sovereign bonds as part of their fund assets, including Italian index-linked treasuries and sovereign bonds issued by Austria, Belgium, France, Germany, South Africa, the United Kingdom and the United States of America. Any significant decline in value or default of such securities, including in the context of a renewed European sovereign debt crisis, could negatively affect the funded status of our post-employment defined benefit arrangements.

Fluctuations in the value of currencies, particularly the Rand and the Euro in relation to the US Dollar, have in the past had, and could in the future have, a significant impact on our earnings in these currencies.
Exchange rate fluctuations have in the past, and may in the future, affect the competitiveness of our products in relation to the products of pulp and paper companies based in other countries.

Fluctuations in the exchange rate between currencies, particularly the Rand and Euro in relation to the US Dollar, have in the past and could in the future significantly affect our earnings, the competitiveness of our exports, the prices of imported competitors' products, and the costs of our raw materials. For example, weaker Euro/US Dollar exchange rates place pressure on our European business which purchases approximately half of its pulp requirements from local suppliers.

Since the adoption of the Euro by the European Union on 01 January 1999 (when the Euro was trading at approximately US$1.18 per Euro), it has fluctuated against the US Dollar, reaching a low of approximately US$0.83 per Euro in October 2000 before trading at approximately US$1.12, US$1.12 and US$1.27 per Euro at the end of fiscal 2016, 2015 and 2014 respectively.

The value of the Rand against the US Dollar has fluctuated considerably, moving against the US Dollar from a low of approximately ZAR13.90 per US Dollar in December 2001 to approximately ZAR13.71, ZAR13.91 and ZAR11.23 per US Dollar at the end of fiscal 2016, 2015 and 2014 respectively.

There are risks relating to the countries in which we operate that could adversely affect our business, results of operations and financial condition.
We own manufacturing operations in five countries in Europe, two states in the United States and in Southern Africa and own plantations in Southern Africa. We also sell our products to customers in over 160 countries worldwide. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

The inability to recover increasing input costs through increased prices of our products has had, and may continue to have, an adverse impact on our profitability.
The selling prices of the majority of the products we manufacture and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control.

Electricity generation companies are competing for the same raw materials, namely wood and woodchips, in the same markets as us, driving prices upwards, especially during winter in the northern hemisphere. Although oil prices have decreased from the historical highs of 2008, they could return to high levels in the foreseeable future because of, among other things, political instability in the oil producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

As has occurred in previous years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices, resulting in reduced operating profit, and negatively impacting business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, the hedging techniques we apply on our raw materials and products are on a small scale and short term in nature, other than our maintenance of a high level of economic pulp integration. Moreover, in the event of significant increases in the prices of pulp, our non-integrated and partially integrated operations could be adversely affected

if they are unable to raise paper prices by amounts sufficient to maintain margins.

If we are unable to obtain energy or raw materials at reasonable prices, or at all, it could adversely affect our operations.
We require substantial amounts of oil-based chemicals, fuels and other raw materials for our production activities and transport of our timber and other products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber and pulp, which are consumed in our operations. In addition, our operations are dependent on access to electricity generated by local utilities and power plants, which can at times be unpredictable. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions.

Environmental litigation aimed at protecting forests and species habitats, as well as regulatory restrictions, may in the future cause significant reductions in the amount of timber available for commercial harvest. In addition, future claims and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. The availability of harvested timber may further be limited by factors such as fire, insect infestation, disease, ice and wind storms, droughts, floods and other nature and man-made causes, thereby reducing supply and increasing prices.

The prices of various sources of energy supplies and raw materials have significantly increased in the past, and may in the future further increase significantly from current levels. An increase in energy and raw material prices could materially adversely affect our results of operations, plantation valuation and financial condition.

