Today, ‘connection’ is not only about digital networks, but about the way wealth is created, benefit is shared and people and the planet we live on are cared for. There is a growing realisation that we need to find new, innovative ways to achieve sustainable value creation, growth, greater social equity all while protecting and sustaining biodiversity and natural ecosystems.

Meeting these challenges requires focus and energy. At Sappi, we are doing so based on our vision of a thriving world—a better tomorrow than today. That’s why we apply our expertise and collective imagination to equipping our people to prosper in the world of tomorrow, establishing shared value initiatives to uplift communities; using natural resources in a responsible manner, valorising waste streams and promoting transparent supply chains.

Our overall objective is to expand and enhance our value streams to create sustainable products based on a renewable natural resource—woodfibre.

The image on our front cover was chosen because it represents the collaborative manner in which we work together to realise our 2020Vision, just as honeybees work together for the betterment of the entire colony and the biodiversity they pollinate.
The hexagon structures of the honeycomb represent nature’s supreme form of packaging: the hexagon is the most efficient, least wasteful shape found in nature, as no shape can create more volume with less material. It is also one of the strongest. Scientific studies on the geometry of the bee hive have indicated that this shape uses the least amount of material to hold the most weight. Once again, this resonates with Sappi—our packaging solutions not only protect, and sustain, but lighter packaging weights can also help to meet the challenges of a climate-constrained world.

It’s one of the ways in which we are promoting a sustainable, thriving world to provide solutions for future generations. Our support of the African Honey Bee (AHB) project, which is positively impacting on communities in KwaZulu-Natal province (South Africa), aligns with our approach of helping communities to help themselves. The AHB project is a social enterprise enabling families from disadvantaged rural communities to build sustainable micro-beekeeping businesses by leveraging the natural resources available to them. Over the last two years, AHB has trained 1,482 people in KZN. Of this number, 962—and counting—are actively keeping bees and producing and selling honey.

**Integrated thinking**

At Sappi, we believe in taking an integrated approach to value creation.

**About this report**

Our Annual Integrated Report for the year ended December 31, 2018 includes both an assessment of our strategy and decision-making as well as an introduction of our strategic direction, mission and vision statements with our value creation statement. The report deals with key opportunities and risks in our business as well as non-financial, operational, and sustainability risks. The report is aligned with the King IV Code on Corporate Governance.

**External assurance**

The independent practitioners’ limited assurance report included in our 2018 Sappi Group Sustainability Report.

Our sustainability information also continues to be verified by our external audit team. Their verification process includes releasing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing information and supporting documentation.

In addition, most of our key operations undergo external verification including the Ecological Management Audit System (EMAS) in Europe, ISO 14001 environmental certification in Europe and Southern Africa 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 2018 Sappi Limited received forest-based social and environmental credentials that place us in the 2018 FTSE4Good Index. Sappi’s performance is assessed on an external ratings agency.

In 2018 Sappi Limited was a constituent of the FTSE4Good Index and the FTSE/JSE Responsible Investment (RIS) Index and the Sappi Limited’s inclusion in these indices means that our sustainability performance has been externally assessed.

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and complete. The SETS Committee is satisfied that the sustainability information presented in this report has been provided with a reasonable degree of assurance.

Due to our listing from the New York Stock Exchange in 2015, we no longer publish an annual reporting form N2 or N3 for South Africa unless we receive an assurance framework relevant to the disclosure in this report (the Independent Auditors’ Report). See the introduction to the Independent Auditors’ Report for important information on forward-looking statements, forward-looking information, refer to the index, as well as periodic reports, annual reports, and quarterly reports. See www.sappi.com for full annual integrated reports in interactive PDF format.

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Annual Integrated Report and the Annual Financial Statements and presents this report. The Sappi Limited board has audited the Financial Statements and the Annual Integrated Report. The Annual Integrated Report addresses all material issues and presents data covering the integrated performance of the organisation and its impacts. The report has been reviewed by the board and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 30 December 2018.

Sir Nigel Rudd Steve Binnie Chairman Chief Executive Officer
Our mission, vision, values and strategy

Our mission
Through the power of One Sappi—committed to collaborating and partnering with stakeholders—we are the trusted and sustainable organisation with an exciting future in woodfibre.

Our 2020 Vision
Sappi will be a diversified woodfibre group targeting a substantial increase in EBITDA through an expanded product portfolio with increased margins, providing enhanced rewards to all stakeholders.

Values and strategy
We execute with decisions which are underpinned by our values, integrity and values are our value.
**Who we are**

**Global leader in pulp and paper solutions**

- Founded in South Africa in 1936
- JSE Top 40

**5.7 million tons per annum of paper production capacity**

- 2.3 million tons per annum of paper pulp production capacity
- 1.4 million tons per annum of dissolving wood pulp production capacity

**Direct and indirect customer base in over 150 countries**

**5.7 million tons per annum of paper production capacity**

- Strong commitment to corporate citizenship and sustainability
- FTSE/JSE Responsible Investment Top 30

**Product development for new woodfibre based biomaterials and biochemicals markets**

- Founded in South Africa in 1936
- JSE top 40
- 2.3 million tons per annum of paper pulp production capacity
- 1.4 million tons per annum of dissolving wood pulp production capacity
- 12,845 employees

- OHSAS 18001, ISO 9001 and 14001 certification in all mills

**379,000ha owned and leased sustainably managed forests in South Africa**

- Sappi has 18 production facilities and 37 sales offices globally

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### Strategic trends shaping our business

Globally, emerging trends continue to shape the world at an unprecedented pace. How we respond is an opportunity to create significant value for our stakeholders and ensure our sustainability.

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How we create value

We take an integrated approach to value creation. Guided by our values, our six value streams enable the delivery of our mission.

Manufacturing excellence, research and development

1. Our values
   - Act with integrity. We strive to reliably deliver goods and services. We think the highly demanding, honest way.
   - Be courageous. We take the responsibility for our decisions and actions, working with determination and without hesitation.
   - Make smart decisions. We strive to bring our best to business with an always-on attitude, always looking for the better, faster route to create value for all.
   - Execute with speed. We deliver breakthrough on time and on budget. We aim high, aim fast.

2. Our inputs
   - Our 100% Forest Stewardship Council® (FSC®)-certified plantations in South Africa give us a low-cost woodfibre base on which our business depends and are thus a key pillar of competitive advantage. Our leading-edge tree improvement programmes aim to grow better trees faster, thereby ensuring this advantage is maintained and enhanced.

3. Our values streams
   - Manufacturing excellence: We focus on enhancing machine efficiencies, digitising our processes to make the smart factory a reality, reducing variable costs through new practices in logistics and procurement, as well as implementing go-to-market strategies which lower the cost of serving our customers and increase customer satisfaction.
   - Operational excellence: We are unlocking the chemistry of trees and meeting the challenges of a carbon-constrained world by establishing a strong position in adjacent practices in logistics and procurement, as well as implementing go-to-market strategies which lower the cost of serving our customers and increase customer satisfaction.
   - Bioproducts: We are unlocking the chemistry of trees and meeting the challenges of a carbon-constrained world by establishing a strong position in adjacent practices in logistics and procurement, as well as implementing go-to-market strategies which lower the cost of serving our customers and increase customer satisfaction.
   - Xylitol and furural demonstration plant: Extracting more value from each tree is strengthening our core business model.
   - Dissolving wood pulp: Dissolving wood pulp (DWP) is a truly sustainable raw material. Our customers transform our DWP into products which meet the needs of people around the globe every day. Products which enable fashion, household comfort, personal beauty and hygiene, as well as a healthy lifestyle.
   - Specialities and packaging papers: Our customers use our specialties and packaging papers to add value to niche markets, enable product differentiation and offer environmentally conscious consumers an alternative to fossil-fuel based packaging. Our focus on innovation helps our customers to meet and anticipate the challenges of changing market dynamics.
   - Conversions of Maastricht and Somerset Mills: While the digital age has impacted on the use of paper, our printing and writing papers continue to meet the needs of consumers and marketers around the world. They rely on paper for a tactile, emotional experience no other communication medium can replicate.

4. Our strategy
   - Our integrated approach to sustainable development acknowledges that we are dependent on Prosperity, People and the Planet in order to thrive. We rely on certain inputs to create value.

5. Our outcomes
   - Our ability to deliver sustained value depends on the successful execution of our strategy.

6. Our key relationships
   - Ongoing engagement with our stakeholders connected to a spirit of trust and mutual respect enables more tangible business value creation.

7. Our global sustainability goals
   - All our activities aim to realise our mission: Through the power of One Sappi—committed to collaboration and partnering with stakeholders—we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.
Our business model

Prosperity (Financial, Intellectual and Manufactured Capital)

- Eighteen production facilities:
  - Eight paper mills
  - Four specialty paper mills and one other operation
  - One paper and specialty paper mill
  - Two dissolving wood pulp and paper mills
  - One dissolving wood pulp mill, and
  - One sawmill
  - Nanocellulose demonstration plant
  - Sugar demonstration plant
  - Biomass plant
  - Cham Paper Group and Rockwell Solutions acquisitions

- Total assets: US$5.67 billion
- Net debt: up US$246 million to US$1.57 billion
- Total assets: US$5.6 million invested in corporate
- Ongoing stakeholder engagement
- US$500 average training spend per employee
- 12,645 employees including 624 fixed-term
- 1,889 MW generated on site
- 2.87 million litres of total water extracted
- Energy intensity: 22.38 GJ/adt
- Access to 516,000 ha plantations, of which
  - 379,000 hectares are owned or leased, and
  - 129,000 hectares are contracted supply
- 34.37 m^3/adt specific process water extracted
- Waste: 1,649,458 tons of waste, of which almost
  422,376 tons sent to landfill
- Emissions: 4.3 million tCO₂e direct (Scope 1) GHG
- 46.3% renewable energy, of which 71.5% own black liquor
- Training of smallholders to educate them on more sustainable forestry practices
- 95% of water drawn returned to the environment
- Lighter weight packaging products – reduction of carbon footprint
- Ecosystem services benefit various stakeholders

People (Human Capital)

- 12,645 employees including 624 fixed-term contractors
- US$500 average training spend per employee
- Ongoing stakeholder engagement
- US$5.6 million invested in corporate social responsibility
- Productivity: 3.63 hours per employee in terms of air dry tons of saleable production
- Internal global awards (Technical Innovation Awards and CEO Award for Excellence), together with regional awards, drive excellence and innovation
- Two fatalities
- We play an active role in South Africa’s transformation agenda and are classified as a Level 3 BBBEE contributor
- In Southern Africa our operations provide employment for just over 10,000 contractor employees
- Our specialised sustainable packaging solutions:
  - Preserve and protect
  - Convey information
  - Offer convenience
- Acquisition of Cham Paper Group – employees’ jobs were saved and opens up opportunities as part of a global organisation
- Shared Service Centres set up globally to improve efficiency—negative impact on people not able to relocate to new locations
- Continued investment in embedding a safety culture across the group
- Focus on entrenching transformation within our Southern African operations to support inclusive growth
- Investment in training and development of our employees
- Strong governance: Code of Ethics training
- New Group Supplier Code of Conduct

Planet (Natural Capital)

- Access to 516,000 ha plantations, of which approximately
  - 379,000 hectares are owned or leased, and
  - 129,000 hectares are contracted supply
- 2,629 MW energy purchased, 1,889 MW generated on site
- Energy intensity: 22.38 GJ/adt
- 2.87 million litres of total water extracted for all purposes
- 34.37 m^3/adt specific process water extracted
- Waste: 1,649,458 tons of waste, of which almost
  422,376 tons sent to landfill
- Emissions: 4.3 million tCO₂e direct (Scope 1) GHG
Climbing a mountain requires dedication, training, fitness, the right equipment, teamwork, meticulous planning, but above all courage. Because a mountain, like the future, is never predictable.

Sappi recognised the need to change, respond to and take advantage of new trends and realities; instant digital communication, the drive for a low carbon future, increasing consumer preference for renewable raw materials, radical technological innovation, as well as shifting global economic and geopolitical realities. Such a change does not just happen. It takes careful planning, the right strategy, teamwork and ultimately courage to execute.

We recognised that we had to respond to the global changes shaping our lives in unprecedented ways and at an accelerated pace. We also understood that we needed to do business better tomorrow than today. Our response was to refocus our business and intentionally evolve our strategy—encapsulated in our 2020Vision and One Sappi approach.

While this process of evolution has not been radical, it has been based on a bold departure from traditional ways of thinking about the value streams inherent in woodfibre.

We might not have reached the top of the mountain yet, but we have it firmly in our sights. We have established a strong platform for further value creation, one which has positioned us well to meet and exceed the forces of change ushered in by Industry 4.0, together with any others on the global horizon. A platform which has enabled us to deliver wealth and will continue to underpin our ability to grow and thrive tomorrow and well into the future.
Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy.

Operating review

The overall result for the year was in line with that of the prior year on a like-for-like basis, despite the disruption caused by a number of large capital projects. Market demand for dissolving wood pulp (DWP) and specialties and packaging papers ensured our production capacity in these grades was fully utilised, further supporting our decision to invest in additional capacity in these key growth segments. In the producing and writing papers segment, a series of successful selling price increases throughout the year enabled margins to be maintained notwithstanding significantly higher raw material costs, mainly from paper pulp and various process chemicals. The profitability of the Southern African business was under pressure due to the stronger Rand.

Increased capital expenditure in growth projects, including the conversions of paper machines in Europe and North America as well as backtracking DWP plants in Southern Africa, was managed around our target of two times net debt to EBITDA. This facilitated a further shift in the product mix of the group away from the traditional printing and writing papers business towards higher margin and growth segments.

The group’s EBITDA excluding special items was US$762 million, declining US$33 million on a like-for-like basis (2017 benefited by approximately US$20 million due to an additional accounting week). Profit for the period was US$523 million compared to US$338 million in the prior year.

In the past year we have worked to prioritise safety for our employees and those of contractors in our workplaces, bringing in external experts, reviewing risk conditions in all our operations and emphasising the importance of both the individual and the collective with regards to safety. This renewed commitment and focus resulted in each of the three regions improving their LTIFR rates, with both North America and Southern Africa achieving their lowest ever employee injury rate. Despite this, we regret having to report two fatalities, one of which was an employee in one of our European mills and the other a contractor that died in a motor vehicle accident in the Southern African operations. Our target is zero injuries, and we continue to believe we can achieve this with enhanced procedures, approach and most importantly behaviour.

We built on our commitment to be an ethical corporate citizen with an ongoing communication and training campaign following our roll-out of the revised Code of Ethics (Code) in 2016. The Code recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy. We must ensure we interact ethically and honestly with our staff, customers and other stakeholders. 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 must live our core values of being business with integrity and courage; making smart decisions which we execute with speed.

Maintaining the highest standards of corporate governance is of prime importance to Sappi. As such, we moved to implement the external audit rotation recommendation of King IV prior to its formal implementation. A process in this regard commenced in 2015. KPMG was selected after a thorough search for a globally capable firm reflecting Sappi’s global footprint. The Sappi board is concerned about the ongoing allegations and investigations into KPMG South Africa and continues to monitor the situation and will re-evaluate our position if any new information becomes available.

Our European business maintained a good level of profitability, with increased sales volumes and prices, along with an expanded proportion of specialties and packaging papers offsetting significant cost pressure from purchased paper pulp costs. Demand for coated mechanical (CM) paper was good for the first nine months of the year, while coated woodfree (CFW) paper demand was slightly weaker than expected. Gains in market share allowed us to limit coated paper sales volume declines. Cost pressures and tightening supply led to a number of selling price increases for CFW paper throughout the year, and prices ended 9% higher than at the end of 2017. The last few months of the year, however, were particularly weak across both coated grades and all indications are that the European economy is slowing, and that the cumulative impact of selling price increases has affected downstream demand. Variable costs increased 6% year-on-year, despite various cost savings initiatives, the primary reason being a further 24% and 16% rise in hardwood and softwood pulp prices respectively.

In North America multiple coated paper selling price rises, supported by supply tightness in the market, offset the negative sales volume and cost impact of the major project to convert PM1 at the Somerset Mill. The project to convert the machine to paperboard grades, while ultimately successful, overran both in cost and time, exacerbating the impact of lost production and increased manufacturing costs. The causes of the overrun, which led to US$10 million in lost production over what originally planned and a further US$35 – 50 million in capital expenditure, and the steps we will take to improve our project delivery in future are outlined in the Q & A with the CEO on page 18. Variable costs increased by 4% year-on-year, primarily due to higher purchased paper pulp prices.

Margins in the Southern African business were under pressure due to the stronger Rand/US Dollar exchange rate during the first three quarters of the year. This lowered the effective Rand pricing for CWP (which is priced in US Dollars) and led to decreased margins in this segment. Delayed start-ups post upgrade projects at Saiccor and Ngodwana Mills resulted in lower production and reduced DWP sales volumes for the year which exacerbated the situation. Containerboard sales did well, with both sales volumes and prices remaining strong, and our position as one of the leading producers of bleached board and functional papers, and allows us to leverage our coating expertise. We are working closely with customers to develop new and innovative solutions to their packaging needs. In North America, packaging sales volumes increased by 8%, with gains in both our legacy packaging products and paperboard sales post the completion of the PM1 conversion at Somerset Mill.

Strategic review

Three years into our strategic 2020Vision we have made good progress towards improving profitability, cash generation and growth. In 2018 we increased capital expenditure significantly over that of the prior four years as we initiated a number of important projects to deliver on our growth targets. While increasing the capital expenditure we have been mindful of our long-term sustainable leverage target of two times net debt to EBITDA.

Our strategy encompasses the following four main objectives:

- Achieve cost advantages – We will work to improve operational and machine efficiencies, to maximise procurement benefits and optimise business processes to lower costs.
- Rationalise declining businesses – Recognising the decreasing demand for printing and writing papers, we continuously balance paper supply and demand in all regions to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation. Where possible we will convert paper machines to higher margin businesses.
- Maintain a healthy balance sheet – This will reduce risk and improve our strategic flexibility.
- Accelerate growth in higher margin products – We will invest in expanding our packaging papers grades, enhancing our DWP portfolio and in the extraction of value from our bioresource stream.

Sir Nigel Rudd
Chairman

Steve Binnie
Chief Executive Officer
The strategic objectives are supported by our dedicated teams at Sappi, who work as one team to do business with integrity and courage; manufacture the highest quality products for customers to execute with speed. Our values are underpinned by an unrelenting focus on and commitment to customers.

