

Transformation (BBBEE) – Redressing the imbalances of the past

In 2018, our target was to achieve Level 3 BBBEE compliance (in respect of the new forestry codes) from a baseline of Level 4 in 2014.

We met this target, achieving **Level 3**.

Based on an equity-equivalent calculation,

48.13% of our **South African business**, is **owned by black people**.

“After 20 years of land reform there are some islands of success, especially in horticulture, but these exist in a sea of partial or complete failure, and the number of beneficiaries and the land area transferred is disappointingly low.” The World Bank¹



What is Sappi's view on Broad-based Black Economic Empowerment (BBBEE)?

Headquartered in South Africa, with significant assets and people, BBBEE is an important component of our reputation and licence to trade. We recognise BBBEE not only as a moral imperative, but a pragmatic growth strategy aimed at realising the country's economic potential while helping the black majority access the economic mainstream. Our BBBEE focus aims to make a meaningful difference.

Who takes responsibility for BBBEE at Sappi?

These structures have been **set up** to ensure **proper governance** and **engagement with all stakeholders**



The **Social Ethics and Transformation Committee** of the board is ultimately responsible for all transformation issues.

South Africa Transformation steering committee

- Defines and translates the Social Ethics and Transformation Committee's objectives.
- Ensures compliance with the Employment Equity Act and the BBBEE Act.
- Reviews: BBBEE scorecard, talent, employment equity status, MIS targets.
- Handles all employment equity related disputes if not resolved by the National Employment Equity and learning forum.

National Employment Equity and learning forum

- Consults on matters relating to employment equity and skills development.
- Reviews and approves Employment Equity Plan and reports as well as Workplace Skills Plan.
- Deals with employment equity related disputes emanating from each business unit's forums.
- Establishes various sub-committees in order to fulfil its mandate.

Business Unit Employment Equity and learning forum

- Consults on matters relating to employment equity and skills development at business unit level.
- Handles employment equity related disputes within the business unit.
- Establishes various sub-committees in order to fulfil its mandate within the business unit.

Employment equity plans are in place.

We are **actively working** with the Department of Land Affairs to **resolve land claims** lodged against our property.

Sappi Khulisa is our **primary enterprise development initiative**.

Where does Sappi stand in terms of the various elements of the scorecard?

In 2018 we scored well in terms of ownership, enterprise-, supplier- and socio-economic development and improved in terms of skills development and management control.

Ownership

In 2010 Sappi implemented a broad-based empowerment ownership scheme (24.3 million shares) so that today, 48.13% of our South African business is owned by black people.

Management control and employment equity

Our employment equity score has been steadily improving since 2015, when we built a stipulation into our management incentive scheme that 80% of management appointments in any one year should be black people.

Skills development

Historically-disadvantaged employees are a major focus of our training support in Southern Africa. Through the equity and learning forums, management and employee representatives agree on training plan requirements and the tracking of training and development progress, to: • equip employees for improved performance in their current roles • recognise competence • prepare for career mobility. Skills development initiatives, particularly programmes aimed at improving management and leadership skills, are geared to meet our employment equity targets.

Preferential procurement

We have a preferential BBBEE procurement policy in place which allows for preferential payment terms and the relaxation of commercial/procurement terms and conditions. No allowance is made to relax specifications. Where practical, we purchase goods and services from black-owned businesses and seek opportunities to develop future black vendors.

Enterprise and supplier development

Started in 1983, **Sappi Khulisa**, our primary enterprise development initiative, aims to include rural individuals and communities in the forestry industry which has high barriers to entry. Since 1995 a total volume of 3,796,940 tons, to the value of ZAR2.1 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.

These initiatives are aligned with the South African government's strategy of promoting forestry as a means of sustainable livelihood in rural areas and involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market.

To further assist the development of small growers and other forestry chain value participants, we have established a training centre at Richmond in KwaZulu-Natal. The training centre has **Khulisa Ulwazi** ('Growing Knowledge') as its slogan and is providing training to small growers, land reform beneficiaries and small-scale contractors in the technical and business aspects of forestry and small business management. Training numbers at the centre have grown steadily from 65 people in 2015 to 715 in 2018.

Socio-economic development

Although Sappi is a global company, the bulk of our corporate social responsibility spending focuses on South Africa.

We prioritise the communities close to our areas of operation. Our objective is to effect meaningful change by providing equitable access to resources and opportunities in response to identified needs. We prioritise education, environment, health and welfare and community engagement.

How does Sappi deal with land claims?

As a significant land owner in South Africa, we have a role to play in land reform and are working actively with the Department of Land Affairs (DLA) to resolve land claims lodged against our property.

Sappi is currently engaged in 65 land claims in South Africa. Six claims have been settled and the extent of the land agreed, but we are waiting for finalisation from the KwaZulu-Natal and Mpumalanga regional land claims commissioners. To date, 20 claims have been agreed to, but the extent of the land still has to be finalised with the regional commissioners or claimants. Of the 65 claims, 20 have been referred to court, either because we questioned their validity or the extent of the claim. In the past 10 years, we have settled 37 claims involving 8,151 hectares in which claimants took ownership of the land and claims for 11,629 hectares in which claimants preferred to seek compensation.

Poor post-settlement support is one of the key reasons cited by experts for the failure of many land reform projects in South Africa. We have been approached by a large number of land-reform beneficiaries to assist with the management of timber on their properties, post settlement.

As at the end of September 2018, Sappi was involved in 60 land reform projects, helping beneficiaries to manage approximately 19,000 hectares of land. 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.

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

2 <https://www.sappi.com/certifications>

3 On an equity equivalent basis.