A limited number of customers account for a significant amount of our revenues.
We sell a significant portion of our products to several significant customers, including Antalis, Birla, Igepa, Lenzing, Lindenmeyr, Papyrus and Veritiv. During fiscal 2016 and 2015, no single customer individually represented more than 10% of our total sales. As a significant portion of our sales, revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. In addition, we rely on credit insurance for our arrangements with certain customers, and the withdrawal or unavailability of such credit insurance may impact our ability to engage with such customers.

Adverse changes to economic or market conditions could have a negative impact on our significant customers, which in turn could materially adversely affect our results of operations and financial position.

Adverse changes in economic conditions have had and may continue to have a negative impact on our significant customers. Such changes cannot be predicted and their impacts may be severe. For example, a disruption in the ability of our significant customers to access sources of liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position. Similarly, sustained adverse changes in market conditions for our significant customers' products, such as lower demand or prices or increased competition, could also reduce future orders of our products and have a material adverse effect on our results of operations and financial position.

Such adverse changes could also lead to consolidation in the industries in which our significant customers participate, as evidenced by the current trend towards consolidation in the North American print, publishing and distribution industries. Such consolidation could increase our dependence on a few key customers, which could lead to less favourable terms and lower prices for our products.

Because of the nature of our business and workforce, we may face challenges in the retention of staff and the employment of skilled people that could adversely affect our business.
We are facing an ageing demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements.

The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

A large percentage of our employees are unionised and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.
A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labour disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labour unions. This could increase expenses in absolute terms and/or as a percentage of net sales.

Although we believe we have good relations with our employees, work stoppages or other labour disturbances may occur in the future, which could adversely impact our business. In recent years, certain of our unionised employees in Southern Africa have participated in strike actions that have resulted in interruptions in our business operations. Any strike actions or other labour disruptions, or any related negotiations that result in onerous terms for us, may have an adverse effect on our business and profitability.

The prevalence of HIV/AIDS, specifically in Africa, exposes us to certain risks, which may have an adverse effect on our Southern African operations.
The Southern African region has one of the highest infection rates of HIV/AIDS in the world. Although we initiated in the early 1990s a comprehensive HIV/AIDS management programme to address the effects of the disease and its impact on our employees and our business, our operations, and in specific our Southern African operations, continue to be exposed to certain risks related to the HIV/AIDS pandemic.

We incur and will continue to incur costs related to the prevention, detection and treatment of the disease. Also, we cannot guarantee that any current or future management programme will be successful in preventing or reducing the infection rate among our employees and any potential effect thereof on the mortality rate. We may be exposed to lost workers' time associated with the disease and a potential loss of skill, which may adversely affect our operations.

Catastrophic events affecting our plantations, such as fires, may adversely impact our ability to supply our Southern African mills with timber from the region.
The Southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high. In 2007 and 2008, Southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa and affecting 14,000ha of our plantations. These abnormal weather conditions might be more frequent as a result of climate change. In addition, because the transformation of land ownership and management in Southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardise our ability to supply our mills with timber from the region.

Concerns about the effects of climate change may have an impact on our business.
Concerns about global warming and carbon footprints, as well as legal and financial incentives favouring alternative fuels, are leading to the increased use of sustainable, non-fossil fuel sources for electricity generation.

The increased emphasis on water footprint in Southern Africa is causing increased focus on the use of water by our operational units, on the quality of water released back into the water systems and on the control of effluent. The costs of water used also have a direct bearing on our input costs and operating profit.

Climate change could also cause the spread of disease and pestilence into our plantations and fibre sources, far beyond their traditional geographic spreads, increasing the risk that wood supply necessary to our operations may be negatively impacted.

Our ability to utilise our net operating tax loss carry forwards generated by our United States operations could be substantially limited if we experience a company ownership change as defined under the United States Internal Revenue Code, which may adversely affect our results of operations and financial condition.
As a result of Sappi North America's past financial performance, we have net operating tax loss carry forwards generated by our United States operations. Section 382 of the Internal Revenue Code of 1986, as amended (the Code), contains rules that limit the ability of a company that undergoes an ownership change, at the Sappi Limited company level, to utilise its net operating tax loss carry forwards in years after the ownership change. An 'ownership change' for purposes of section 382 of the Code generally refers to any change in ownership of more than 50% of the company's shares over a three-year period. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the share capital of a company or any change in ownership arising from a new issuance of the company's shares.