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

### Achieve cost advantages
Packaging and specialty products are significant components throughout the business is integral both to maximizing margins on our core volumes and to the sustainability of our operations. This is especially true in commodity type businesses and those where there are declining demand, such as printing and writing papers. In the past year we set ourselves a US$60 million target to reduce third-party expenditure compared to 2017 through efficiency and raw material usage improvements as well as delivering savings through a variety of procurement initiatives. Pleasingly we achieved savings of US$82 million, which helps offset pressure from higher pulp, chemicals and energy prices. In 2019 we are targeting a further US$60 million in savings, with a particular focus on North America, where we commenced the Saiccor Mill woodyard upgrade to improve wood efficiency as well as to allay further expansion of the Saiccor Mill. In 2019 we will proceed with the Saiccor Mill 110,000 tons expansion having recently received EIA approval in South Africa. This will improve our energy and water efficiency and result in improved energy and chemical productivity, leading to lower operating costs. We will also invest in upgrades to the Gratkorn Mill to improve production efficiency and lower costs.

### Rationalise declining markets
Printing and writing papers demand in Europe and North America continue to be impacted by structural changes, the rate of which is also impacted by general economic conditions. Maintaining operating rates and lowering salvage costs have now become maximise cash generation in these markets.

### In South America our exposure to declining markets is significant. In period to period increases in demand are from a textile market increasingly looking for more sustainable textile solutions. Our strategy is clear, high paper pulp prices and the narrowing of the price premium between DWP and paper pulp meant that we have not found an external project that delivers a reasonable return. We continue to look for projects that meet our various investment criteria.

Our new business development team, Sappi Biotech, has had a busy and successful year.

Sappi Biotech made further strides in developing new and innovative products for a world looking for more sustainable chemical and materials solutions. In addition to the manufacture of wood-based xylitol, to which we have committed in support of initiatives to reduce sugar extraction pilot plant at Ngodwana Mill and acquisition technology from Plaxica Group (CPG) for US$132 million during the year. The CPG positions us well for growth in the specified and commercial paper markets, with a range of new and complementary products. The performance of these businesses since the acquisition was completed at the end of February 2018. Our future growth expectations, and along with the technology acquired with Rockwell Automation in 2017 to accelerate the development of new products for a growing market focused on delivering sustainable packaging solutions. Our total specialist and packaging paper capacities has grown from 854,000 to 1,009,000 tons per annum over the past year past the acquisition of CPG and the completed conversion projects. Our total production capacity is now approaching 1.5 million tons, and we expect to ramp up towards full capacity over the next few years.

During 2018 we completed debottlenecking projects at both Saiccor and Ngodwana Mills, adding 100,000 and 50,000 tons of converting capacity respectively. In 2019 we will initiate work on the Cloquet Mill, adding a further 30,000 tons of converting capacity, and we will commence with the project to expand Saiccor Mill by a further 110,000 tons as described above.

Demand for specialties and packaging papers continues to be supported by increasing consumer preference for paper based packaging and legislative changes promoting recycling and the use of recyclable materials. The competition on major capital projects at the Somerset and Maastricht Mills in the past year will allow us to increase production of paper based grades to serve this growing market.
Q & A with the CEO
Steve Binnie

We believe that our leading position in the dissolving wood pulp (DWP) market offers us exciting growth prospects into the future.

Q: Despite your continued efforts in employee and contractor safety, you have again suffered fatalities in your operations—what more can you do to achieve your aim of zero harm?

Regrettably, we suffered two fatalities in the past year, one of our own employees at the Ehlanzeni Mill and one South African contractor employee that died in a vehicle accident. Our group-wide commitment to our goal of zero lost time injuries, is a non-negotiable priority, and as such a world leader in safety performance was commissioned to review and audit Sappi’s safety initiatives, processes and procedures, focusing mainly on employee engagement and risk-based approach. Detailed action plans and focus areas have been implemented and are underpinned with the “Own Safety, Share Safety” theme—to get into the hearts and minds of our people and ensuring safety becomes engrained into our business in all regions. Each region and mill has undertaken exciting initiatives and there will be ongoing engagement with our people across the business. Where there are operations that are centres of excellence in terms of safety performance we will look to them to share best practices with the rest of our operations. Importantly, safety performance is an integral part of the leadership and management reward and recognition system.

Q: Leadership in business is often about trade-offs. What trade-offs have you had to make in the past year?

Whether in reference to the 3Ps of Prosperity, People and Planet or the six capitals, it is clear that many, if not all, decisions a business makes involve some trade-off where one element benefits at some expense to another. As I think about the past year, two trade-offs come to mind. Firstly, safety and the goal of zero harm to our employees which underpins our values. Mechanisation of manual processes is certainly a route to lowering risk, especially in high risk activities such as plantation free harvesting. However, mechanisation inevitably leads to lower employment, and in a country such as South Africa where the availability of a large percentage of people are unemployed, especially in the rural areas in which we operate, there is a social cost related to mechanisation that cannot be ignored. Therefore we have restated our efforts with all employees and contractors in the forestry area to train and educate in all aspects of safety. Timber certification is a second – where the concerns of small farmers, that may find certain certification schemes prohibitively expensive, must be weighed against the needs of customers for ever-increasing levels of certified timber, and the realities of sustainable forest practices which may benefit from smaller scale timber operations.

Q: Sappi completed a number of significant capital projects in the past year, though not without delays and cost overruns. How are you going to manage future project execution risk?

The specific issues with each of the major projects at Somerset, Saccor and Ngodwana Mills were different, but there were some common themes. Firstly, we encountered certain vendor design issues in some of the projects which were not expected and were ultimately resolved but not without delay. A second key issue was availability of local resources and skills due to other projects or local conditions in those regions, particularly in the United States of America (USA) where unemployment is very low. Lastly, with the latest technology installed on some of the projects, it took longer than expected to optimise the upgraded equipment and processes. In recent months, we are pleased to report that the performance of the various machines has reached the technical, quality and market performance expectations. The packaging papers qualification trials are mostly complete, with encouraging results and growing commercial sales.

To improve our delivery on future capital projects we have completed a detailed and comprehensive internal review of the various projects to ensure they are completed and negative lessons learnt are communicated and integrated globally in upcoming projects. As a result of this review additional front-end engineering must be completed and we revised our supplier contract philosophies specific to the regions in which we operate. In addition to the above, greater emphasis is placed on the use of modern tools available to improve the efficiency in design, engineering, standards, cost control and planning functions. We continue to develop strong relationships with the main suppliers and have a vigorous process in place to select potential contractors that are aligned to Sappi’s commitment to quality. Lastly, we will be implementing more regular risk based critical review processes.

Q: What impact has growing regulatory and policy uncertainty had on the business and how do you manage the business in this environment?

Policy or regulatory uncertainty is seldom good for business. The USA-China trade tariffs situation is disrupting markets all over the world. There are direct impacts where the price competitiveness of either our or our customers’ products are affected by the tariffs, and there are indirect consequences where whole industries may be uncertain as to the longer-term effect of the tariffs. In this environment companies may reduce activity levels, lower inventory and even cancel projects or postpone investment decisions. We believe that this uncertainty has negatively affected the textile industry in China in particular, and that this is apparent in textile fibre pricing. The debate around exemption without compensation in South Africa, where we own significant land, has raised investor concerns as to the impact this could have on Sappi. While we do not believe that the outcome of the current land debate will result in any negative outcome for our operations, we are involved in many forums to ensure that our views, suggestions and contributions to the resolution of a pressing social issue are heard. We are of the view that the logic of private ownership is an obstacle to transformation, economic growth and human development, and that new sectors of the economy must be harnessed.

Q: Do these opportunities still exist even with the global tariffs?

We believe that our leading position in the DWP market offers us exciting growth prospects into the future. Our divestiture/repatriations investments in the past year at Saccor and Ngodwana Mills, as well as the upcoming divestiture of Clopack and expansion of Saccor Mills, will add 200,000 tons (15% growth) of additional DWP capacity in a little over two years. Most of this additional capacity is already committed to our major customers. While the backward integration plans of major customers mean that further growth with them may be limited for some time, we believe that the market and growth aspirations of other customers, particularly in China, at more than make up for that lost opportunity. Excluding our current large contract customers in China, we supply only 4% of the DWP used in that market.

As highlighted in a question above, the textile market is increasingly becoming aware of the importance of sustainability in the value chain. The Chinese viscose industry has started a roadmap towards a better environmental footprint, and our strong cement lime base, including FSC®, PEFC™ and SFI® are key differentiators which will not allow suppliers to emulate.

We don’t want to overpay for these opportunities, either in capital costs to convert or build DWP mills, nor in acquiring mills. With current DWP and paper pulp price levels, and looking at recent pulp mill acquisitions it is clear to us that valuations have become stretched, making it difficult to achieve the returns that we would want to deliver to shareholders. We will continue to look for opportunities to deliver the growth and returns and entrench our leading position in this market.
Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, specialties and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Sappi sells almost as much as it buys.

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

**Where we operate**

- **Paper production per year**
  - 5.7 million tons
  - 2.3 million tons

- **Dissolving wood pulp production per year**
  - 1.4 million tons

- **Globally we have 12,645 employees**

- **Bleached chemical pulp for own consumption**
  - Alfeld Mill
  - Ehingen Mill
  - Lanaken Mill
  - Mill
  - Kirkniemi Mill
  - Gratkorn Mill
  - Stockstadt Mill
  - Ngodwana Mill

- **Bleached mechanical pulp for own consumption**
  - Masauleni Mill
  - Cloquet Mill
  - Westbrook Mill
  - Somerset Mill

- **Coated woodfree paper and coated speciality paper**
  - Tugela Mill
  - Sappi ReFibre

- **Total Sappi Southern Africa 516,000 ha employees 5,206**

- **Total Sappi North America** 1,350
  - paper mill 1
  - specialty paper mill 1
  - paper and dissolving wood pulp mill 1
  - sales offices 6
  - employees 2,131

- **Total Sappi Europe** 3,700
  - paper mills 5
  - specialty paper mill 3
  - paper and specialty paper mill 1
  - other operation 1
  - sales offices 14
  - employees 5,308

- **Total Sappi Forests** 516
  - 27,588

- **Total Sappi Specialised Cellulose 1,050

- **Total Sappi Paper and Paper Packaging 690
  - Newsprint 140
  - Kraft linerboard 120
  - Corrugating medium 80
  - Office paper and tissue paper 80
  - Mechanical pulp for own consumption 210
  - Kraft linerboard 110
  - Newprint 140
  - Bleached bagasse pulp for own consumption 60
  - Bleached chemical pulp for own consumption 210
  - Mechanical pulp for own consumption 110
  - Kraft linerboard 140
  - Sales offices 6
  - sales offices 6
  - employees 2,131

- **Sappi ReFibre** collects waste paper in the South African market which is used to produce packaging papers.
In a competitive, increasingly crowded marketplace, as an organisation we can take lessons from the kingfisher, which is capable of some of the smartest, most speedy aerial manoeuvres in the animal kingdom.

From its vantage point over a river or stream, the bird hones in on a single fish and then watches silently overhead by rapidly beating its wings as fast as eight times a second. In order to remain in sync with the fish’s exact coordinates, the kingfisher must keep its head almost entirely motionless, letting the wings and counterbalancing tail do all the work.

When ready, the kingfisher strikes, performing a controlled vertical dive to ensure its dart-like bill is the first thing to enter the water. Though sharp and streamlined, this movement still generates shockwaves through the water, so speed is of the essence in order not to startle the fish.

At Sappi, the smart decisions that we execute with speed include responding to global trends and anticipating customers’ needs; establishing global production sites which can switch between printing and writing papers or packaging papers; making capacity conversions to take advantage of market dynamics and increasing DWP capacity. These decisions also include exploring new opportunities to make better use of the woodfibre that we have to hand; working on product portfolios to match changing market expectations and increasing the share of packaging papers in our portfolio to bring us closer to brand owners’ and consumers’ expectations.

Going forward, we will continue to operate with focus and agility by making smart investments in existing and adjacent areas with strong potential growth. This in turn will enable us to offer an expanded range of products that contribute towards a tomorrow that is better than today.
With 16% share of the DWP market and producing close to 1.4 million tons per annum, our dissolving wood pulp brand Verve is a significant player within this market.

From textiles to pharmaceuticals and food applications, Sappi has the expertise, technology and track record to meet almost any challenge from these DWP market segments.

Coated and uncoated papers designed to get the best results for you and your customers.

Our range of coated and uncoated printing and writing papers cover varying visual and tactile qualities to ensure that whether you’re looking for a high-end product with extra wow factor, a comprehensive solution that caters to all of your campaign’s requirements, or a paper that helps you make a saving on distribution costs, then we have the solutions.

We are your value-creating partner, offering an extensive range of innovative products and services.

We don’t just supply materials, we deliver sustainable and innovative solutions. Whether you are a brand owner, converter, printer or designer, our specialities and packaging papers give you the advantage you need.
Dissolving wood pulp

Sappi continues to invest in dissolving wood pulp (DWP) capacity to ensure our customers can meet the demands for sustainably grown and responsibly processed dissolving wood pulp.

Demand for DWP continues to grow as consumer preference increases for products made from renewable, sustainably sourced and processed wood fibre. Sappi has been a leading world producer of DWP over the past few decades, and today produces close to 1.4 million tons per annum, enjoying a significant 16% share of the DWP market.

Building on our reputation for quality, service and responsibility, Sappi moved to strengthen our leadership in the DWP market with the launch of the Verve brand – sustainable DWP for a thriving world.

In 2018, 18% of Sappi’s sales were DWP.

DWP is a highly purified form of cellulose extracted from sustainably grown and responsibly managed trees using advanced cellulose chemistry technology. The majority of DWP is consumed in the viscose and lyocell industry where DWP is converted to viscose and lyocell staple fibre, from there into yarn and ultimately textiles, providing naturally soft, breathable fabrics which are smooth to the touch, hold colour and drape well. The fibres produced from DWP also act as good blend partners in fabric with cotton and polyester. DWP can also be processed into products that are used in food and beverages, health and hygiene, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

Demand for DWP used in textiles, particularly for viscose and lyocell fibres, is both the largest and fastest growing sector, while end markets and demand growth for other applications, are smaller and have lower growth rates. Based on the growth rate in the overall textile market, driven by factors such as population growth, rising urbanisation, wealth and the shift towards more comfortable, environmentally friendly natural fibres, we expect long-term growth in demand of approximately 6% per annum for DWP. Textile and other fibres produced from DWP also benefit from the growing need for biodegradable products.

Market prices for DWP are influenced by several variables, including the selling prices for viscose staple fibre (VSF) and lyocell fibres, the pricing differential between paper pulp and DWP and currency movements. Prices for competing fibres in the textile industry, cotton and polyester, impact the VSF price, and consequently the DWP price. Cotton prices rose in May and June this year as cotton was subject to international trade tariffs between China and the United States of America. Along with the rise in oil prices since July, polyester prices have risen, prompting textile manufacturers to seek alternative fibres, positively impacting VSF demand and supporting pricing. Lastly, much of the supply and market for DWP is within China, the Renminbi/US Dollar exchange rate also affects the market price for DWP.

Our markets in 2018 and outlook for 2019

The VSF industry continues to add larger, more modern, environmentally friendly machines, particularly in China and India, while the enforcement of stricter environmental standards has forced several smaller, less efficient VSF plants to run intermittently and some others had to cease production. Taken together, these additions and subtractions of capacity have left the VSF industry with a more eco friendly footprint. Viscose production in China rose 3% in the 10 months of our financial year relative to the same period last year. Through 2022, wood based textile fibre capacity is expected to grow at approximately 6% per annum.

2018 was a year of large-scale capital investment in our DWP business. We completed debottlenecking projects at both Southern African mills, adding approximately 50,000 tons of capacity towards the end of the year. Sales volumes for the year were 1% higher than the prior year. We have a further debottlenecking project planned for our Cloquet Mill in 2019 to increase our capacity by 30,000 tons. During 2018, we also announced an expansion plan to increase our capacity at our Cloquet Mill by 110,000 tons to meet strong projected demand growth.

The construction work for this project at our Cloquet Mill has started, and the planned startup is in the last quarter of 2020. The project will bring much needed investment and jobs to the KwaZulu-Natal region, as well as further entrench South Africa as a leader in the DWP industry.

DWP prices traded at a high level and relatively narrow band this year, starting the year at approximately US$921/ton and ending at US$925/ton, while the range was between US$891/ton and US$940/ton. The DWP price was supported by high paper pulp prices, but additional VSF capacity led to pressure from weak pricing in the VSF market. We expect prices for DWP to trade at fairly similar levels throughout 2019 as these market forces are expected to continue.
Sappi offers products and solutions in specialities and packaging papers, and tailor-made. Where requirements are more specific, paperboard conversion projects with the aim of matching supply and demand in the printing and writing paper markets, as well as in the specialities and packaging papers markets. Before our conversion this year, the paper machine at our Maasbracht M2 made approximately 380,000 tons of coated woodfree paper per year. With the project completed, we expect to ramp up over three years to approximately 150,000 tons of folding board at the Maasbracht M2, with the balance of the capacity on the machine dedicated to coated woodfree paper. The machine upgrade at our Eemshaven Mill has enabled us to expand our white topliner offering from that mill. The conversion of PM1 at the Somerset Mill was completed in our third quarter, and although the project was delayed and costs overran, we are very satisfied with the quality. Paperboard grades being produced on that machine. Our plans call for a three-year ramp up in paperboard volumes towards the capacity of 350,000 tons per year. As orders for paperboard grow, we will continue to fill the machine with legacy coated woodfree paper as we match supply to demand in both grades. Taken together, over three years, our plans call for an additional 360,000 tons of paperboard, folding board, white topliner and a number of other specialty papers while we reduce our overall exposure to the coated woodfree market by approximately 350,000 tons.

In 2018, volumes from our specialities and packaging papers segment were 30% higher than last year, much of it from the acquisition of CPG mills, with the balance of the increase coming from the inclusion of the newly acquired CPG mills for seven months of the year. EBITDA contribution to the group rose from 15% last year to 18% in 2018. In 2019, with CPG fully integrated, and the conversions ramping up, our goal this year is to grow our volumes and customer base in all regions. These actions provide the basis to progress towards our 2020 targets.
Product review

Printing and writing papers

Before customers ever read content or recognise a logo, they’ve come to a conclusion about the brand.

The science of touch, or haptics, tells us that the experiences of holding something, like coated paper, leaves a powerful and lasting impression. In a sense, they’re holding a brand in their hands, triggering a reaction that causes the body to form a deeper connection. In fact, customers remember content read on high-quality coated paper three times better than content they read online. The geographic spread of our operations provides the ability to optimise global knowledge of market developments, operational best practices, and technology.

Our markets in 2018 and outlook for 2019

Demand drivers, such as direct mailings, catalogues, magazines, and commercial printing are all powerful to be in fairly consistent decline in most regions of the world. Because part of our strategy is to continuously balance market supply with that of market demand, we undertook and completed several conversion or upgrade projects this year to reduce our exposure to coated woodfree paper, where demand is declining, while expanding our presence in the specialities and packaging papers markets in the USA and Europe, where demand is growing. We completed two such projects in Europe this year, one a conversion project at Maastricht Mill and one a machine upgrade project at Ehingen Mill, in addition to the conversion of PM1 at Somerset Mill in the USA. Over three years, our plans call for an additional 570,000 tons of paperboard, folding board, white-top liner and a number of other speciality paper products, while reducing our overall exposure to the printing and writing papers market by approximately 350,000 tons. We aim to maximise the significant cash flow generation of our existing printing and writing paper assets, continuously improve our cost position, and maximise the utilisation of our best-in-class production assets.

Volumes from the segment were 3% lower this year relative to last due to the aforementioned projects. Sales values, however, were 7% higher as market prices rose throughout the year. Our EBITDA margin was slightly higher this year at 8.8%. Average prices realised per ton were 12% higher than last year, slightly outpacing our realised cost per ton, which rose 11%, mainly due to purchased pulp.

In 2019, we expect to sell lower volumes of printing and writing papers as we ramp up the production of specialties and packaging papers from the converted machines. Displaced coated woodfree orders from the Maastricht and Ehingen Mills are expected to gradually fill capacity at our Lanakan Mill, which currently produces coated mechanical paper, and which will be converted by our third financial quarter to give it the capability to additionally produce coated woodfree paper. At our Somerset Mill, and in line with our strategy, we aim to increase our board volumes on the newly converted PM1 while maximising up-time with orders for coated woodfree paper. Over the next three years, we aim to balance supply and demand in both markets as demand for coated woodfree declines, and demand for paperboard continues to grow. We expect both costs and sales prices to remain elevated.

In 2018, 61% of Sappi’s sales were in four different grades of printing and writing paper discussed on the following pages:

Coated woodfree paper
Share of sales: 44%

Printers and publishers use coated woodfree paper for a variety of marketing promotions including brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. Coated paper is brighter, smoother and tends to have greater opacity than uncoated grades. We manufacture coated woodfree paper in our North American and European businesses, but sell to customers all over the world. In 2018, 44% of Sappi’s sales were in this segment, typically through large paper merchants.

Demand trends: As demand for coated paper depends largely on advertising, we’ve seen a decline in spend for printed materials. However, we believe there will always be a place for paper within the marketing mix. Globally, demand for coated woodfree paper is forecast to decline 2% for the next several years, from approximately 23 million tons in 2018 to approximately 21 million tons by 2022.

Sales: Sappi’s net revenue from coated mechanical paper was 14% higher last year, due to higher volumes and selling prices. Volumes were approximately 5% greater in 2017 due to tight trading conditions in adjacent grades. The global market contracted by approximately 3%.

Uncoated woodfree paper
Share of sales: 5%

Uncoated woodfree paper is used in letterhead, business stationery, photocopy paper, with certain brands sold to convertors for books, brochures, envelopes, pamphlets and magazines. Sappi makes and sells uncoated woodfree paper in our European and Southern African businesses. In 2018, 5% of Sappi’s sales were made up of uncoated woodfree paper. Our main customers in this sector are paper merchants and converters.

Demand trends: Demand for uncoated woodfree paper is expected to remain flat over the next several years. Like most printing and writing papers, demand continues to decline in mature markets, with small growth coming from emerging markets.

Sales: Our net revenue from uncoated woodfree paper was 1.0% higher than last year, as a result of increased volumes and prices in Southern Africa. Globally, demand was relatively stable this financial year, with a modest decline of 0.5%.

Coated mechanical paper
Share of sales: 11%

Coated mechanical paper is primarily used in magazines, catalogues, newspapers inserts and other advertising materials. In 2018, 11% of Sappi’s sales constituted coated mechanical paper, all coming from our European business. Customers for this paper are typically large paper merchants, commercial printers and publishers of weekly and/or monthly magazine titles.

Demand trends: Demand for coated mechanical paper is more closely linked to that of demand for magazines. Readability, subscriptions, circulation, pagination and advertising revenue per page continue to decrease in larger markets as consumers opt for digital formats. Demand for this type of paper is forecast to decline more rapidly than for coated woodfree paper in the years to come.

Sales: Sappi’s net revenue from coated mechanical paper was 14% higher last year, due to higher volumes and selling prices. Volumes were approximately 5% greater in 2017 due to tight trading conditions in adjacent grades. The global market contracted by approximately 3%.

Newsprint
Share of sales: 1%

Newsprint, 1% of Sappi’s sales, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers. We manufacture and sell newsprint from our South African business.

Demand trends: Demand for newsprint principally is derived from newspaper circulation and overall retail advertising. Newspaper readership is declining around the world. Publishers are consolidating, while some titles have closed. Pockets of growth exist in ad-financed daily newspapers typically found in large metropolitan cities.

Sales: Though demand for newsprint continues to decline at a global level, our newsprint volumes were 5% higher in 2018 relative to last year, due to a machine closure by a competitor in the South African market last year.
performance during the year

Our key relationships

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

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

Our stakeholder work is aligned to the governance outcomes of the King IV Code, namely ethical culture, performance and value creation, adequate and effective control and trust, good reputation and legitimacy.

Employees

We invest in future talent while challenging our people so that they are able to leverage the opportunities presented by global megatrends.

<table>
<thead>
<tr>
<th>Shared priorities</th>
<th>Our response</th>
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</thead>
<tbody>
<tr>
<td>Making resources available to enable our people to grow intellectually, fulfil their potential and drive innovation within Sappi</td>
<td>Training targets and initiatives are aligned with the needs of each region (see our Group Sustainability Report on <a href="http://www.sappi.com/sustainability">www.sappi.com/sustainability</a>)</td>
</tr>
<tr>
<td>Creating an ethical culture</td>
<td>Code of Ethics communication and training is ongoing in all regions (see page 14)</td>
</tr>
<tr>
<td>Connecting our people to our strategic goals</td>
<td>Employee engagement held every two years measures engagement levels</td>
</tr>
<tr>
<td>Focusing on safety, health, wellness and recognition programmes</td>
<td>All our people are involved in our safety drive, recognition programme at group and regional level</td>
</tr>
<tr>
<td>Promoting corporate citizenship</td>
<td>Eco-effectiveness campaign in Sappi Europe highlights how we generate results to make our business more sustainable</td>
</tr>
</tbody>
</table>
| Encouraging employee volunteerism through initiatives like: | SEU: Support of various local education, cultural and environmental projects based on annual requests and identified needs
SNA: The Employee Ideas that Matter initiative through which we provide grants to employees to fund their individual projects to support good in local communities
SSA: Employee Wellbeing Committees at each mill support local community projects and also support Mandela Day |

Value add of engagement

Employees who understand and buy into our 2020Vision 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.

Unions

Given today’s extremely challenging global economic conditions and the current socio-economic dynamics in the South African labour market, we prioritise our relationship with our employees and their representatives.

<table>
<thead>
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<tbody>
<tr>
<td>Freedom of association and collective bargaining</td>
<td>We recognise the rights of our employees to associate freely and bargain collectively, consistent with regional laws and regulations</td>
</tr>
<tr>
<td>Safety and wellness initiatives</td>
<td>Unions are involved in health and safety committees at each mill</td>
</tr>
</tbody>
</table>
| Remuneration, working hours and other conditions of service | SEU: Collective labour agreements
SNA: Collective bargaining with hourly paid employees and labour agreements with various unions
SSA: Employees (collective bargaining); forestry workers (sectoral determination/consultation) |
| Resolution of grievances | Well-established grievance channels and disciplinary procedures |
| Engagement on strategy | Engage with unions on economic conditions, market dynamics and growth plans |

We view stakeholder engagement not as a once-off annual intervention but as an ongoing dynamic process which enables us to respond to the changing nature of shared priorities of parties who are interested in, and affected by, our business.

Unions

We invest in future talent while challenging our people so that they are able to leverage the opportunities presented by global megatrends.

<table>
<thead>
<tr>
<th>Value add of engagement</th>
<th>Meaningsful engagement on a number of issues affecting both business and employees results in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved relationships</td>
<td>• Enhanced productivity</td>
</tr>
<tr>
<td>More stable labour force and productivity, and</td>
<td></td>
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</tbody>
</table>

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Employees

We invest in future talent while challenging our people so that they are able to leverage the opportunities presented by global megatrends.
Communities

We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of sharing value with all our stakeholders; conserving natural resources and uplifting people so that they are well positioned to thrive in our increasingly inter-connected world. We launched a new Corporate Citizenship Policy in 2018.

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. In South Africa, there are local farmer and community forums related to our forestry communities.

Our initiatives are described in more detail in our Group Sustainability Report on www.sappi.com/sustainability.

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| Community support including employment, job creation, business opportunities, economic and social impacts/contributions and community support | SEU: Mills offer support and financial sponsorships to local schools, sport and hobby clubs, forest products industry students, local safety/environmental organisations and also support local charities  
SNA: ● Each business unit has a sustainability ambassador who is responsible for supporting sustainability communication, conducting training and fostering community engagement through local projects  
● Education programmes are supported at targeted colleges and universities as well as programmes to encourage study in fields relevant to our operations  
● Our employees support initiatives like Living Lands and Waters and the Charles River Watershed Association focused on environmental stewardship and education  
● The Ideas that Matter programme continues to recognise and reward designers who support good causes  
● The Printer of the Year awards recognise excellence in print  
SSA: Given South Africa’s significant development needs, community support is mainly focused in this region and includes:  
● Sappi Khulisa, our enterprise development scheme (see page 59)  
● The Abashintshi programme (see page 53)  
● Early Childhood Development  
● Education, including Khulisa Uwazi, our training centre for small growers and two training centres for local unemployed youth, one at Saiccor Mill and the other at Ngodwana Mill  
● Support for local tourism through our mountain biking sponsorships and promotion of recreational riding on Sappi land |
| Environmental issues relate to biodiversity conservation as well as water usage and quality, effluent quality and air emissions | Information about the fibre sourcing and production processes behind our brands  
At the request of our customers, we participate in EcoVadis and Sedex
| Value add of engagement | • Enhances our licence to operate  
• Promotes socio-economic development which could in the long-term, lead to increased demand for our products  
• Initiates real social mobilisation and change for the better |

Customers

We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. Where relevant, we will conduct R&D and develop products to suit customers’ specific needs.

In addition to the usual avenues of engagement, we engage through initiatives like the Sappi Football Cup, now in its eighth year (SEU); Printer of the Year (SNA); and by sponsoring the Citrus Research Symposium (SSA).

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| New or enhanced products that meet rapidly changing market demand | In 2018 we branded our dissolving wood pulp (DWP) range as Vene and launched:  
Sappi Seal  
New packaging grades Spectro C1S and Proto Litho C1S  
Fusion Uncoated – a white topliner  
Fashion White and Fashion White OF for shopping bags  
Atelier, a folding board (see page 45)  
We also established Sappi Digital Solutions, focused on the dye sublimation papers market |
| Support in terms of paper, packaging, DWP and sustainability goals | In terms of DWP, technical centres of excellence are located at Saiccor and Cloquet Mills  
Customers can make use of the competence centre for specialty papers and paper laboratory at Atteco Mill  
In North America, the Sustainability Customer Council provides candid feedback, identifies emerging issues and helps to establish goals |
| Information and campaigns to promote print as a communication medium and encouraging the use of packaging | In 2018, SNA launched:  
• True or False – an informative guide about coated and uncoated paper myths and facts  
• The Five Second Rule a promotional resource focused on direct mail  
We showcased our brands at Fach Pack (where we launched Atelier); LUXE PACK, SNA, FESPA Berlin, HOW Design Live |
| Provision of technical information | Globally, we continue to participate in industry initiatives like TwoSides |

| Value add of engagement | • Meet customer needs for products with an enhanced environmental profile  
• Innovate to align with evolving market trends  
• Increase awareness of the importance of sustainability  
• Promote our customers’ own sustainability journeys  
• Keep abreast of market developments  
• Showcase our products and promote the Sappi brand |

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Industry bodies and business

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 has been a signatory to the UN Global Compact since 2008.

### Shared priorities

- Issues that affect the sustainability of our industry—wood fibre base, carbon taxes, energy and emissions etc.
- Ethical issues impacting business
- 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

In 2018, we:

- Became a founding partner of the University of Cambridge Institute for Sustainability Leadership’s (ISL) Prince of Wales Global Sustainability Fellowship Programme. Work here will include examining drivers including the rise of artificial intelligence and the need to bring carbon emissions to net zero (see page 49)
- SEU: Continued to actively contribute to the development of an industry standard for delivery of chemical information through the paper and pulp supply chain by chartering the consortium’s working group
- Continued to participate in work related to deep eutectic solvents’ within the Bio-based Industries Initiative, with the goal of significantly reducing CO2 emissions in pulp and papermaking
- SNA: Joined the Recycling Partnership as a funding partner
- Active board-level participant in the Paper and Packaging Board
- Under the PEFC, Sappi Forests helped to finalise the South African Forest Assurance Scheme (SAFAS) standard

### Value add of engagement

- Work with industry and business associations through collective initiatives to support societal change and deal with societal challenges
- Promote an ethical culture
- Collaborate on legislative trends such as carbon tax and carbon budgets
- Maintain and expand markets for our products
- Demonstrate the value-add of the forest products industry
- Dispel myths and promote understanding of our industry

### Our membership of industry associations

- Sappi Limited: TAPPI (the Technical Association of the Pulp and Paper Industry) • Business Leadership South Africa • The CEO Initiative
- SEU: Confederation of European Paper Industries (CEPI) • Eurofog • European Joint Undertaking on Bio-based Industries • Print Power • Save Food • 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) • Textiles
- SNA: American Forests and Paper Association (AFPA) • Paper and Paper Packaging Board • Agenda 2050 Technology Alliance • Forest Products Working Group • Forest Stewardship Council® (FSC®) • Sustainable Packaging Coalition (SPC) • Textiles
- SBSA: Business Unity South Africa • Energy Intensive Users’ Group • Fibre Processing and Manufacturing Skills Education and Training Authority (SETA) • Forestry South Africa • Forest Stewardship Council® (FSC®) • Packaging SA • Paper Manufacturers’ Association of South Africa (PMASA) • Recycle Paper 2010 • Recycling SA (RASA) • Manufacturing Deals • South African Chamber of Commerce and Industry (SACCI) and local chambers of commerce and industry • Textiles • National Business Initiative (NBI)

Sappi Forests: Institute for Commercial Forestry Research (ICFR) • Founding member of the Tea Protection Co-operative Programme (TPCP) • BiCEP (Biological Control of Eucalyptus Pests) (http://bicep.net.au) • Eucalyptus Genome Network (EUCAGEN) • CAMCORE

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### Investors

Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.

#### Shared priorities

- Information on Sappi’s strategy
- Return on investment
- Transparent information about risks, opportunities and environmental, social and governance (ESG) performance

#### Our responses

- Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. Our chairman also engages with shareholders on relevant issues
- We engage with various ratings agencies, particularly in terms of ESG performance
- We conduct ad hoc visits to roadshows, 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 Group 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

#### Value add of engagement

- Understanding of our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest
Shared priorities | Our response
--- | ---
Safety | Given our focus on zero harm in the workplace, we work with our contractors to ensure that they follow Sappi’s safety systems. In South Africa, Sappi Forests worked closely with contractors and their workers to develop and implement its innovative ‘Stop and Think before you Act’ programme.

Increased value and decreased costs, security of fibre supply, certification, income generation and job creation | Shortly after year-end we adopted an updated Supplier Code of Conduct.

SEU: A joint sourcing partnership assists in negotiating better terms with timber and other suppliers. In addition, the Confederation of European Paper Industries (CEPI), of which Sappi Europe is a member, participates in actions supporting and promoting the development of sustainable forestry management tools—including forest certification—all over the world, particularly in less developed countries.

SNA: The Sappi Maine Forestry Programme and the Sappi Lake State Private Forest Programme assist forest landowners to meet their objectives for managing their woodland. Sappi’s trained foresters are able to develop a forest management plan geared to the interests of the landowner including wildlife management and aesthetics, marketing of timber to generate maximum return and providing an extensive network of environmental and marketing resources.

SSA: Qualified extension officers provide growers in our Sappi Khulisa enterprise development scheme with ongoing growing advice and practical assistance.

Value add of engagement
- Increased value and decreased costs
- Transparency

Value add of engagement
- Opportunity to inform and educate media
- Transparent, two-way communication and opportunity for dialogue

Government and regulatory bodies

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.

Shared priorities | Our response
--- | ---
Energy issues in general and in particular government moves on carbon taxation | Consultations take place on an ongoing basis with government departments and regulatory bodies in each region. In Europe we also regularly engage with the European Commission.

The impact of increased regulations on business | We undertake briefings to legislators.

The social and economic benefits of our industry nationally as well as at a local level | We support specific government initiatives, including in South Africa the renewable energy push—our biomass project at Ngodwana Mill achieved regulatory approval and financial close (see page 83) and our group CEO participated in and made commitments at the investment conference hosted by the South African President.

Increased investment | We support specific government initiatives, including in South Africa the renewable energy push—our biomass project at Ngodwana Mill achieved regulatory approval and financial close (see page 83) and our group CEO participated in and made commitments at the investment conference hosted by the South African President.

Value add of engagement
- Promote understanding of issues and challenges
- Help governments to understand the strategic value of our industry
- More receptive regulatory and policy environment
Our global 2020 sustainability goals

In line with our 2020Vision and One Sappi strategic approach, 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. Our performance in 2018, together with commentary, is set out below.

<table>
<thead>
<tr>
<th>Prosperity</th>
<th>Global target</th>
<th>2014 base</th>
<th>2018 performance</th>
<th>2018 compared to 2014 baseline</th>
<th>2020 goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>10.6%</td>
<td>14.6%</td>
<td>35.19% improvement</td>
<td>12% ROCE minimum</td>
<td></td>
</tr>
</tbody>
</table>

People

<table>
<thead>
<tr>
<th>People</th>
<th>Global target</th>
<th>2014 base</th>
<th>2018 performance</th>
<th>2018 compared to 2014 baseline</th>
<th>2020 goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTIFR (combined own and contractor employees)</td>
<td>0.53</td>
<td>0.43</td>
<td>18.8% improvement</td>
<td>Target zero LTIFR with minimum 10% improvement year-on-year</td>
<td></td>
</tr>
<tr>
<td>Sustainable engagement – highest level of survey participation</td>
<td>Not measured (2015: 74%)</td>
<td>Not measured (2017: 85%)</td>
<td>15% improvement</td>
<td>Maintain or improve</td>
<td></td>
</tr>
</tbody>
</table>

Planet

<table>
<thead>
<tr>
<th>Planet</th>
<th>Global target</th>
<th>2014 base</th>
<th>2018 performance</th>
<th>2018 compared to 2014 baseline</th>
<th>2020 goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy intensity</td>
<td>22.66 GJ/adt</td>
<td>22.38 GJ/adt</td>
<td>1.24% improvement</td>
<td>5% improvement over the period</td>
<td></td>
</tr>
<tr>
<td>Certified fibre</td>
<td>79%</td>
<td>75.2%</td>
<td>4.81% decline</td>
<td>Maintain or improve percentage</td>
<td></td>
</tr>
</tbody>
</table>
Our key material issues

Key material issue

Ethical behaviour and corruption

Background

In South Africa, in particular, various incidents in state-owned enterprises and private and public entities have led to outrage and criticism at the lack of governance and ethical leadership at all levels of our society.