If we undergo an ownership change for purposes of section 382 as a result of future transactions involving our share capital, including purchases or sales of shares between our greater than 5% shareholders, our ability to use our net operating tax loss carry forwards generated by our United States operations would be subject to the limitations of section 382. Depending on the resulting limitations, a portion of our United States net operating tax loss carry forwards could expire before we would be able to use them. Our inability to utilise our United States net operating tax loss carry forwards could have an adverse effect on our financial condition and results of operations.

Our manufacturing and forestry operations are inherently dangerous, and we may be subject to risks related to the health and safety of our employees.
We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. Although we employ safety procedures in the design and operation of our manufacturing facilities and forestry operations, there is a risk that accidents resulting in injury or death have occurred at our facilities in the past and could occur in the future. Any accident could result in

manufacturing delays, which could harm our business and our results of operations. The potential liability resulting from any such accident or death, to the extent not covered by insurance, and any negative publicity associated therewith could harm our business, reputation, financial condition or results of operations. Whether or not a claim against us succeeds, its defence may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

Unforeseen shutdowns or outages at our production facilities may adversely impact our business.
Our pulp and paper mills and our production facilities are central to our business and are subject to operational risks. These risks include, but are not limited to, fire or explosions, accidents, severe weather and natural disasters, mechanical, operational or structural failures, unplanned production or power disruptions or political changes. Shutdowns or outages resulting from such events could have a material adverse effect on our business and financial condition if the outages continued for an extended period of time or if we were unable to restart production in a timely manner.

Risks related to our shares

Your ability to trade a substantial number of ordinary shares may be restricted by the limited liquidity of shares traded on the JSE Limited.
Our ordinary shares are traded on the exchange operated by the JSE Limited (JSE) (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2016, 523 million of our ordinary shares were traded on the JSE. The relatively low liquidity of shares traded on the JSE Limited could affect your ability to sell ordinary shares.

Significant shareholders may be able to influence the affairs of our company.
Although our investigation of beneficial ownership of our shares identified only two beneficial owners of more than 5% of our ordinary shares, holding approximately 14.9% and 5.2% respectively, as shown in our shareholders' register in September 2016, the five largest shareholders on record, all of whom hold shares for a number of beneficial owners, owned approximately 47.1% of our ordinary shares as of September 2016. These significant potential voting blocks of nominee registered shareholders may have the power to influence voting decisions for the shares they hold.

Risks related to our indebtedness

Our significant indebtedness may impair our financial and operating flexibility.
Our significant level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2016, our net interest-bearing debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) was US$1,408 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt may have significant consequences for our business, including:

- Limiting our ability to obtain additional financing, which could restrict, among other things, our ability to exploit growth opportunities
- Diverting a substantial portion of our cash flow from operations to meet debt service obligations
- Exposing us to increases in interest rates because a portion of our debt bears interest at variable rates
- Placing us at a competitive disadvantage to certain of our competitors with lower levels of indebtedness
- Increasing our vulnerability to economic downturns and adverse changes in our business
- Limiting our ability to withstand competitive pressure, and
- Restricting the activities of certain group companies under the covenants and conditions contained in certain of our financing arrangements.

Our ability to refinance our debt or incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments, including as a result of renewed turmoil in the European sovereign debt markets, which could result in tight credit restrictions and credit being available only at premium.

Since 2006, the group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) and Moody's. Adverse developments in our credit rating and financial markets, including as a result of renewed turmoil in the European sovereign debt markets or deterioration of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favourable than the terms of the debt being refinanced. We may also need to agree to stricter covenants that place additional restrictions on our business.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on debt will depend on financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are

unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realised from any such disposition would depend upon circumstances at the time.