Our response

Sappi continues to provide avenues to stakeholders to communicate breaches or apparent breaches of the Code either through hotlines or via email (ethics@sappi.com). All complaints are registered and investigated by Sappi’s internal audit and then reported into the Audit and Risk Committee on a quarterly basis. (See page 101.)

During March 2019, we will once again be rolling out the engagement survey, part of which tests values and ethical leadership as perceived by employees. The results in this area will be a useful guide to understanding the culture of ethical behaviour and conduct in Sappi and where improvements can be made.

We are also in the process of rolling out a Supplier Code of Conduct which calls on suppliers to commit to ethical behaviour, human rights, health and safety, diversity and equal opportunity and environmental awareness.

KPMG

In 2017, we reported that our auditors, KPMG South Africa, had been implicated in allegations related to patronage and corruption at other clients which caused us to reassess their provision of services to Sappi. We have engaged with KPMG international in this regard and are satisfied that more stringent checks and balances have been established which will prevent a reoccurrence of incidents of a similar nature.

Code of Ethics

Sappi’s high premium on adherence to ethical behaviour is entrenched in our Code of Ethics (Code). In addition to training all new employees during induction, we conduct ongoing awareness training. In the past year this included online or in-person awareness training on various topics covered in the Code. These ranged from dawn raids awareness to the protection of personal information. In addition, all relevant new employees in all regions were trained on anti-fraud and corruption as well as Competition Law.

Regrettfully, notwithstanding these training initiatives, there were breaches of the Code. We have investigated these incidents with the assistance of internal audit and/or external advisers, addressed the issues and where required, taken steps to seriously sanction the underlying relationships—an indication of the seriousness with which we view these transgressions.

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Value impact

• Greater understanding of the “One Sappi” approach to ethics and human rights
• More stable and sustainable business

We continued to make significant investments in line with our 2020 Vision, the aims of which include diversifying group EBITDA by remaining an industry leader in printing and writing papers manufacturing; expanding specialities and packaging papers and growing dissolving wood pulp (DWP) capacity.

Ongoing investment

• We completed a capital investment at Cloquet Mill to replace the headbox on PM12. This investment enabled the mill to maintain capacity by adding a state-of-the-art, dilution profiled headbox—the part of the paper machine responsible for spreading the pulp fibres evenly to form the sheet—that produces excellent basis weight profiles.

• In September 2018, we announced the completion of a year-long rebuild of PM1 at Somerset Mill to increase the mill’s annual production capacity to almost one million tons per year. This rebuild has enabled the launch of new paperboard grades (See New products on page 45) which provide luxury packaging and folding carton applications that complement our existing specialty packaging products.

• We also completed the modernisation of Somerset Mill’s woodyard.

• We advanced our work in increasing chipping capacity and modernising the Saiccor Mills woodyard. The new equipment for the woodyard is scheduled to be delivered and installed at the end of 2018, with start-up planned in 2019. The woodyard investments will result in cost, quality, environmental and efficiency benefits to Saiccor Mills and is also a major step towards preparing the mill to expand further.

• We also completed the rebuild of the PM12 at Maastricht Mill. This involved the installation of a new three-layer headbox and metal belt calender. This has facilitated improved board surface quality and reduced costs.

Going forward, investment plans include:

• A €30 million upgrade of PM9 at Grahams Mill. The upgrade at this mill, due for completion in 2019, will optimise raw materials to reduce production costs and will also result in reduced energy demand.

• At Lanaken Mill, the PM8 will be rebuilt to support our coated woodfree business.

• An investment at Allefeld Mill will add specialty paper capacity of up to 10,000 tons.

• A debottlenecking project at Cloquet Mill, due for completion in 2019, will increase DWP production by around 50,000 tons.

• Significant investment plans in Southern Africa which are described in further detail on page 16.

Cost containment

We work to lower fixed and variable costs, increase cost efficiencies and invest for competitive advantage. Building on the global procurement and efficiency savings drive launched in 2016 whereby we achieved US$57 million more in savings than target three years ahead of schedule, in 2018 we achieved an additional US$81 million in group efficiency and procurement initiatives.

We achieved upgrades at Maastricht and Ehingen Mills on time and within budget. However, capital costs and timing overran at Somerset Mill, negatively impacting production volumes. We also experienced delayed start-ups at both Ngodwana and Saiccor Mills post machine upgrades.

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We significantly expanded our specialities and packaging papers capacity in 2018, as set out below:

**Value impact**
- Delayed project execution impacted on volumes and income
- Ongoing investment and cost containment increase investor value
- Continuous improvement enhances our competitive position
- Investments at key mills/machines lower costs, support our existing position in printing and writing papers and establish a strong platform for growth in paperboard packaging
- Investments have added to the diversification of our packaging line to meet a variety of needs

**Key material issue**

**Growth in the specialities and packaging papers sector**

**Background**
Growing concerns about the negative impacts of fossil-fuel based packaging, in particular its impact on the world’s oceans, have resulted in bans on single-use plastics in many countries around the world. At the 2018 World Economic Annual Forum in Davos, 11 industry leaders committed to 100% recyclable packaging by 2025. This is driving demand for paper based packaging, which is set to intensify going forward.

**Our response**
We significantly expanded our specialities and packaging papers capacity in 2018, as set out below:

**Cham Paper Group**

We concluded the acquisition of the speciality paper business of Cham Paper Group Holding AG (CPG). The transaction includes the acquisition of CPG’s Carrignano and Condino Mills (Italy) and its digital imaging business located in Cham (Switzerland), as well as all brands and know-how. Significantly, the acquisition has added 165,000 tons of specialty paper to our capacity, supporting our diversification strategy and 2020Vision to grow in higher margin growth segments. In terms of financial impact, the acquisition will add €113 million of sales and approximately €20 million of EBITDA before taking synergies into account.

Sappi Digital Solutions, formed by the acquisition of CPG was established at the beginning of 2018. The business unit’s broad portfolio of dye sublimation papers supports many industries in their quest to meet demand for individualisation and speed to market.

The CPG acquisition has enabled us to:
- Increase our relevance in specialty papers, opening up new customers and markets to Sappi’s existing products and generating economies of scale and synergies.
- Gain greater share-of-wallet with valued brand owners, thereby accelerating innovation and new product development
- Improve near-term profitability and serve as platform for organic growth and future acquisitions
- Build on the investments currently underway to increase specialty paper capacity at our Somerset, Maastricht and Alfeld Mills, and
- Unlock the growth potential of the CPG specialty paper business.

The value-add of the CPG acquisition to our business was highlighted when we presented solutions in the fields of dye sublimation papers, inkjet papers, silicon base papers and containerboard at the FESPA-Beijing. FESPA is a global federation of 57 national associations for the screen, digital and textile printing industries.

Here, in addition to our specialties and packaging papers, we showed Transtry dye sublimation transfer papers for textiles previously marketed by CPG, along with a line of wide format inkjet papers. We also showed tear-resistant Scrolljet wide format Inkjet paper at the show. This 100% recyclable specialty paper is suitable for use with solvent, UV-curable and latex inks. Its special surface treatment ensures brilliant colour results that provide exceptional luminosity for front- and back-lit applications.

**Value impact**
- Expanded capacity strengthens our specialty paper business both in Europe and globally by combining CPG’s strong brands and assets with Sappi’s global reach
- Increases profitability and unlock the significant growth and innovation potential inherent within the specialty paper market
- Helps us to realise our 2020Vision goal

**New products**
- Following the rebuild of the PM41 at Somerset Mill, we introduced the new packaging grades Spectro C15S and Proto Litho C15S. Spectro is a single-ply paperboard with enhanced optics, making it ideal for premium applications. End-use markets include luxury beverages, cosmetics and perfumes, health and beauty care, covers (books/magazines), greeting cards/folders/lottery calendars, shopping bags, point of sale (POS) material, menus, direct mail, pharmaceutical, confectionery, fashion and lifestyle, as well as consumer electronics. Proto is a lightweight paperboard suitable for displays, mailing envelope, fashion and lifestyle, consumer electronics, beverage, food packaging, POS material and shelf-ready packaging.
- In 2016, Sappi was the first manufacturer to launch a packaging paper with integrated sealing functionality. This generated considerable market interest and has gradually been developed further, culminating in the launch of Seal. Designed to replace hot seal laminates made from plastic with materials containing a high proportion of renewable raw materials, Seal is single side coated. A dispersion coating on the reverse side makes it ideal for use as flexible standard packaging in the food and non-food sectors, where hot sealing properties are required. The market includes both primary packaging—sachets, and secondary packaging—flow-wraps for sweets, toys and do-it-yourself (DIY) goods.
- Based on the paper concept for our successful Fusion Topliner, we have launched Fusion Unlimited. With a natural, uncoated surface, the product is an alternative to brown liner papers. Applications include inner packaging such as white corrugated board inserts for high-end perfume boxes as well as food packaging.
- We added to our shopping bag portfolio with Fashion White and Fashion White OF. Both these uncoated, machine finished grades feature high whiteness and offer good printability in a wide range of virgin fibre grades and grammages between 70 g/m² and 130 g/m². They are both ISBECA-certified for direct food contact and DIN EN71-certified for toy safety.
- Atelier, a premium folding boxboard available in weights from 220 g/m² to 350 g/m². With a brightness level of 100% on the top side, Atelier exceeds the current industry top value of around 92%. On the reverse side, Atelier offers a brightness factor of 98,5% to accommodate the increasing demand for printing on both sides of the board for added impact.

**Value impact**
- New products meet the needs of brand manufacturers and consumers looking for more environmentally friendly, lighter weight packaging
- Proto and Spectro enable greater product differentiation in a crowded marketplace
- Seal meets the needs of changing market dynamics by offering functionality and convenience
- Fusion Unlimited targets the high-volume corrugated board market
- Atelier folding boxboard introduces a completely unique concept to the paperboard market.

**Key material issue**

**Growing demand for cellulosic based fibres**

**Background**
While cellulosic based fibres are globally popular, Asia is the primary market for DWP. Rising urbanisation and higher standards of living in the greater Asian region are driving increasing demand for more comfortable clothing. This trend is set to continue, with the Asian middle-class population and attendant consumer consumption growing rapidly—accounting, by some estimates, for 43% of total global consumption by 2030. Research by Hawkins Weight shows the five-year outlook for DWP expanding at an average annual growth rate of 4.9%.

Demand for DWP could also increase in the short term, given China’s imposition of increased tariffs on cotton imported from the USA.

**Our response**
Textiles are the primary market for our DWP, now branded as Verve, which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell). We also supply smaller quantities into other DWP market segments.

Given tight supply in the DWP market and the limited new capacity in the medium term, we completed debottlenecking projects at Ngodwana and Sascor Mills which have added 50,000 and 10,000 tons respectively. A further debottlenecking project at Clouet Mill, due for completion in 2019, will increase DWP production by around 30,000 tons.

Looking ahead, we have started preparatory work under a project known as Vulindlela for the potential expansion of Saiccor Mill to add 110,000 tons of DWP capacity.
Key material issues continued

**Value impact**

- **Capacity growth:**
  - Enables long-established relationships with key customers
  - Establishes capacity to meet current and future demand
- **Vulindlela:**
  - Aligns with the South African government’s investment drive
  - Will create significant job opportunities – during the peak period, there will be between 2,500 and 2,800 contractors working onsite at one time
  - Will result in CO₂ emissions halving and waste to landfill being reduced by 48%, SO₂ reducing by 35% and water use efficiency increasing by 17%

**Background**

The world has moved away from a linear model of value creation that begins with extraction and concludes with end-of-life disposal to a more circular economy. One of the key focus areas of this approach is optimising resources yields.

**Our response**

In keeping with the approach outlined above, our aim is to extract more value from each tree and in doing so, move into adjacent markets in order to strengthen our overall core business model. The Sappi Biotech business unit, established in 2016, continued to grow as part of our strategy to create new streams of income that are aligned with the circular economy approach.

**Hemicellulose sugars**

In 2017 in partnership with Valmet, we commissioned a hemicellulose sugar extraction demonstration plant at Ngodwana Mill. After operating for 12 months to demonstrate the extraction of CS sugars from DWG production, the plant exceeded all efficiency targets for cost, cycle time and yield.

We are now progressing the development of our biomass feedstock capacity with the construction of a demonstration plant to further scale up our novel Xylex technology – acquired in 2017 – for the clean-up of the extracted sugars stream, to allow production of xylitol, xyitol and furural. A low-calorie sweetener, xyitol has positive dental properties and produces no insulin response, so is suitable for diabetics. Furural is a versatile green industrial chemical derived from C5 sugars with a diverse range of derivatives.

The Xylex demonstration plant will be located adjacent to the existing sugars extraction plant at Ngodwana Mill, and will be commissioned in 2019. Pending successful results, we may construct commercial xylose, xylitol and furfural plants adjacent to our mills in North America and Southern Africa.

The combination of Sappi’s operational excellence and the proposed co-location of the commercial plants at existing mill sites delivers strong synergies. In addition, the cost advantages offered by Sappi’s scale and the Xylex technology give us a globally competitive cost base for CS sugar extraction and beneficition to xylene, xytol and furfural.

Going forward, our strategic intent is to enter the xyitol value chain with a world-scale production plant. Future markets are showing strong market pull for new investments due to growth as well as the phasing out of older and smaller uneconomic assets. Against this backdrop, sugars extraction from our DWG assets combined with our Xylex capabilities will allow us to pursue various partnerships in either the xyitol or furan chemistry value chains.

**Value impact**

- **Valuation of CS sugars produced as a co-product of our DWG production, and from the lignin produced in our global pulp production**
- **Product offering of second-generation sugars does not impact food security**
- **Meaningful revenue from a new business segment**

**Lignin**

Sappi Biotech offers Hansa and Collex, two lignin-based dispersants used extensively in the concrete industry as plasticisers, produced from our lignin sources in Europe and Southern Africa and sold to global markets.

Sappi Biotech product was initially launched at Tugela Mill in 2012. Lignex is used as an effective wetting and binding agent to suppress dust and bind unpaved road surfaces, with many health, safety, and cost benefits. It has been used extensively in the mining industry for several years and its benefits are now attracting a lot of interest in the agriculture and forestry sectors.

The focus of interest for the forestry industry is the use of Lignex to improve high traffic, unpaved plantation roads, timber depots and woodyards. Mixed into the road materials and/or sprayed onto the road surface it acts as a surfactant which gives excellent dust suppressant properties. The binding power of lignin also aids in binding the aggregate material together and keeping the road stable. This result in safer, more durable and longer lasting roads with reduced maintenance costs. There is strong interest in using the product in the citrus industry where dust contaminates the fruit, both in the orchards and around the packhouses.

Our Zewilex product is aimed at end-use applications in the resin industry, an area where research into lignin modification is an ongoing effort to meet performance and sustainability requirements of customers.

Currently, our research in the lignin area involves assessing the extraction of high value aromatic compounds from lignin using advanced chemical and technical processes for various and use applications where the common theme is to offer brand owners renewable and sustainable alternatives.

**Value impact**

- **As a co-product, lignin increases the value derived from trees and supports the core cellulose business**

**Valida nanocellulose**

Valida is a lightweight, solid substance which is comprised of nano-sized fibrils—the high strength building blocks of cellulose fibres. At our pilot-scale Valida plant at the Brightlands Chemelot Campus in the Netherlands, we use wood pulp obtained from various accredited sources as feedstock.

Work progressed at the plant with the development of technology to produce dry dispersible nanocelluloses. This high-quality product, which has been branded as Valida, is easily dispersed into a variety of matrices. Valida technology uses an environmentally friendly production process which is also compatible with the requirements of the targeted applications. While naturally hydrophilic, Valida can also be subjected to surface modification to suit hydrophobic applications. Valida is suitable for many applications, including:

- Biobased composites: Improves the mechanical properties of plastics, rubber, latex, thermosetting resins, soya protein and starch-based matrices
- Food: Used for thickening, stabilising and enhancing the texture of food
- Cosmetics: Acts as a powerful, natural rheology modifier in personal and home care products
- Paper: Improves paper strength
- Packaging: Enhances barrier properties on packaging materials to prolong food shelf life
- Medicine: Performs as an advanced excipient in medicines, thereby facilitating drug delivery and active ingredient release, and
- Paint and adhesives: Used for thickening and stabilising.

We are conducting third-party market development work with prominent global brand owners and technology institutions.

**Value impact**

- Derived from cellulose, the most abundant polymer on earth, and a renewable resource
- Valida has great potential in helping the world shift to materials that do not require fossil based fuels as feedstock
- Biocompatible and biodegradable

**Symbio**

Over many years, Sappi has developed advanced technologies to combine cellulose fibres with other polymers and materials with emphasis on both function and aesthetics. Symbio, developed in 2016, is a good example of where we have leveraged our fibre expertise to launch an innovative product.

Symbio is a cellulose fibre plastic composite combining up to 55% high quality cellulose from wood fibre and a polylactide plastic material. Delivered as granules, it can be injection moulded and therefore deployed in various industrial sectors, including automotive, furniture, appliances and consumer electronics.

We are currently developing Symbio Vivid, an exciting new look and feel for uniquely coloured decorative plastic composites.

We are in discussions with automotive original equipment manufacturers (OEMs) regarding the use of Symbio in vehicle applications. The key benefits of Symbio lie in positive touch and feel (haptics), durability and lighter weight. The latter is particularly important in the drive to reduce carbon emissions.
**Value impact**

**Bio-energy**

Biomass energy project


Sappi will have a 30% stake in the facility, which is expected to contribute to the national grid from July 2020.

The project will use biomass recovered from surrounding plantations and screened waste material from the mill production process. The power plant will burn up to 35 tons per hour of biomass in a boiler to generate steam and drive a turbine to generate electricity which will be fed into the grid as from 2020.

Sappi already contributes to the national grid by selling surplus energy from Ngodwana Mill to the state power utility, Eskom.

With this project, Sappi has become one of only a few companies in South Africa to embark on a biomass energy project.

**Fuel rods**

Some 150 years of intensive coal mining in South Africa have produced about a billion tons of discarded thermal-grade coal fines.

To utilise this energy source, we constructed and tested a small fuel rod manufacturing plant at Ngodwana Mill. The fuel rods comprise a mixture of coal slurry, biomass and lignosulphonate, which can be used as a coal replacement. Initial fuel rod test results are positive and could lead to reduced greenhouse gas emissions when compared to low-grade coal.

Sappi has entered into a joint venture agreement with the Industrial Development Corporation (IDC) as a strategic equity and debt partner to provide the balance of the capital required for the demonstration plant.

The fuel rods will be tested in one of Sappi’s boilers at Tugela Mill for a 12-month period. The demonstration facility will be upgraded after the test results are positive.

**Value impact**

**Fuel rods**

- Catalyst for energy transition in South Africa
- Positive monetary, job creation and socio-economic impacts:
  - Financial impact: ZAR13 billion direct value add over 20 years
  - Project will employ 350 South Africans during construction
  - Biomass collection from surrounding plantations will result in 50 new jobs, and
  - Significant empowerment component
- Cast rods
- Resolve an environmental issue
- Created enterprise development opportunities in areas where coal fines are located

**Value impact**

**Bio-energy**

- Renewable resource to replace fossil-fuel based sources
- Positive monetary, job creation and socio-economic impacts:
  - Catalyst for energy transition in South Africa

**Value impact**

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**Value impact**

Through our focus on innovation, we are developing ways of becoming much more effective than we are today, both in our journey towards durable sustainability and the need for economic vitality and employment for future generations. We live in an age of hyper-innovation and we take responsibility for making it work positively in a number of different ways.

**Cambridge Institute for Sustainability Leadership**

In 2018, we announced a founding partnership with The Prince of Wales Global Sustainability Fellowship Programme at the Cambridge Institute for Sustainability Leadership (CISL). Together with other partners, we are funding research on Artificial Intelligence and bringing carbon emissions to net zero in the paper and pulp industry.

The three to five-year fellowships of which there are currently eight, will involve academics from around the world in identifying breakthrough solutions to meet the UN Sustainable Development Goals (SDGs).

The Sappi-supported Fellowship will focus on the UN SDG 9, which relates to industry and innovation. It aims to build on Sappi’s current engagement with the CISL by investigating how trends of innovation and sustainability will come together to reshape the future of industry—looking at the paper and pulp industry as an initial example and examining drivers including the rise of artificial intelligence and the need to bring carbon emissions to net zero.

The CISL continues to support our work with the European industry in issues related to the Green Growth Platform. These include the development of a new low carbon pulp technology (deep eutectic solvents), exploring financing options to support industry’s transformation and investigating blockchain technology for timber certification. The latter would support risk assessment and Chain-of-Custody wood fibre audits from forest/plantation to retail shelf. Sappi is representing the paper industry in this project.

**Value impact**

- This fellowship programme will deliver students with a profound knowledge and understanding of issues which will help drive new solutions for us and others, creating exciting opportunities far into the future

**R&D**

Technology is a core pillar of competitive advantage in our industry and represents a risk if we do not make ongoing technology investments. With a strong focus on innovation and R&D, Sappi is committed to developing new processes and biomaterials which extract more value from each tree and support our business strategy to move into new and adjacent markets.

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

Total R&D spend in 2018 increased significantly from US$29.5 million in 2017 to US$41.6 million. This includes spend of approximately US$11.5 million on our Exicter programme (2017: US$9.8 million) which focuses on core business (Exicter 1) and new and adjacent business (Exicter II).

Core business support (Exicter I) included:

- Cost reduction through novel innovations for the paper industry, latex replacement in particular
- Processing in our pulp and paper mills, particularly the continuous optimisation of the cooking and bleaching processes to achieve cost reduction and increased fibre yields
- Support for packaging grades like Seal
- Transferring Rockwell Solutions’ coating concepts to paper substrates
- The evaluation of alternative hardwood species for one of our Southern African mills
- Viscose application testing at Saiccor Mill, and
- The ongoing evaluation of new, disruptive technologies.

Work in terms of Exicter II was focused primarily on new technologies in adjacent areas to the current business, including Symbio, Valida development and applications, as well as work related to bio-refineries—notably the scaled-up sugar demonstration plant at Ngodwana Mill.

**Value impact**

- Market growth
- Cost reduction
- Continuous improvement
- Efficiency optimisation
- Competitive positioning
Key material issue continued

**People**

Related SDGs:

1. **No poverty**
   - End poverty in all its forms everywhere

2. **Zero hunger**
   - Ensure healthy lives and promote wellbeing for all at all ages

3. **Quality education**
   - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

4. **Gender equality**

5. **Clean water and sanitation**
   - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

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**Key material issues**

**Safety**

**Background**

Unsafe practices and conditions can have devastating consequences—the impact of human loss and suffering on individuals and those around them is immeasurable.

**Our response**

Our ongoing Project Zero campaign highlights our commitment to zero injuries. Our target remains a zero own employee and contractor combined Lost Time Injury Frequency Rate (LTIFR) with a minimum of a 10% improvement year-on-year.

We keep safety at the top of employees’ minds with relevant, actionable programmes that challenge them to proactively identify potential hazards and make safe choices. Once potential hazards are identified, teams seek first to understand them and then control and minimise exposures within our operations. We have a zero-tolerance approach to safety, both in terms of our own employees and contractors and believe it is unacceptable that a single life should be lost in the course of our business.

Globally, satisfaction with our safety performance, particularly in North America, must be tempered by our collective shock, regret and grief at two fatalities in 2018: At EHingen Mill in Europe, an employee was cleaning the conveyor belt leasing from the woodchip silos to the digesters when he was pulled in between a guiding roll and a conveyor belt and killed. In Sappi Forests (Southern Africa), a contractor lost control of his vehicle which left the road, resulting in his death.

Regrettably, the start of the 2019 year was marred by two contractor fatalities, one at Ngokwara Mill and one at Sappi Forests in KwaZulu Natal. Sappi people around the world have joined the CEO and board in supporting the families, friends and colleagues of those who tragically passed away.

In terms of regional safety performance:

- **Sappi North America** had the best-ever employee LTIFR on record and the severity rate in this region declined significantly.

- Although there was no improvement in the LTIFR for own employees in Sappi Europe, which stayed constant, this figure was somewhat skewed by the recent integration of new business units. On average, with some exceptions, the existing business units improved safety performance, however, all the new entities were at a lower severity level with action plans put into place to reverse this trend. EHingen Mill took immediate action following the fatality:
  - Activities previously classified as low risk were reassessed
  - Mill representatives participated in a workshop in South Africa held with external service providers (see below)
  - Works Council members and safety representatives travelled to Cloquet Mill to share best practices.

- At Sappi Southern Africa, employee LTIFR was the best ever, with the LTIFR for contractors just above the best ever figure. We believe these achievements are the result of safety initiatives launched in 2018 following three fatalities in 2017:
  - A team from an internationally recognised safety consultancy was tasked to perform a safety culture review and suggest mitigation actions
  - Sappi Forests initiated the ‘Stop and Think before you Act’ programme underpinned by an intense communication programme supported by graphic materials, and
  - We established a forum that involves contractors in safety plans and programmes and emphasises their inputs.

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**Value impact**

The safety and wellbeing of employees and contractors

**Employee engagement**

**Background**

When employees are engaged at work, they feel a connection with the company. They believe that the work they’re doing is important and therefore work harder. This has obvious implications for productivity, career development and overall job satisfaction.

**Our response**

We hold an employee engagement survey every two years, with the last one rolled out in September 2017. The objectives of the survey are to measure:

- Changes in employee opinions and perceptions of Sappi as a place to work since the first baseline survey conducted in 2013
- The evolution of sustainable engagement within Sappi globally in order for us to understand what drives sustainable engagement among our employees, and
- The employee value proposition to understand what motivates and drives our employees to work in our organisation.

The 2017 results were compared to industry benchmarks (global manufacturing norm), best in class benchmarks (high performing companies norm) and cultural benchmarks.

Sappi’s global participation rate was 85% — a significant 15% increase from 2015. The global manufacturing norm participation rate is 83% and the response rate for high performing companies is 87%. There was an overall improvement in all categories that were measured in the survey when compared to the 2015 results.

Globally the most improved scores were for leadership and direction; operational efficiency and talent and recognition. Areas that require focus should be identified as image and customer focus and safety and wellbeing.

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**Value impact**

- Reduced staff turnover
- Improved productivity and efficiency
- Higher levels of customer retention and profitability

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*Figures for the digital imaging business and the Carmignano and Condino Mills acquired from Cham Paper Group are not included in the people data, but will be fully included in 2019. However, safety data from the new acquisitions has been included.*
Key material issues continued

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. We endorse the principles entrenched in the United Nations Global Compact and the Universal Declaration of Human Rights. In many areas, at a minimum, we conform to and often exceed the labour legislation requirements in countries in which we operate. We also promote freedom of association and engage extensively with representative trade unions. Globally, approximately 62% of Sappi's workforce is unionised, with 70% belonging to a bargaining unit.

Overall, 2018 was characterised by very tough negotiations, particularly in South Africa, but relatively good relationships with organised labour across the geographies. However, community unrest is starting to impact on businesses across South Africa. (See On our watchlist on page 59.)

In Europe, approximately 67% of employees are members of a union and are represented through Works Councils. European Works Council meetings at which Sappi is represented by the Chief Executive Officer and Human Resources Director, take place twice a year. There were no major disputes in this region and we concluded collective labour agreements (CLAs) at Alfeld, Ehingen, Stockstadt, Lanaken, Künkerni, Carmignano and Condino Mills. At Maastricht Mill, the current CLA is in place until November 2019.

In North America, approximately 64% of employees are unionised. SNA has 11 collective bargaining agreements with its hourly employees. The overall industrial relations climate in SNA remained good with no major disputes. We satisfactorily reached labour agreements with two unions at Cloquet Mill, while negotiations with one union at Somerset Mill are ongoing. SNA also has a number of negotiations planned for 2019.

In Southern Africa, 56% of our employees belong to a trade union. While the industrial relations climate has been volatile, with trade unions competing amongst each other for improved membership and existence, we have continued to maintain a stable industrial relations environment across our operations—the result of our proactive engagement strategy and initiatives. We continue to engage with trade union leadership.

Wage negotiations were tough, but amicably settled. The Pulp and Paper Chamber is currently reviewing its future of the chamber given the fact that no industry agreement has been reached over the last two years. This will assist the SSA leadership decision on how to approach the 2019 collective bargaining process.

We expect another tough wage negotiation process in 2019, with the country preparing for election and the majority union given the fact that no industry agreement has been reached over the last two years. This will assist the SSA leadership decision on how to approach the 2019 collective bargaining process.

In South Africa, employee wellbeing committees at each Sappi mill support local community projects based on annual requests and identified needs. These are coordinated via the annual Mandela Day (67 minutes) initiative.

Our Alien Vegetation Removal Programme at our mills in KwaZulu-Natal province in collaboration with the non-governmental organisation WEISSA (Wildlife and Environmental Society of SA) is a good example of our approach to CSV. It involves the removal of alien vegetation on the land surrounding our mills—improved as weeds have been identified as one of the biggest threats to biodiversity. A total of 20 community members per mill are being trained and employed through the programme, with the goal of establishing viable businesses which would ultimately serve other customers.

First established in KwaZulu Natal in 2015, the Abashintshi (isiZulu for ‘change agents’) programme includes life skills training for the youth, the iLethu programme for the elderly (protecting cultural heritage), holiday programmes for school children and Asset Based Community Development (ABCD). The latter is based on the premise that communities can drive the development process themselves by identifying and mobilising existing, but often unrecognised, assets.

The programme has been expanded to 65 Sappi communities across the KwaZulu-Natal and Mpumalanga provinces, with 117 Abashintshi now involved. They are generating an income for themselves through their own businesses and they are helping community members to improve their own businesses. During 2018, 190 micro- and small businesses were started or rejuvenated, earning an income for 298 people.

Social investment spend in 2018

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performance during the year

Key material issue continued

Key material issue

Energy

Background
Given the high energy intensity of our industry, the cost and availability of energy is a key consideration.

Our response
We leverage the significant opportunities inherent in our business and processes to help us reduce energy usage and impact:

• Using a high proportion of renewable energy as a fuel source, most of it self-generated in the form of black liquor
• Operating combined heat and power (CHP) plants in many of our mills. These plants not only generate electricity but also heat, which is used at all the paper machines to dry the paper. Such efficiencies mean our CHP units are twice as energy efficient as conventional power plants
• Improving the energy efficiency of our mills, and
• Selling surplus electricity from Alfeld, Ehingen, Gratkorn, Maastricht and Stockstadt Mills in Europe; Cloquet, Somerset and Westbrook Mills in North America and Ngodwana Mill in Southern Africa.

We track purchased energy costs as a percentage of cost of sales to assess whether we are succeeding in this regard. As indicated by the graph on the following page, in 2018, global energy costs in relation to cost of sales remained stable, largely due to reduced costs in Europe which offset the sharp increase in Southern Africa.

Our focus is on reducing externally purchased power to reduce costs and also on reducing our reliance on fossil fuels. Over time, we have slowly but steadily reduced our use of purchased energy (electricity and fossil fuel) and also reduced energy intensity. Globally, over five years, energy self-sufficiency has increased by 5.6%.

In addition, we have increased our use of renewable energy—an approach which ultimately results in a reduction in GHG emissions and has positive economic implications. Our use of renewable energy in 2018 was 46.8%, of which 71.5% was own black liquor. This not only helps to reduce greenhouse gas emissions, but also separates our operations from the volatility of energy prices. While we are committed to higher use of renewable energy, we have certain process constraints.

Value impact

We acknowledge that our industry is energy-intensive and that we generate greenhouse gas emissions. We believe that this is mitigated by the carbon sequestration of the plantations and forests from which we source woodfibre.

Value impact

• Ensures strong environmental credentials and promotes environmental responsibility
• Enhances reputation
• Meets customer needs
• While certification undoubtedly adds value, the drive for certification can negatively impact on small growers, who help to promote healthy forest and plantation landscapes, but for whom the costs of certification are onerous.

Key material issue

Woodfibre certification

Background
Forestry and mill Chain-of-Custody certification assures consumers that the forest products they buy originate from legally harvested and sustainably managed forests and plantations.

Our response

With only 10% of the world’s forests certified, we work hard to expand our certified woodfibre basket and have targets in each region, as well as a global target in place to achieve this. Globally, 75.2% of fibre supplied to our mills is certified.

In Europe, all mills are FSC® and PEFC™-certified. In North America, Sappi includes fibre sourced from the Certified Logging Professional and Maine Master Logger programmes. Cloquet, Westbrook and Somerset Mills are FSC®, SFI®- and PEFC Chain of Custody-certified. We source only from controlled, non-controversial sources and 100% of wood and pulp is purchased in accordance with SFI Certified Sourcing Standard. The standards we use are a critical element of our due diligence for Lacey Act compliance. In Southern Africa, 100% of Sappi’s owned and managed plantations are FSC™-FM certified, while Ngodwana, Saicoor, Stanger and Tugela Mills and Lonfor Savimì are FSC Chain of Custody-certified.

In Southern Africa, we recognised that we needed to obtain certification over and above the FSC Group Scheme certification, based on the difficulty of getting small growers certified and on customers’ requests for PEFC-labelled products. PEFC endorses national certification schemes, which meant South Africa had to develop a new certification scheme including a forest management standard. This is now known as the South African Forest Assurance Scheme (SAFAS). We now aim to finalise our SAFAS certification and as soon as PEFC endorses SAFAS, we will be able to label our woodfibre as being PEFC-certified.

Value impact

• Ensures strong environmental credentials and promotes environmental responsibility
• Enhances reputation
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• While certification undoubtedly adds value, the drive for certification can negatively impact on small growers, who help to promote healthy forest and plantation landscapes, but for whom the costs of certification are onerous.

Key material issue

Climate change

Background

The fifth IPCC assessment report1 indicates that each of the last three decades has been successively warmer at the Earth’s surface than any preceding decade since 1880. The globally averaged combined land and ocean surface temperature data, as calculated by a linear trend, show an average warming of 0.85°C over the period 1880 to 2012. Anthropogenic greenhouse gas emissions have increased since the pre-industrial era to levels that are unprecedented in at least the last 800,000 years. Their effects, together with those of other anthropogenic drivers, have been detected throughout the climate system and are extremely likely to have been the dominant cause of the observed warming since the mid-20th century. The effects of climate change are already noticeable in changing weather patterns.

Our response


2 Specific total energy (STE).
In 2018, there were record high temperatures in Europe. There were also major wildfires in northern England, Sweden and Greece. The 2017 fire year in the United States of America USA was one of the most destructive on record and the most expensive in USA history, with damage estimates topping US$10 billion. To date, the damage in the 2018 season has also been extensive, with extreme temperatures across large parts of North America.

While our business is wholly dependent on woodfibre, given SEU’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 SNA, our operations do not currently face material risks associated with climate change. With the exception of fibre from Brazil for Westbrook Mill, we source from northern hardwood and softwood wood baskets that have not suffered under any drought conditions or from fire.

However, the situation is different in Southern Africa, where Sappi Forests owns and leases 379,000 ha of land, with contracted supply covering a further 129,000 ha. Climate change has already impacted some of our plantations and has the potential to significantly impact our woodfibre base. Accordingly, we take concerted action to mitigate the risk, beginning with understanding where the largest risks of climate change will be to Sappi, how climate is likely to change further into the future and to formulate a multi-pronged response which involves:

- Climate change impacts — to determine which plantations are most at risk, and also to identify which climatic variables are likely to change, as well as the magnitude and direction of such change. The preliminary study showed that maximum temperatures are more likely to increase than minimum temperatures, especially during spring and summer. It is also likely that spring rainfall will decrease, with more high-intensity rainfall during summer. The combined effect of higher temperatures and lower rainfall in spring is likely to exacerbate tree stress, thereby increasing susceptibility to pests and diseases, as well as fire.
- Replacing pure species with hybrids — on the Mpumalanga highveld, Sappi experienced the impact of the changes described above with Eucalyptus (E.) nitens becoming unsuitable due to pest and disease issues, on plantations with the highest risk of climate change. E. nitens has a very narrow ideal temperature range and is very sensitive to changes in temperature. Subsequently, after evaluating management options and associated risks across the entire value chain, the decision was taken to replace E. nitens in Kwazulu-Natal by replacing it with E. grandis x E. nitens hybrid varieties.
- Adjusting and directing our tree breeding strategy — through the use of modelled future climate data. Traditional tree breeding is a relatively slow process and in order to keep up with environmental changes, Sappi’s tree breeding programme is procuring and sourcing the most optimally suited hybrid varieties for each climatic zone. Our tree breeding division has a target of developing a hybrid varietal solution for all our sites by 2025. We are also making use of genetic tools, like DNA fingerprinting, to enhance and accelerate their breeding and selection process.
- Facilitating the production of more rooted cuttings — as pine and eucalypt hybrids are more successfully propagated through rooted cuttings rather than seed, a strategy is being rolled out to meet future requirements. In addition to the recent construction of Clan Nursery and the rebuild of the Ngodwana Nursery, we plan to upgrade Richmond Nursery in 2023 to enable the production of additional hybrid cuttings in addition to seedlings.
- Implementing rapid detection techniques — together with rapid understanding of the relative tolerance/susceptibility of our groupings of plantations or disease, these techniques are critical in successfully mitigating the impact of climate change on our woodfibre base. Accordingly, we have instituted a series ofSentinel trials across various climatic regions. These trials are made up of many genotypes—both currently commercially planted and also pre-commercial variables. In addition to different genotypes, different ages (life stages) of trees are also represented. Using these trials, our objective is to rapidly identify a new pest or disease, and immediately determine which genotypes are susceptible or tolerant, and also which life stage of the tree is impacted. This puts us in a position to react very quickly.