During the first quarter, we sold our Southern African Enstra and Cape Kraft Mills. Proceeds received from the sale further reduced net debt.

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

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.
Our ability to make payments on our indebtedness, to refinance our indebtedness, and to fund planned capital expenditures and working capital requirements will partly depend on our ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that we will generate sufficient cash flow from operations that we will realise operating improvements on schedule or that future borrowings will be available to us in an amount sufficient to enable us to service and repay our indebtedness or to fund our other liquidity needs. If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realised from those sales, or that additional financing could be obtained on acceptable terms.

During the first quarter, we sold our Southern African Enstra and Cape Kraft Mills. Proceeds received from the sale further reduced net debt.

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

If we default under our debt covenants, we may not be able to meet our payment obligations.
Some of our credit facilities and other indebtedness contain covenants that restrict some of our corporate activities, including our ability to:

- Make acquisitions or investments
- Make loans or otherwise extend credit to others
- Incur indebtedness or issue guarantees
- Create security
- Sell, lease, transfer or dispose of assets
- Merge or consolidate with other companies, and
- Make a substantial change to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain covenants and specified financial covenants and ratios. Our ability to comply with these covenants and restrictions may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit the lending banks under our credit facilities or our bondholders to take certain actions, including declaring all amounts that we have borrowed under the credit facilities and other indebtedness to be due and payable, together with accrued and unpaid interest. Any acceleration of our credit facilities would cause a cross-acceleration of certain of our outstanding bonds. This would also result in an event of default under some of our debt instruments. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks and or the bondholders, they could proceed against any collateral that secures the debt under the credit facilities and our bonds. If we are unable to make payments on time or refinance our indebtedness, or if our debt or any other material financing arrangement that we enter into were to be accelerated, this could have a material adverse effect on our business and financial condition.

sappi

2016 Corporate governance principles

Corporate governance principles

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
1. Ethical leadership and corporate citizenship	Responsible leadership	1.1	The board should provide effective leadership based on an ethical foundation	The board's actions are guided by its Charter as well as the company values and the company Code of Ethics; the board's ethical approach is further strengthened by its diverse membership and its large number of independent non-executives
	Ethical foundation	1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen	The board annually reviews the corporate responsibility strategy, priorities and action plans of the company; through the Social, Ethics, Transformation and Sustainability (SETS) Committee, guidance and feedback is given to the company; the board ensures that the work of the company is communicated via, among others, the corporate website and corporate reports
	Ethical foundation	1.3	The board should ensure that the company's ethics are managed effectively	The board, with the assistance of the SETS Committee, promotes the integration of ethical policies and standards in all the company's actions; progress is measured through regular surveys; concerns or transgressions are reported through anonymous whistle-blower lines; and there is engagement with suppliers and customers to abide by the same ethics as the board expects of the company. Sappi has an ethics policy in place
2. Boards and directors	Role and function of the board	2.1	The board should act as the focal point for and custodian of corporate governance	The board's role as focal point of sound corporate governance is set out in the board Charter. The board meets regularly throughout the year and provides oversight and guidance on governance matters. The board receives regular updates on key stakeholder relationships through quarterly business unit briefings
	Role and function of the board	2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable	The board reviews and approves the strategy, helping to ensure alignment with the purpose of the company, the value drivers, sustainability and legitimate interests and expectations of its stakeholders. The board considers whether risks that could impact the strategy or business plans have been adequately examined and mitigated by management
	Role and function of the board	2.3	The board should provide effective leadership based on an ethical foundation	Refer 1.1 above
	Role and function of the board	2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen	Refer 1.2 above
	Role and function of the board	2.5	The board should ensure that the company's ethics are managed effectively	Refer 1.3 above
	Role and function of the board	2.6	The board should ensure that the company has an effective and independent Audit Committee	Refer 3