In addition to these trials, we have recently completed a pilot study on the use of automated change detection using satellite imagery focused on rapidly detecting and reacting to damage—drought, pests, diseases, etc—to our plantations. The study entailed the acquisition of Sentinel 2 imagery which gives a new image every five days. Newly acquired images are compared to the previous image via cloud processing using complex change detection algorithms. The resultant change is fed live to the Sappi GIS system, and integrated with enterprise data (age, species, tree size, etc). Given the success of the project, we are now rolling out to all our plantations, while making use of the higher resolution and daily Planet satellite images (www.planet.com) which offer daily change detection.

- Long-term soil monitoring — under hotter and drier climatic conditions, the importance of soil organic matter will increase because of its ability to reduce soil temperature, and also to increase the soil water infiltration rate and soil water holding capacity. A major barrier to monitoring slow-changing soil attributes is the scarcity of long-term data sets. Against this backdrop, in 2018 Sappi Forests established long-term soil monitoring plots through a collaborative research project managed by the Institute for Commercial Forestry Research. These monitoring plots will form part of the current inventory plot network (permanent sample plots) and will be used to interpret and relate changes in soil quality parameters to stand productivity and site management. Further details are set out in the Planet section of our Group Sustainability Report on www.sappi.com/sustainability.

Critical to the sustainable production of timber is the impact that management operations have on the environment, and specifically the soil in which the trees grow. Because of its effect on physical, chemical and biological properties, soil organic matter exerts a dominating influence on crop productivity and environmental quality. The objective of our long-term monitoring programme is to overcome the scarcity of long-term data sets key to analysing forest site productivity questions.

The monitoring plots will form part of the current inventory plot network (permanent sample plots). Data from this monitoring network will be used to interpret and relate changes in soil quality parameters to stand productivity and site management. More detailed studies will be conducted at selected sites which will be aimed at developing a better understanding of the process that can be used to further refine indicators.
It is important to note that globally, 95% of the process water we use is returned to the environment. While it is difficult to improve this metric due to the nature of our processes, over five years specific water extracted has reduced by 3.8%.

Water used for pulp and paper production is mostly recycled in the system. However, minerals from woodfibre make it necessary to discharge some amount of water which is purified in high-end waste water treatment facilities.

Water and effluent testing are routinely conducted at mill sites.

Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand (COD) by 5.2% and total suspended solids (TSS) by 17.2%. In accordance with previous years, Saiccor Mill has been excluded from the global trend COD reporting. The mill is building up the biodispersion COD dataset, which will be used for future reporting. This value, tested in the marine environment, supports the historical environmental impact studies and the recently conducted biodegradation test, performed on the waste water. The use of this value was also endorsed and used by Quantis for a recent Lifecycle Assessment (LCA). (For a five-year trend of effluent discharge quality, see the Planet section of our Group Sustainability Report on [www.sappi.com/sustainability](http://www.sappi.com/sustainability).

In terms of our plantations in Southern Africa, these are not irrigated and fertiliser use is kept to a minimum—being used only once in each rotation. This limits the potential impact on water sources in terms of nutrient load. In addition, our minimal use of pesticides is strictly controlled by the forest certification systems to which we conform.

Value impact
• We do have an impact on water sources from which we draw and return water. However, this has to be offset against the high level of economic value added by our water usage and by the percentage of water (95%) returned to the environment.

On our watchlist

Land restitution
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 ha in which claimants took ownership of the land and claims for 11,629 ha in which claimants preferred to seek compensation.

For many of the land claims in which we have been involved, and where there has been a change in ownership, we continue to buy the timber and help to manage those plantations.

While we support the land claims initiatives generally, we have been frustrated around the implementation of the policies and slow levels of bureaucracy. The forestry industry is a key driver of rural growth. If government could unlock some of the bureaucratic lagging, the attendant benefit would flow directly to rural communities.

Social unrest
There have been incidents of social unrest in South Africa, the result of a disaffected population who are protesting about lack of service delivery and job opportunities. Officially, the country's unemployment is standing at 27.5%. In certain regions of the country, particularly the rural areas, it is much higher.

We played a role in helping to alleviate the situation by spending ZAR8.3 million on upgrading infrastructure in villages close to our forests in 2018. We also promote socio-economic development in rural areas, in particular through our Abashintshi programme (see page 53) and our enterprise development initiative, Sappi Khulisa ('Khulisa' means ‘to grow’ in isiZulu). The latter 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 27,080 ha. In 2018, under the programme 483,359 (2017: 448,221 tons) worth approximately ZAR387 million was delivered to our operations. 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.

As rotation times, and the associated cash flows, in forestry are long, growers receive advances. In addition, qualified extension officers advise on all aspects of tree farming.

In recent years, we have expanded Sappi Khulisa beyond the borders of KwaZulu-Natal to the Eastern Cape. We believe the government’s expedition of planting licences in this area where 100,000 ha are available for planting would play a significant role in promoting rural development.

We are intensifying our focus on enterprise development to cover other areas apart from forestry and have appointed a specialist to drive this forward.
Risk management

Top 10 key risks (in no specific order)

Context Mitigating actions

1. Employee safety

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.

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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 continuous improvement in safety performance
• Ensuring compliance with behaviour-based safety (BBS) principles
• Providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors, and
• Encouraging a reporting culture of near miss incidents.

An external recognised world leader in safety performance was commissioned to review and audit Sappi’s safety initiatives, processes and procedures focusing mainly on engagement and risk based issues. Detailed action plans and focus areas have been implemented being underpinned with the “Own Safety, Share Safety” theme—getting into the hearts and minds of our people and ensuring safety becomes engrained into our business values.

For 2018, our performance criteria on the Management Incentive Scheme (MIS) has been reviewed and an increased score has been allocated to safety.

3Ps impact

Strategic and 2020Vision responses
• Achieve cost advantages
• Accelerate growth in higher margin growth segments
• Reduce our environmental footprint

2. Cyclical macro-economic context

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, those 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.

3Ps impact

Strategic and 2020Vision responses
• Achieve cost advantages
• Rationalise declining businesses
• Accelerate growth in higher margin growth segments

3. Highly competitive industry

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.

We recently announced our plan to invest ZARs billion ($US933 million) over the next five years through maintenance and upgrade projects to decrease production costs, introduce new technology and optimise processes at Saiccor Mill. These investments will secure the mill's future by increasing 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, those 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.

During the fourth quarter we announced our commitment to capital investments at our Saiccor Mill in Umkomaas, south of Durban. The investments include a ZAR2.7 billion ($US191 million) dissolving wood pulp capacity expansion project.

3Ps impact

Strategic and 2020Vision responses
• Achieve cost advantages
• Accelerate growth in higher margin growth segments
• Reduce our environmental footprint

For a detailed discussion of the group’s risk factors, please see Risk Management Report on www.sappi.com/annual-reports.
performance during the year

Risk management continued

<table>
<thead>
<tr>
<th>Context</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Project implementation</td>
<td>A comprehensive internal review of recently executed projects has been completed and engagement with key vendors continues to ensure lessons learnt, both positive and negative, are applied and included in future project management and controls.</td>
</tr>
<tr>
<td>3Ps impact</td>
<td>Strategic and 2020Vision responses</td>
</tr>
<tr>
<td>6. Uncertain and evolving regulatory landscape</td>
<td>Regulatory limitations/requirements on business (including complying with environmental, health and safety laws) as well as international political uncertainty (including land reform policy uncertainty in South Africa) could translate into cost increases that directly impact Sappi’s competitiveness and profitability.</td>
</tr>
<tr>
<td>7. Foreign exchange volatility</td>
<td>Fluctuations in the value of currencies, particularly the Rand in relation to the US Dollar, have in the past, and could in the future, have a significant impact on our earnings in these currencies.</td>
</tr>
<tr>
<td>3Ps impact</td>
<td>Strategic and 2020Vision responses</td>
</tr>
<tr>
<td>6. Uncertain and evolving regulatory landscape</td>
<td>3Ps and 2020Vision responses</td>
</tr>
</tbody>
</table>

We aim 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, waste water discharges and waste generation. (See Our key material issues on page 42.) We closely monitor the potential for changes in pollution control laws, including GHG emission 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.

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. We have been exposed to economic, transaction and translation currency risks. The objective of the group in managing these risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. We closely monitor the potential for changes in pollution control laws, including GHG emission 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.

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## Risk management continued

### 8. Natural resource constraints

**Context**

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.

**Mitigating actions**

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.

### 9. Market share and customer concentration

**Context**

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.

**Mitigating actions**

We are on a continuous basis, working to expand and diversify our customer base.

We sell a significant portion of our products to several significant customers. During 2018, 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.

### 10. Employee relations

**Context**

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.

**Mitigating actions**

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.

### 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 and business interruption occurrence is US$24 million (€20.5 million) with the annual aggregate set at US$38 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$871 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.
Creativity, communication and collaboration also underpin Sappi’s everyday business activities: creative training and development initiatives that equip our people and the communities in which we operate with the life and career skills, knowledge and confidence that allow them to build on their own capabilities and further their development.

Open channels of communication that enable our diverse people to have their say in how we can do business better tomorrow than today.

A cross-cutting, collaborative approach that entrenches the common understanding that nothing can stand in the way of people working to help each other.
Our 2020 Vision had identified fiscal 2018 as a transition year. This report is divided into six sections and offers a comprehensive understanding of the Group’s financial performance:

- Section 1: Financial highlights
- Section 2: Regional financial performance
- Section 3: Group financial performance
- Section 4: Cash flow
- Section 5: Balance sheet, and
- Section 6: Share price performance.

Section 1: Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>5,806</td>
<td>5,296</td>
<td>10</td>
</tr>
<tr>
<td>EBITDA excluding special items</td>
<td>762</td>
<td>785</td>
<td>(3)</td>
</tr>
<tr>
<td>Operating profit excluding special items</td>
<td>480</td>
<td>526</td>
<td>(9)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>323</td>
<td>338</td>
<td>(4)</td>
</tr>
<tr>
<td>EBITDA excluding special items to sales (%)</td>
<td>13.1</td>
<td>14.8</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating profit excluding special items to sales (%)</td>
<td>8.3</td>
<td>9.9</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating profit excluding special items to capital employed (ROCE) (%)</td>
<td>14.6</td>
<td>18.0</td>
<td>n/a</td>
</tr>
<tr>
<td>Net cash (utilised) generated</td>
<td>(254)</td>
<td>108</td>
<td>n/a</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,568</td>
<td>1,322</td>
<td>19</td>
</tr>
<tr>
<td>Basic earnings per share (US cents)</td>
<td>69</td>
<td>63</td>
<td>(5)</td>
</tr>
</tbody>
</table>

Our 2020 Vision had identified fiscal 2018 as a transition year. Following the debt reduction initiatives during the previous reporting periods, the group addressed the capacity constraints in the dissolving wood pulp (DWP) and specialties and packaging papers segments. DWP capacity increased by 60,000 tons and the conversion of printing and writing papers capacity to specialty paper products in our North American and European regions provided us with approximately 550,000 tons increase in specialties and packaging papers capacity. Additionally, the purchase of the Cham Paper Group (CPG) supplemented 160,000 tons of specialties and packaging papers capacity. As a result, capital expenditure (inclusive of maintenance expenditure) and the acquisition of CPG amounted to US$673 million for the year. Cash utilised for the year of US$254 million was managed within our leverage target of two times net debt to EBITDA.

Stronger than expected market demand across all our product segments provided us with high capacity utilisation rates on all our machines. Volumes and net selling prices improved by 2% and 7% respectively causing net sales to increase by 10%. Variable costs increased by 12% in absolute terms, driven mainly by purchased pulp and delivery cost increases. There was a lag in securing selling price increases which squeezed EBITDA margins from 15% to 13%. The increased sales volumes reduced the impact of the lower margins, and EBITDA excluding special items of US$762 million was in line with the previous year after adjusting for the benefit of the additional accounting week of approximately US$20 million.

Net finance costs reduced by 15% to US$68 million as the full impact on the previous years’ debt reduction initiatives took effect. The average tax rate of 23% was below the average statutory rate as we utilised assessed losses available mainly in our European operations. Profit for the year was US$338 million (LY = US$338 million) and earnings per share excluding special items reduced from 64 US cents to 60 US cents. A dividend of 17 US cents per share has been declared at a three times earnings cover adjusted for non-cash items.

Cash utilisation for the year of US$254 million includes a dividend payment of US$81 million, tax payments of US$73 million and the acquisition of CPG of US$132 million.

Segment reporting

Our reporting is based on the geographical location of our businesses, i.e. Europe, North America and Southern Africa. The selected product line information is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented in this report 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:

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>2018 average rates</th>
<th>2017 average rates</th>
<th>2018 closing rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR1 = US$</td>
<td>1.1902</td>
<td>1.1255</td>
<td>1.1609</td>
</tr>
<tr>
<td>EUR1 = ZAR</td>
<td>1.6610</td>
<td>1.6610</td>
<td>1.6610</td>
</tr>
</tbody>
</table>

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.
Sales revenue increased by 10% from US$5.3 billion in 2017 to US$5.8 billion in 2018. The increase was due to the higher sales volumes discussed above, higher sales prices and improved sales mix.

Variable and delivery costs

Variable and delivery costs increased by US$374 million, or 12%, from 2018. Higher sales volumes and an increase in purchased pulp, energy, delivery and chemical prices contributed to the increase in costs.

The net pulp purchases and sales of the Sappi group are detailed in the graph below.
Fixed costs

Fixed costs increased by US$166 million, or 10%, from fiscal 2017. This increase was mainly due to a higher depreciation charge (US$19 million) as a result of the increased capital spend, the acquisition of the Cham Paper Group business (US$26 million) and the stronger Rand and Euro resulting in an increase in US Dollar costs (US$28 million). Excluding the currency impact fixed cost increased by US$138 million.

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

<table>
<thead>
<tr>
<th>Fixed costs (US$ million)</th>
<th>2018</th>
<th>2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>1,043</td>
<td>930</td>
<td>12%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>235</td>
<td>212</td>
<td>11%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>274</td>
<td>255</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>215</td>
<td>204</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td>1,767</td>
<td>1,601</td>
<td>10%</td>
</tr>
</tbody>
</table>

EBITDA and operating profit excluding special items

EBITDA excluding special items decreased to US$762 million, 3% lower than the previous year. On a like-for-like basis the decline in EBITDA was US$3 million (2017 benefited by approximately US$20 million due to an additional accounting week). Operating profit excluding special items declined from US$526 million last year to US$480 million in 2018.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales volumes, higher sales prices, improved sales mix and favourable exchange rate movements, which were offset by increased variable and fixed cost.

Reconciliation of EBITDA excluding special items: 2019 compared to 2017 (US$ million)

<table>
<thead>
<tr>
<th>EBITDA excluding special items (US$ million)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissolving wood pulp</td>
<td>306</td>
<td>386</td>
</tr>
<tr>
<td>Specialties and packaging papers</td>
<td>138</td>
<td>117</td>
</tr>
<tr>
<td>Printing and writing papers</td>
<td>316</td>
<td>281</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td>762</td>
<td>785</td>
</tr>
</tbody>
</table>

The tables below detail the EBITDA and operating profit excluding special items of the business for both 2018 and 2017 and the margins of each.

EBITDA excluding special items by region (US$ million)

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>299</td>
<td>262</td>
</tr>
<tr>
<td>North America</td>
<td>126</td>
<td>126</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>337</td>
<td>396</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td>762</td>
<td>785</td>
</tr>
</tbody>
</table>

EBITDA margin by region (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>9.3</td>
<td>8.8</td>
</tr>
<tr>
<td>North America</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>10.1</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td>28.9</td>
<td>24.0</td>
</tr>
</tbody>
</table>

EBITDA excluding special items by product category (US$ million)

<table>
<thead>
<tr>
<th>Product category</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissolving wood pulp</td>
<td>306</td>
<td>386</td>
</tr>
<tr>
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<tr>
<td>Other</td>
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</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td>762</td>
<td>785</td>
</tr>
</tbody>
</table>
Operating profit excluding special items by region (US$ million)

<table>
<thead>
<tr>
<th>Region</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>163</td>
<td>140</td>
</tr>
<tr>
<td>North America</td>
<td>49</td>
<td>47</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>270</td>
<td>337</td>
</tr>
<tr>
<td>Corporate and other</td>
<td>(2)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td><strong>480</strong></td>
<td><strong>526</strong></td>
</tr>
</tbody>
</table>

Operating profit margin by region (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>Q2 2017</th>
<th>Q2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>3.5</td>
<td>3.4</td>
</tr>
<tr>
<td>North America</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>24.6</td>
<td>19.2</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td><strong>24.6</strong></td>
<td><strong>19.2</strong></td>
</tr>
</tbody>
</table>

Operating profit excluding special items by product category (US$ million)

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissolving wood pulp</td>
<td>251</td>
<td>334</td>
</tr>
<tr>
<td>Specialities and packaging</td>
<td>78</td>
<td>76</td>
</tr>
<tr>
<td>Printing and writing papers</td>
<td>153</td>
<td>114</td>
</tr>
<tr>
<td>Other</td>
<td>(2)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td><strong>480</strong></td>
<td><strong>526</strong></td>
</tr>
</tbody>
</table>

The charts below illustrate that 68% of the group’s EBITDA originates from growing markets in the DWP and specialities and packaging papers segments. The printing and writing papers segment, which contributes a third of the EBITDA remains an important strategic component of our business.

**Key operating targets**

Our financial targets and performance against them are dealt with in the Letter to shareholders on page 14.