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
2. Boards and directors	Role and function of the board	2.7	The board should be responsible for the governance of risk	Refer 4
	Role and function of the board	2.8	The board should be responsible for information technology (IT) governance	Refer 5
	Role and function of the board	2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Refer 6
	Role and function of the board	2.10	The board should ensure that there is an effective risk-based internal audit	Refer 7
	Role and function of the board	2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation	Refer 8
	Role and function of the board	2.12	The board should ensure the integrity of the company's annual integrated report	Refer 9
	Role and function of the board	2.13	The board should report on the effectiveness of the company's system of internal controls	Refer 7 and 9
	Role and function of the board	2.14	The board and its directors should act in the best interests of the company	Conflict of interest rules are set out in Sappi's Code of Ethics. Conflicts are disclosed to and managed by the board. Directors are required by both the Code and the board Charter to act in the interests of the company
	Role and function of the board	2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	Solvency, liquidity and cash balances are monitored frequently, as is the debt maturity profile. Sufficient cash and facility headroom is maintained to ensure adequate liquidity in times of financial distress. The Audit Committee has oversight as part of the quarterly going concern analysis. The Companies Act provisions regarding solvency and liquidity tests are applied when required. Business rescue or turnaround mechanisms would be considered by the board if the situation arose
	Role and function of the board	2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of Chairman of the board	The Chairman of the board is an independent non-executive director. The Chairman's role is formalised and his performance is assessed periodically. There is a succession plan for the Chairman. The CEO does not fulfil the role of Chairman of the board

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
2. Boards and directors	Role and function of the board	2.17	The board should appoint the Chief Executive Officer and establish a framework for the delegation of authority	A CEO has been appointed by the board and an authority framework is in place. The role of the CEO is formalised and is evaluated regularly against specified criteria
	Composition of the board	2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	The majority of board members are non-executive directors who are independent. The board members have a spread of experience and skills and reflect diversity and demographics all of which help it to perform its activities
	Board appointment process	2.19	Directors should be appointed through a formal process	Appointment of directors is a formal process, with oversight of the Nomination and Governance Committee. Background checks are performed and a letter of appointment is issued. Directors' CVs are included in the Annual Integrated Report
	Director development	2.20	The induction of and ongoing training and development of directors should be conducted through formal processes	There is an induction process as well as ongoing training and development for directors. This process is managed by the Company Secretary. In general, Sappi appoints experienced directors
	Company Secretary	2.21	The board should be assisted by a competent, suitably qualified and experienced Company Secretary	A competent, suitably qualified and experienced Company Secretary has been appointed by the board and is sufficiently empowered to fulfil her duties
	Performance assessment	2.22	The evaluation of the board, its committees and the individual directors should be performed every year	Evaluations of the board, its committees and individual directors are conducted each year. More detailed reviews of an individual director's performance are conducted in the year prior to a director's retirement by rotation. The Chairman has oversight of the evaluation process
	Board committees	2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	The board is assisted in fulfilling its duties by well-structured board committees. Each committee has formal terms of reference, which are reviewed annually. The majority of members on the committees are non-executive and independent. The board Chairman attends board committee meetings ex officio
	Group boards	2.24	A governance framework should be agreed between the group and its subsidiary boards	A governance framework is in place between the group board and the boards and management teams of subsidiaries and regional management structures
	Remuneration of directors and senior executives	2.25	Companies should remunerate directors and executives fairly and responsibly	Directors' and executives are remunerated fairly and responsibly, as provided for in the Compensation Policy, which is aligned with company strategy and linked to individual performance

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
2. Boards and directors	Remuneration of directors and senior executives	2.26	Companies should disclose the remuneration of each individual director and certain senior executives	The remuneration paid to directors and certain senior executives is disclosed via the remuneration report in the Annual Integrated Report
	Remuneration of directors and senior executives	2.27	Shareholders should approve the company's remuneration policy	Shareholders endorse the company's Remuneration Policy via a non-binding advisory vote. The board sets the remuneration of executive directors in line with the policy
3. Audit committees	Audit Committee	3.1	The board should ensure that the company has an effective and independent Audit Committee	Sappi has an effective and independent Audit Committee, with terms of reference approved by the board, which meets regularly to fulfil its duties. The performance of the Audit Committee is periodically assessed and reviewed by the board
	Membership and resources of the Audit Committee	3.2	Audit Committee members should be suitably skilled and experienced independent non-executive directors	The Audit Committee comprises suitably skilled, experienced independent non-executive directors
	Membership and resources of the Audit Committee	3.3	The Audit Committee should be chaired by an independent non-executive director	The Sappi Audit Committee is chaired by an independent non-executive director
	Responsibilities of the Audit Committee	3.4	The Audit Committee should oversee integrated reporting	The Audit Committee provides oversight of the integrated reporting activities
	Responsibilities of the Audit Committee	3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	Sappi has developed a combined assurance model which provides a coordinated approach to assurance activities, with oversight by the Audit Committee, in respect of key risks facing the company
	Responsibilities of the Audit Committee	3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the company's finance function	A review of the finance function is conducted by the Audit Committee each year, in terms of resources, expertise and experience
	Internal assurance providers	3.7	The Audit Committee should be responsible for overseeing of internal audit	The Audit Committee is responsible for the appointment, performance assessment and dismissal of the Chief Audit Executive. Group Internal Audit's coverage plan is risk based and is approved by the Audit Committee. The work of Group Internal Audit is subject to independent quality review
	Internal assurance providers	3.8	The Audit Committee should be an integral component of the risk management process	The Audit Committee is an integral part of the risk management process. Its terms of reference sets out the committee's responsibilities for risk management and specifically oversight over financial risks, related business controls and financial reporting fraud risks

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
3. Audit committees	External assurance providers	3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	The Audit Committee has responsibilities for and oversight of the external audit activities, including their appointment, qualifications, independence, approach, reporting and performance
	Reporting	3.10	The Audit Committee should report to the board and shareholders on how it has discharged its duties	The Audit Committee reports to the board as well as to the shareholders on how it has discharged its duties. The Audit Committee's report to stakeholders is included in the Annual Integrated Report
4. Governance of risk	The board's responsibility for risk governance	4.1	The board should be responsible for the governance of risk	The board is responsible for the governance of risk at Sappi, assisted by the group risk management team and the Audit Committee
	The board's responsibility for risk governance	4.2	The board should determine the levels of risk tolerance	The board considers and determines the levels of risk tolerance as well as risk appetite during its periodic review of the group's risk profile. In executing the group strategy, management consider risk tolerance and appetite for specific risks and projects, on a case by case basis
	The board's responsibility for risk governance	4.3	The Risk Committee or Audit Committee should assist the board in carrying out its risk responsibilities	The board has appointed the Audit Committee to assist in carrying out its risk responsibilities by providing oversight of Sappi's risk management activities
	Management's responsibility for risk management	4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan	The board has delegated the responsibility to design, implement and monitor Sappi's risk management plan, to the Group Risk Management Team
	Risk assessment	4.5	The board should ensure that risk assessments are performed on a continual basis	Management performs risk assessments on a continual basis and provides regular feedback to the Audit Committee and the board
	Risk assessment	4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	Risk management meetings comprise multidisciplinary teams. This together with Sappi's framework and risk methodology increases the probability of anticipating unpredictable risks
	Risk response	4.7	The board should ensure that management considers and implements appropriate risk responses	Sappi's risk methodology includes the consideration and implementation of appropriate risk responses