**Operating profit margin by segment (%)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissolving wood pulp</td>
<td>55%</td>
<td>48%</td>
</tr>
<tr>
<td>Specialities and</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>packaging papers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing and writing</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>papers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Sappi group</strong></td>
<td><strong>48%</strong></td>
<td><strong>48%</strong></td>
</tr>
</tbody>
</table>

Special Items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2018 and 2017 is reflected in the table below:

<table>
<thead>
<tr>
<th>Special items – gain (loss) (US$ million)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plantation price fair value adjustment</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>(2)</td>
<td>–</td>
</tr>
<tr>
<td>Net restructuring provisions</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Profit (loss) on disposal and written off assets</td>
<td>4</td>
<td>(2)</td>
</tr>
<tr>
<td>Asset (impairment) reversals</td>
<td>3</td>
<td>(6)</td>
</tr>
<tr>
<td>Black economic empowerment charge</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Fire, flood, storm and other events</td>
<td>(21)</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
<td>–</td>
</tr>
</tbody>
</table>

The net impact of special items in 2018 was US$9 million. The major components are described below:

- A positive non-cash US$27 million plantation price fair value adjustment was recognised following increases to the market price of timber.
- An asset impairment reversal of US$3 million was recorded in Southern Africa related to previously impaired project costs, and
- Fire, flood, storm and other events includes turbine damage at our Saiccor, Alfeld and Stockstadt Mills amounting to US$13 million, unplanned downtime events at our Saiccor, Ngodwana, Somerset and Ehingen Mills amounting to US$10 million offset by a contingent consideration release of US$6 million.

Net finance costs

<table>
<thead>
<tr>
<th>(US$ million)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest expense</td>
<td>76</td>
<td>92</td>
</tr>
<tr>
<td>Interest capitalised</td>
<td>(2)</td>
<td>–</td>
</tr>
<tr>
<td>Net foreign exchange gains</td>
<td>(6)</td>
<td>(12)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>68</strong></td>
<td><strong>80</strong></td>
</tr>
</tbody>
</table>

Net finance costs were lower than the prior year, despite net debt increasing during the year as a result of the Charn Paper Group acquisition in February for US$132 million and increased capex expenditure. We also repaid US$38 million (ZAR500 million) of our South African bonds in April 2018 from available cash resources.
Chief Financial Officer’s Report continued

Performance during the year

Section 2 continued

Financial performance Group

Taxation

A regional breakdown of the tax charge is provided below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Profit before tax (US$ million)</th>
<th>Tax (charge) relief</th>
<th>Effective tax rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>81</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>North America</td>
<td>34</td>
<td>(12)</td>
<td>(36)</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>306</td>
<td>(82)</td>
<td>(27)</td>
</tr>
<tr>
<td>Total</td>
<td>421</td>
<td>(96)</td>
<td>(23)</td>
</tr>
</tbody>
</table>

In Europe, an increase in deferred tax assets and the utilisation of assessed losses reduced the effective rate to 5%.

The North American effective tax rate has largely been impacted by one-time adjustments recognised from the US Tax Reform (rate change from 35% to 21%).

The Southern African tax rate of 27% is lower than the statutory tax rate of 28% due to the impact of non-taxable items.

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2018, with comparatives for 2017, were as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Profit before tax (US$ million)</th>
<th>Earnings per share (US cents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>34</td>
<td>60</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>36</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>44</td>
</tr>
</tbody>
</table>

Basic earnings per share (US cents) 60

The directors have declared a dividend of 17 US cents, representing a three times earnings cover adjusted for non-cash items, and a 13% improvement on the 15 US cents declared last year. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividends ratio of three to one.

North America

<table>
<thead>
<tr>
<th>Metric tons '000</th>
<th>2018</th>
<th>2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>1,371</td>
<td>1,359</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>metric tons '000</th>
<th>2018</th>
<th>2017</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,371</td>
<td>1,359</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Fiscal 2018 includes seven months of the Cham Paper Group (CPG) operations. Excluding the CPG volumes, sales volumes were down on last year as the reductions in coated woodfree paper volumes exceeded growth in the specialities and packaging papers and coated mechanical paper volumes. There were several selling price increases during the year culminating in a 7% increase relative to last year.

The steep increase in purchased pulp prices, combined with increases in delivery and chemical costs (directly and indirectly linked to oil price increases), reduced margins during the earlier part of the year. Margins recovered during the third and fourth quarter following the successful implementation of selling price increases. The integration of CPG has progressed according to plan and the profitability from the newly acquired mills have exceeded expectations.

Section 3

Financial performance Regional

Alongside 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.
Chief Financial Officer's Report continued

### Southern Africa*

<table>
<thead>
<tr>
<th>Metric (metric '000)</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume*</td>
<td>1,620</td>
<td>1,606</td>
<td>1</td>
</tr>
<tr>
<td>Operating profit excluding special items</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>EBITDA excluding special items</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Contributions to post-employment benefits</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Other non-cash items</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Movement in working capital</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Net finance costs</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Taxation</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Dividend paid</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Net proceeds on disposal of assets</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Acquisition of subsidiary</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Other</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Net cash (utilised) generated</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
</tbody>
</table>

The relatively insignificant strengthening of the annual average rate of the Rand by 2.5%, hides the volatile movements during the fiscal period. DWP sales volumes were stable relative to last year with the increase experienced in the packaging papers segment. Packaging papers sales prices increased by 5% but, were offset by lower DWP selling prices, reducing the net selling price for the region by 2%. Increases in delivery, energy and wood costs reduced contribution per ton by 11%. Fixed costs were mainly influenced by wage inflationary increases at 7% for the year. The net result of the above is a reduction in EBITDA to ZAR4,398 million with annual operating profit of ZAR3,524 million.

The region’s capital expenditure focused on increasing DWP capacity during the year.

### Major sensitivities

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

<table>
<thead>
<tr>
<th>Sensitivities</th>
<th>Europe € million</th>
<th>North America US$ million</th>
<th>Southern Africa ZAR million</th>
<th>Translation Impact US$ million</th>
<th>Sappi group US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net selling prices</td>
<td>1%</td>
<td>17</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Dissolving wood pulp prices</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Variable costs</td>
<td>1%</td>
<td>9</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Sales volume</td>
<td>1%</td>
<td>9</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Fixed costs</td>
<td>1%</td>
<td>7</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Paper pulp price</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
<tr>
<td>Oil price</td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
<td><img src="image.png" alt="Image" /></td>
</tr>
</tbody>
</table>

With 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 consider potential management interventions to mitigate negative impacts or enhance benefits.
Section 5
Balance sheet
This section provides a comprehensive review of the group’s assets, liabilities and equity position.

Summarised balance sheet

<table>
<thead>
<tr>
<th>Component</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>3,010</td>
<td>2,681</td>
</tr>
<tr>
<td>Plantations</td>
<td>466</td>
<td>458</td>
</tr>
<tr>
<td>Net working capital</td>
<td>493</td>
<td>436</td>
</tr>
<tr>
<td>Other assets</td>
<td>323</td>
<td>254</td>
</tr>
<tr>
<td>Net post-employment liabilities</td>
<td>(261)</td>
<td>(309)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(516)</td>
<td>(451)</td>
</tr>
<tr>
<td>Employment of capital</td>
<td>3,515</td>
<td>3,069</td>
</tr>
<tr>
<td>Equity</td>
<td>1,547</td>
<td>1,747</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,568</td>
<td>1,302</td>
</tr>
<tr>
<td>Capital employed</td>
<td>3,515</td>
<td>3,069</td>
</tr>
</tbody>
</table>

Sappi has 18 production facilities in eight countries, capable of producing approximately 3.7 million tons of pulp and 5.7 million tons of paper. For more information on our mills, their production capacities and products, see Where we operate on page 20.

During 2018, capital expenditure for property, plant and equipment was US$414 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US$21 billion.

Property, plant and equipment

The cost and depreciation related to our property are set out in the table below.

<table>
<thead>
<tr>
<th>Component</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book value of property, plant and equipment (US$ million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>9,077</td>
<td>8,681</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment</td>
<td>6,067</td>
<td>6,000</td>
</tr>
<tr>
<td>Net book value</td>
<td>3,010</td>
<td>2,681</td>
</tr>
</tbody>
</table>

Plantations

We regard ownership of our plantations in South 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 516,000 hectares of land of which approximately 379,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 65% of the wood requirements for our Southern Africa mills.

During the year, there were market price increases coupled with higher average fair value rates. These increases were offset by the rising cost of fuel and an increase in the discount rate. As we manage our plantations on a sustainable basis, 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 2.3.4 and 11 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 2018 and 2017 fiscal year-ends are shown in the table below:

<table>
<thead>
<tr>
<th>Component</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>741</td>
<td>636</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>767</td>
<td>668</td>
</tr>
<tr>
<td>Trade and other payables and provisions</td>
<td>(1,015)</td>
<td>(968)</td>
</tr>
<tr>
<td>Net working capital</td>
<td>493</td>
<td>436</td>
</tr>
</tbody>
</table>

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$493 million in 2018 from US$436 million in 2017. The material movements in working capital are discussed below:

- Inventories increased by US$115 million, caused mainly by higher purchased pulp prices. This was partially offset by a favourable currency translation impact of US$13 million
- Receivables increased by US$99 million following higher net selling prices and increased volumes in the fourth quarter. This was partially offset by a favourable currency translation impact of US$9 million, and
- Payables increased by US$147 million. The increase in payables is largely due to a favourable currency translation impact of US$21 million, increased raw material prices and higher accruals for capital expenditure.

Post-employment liabilities

We operate various defined benefit pension/lump sum plans, post-employment healthcare subsidies 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 subsidies) is as follows:

<table>
<thead>
<tr>
<th>Benefit liability (US$ million)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit obligation</td>
<td>(1,431)</td>
<td>(1,448)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>1,170</td>
<td>1,199</td>
</tr>
<tr>
<td>Net balance sheet liability</td>
<td>(261)</td>
<td>(309)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash contributions to defined benefit plans/subsidies</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Income statement charge (credit) to profit or loss</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Cash contributions deemed 'catch-up'</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>

*Income statement charge in 2018 is lower than in 2017 due to a net negative past service cost recognised in profit and loss.

Net balance sheet liability

Gross liabilities from all our plans (funded plans and unfunded) reduced by US$17 million compared with last year. The main cause of the overall decrease was slightly higher discount rates due to rising yields in respective bond markets, a net negative past service cost and net reductions in longevity provisions.

Fair value of plan assets rose by US$31 million over the year due to favourable investment returns of assets in our funded plans from outperforming equity markets.

Included in the liability and asset movements above is a US$3 million gain resulting from movements relative to the reporting currency.

The reduction in liabilities and increase in assets both contributed to a reduction in the net overall net liability by US$48 million as at September 2018. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in more detail in note 28 of the annual financial statements.
The diagram below depicts our debt funding structure.

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

- The previous €465 million SPH Revolving Credit Facility maturing in 2020 was renewed with a new €525 million Revolving Credit Facility maturing in 2023.
- The conversion project at the Somerset Mill is financed with a €150 million term loan. The facility was arranged with the OeKB (Österreichische Kontrollbank, an Austrian development bank). This long-term facility is structured as a seven-year term facility with drawings taking place in line with the progress of the project and is now fully drawn.
- The purchase price for the Cham Paper Group acquisition was funded from cash resources at SPH.
- The SASA05 ZAR500 million bond in South Africa was repaid from local cash resources.
- A new biomass project at the Ngodwana Mill in South Africa achieved financial closing during the year. This project will use biomass from the Ngodwana Mill to provide electricity to the South African electricity provider, Eskom. The ZAR1.8 billion (approximately US$127 million) project is structured on a project finance basis with two local banks and various equity partners. Construction has commenced and the construction period will be approximately 30 months. The contract with Eskom is to supply electricity for an initial period of 20 years.

Structure of net debt and liquidity

We consider the liquidity position to be sufficient, with cash holdings exceeding short-term obligations by US$250 million at fiscal year-end. In addition, Sappi has US$610 million of unutilised committed credit facilities, including the Revolving Credit Facility at SPH of €525 million (US$609 million).

The structure of our net debt at September 2018 and 2017 is summarised below:

<table>
<thead>
<tr>
<th>(US$ million)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>1,818</td>
<td>1,739</td>
</tr>
<tr>
<td>Senior unsecured debt</td>
<td>1,471</td>
<td>1,438</td>
</tr>
<tr>
<td>Securitisation funding</td>
<td>376</td>
<td>364</td>
</tr>
<tr>
<td>Less: Short-term portion</td>
<td>(29)</td>
<td>(61)</td>
</tr>
<tr>
<td>Net short-term debt/(cash)</td>
<td>(250)</td>
<td>(417)</td>
</tr>
<tr>
<td>Overdrafts and short-term loans</td>
<td>84</td>
<td>72</td>
</tr>
<tr>
<td>Short-term portion of long-term debt</td>
<td>29</td>
<td>61</td>
</tr>
<tr>
<td>Less: Cash</td>
<td>(363)</td>
<td>(550)</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,568</td>
<td>1,322</td>
</tr>
</tbody>
</table>

The US$200 million increase was the result of the profit for the year of US$323 million offset by dividends paid and foreign currency movements.

Equity

Year-on-year, equity increased by US$200 million to US$1,947 million as summarised below:

<table>
<thead>
<tr>
<th>Equity reconciliation (US$ million)</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity as at September 2017</td>
<td>1,747</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>323</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(81)</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>15</td>
</tr>
<tr>
<td>Movement in hedging reserves</td>
<td>4</td>
</tr>
<tr>
<td>Foreign currency movements</td>
<td>(81)</td>
</tr>
<tr>
<td>Equity as at September 2018</td>
<td>1,947</td>
</tr>
</tbody>
</table>

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 Paper Holding GmbH (SPH), which is the international holding company, issues debt in the international money and capital markets to fund our non-South African businesses. SPH’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 on the next page.

Sappi Limited defined benefit pensions balance sheet movement (US$ million)

Sappi Limited post-retirement medical aid subsidy balance sheet movement (US$ million)
The movement of our net debt from fiscal 2017 to fiscal 2018 is explained in the table below:

<table>
<thead>
<tr>
<th>(US$ million)</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt as at September 2017</td>
<td>1,322</td>
</tr>
<tr>
<td>Net cash utilised</td>
<td>122</td>
</tr>
<tr>
<td>Cham Paper Group acquisition price</td>
<td>132</td>
</tr>
<tr>
<td>Acquired debt, Cham Paper Group</td>
<td>12</td>
</tr>
<tr>
<td>Currency and other movements</td>
<td>(20)</td>
</tr>
<tr>
<td>Net debt as at September 2018</td>
<td>1,568</td>
</tr>
</tbody>
</table>

**Group debt profile**

We show the major components and maturities of our net debt at September 2018 below. These are split between our debt in South Africa and our debt outside South Africa.

<table>
<thead>
<tr>
<th>Amount (US$ million)</th>
<th>Interest rates (local currencies)</th>
<th>Fixed/variable</th>
<th>Maturity [Sappi fiscal years]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2019</td>
</tr>
<tr>
<td><strong>Southern Africa</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank debt</td>
<td>28</td>
<td>7.85% Variable</td>
<td>28</td>
</tr>
<tr>
<td>2020 bond</td>
<td>53</td>
<td>8.06% Fixed</td>
<td>53</td>
</tr>
<tr>
<td><strong>Gross debt</strong></td>
<td>81</td>
<td></td>
<td>(72)</td>
</tr>
<tr>
<td><strong>Net SA debt</strong></td>
<td>9</td>
<td></td>
<td>(72)</td>
</tr>
<tr>
<td><strong>Non-Southern African</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securitisation (US$)</td>
<td>134</td>
<td>3.53% Variable</td>
<td>134</td>
</tr>
<tr>
<td>Securitisation (EUR)</td>
<td>242</td>
<td>1.38% Variable</td>
<td>242</td>
</tr>
<tr>
<td>OeKB term loan 1</td>
<td>71</td>
<td>1.25% Fixed</td>
<td>24</td>
</tr>
<tr>
<td>OeKB term loan 2</td>
<td>174</td>
<td>2.20% Fixed</td>
<td>21</td>
</tr>
<tr>
<td>Other bank debt</td>
<td>95</td>
<td>0.43% Variable</td>
<td>90</td>
</tr>
<tr>
<td>2022 bonds (EUR)</td>
<td>522</td>
<td>3.39% Fixed</td>
<td>522.4</td>
</tr>
<tr>
<td>2023 bonds (EUR)</td>
<td>406</td>
<td>4.00% Fixed</td>
<td>406</td>
</tr>
<tr>
<td>2023 bonds (US$)</td>
<td>221</td>
<td>7.50% Fixed</td>
<td>221</td>
</tr>
<tr>
<td>IFRS adjustments</td>
<td>(16)</td>
<td></td>
<td>(16)</td>
</tr>
<tr>
<td><strong>Gross debt</strong></td>
<td>1,850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Cash</td>
<td>(291)</td>
<td></td>
<td>(291)</td>
</tr>
<tr>
<td><strong>Net non-SA debt</strong></td>
<td>1,559</td>
<td></td>
<td>(178)</td>
</tr>
<tr>
<td><strong>Net group debt</strong></td>
<td>1,568</td>
<td></td>
<td>(255)</td>
</tr>
</tbody>
</table>

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

**Covenants**

**Non-South African covenants**

Financial covenants apply to US$245 million of our non-South African bank debt, the €525 million revolving credit facility and our securitisation borrowings.

The covenants are described below and are calculated on a rolling last four quarters basis and require to be met at the end of each quarter:

- The ratio of group net debt to EBITDA be not greater than 3.75-to-1, and
- The ratio of group EBITDA to net interest expense be not less than 2.50-to-1.

The table below shows that at September 2018 we were well in compliance with these covenants.

<table>
<thead>
<tr>
<th>Covenant</th>
<th>2018</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt to EBITDA</td>
<td></td>
<td>2.07</td>
</tr>
<tr>
<td>EBITDA to net interest</td>
<td></td>
<td>11.18</td>
</tr>
</tbody>
</table>

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, calculated on a cumulative basis.
Chief Financial Officer’s Report continued

Section 5 continued

Balance sheet

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

These covenants are calculated on a rolling 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 March and September greater than 65%, and
- At the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2-to-1.

Below we show that for the year ended September 2018 the South African financial covenants were comfortably met.

<table>
<thead>
<tr>
<th>South African covenants</th>
<th>2018</th>
<th>Covenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt to equity</td>
<td>0.62%</td>
<td>&lt;65%</td>
</tr>
<tr>
<td>EBITDA to net interest</td>
<td>Net interest received</td>
<td>&gt;2.00</td>
</tr>
</tbody>
</table>

Credit ratings

Global Credit Ratings:
Sappi Southern Africa Limited:
- A+(za)/A1+(za)/Positive Outlook (May 2018)

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

These covenants are calculated on a rolling 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 March and September greater than 65%, and
- At the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2-to-1.

Below we show that for the year ended September 2018 the South African financial covenants were comfortably met.