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
4. Governance of risk	Risk monitoring	4.8	The board should ensure continual risk monitoring by management	Risk monitoring is achieved at Sappi through a combination of daily and periodic activities undertaken by management at various levels in the organisation, culminating in the activities of the Group Risk Management Team and Audit Committee, which oversee the risk management process at Sappi
	Risk assurance	4.9	The board should receive assurance regarding the effectiveness of the risk management process	Assurance regarding the effectiveness of the risk management process is provided by both management and Group Internal Audit to the Audit Committee and board
	Risk disclosure	4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	The relevant risks for the group are disclosed to stakeholders in the Annual Integrated Report and the group and regional sustainability reports
5. IT governance	IT governance	5.1	The board should be responsible for information technology (IT) governance	The board is responsible for IT governance. The Chief Information Officer provides regular feedback to the Audit Committee and board on IT governance matters. An IT Steering Committee Charter exists and policies are established and implemented. Sappi promotes an ethical IT governance culture and a common IT language
	IT governance	5.2	IT should be aligned with the performance and sustainability objectives of the company	IT is aligned with the performance and sustainability objectives of the company from a strategic and business process perspective. There are also processes to identify and exploit opportunities to improve performance and sustainability through the use of IT
	IT governance	5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework	The board has delegated responsibility for the implementation of an IT governance framework to management. All IT matters of a global nature are referred to a Group IT Council (GITCO) which makes decisions on the most appropriate technological solutions for the group. Decisions are ratified by the executive Group IT Steering Committee
	IT governance	5.4	The board should monitor and evaluate significant IT investments and expenditure	All IT projects are presented to cross functional teams within the regions for sign-off. Post-implementation audits are conducted on large IT projects. The Chief Information Officer, on behalf of the Group IT Steering Committee presents to the Audit Committee and board regarding the value delivered by IT investment
	IT governance	5.5	IT should form an integral part of the company's risk management	IT is represented on the group and regional risk management teams and ensures that IT risk management is aligned with the company's risk management process. IT risk assessment updates are undertaken every six months using the group's risk management software. Feedback on IT risks, business continuity and disaster recovery is provided by the Chief Information Officer to the Audit Committee and the board. IT have processes to identify and comply with relevant IT laws and standards

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
5. IT governance	IT governance	5.6	The board should ensure that information assets are managed effectively	IT systems and processes have been developed for managing information assets effectively, including personal information. This includes information security, information management and privacy. The information security strategy has been approved by the board and delegated to management for implementation
	IT governance	5.7	A Risk Committee and Audit Committee should assist the board in carrying out its IT responsibilities	The Audit Committee which assists the board in risk management has oversight of IT risks, IT controls and related combined assurance. This includes financial reporting matters. Technology is used to improve audit coverage and efficiency
6. Compliance with laws, rules, codes and standards	Compliance	6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Sappi has a compliance culture with a legal compliance programme which supports efforts to identify and comply with applicable laws and regulations. Compliance also forms part of Sappi's Code of Ethics. The board is briefed on new regulations and reports from the legal compliance programme are provided regularly to the Audit Committee and board
	Compliance	6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	The board and individual directors are made aware of new regulations or changes that affect the company
	Compliance	6.3	Compliance risk should form an integral part of the company's risk management process	A compliance function has been established and the risk of non-compliance forms part of the risk management process
	Compliance	6.4	The board should delegate to management the implementation of an effective compliance framework and processes	Sappi has an established legal compliance programme including policies and procedures to educate, train, measure and communicate compliance matters. Material aspects of non-compliance would be disclosed in the Annual Integrated Report if applicable. A sufficiently independent and skilled compliance officer has been appointed. Legal compliance works closely with ethics and risk management and the head of the legal function is a member of the Executive Committee and attends board and Audit Committee meetings
7. Internal audit	The need for and role of internal audit	7.1	The board should ensure that there is an effective risk-based internal audit	Sappi has an effective risk-based internal audit function, with a charter approved by the Audit Committee and board. Group Internal Audit adheres to the IIA standards and Code of Ethics. Group Internal Audit focuses on governance, risk management, the internal control framework, follows a systematic approach and investigates and reports on fraud, corruption, unethical behaviour and irregularities
	Internal audit's approach and plan	7.2	Internal audit should follow a risk-based approach to its plan	Group Internal Audit is independent and objective and its audit plan is informed by the strategy and risks of the company

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
7. Internal audit	Internal audit's approach and plan	7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	Group Internal Audit provides a written assessment of the effectiveness of the company's system of internal controls and risk management, including an assessment of the financial controls to the Audit Committee and board. Controls and a framework for governance, risk and compliance have been established over financial, operational, compliance and sustainability matters. Group Internal Audit is integral to the combined assurance model both as a coordinator and assurance provider
	Internal audit's approach and plan	7.4	The Audit Committee should be responsible for overseeing internal audit	The Audit Committee oversees the internal audit activity, including review and approval of the audit plan, evaluation of internal audit performance, the independent quality review process, review of reports submitted by Group Internal Audit to the Audit Committee and resourcing. The Audit Committee is responsible for the appointment and dismissal of the Chief Audit Executive
	Internal audit's status in the company	7.5	Internal audit should be strategically positioned to achieve its objectives	Group Internal Audit is strategically positioned to achieve its objectives, is independent, objective and reports functionally to the Audit Committee. The Chief Audit Executive does not have a standing invitation to all Executive Committee meetings, however, is briefed on strategic and risk-related developments by senior executives who do attend, and has access to minutes of meetings. The Chief Audit Executive meets frequently with senior executives. Group Internal Audit is appropriately skilled and resourced to fulfil its mandate
8. Governing stakeholder relationships	Stakeholder relationships	8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation	The Annual Integrated Report, as well as the group and regional sustainability reports, reflect the interests of the group's stakeholders and key actions to maintain positive perceptions about the company and its activities. The board considers on an ongoing basis the feedback regarding the perceptions of particular stakeholder groups
	Stakeholder relationships	8.2	The board should delegate to management to proactively deal with stakeholder relationships	Management has been tasked by the board with the management of stakeholder relationships, including identification of important stakeholder groupings, development of strategies and policies to manage the relationships. There are formal and informal mechanisms for constructive stakeholder engagement with the company and shareholders are encouraged to attend the AGM. Stakeholder policies as well as information on the company's dealings with stakeholders are included in the Annual Integrated Report
	Stakeholder relationships	8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	Sappi tries to achieve an appropriate balance between various stakeholder groupings' interests and expectations, in taking decisions in the best interests of the company
	Stakeholder relationships	8.4	Companies should ensure the equitable treatment of shareholders	Shareholders are treated equitably

Corporate governance principles continued

Chapter	Governance element	Principle		Summary of how Sappi applies the King III principles
8. Governing stakeholder relationships	Stakeholder relationships	8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	Sappi is committed to transparent and effective communication with all stakeholder groups. Such communication takes place through formal and informal channels; and through general as well as direct communication initiatives, including community, group and individual meetings
	Dispute resolution	8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	Sappi endeavours to resolve disputes in an effective and efficient manner, through partially formalised processes and management action
9. Integrated reporting and disclosure	Transparency and accountability	9.1	The board should ensure the integrity of the company's annual integrated report	The board, assisted by the Audit Committee and management, has established controls and processes to gather, review and report adequate information regarding the company's financial and sustainability performance in the Annual Integrated Report
	Transparency and accountability	9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	The Sappi Annual Integrated Report provides a comprehensive view on sustainability information and financial reporting, including disclosures relating to going concern, sources of income, positive and negative impacts of the company's operations including future remediations. The Audit Committee together with the SETS Committee has oversight over sustainability and reporting thereof. The Audit Committee assists the board by reviewing the reliability of information included in the Annual Integrated Report and making sure that there are no conflicts with the financial information reported. The Audit Committee oversees the provision of assurance over sustainability issues
	Transparency and accountability	9.3.	Sustainability reporting and disclosure should be independently assured	Sustainability reporting and disclosure is reviewed by Group Internal Audit. The Audit Committee together with the SETS Committee has oversight over sustainability and reporting thereof