<table>
<thead>
<tr>
<th>South African covenants</th>
<th>2018</th>
<th>Covenant</th>
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<tbody>
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<td>0.62%</td>
<td>&lt;65%</td>
</tr>
<tr>
<td>EBITDA to net interest</td>
<td>Net interest received</td>
<td>&gt;2.00</td>
</tr>
</tbody>
</table>

Conclusion

We embarked on major capital expenditure projects in all three operating regions during the year under review. The growth in our specialties and packaging papers and dissolving wood pulp (DWP) sectors was in line with expectations and confirmed our decision to invest in these areas. The steep increase in variable costs was offset by selling price increases, but the lag in implementing the price increases reduced margins.

The four main objectives of our strategy were evident during the year. The increase in purchased pulp and delivery costs was tempered by internal cost reduction initiatives of US$82 million. We rationalised the business by converting coated woodfree paper capacity in Europe and North America to packaging paper capacity. The balance sheet was managed close to the leverage target of two times net debt to EBITDA during a transition year which included capital expenditure of US$541 million and the acquisition of the Cham Paper Group of US$132 million. There was growth in higher margin products as we completed debottlenecking projects at Saiccor and Ngodwana Mills to increase production of DWP and invested in specialities and packaging papers capacity.

We start fiscal 2019 on a sound financial platform.

G T Pearce
Chief Financial Officer
safety
IS NOT SOMETHING WE CAN ACHIEVE ALONE

Meerkats are uniquely adapted to the harsh desert environments they generally inhabit—the dark patches around their eyes reduce the glare of the sun while their colouration helps camouflage them from predators. But more than these adaptations, it is their ability to work together and to communicate that enables them not just to survive, but also to thrive.

They live in tightly-knit groups or mobs, with all members of the mob participating in gathering food and taking care of the young.

In addition, while meerkats are foraging—they do this by digging in sand which prevents them from visually scanning their surrounding for predators—‘sentinels’ contribute to the general safety of the mob by keeping a lookout for danger.

These high levels of social cohesion are enhanced by meerkats’ ability to produce six different sentinel calls which warn those foraging about approaching predators like martial eagles, jackals and caracals. A particular call warns of a specific type of danger.

Similarly, our overall approach to safety, encapsulated in our 2018 ‘Own Safety, Share Safety’ theme, is based on the power of teamwork in creating a safe work environment. We expect all our people to participate in our concerted safety drive and will not accept the status quo. This means raising the alarm when identifying a barrier to safety so that we can remove it. It means making our colleagues aware of unsafe behaviour and helping them understand how they need to change.

Ultimately, it means being on the lookout for the unexpected, having the courage to speak up and taking action in order to flourish and thrive, certain in the knowledge that all our people go home safely to their families at the end of every working day.
governance and compensation

Our leadership

Non-executive directors

Sir Nigel Rudd (71)
Independent Chairman
Qualifications: DL, Chartered Accountant
Nationality: British
Appointed: April 2006
Skills, expertise and experience
Having founded Williams plc, one of the largest industrial holding companies in the United Kingdom, and with more than 35 years of experience, Sir Nigel Rudd brings his expertise in finance, management and leadership to the Sappi board.

Michael Anthony Fallon (Mike) (60)
Independent
Qualifications: BSc (Honors First Class)
Nationality: British
Appointed: September 2011
Skills, expertise and experience
Mr Fallon’s management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management and strategic acquisitions, strategy development and governance.

Nkateko Peter Mageza (Peter) (64)
Independent
Qualifications: FCPA LJK
Nationality: South African
Appointed: January 2010
Skills, expertise and experience
With expertise in leadership and management, Mr Mageza has held senior executive positions globally and in South Africa, in the public and private sectors. His experience includes strategy, leadership and governance, amongst others.

Dr Bonakela Mohlomakulu (Boni) (46)
Independent
Qualifications: PhD (Chemical Engineering)
Nationality: South African
Appointed: March 2017
Skills, expertise and experience
With a PhD in Chemical Engineering, Dr Mohlomakulu has experience and expertise in engineering, management and leadership.

Mohammed Valli Moosa (Valli) (61)
Independent
Qualifications: BSc, Mathematics and Physics, MSc (Mechanical Engineering), BCom, MAS, DCom, CA(SA), CRMA
Nationality: South African
Appointed: August 2010
Skills, expertise and experience
Mr Moosa has held numerous leadership positions across business, government, politics and civil society in South Africa and internationally. Mr Moosa has expertise in finance, general business and mining and is an international expert on sustainable development and climate change.

Karen Rohn Osar (Karen) (60)
Independent
Qualifications: MBA (Finance)
Nationality: American
Appointed: May 2007
Skills, expertise and experience
Ms Osar has extensive experience across multiple industries and brings her expertise in leadership, corporate activities and financing to the Sappi board.

Robertus Johannes Antonius Maria Rengers (Rob Jan) (66)
Independent
Qualifications: BSc (Chemical Engineering), MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2016
Skills, expertise and experience
Currently a business consultant, Mr Rengers has extensive experience in governance and leadership as well as operational expertise in manufacturing and packaging internationally.

John David McKenzie (Jock) (71)
Independent Director
Qualifications: BSc (Chemical Engineering), cum laude; MA (MSc)
Nationality: South African
Appointed: September 2007
Skills, expertise and experience
Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa, in the public and private sectors. His experience includes strategy, leadership and governance, amongst others.

Dr Rudolf Thummer* (71)
Independent
Qualifications: Dr Techn (Polymer Science), Dipl Ing
Nationality: Austrian
Appointed: February 2010
Retired: December 2017
Skills, expertise and experience
Dr Thummer has worked in the pulp and paper industry for many years, developing a depth of experience in research and development as well as technology and innovation.
* Retired during current reporting period.

Dr Deenadayalen Konar* (Len) (64)
Non-independent
Qualifications: BCom, MA, DICom, (IAISA), CAISA
Nationality: South African
Appointed: March 2002
Retired: January 2018
Skills, expertise and experience
As the previous Professor and Head of the Department of Accountancy at the University of Durban-Westville, and current member of the King Committee on Corporate Governance in South Africa, Dr Konar has a wealth of experience in governance, accounting and oversight.
* Retired during current reporting period.

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Nationality: Austrian
Appointed: February 2010
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Nationality: Austrian
Appointed: February 2010
Retired: December 2017
Skills, expertise and experience
Dr Thummer has worked in the pulp and paper industry for many years, developing a depth of experience in research and development as well as technology and innovation.
* Retired during current reporting period.
Our leadership continued

Executive directors

Stephen Robert Binnie (Steve) (51)
Chief Executive Officer
Qualifications: BCom, BAcc, CA(SA), MBA
Nationality: British
Appointed: September 2012
Skills, expertise and experience
Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014. He has extensive experience in financial management, leadership, corporate activity and strategy.

Glen Thomas Pearce (55)
Chief Financial Officer
Qualifications: BCom, BCom Hons, CA(SA)
Nationality: South African
Appointed: July 2014
Skills, expertise and experience
Mr Pearce has extensive financial-management experience, both locally and abroad, and was promoted to Chief Financial Officer and executive director of Sappi Limited in July 2014.

Sappi board committee memberships:
- Audit and Risk Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee

Executive management

Berenh John Wiersum (Berry) (63)
Chief Executive Officer of Sappi Europe
Qualifications: MA (Medieval and Modern History)
Appointed: January 2007
Skills, expertise and experience
Mr Wiersum brings a deep experience to the Sappi board, with experience in the paper and packaging industry across Europe, as well as mergers and acquisitions.

Gary Bowles (Berry)
Group Head Technology
Qualifications: BSc (Electrical Engineering), GCC, PR Eng, PMP, EDP
Appointed: November 1990
Skills, expertise and experience
With 28 years’ experience with Sappi, Mr Bowles has a deep understanding of the organisation. Mr Bowles has expertise in engineering, research, manufacturing, project execution, operational and risk management.

Mark Gardner (57)
President and Chief Executive Officer of Sappi North America
Qualifications: BSc (Industrial Technology)
Appointed: September 1991
Skills, expertise and experience
Mr Gardner has a deep experience in the paper industry. His expertise includes marketing, logistics, procurement, strategy and operations across Europe and Southern Africa.

Mohamed Mansoor (51)
Executive Vice President of Sappi Dissolving Wood Pulp
Qualifications: BSc (Chemistry and Mathematics), BSc (Chemistry), MBA
Appointed: August 1991
Skills, expertise and experience
Mr Mansoor’s expertise includes contract negotiation and management, supply chain management, strategic planning, sales management, key account management, dissolving wood pulp, international logistics and technical application support.

Alexander van Coeft Thiel (Alex) (57)
Chief Executive Officer of Sappi Southern Africa
Qualifications: BSc (Mechanical Engineering), MBA (Financial Management and Information Technology)
Appointed: December 1989
Skills, expertise and experience
Mr Thiel has a long history with Sappi. His expertise includes marketing, logistics, procurement, strategy and operations across Europe and Southern Africa.

Fergus Manupen (53)
Group Head Human Resources
Qualifications: BA Hons (Psychology), BEd (Education Management), MBA
Appointed: March 2015
Skills, expertise and experience
Mr Manupen’s expertise across a variety of industries in South Africa enables him to offer insight into human resources, governance and management, amongst many other fields.

Maarten van Hoven (45)
Group Head Strategy and Legal
Qualifications: BProc, LLM (International Business Law)
Appointed: December 2011
Skills, expertise and experience
As an admitted attorney of the High Court in South Africa, Mr Van Hoven brings expertise in corporate, commercial and competition law, both in private and public sectors, as well as experience in mergers and acquisitions.
Corporate governance

Sappi is committed to the highest standards of corporate governance, which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders.

Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on effective control of the business, legitimacy and good performance. Governance is one of our key enabling factors and protecting value, as we optimise the use of our capital, address our key risks while taking advantage of exciting opportunities (see Risk management on page 60), while minimising the negative impacts of trade-offs that have to be made, as set out in the presentation of our key material issues (see Key material issues on page 42). The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2016 (King IV) and applies the various principles in the achievement of good governance outcomes.

(5) Dr R Thummer retired from the board of Sappi Limited and the SETS Committee with effect from 31 December 2017.

(3) Mr Peter Mageza was appointed Chairman of the Audit and Risk Committee following Dr D Konar’s retirement with effect from 31 January 2018.

(2) Dr D Konar retired from the Sappi Limited board and the Audit and Risk Committee with effect from 31 January 2018.

(1) Mr RJ DeKoch retired from the board of Sappi Limited and the SETS Committee with effect from 16 August 2018.

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 strategies, approves major policies and plans, is responsible for risk management, and provides oversight as well as monitoring, to help to ensure accountability. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the period reporting.

The composition of the board and attendance at board meetings and board committee meetings is set out in the table below for the year ended September 2018:

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Board</th>
<th>Audit and Risk</th>
<th>Nomination and Governance</th>
<th>Human Resources and Compensation</th>
<th>Social, Ethics, Transformation and Sustainability (SETS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR Bine</td>
<td>Chief Executive Officer</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GT Peace</td>
<td>Chief Financial Officer</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Ngubu</td>
<td>Independent non-executive</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RJ DeKoch</td>
<td>Non-executive (retired 16/8/2018)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>MA Fallon</td>
<td>Independent non-executive</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D Konar</td>
<td>Independent non-executive (retired 31/1/2018)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>JD Makgala</td>
<td>Lead independent director</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SP Magasa</td>
<td>Independent non-executive</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>R Molokwakoe</td>
<td>Independent non-executive</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>MV Mosia</td>
<td>Independent non-executive</td>
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<td>RM Cig</td>
<td>Independent non-executive</td>
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<td>RM Rheed</td>
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<tr>
<td>R Thummer</td>
<td>Independent non-executive (retired 31/12/2017)</td>
<td>✓</td>
<td>✓</td>
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</table>

**Board committees**

- **Nomination and Governance Committee**
- **Human Resources and Compensation Committee**
- **Audit and Risk Committee**
- **Social, Ethics, Transformation, and Sustainability Committee**

**Board of directors**

- Strategic leadership and guidance
- Ultimate oversight, accountability and responsibility
- The board delegates certain oversight responsibilities to board committees
- The board assigns responsibilities for management of the group to the CEO

**Induction and training of directors**

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

**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. The reporting includes information on key trade-offs that have to be made. 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 on www.sappi.com/policies. 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).

**Sappi board and management committees**

Board and management committees have been established and are discussed on pages 96 to 100.

**Corporate governance**

- **Executive Committee**
- **Management committees**

**Governance**

- **Chair**
- **Chief Executive Officer**
- **Chief Financial Officer**
- **Independent Director**

**Executive directors**

- **CEO and CFO**
- **Other senior executives**
- **Executive strategies approved by the board**

**Management committees**

- **Disclosure Committee**
- **Control and Assurance Committee**
- **Accounting Standards Committee**
- **Group Risk Management Committee**
- **Global Sustainability Council**
- **Treasurer Committee**
- **Taxation Committee**
- **IT Steering Committee**
- **Project Steering Committee**
- **Technical 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.

**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 and Risk Committee**

**Roles and responsibilities**

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

- Safeguarding and efficient use of assets
- Oversight of the risk management function
- Oversight of information and technology risks, related controls and governance
- Oversight of non-financial risks and controls, through a combined assurance model
- Operation of adequate systems and control processes
- Reviewing the integrity of financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- Reviewing the quality and transparency of 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, independence and performance.

For 2018, this included close monitoring of the audit activities of the recently appointed external audit firm KPMG, as well as the ongoing review of reputational concerns relating to media reports involving KPMG South Africa.

The Audit and Risk Committee helps to protect value by providing oversight and guidance for a wide range of topics, including:

- Oversight of the performance of the internal audit function
- Oversight of the performance of the finance function
- Oversight of the performance of the internal audit function
- Oversight of taxation policies, congruent with responsible corporate citizenship, and
- A formal review of the committee’s operating effectiveness and performance every two years by way of an assessment with feedback being provided to the board.

The Audit and Risk Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, and that the following areas related to Sappi’s strategy:

- Global Business Systems projects tasked with harmonising diverse systems and processes, in order to achieve streamlined, effective ways of working across the group and the associated cost advantages
- Investment projects designed to rationalise declining businesses
- Management’s efforts to maintain a healthy balance sheet
- Projects to accelerate the group’s ability to take advantage of opportunities in higher margin growth segments, such as in dissolving wood pulp, specialties and packaging papers and the biotech field.

Areas of additional oversight for the committee in 2019 will be:

- Retention of the risk framework
- Additional oversight of the expanded scope of the repurposed Control and Assurance Committee (CAC), and
- A continuation of the monitoring of the performance and reputation of external audit.

See 2018 Audit and Risk Committee Report on www.sappi.com/annual-reports for more information.

The Audit and Risk Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit and Risk Committee Report.

The external and internal auditors attended Audit and Risk Committee meetings and had unrestricted access to the committee and chairman. The external and internal auditors met privately with the Audit and Risk Committee during 2018.

NP Mageza was appointed Chairman and designated financial expert of the Audit and Risk Committee following Dr D Konar’s retirement, effective 31 January 2018. Mr Mageza attended the Annual General Meeting (AGM) held on 07 February 2018. Ms Zh Malinga joined the board and the Audit and Risk Committee with effect from 01 October 2018.

**Nomination and Governance Committee**

**Roles and responsibilities**

The Nomination and Governance Committee consists of three independent directors. The committee considers the leadership and governance requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board in line with Sappi’s policy on the promotion of gender and race diversity at board level, for board and shareholders’ approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. The functioning and performance of Sappi’s board and board committees were assessed externally in 2018 and established that the board and board committees functioned well.

**Strategic focus areas**

The Nomination and Governance Committee helped to protect value by providing oversight and guidance in 2018 over:

- Corporate governance
- Tone at the top
- Succession plans for senior executives and the board
- Assessment of the board and board committee performance, and
- Rotation and replacement of directors.

A focus area for 2019 will be board succession planning.

**Stakeholders**

The Nomination and Governance Committee has helped to protect value primarily for the following stakeholders:

- Shareholders and regulators
- Employees
- Customers
- Suppliers
- Communities
- Media
- Creditors
- Other
governance and compensation continued
Corporate governance continued

Human Resources and Compensation Committee

**Roles and responsibilities**
The Human Resources and Compensation Committee consists of four independent directors. The responsibilities of the Human Resources and Compensation Committee include:

- Providing oversight of the group’s human capital and determining the group’s human resource policy and strategy, assisting with the hiring, and setting and 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 on 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 on executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

**Stakeholders**
The Human Resources and Compensation Committee has helped to protect value primarily for the following stakeholders: employees, shareholders, and regulators.

**Strategic focus areas**
The key focus area in 2018 was to review Sappi’s compensation policy and practices to ensure alignment and compliance to the requirements of King IV. The Sappi Limited AGM was held on 07 February 2018 and the requisite ordinary resolutions endorsing the remuneration policy (99% majority) and the implementation reports (92% majority) were passed. This vote by our shareholders is an endorsement for our ongoing commitment to good governance and disclosure.

The strategic focus areas for the committee in 2019 will be:

- To maintain high standards of corporate governance and support the principles of good governance advocated by the South African Institute of Directors (IoD) and the King IV Report on Corporate Governance for South Africa 2016 (King IV). This will ensure compliance with legal and regulatory requirements as they pertain to compensation, and
- To review succession and retirement plans for key positions in Sappi.

See Remuneration Report on page 105 for more information.

**Risks**
The Human Resources and Compensation Committee has focused on the following of the top 10 risks:

1. Employee safety
2. Cyclical macro-economic context
3. Highly competitive industry
4. Project implementation
5. Uncertain and evolving regulatory landscape
6. Employee relations

See Risk management on page 60 for more information.

Social, Ethics, Transformation and Sustainability Committee

**Roles and responsibilities**
The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises two independent non-executive directors, and the CEO. A 100% attendance record was achieved by board committee members for 2018. Other executive and group management committee members attend SETS Committee meetings by invitation.

Mr B DeKock retired from the board and SETS Committee on 16 August 2018. The committees mandate is to oversee the group’s sustainability strategies, ethics management, good corporate citizenship, labour and employment practices, as well as its contribution to social and economic development, and, with regards to the group’s South African subsidiaries, the strategic business priority of transformation.

The SETS Committee is supported by the Global Sustainability Council as well as by regional sustainability committees in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

**Strategic focus areas**
In 2018 the committee:

- Approved the implementation of a Supplier Code of Conduct which will enable Sappi to manage our supply chain risks more closely.
- Approved safety initiatives including studies by outside experts to help Sappi embed safety first practices, not just in the workplace, but in all aspects of our employees’ lives.
- Overseen external assurance on LTIFR and emissions data as well as environmental impact analyses for major investment projects.
- Considered trade-offs between:
  - Productivity and safety advantages of mechanisation and the social and human capital implications, and
  - Financial and natural capitals relating to the use of coal versus other renewable energy fuels for our heating requirements.

The strategic focus areas for the committee in 2019 will be:

- Oversee an emerging risk and opportunity in the textile supply chain where major fashion brands are becoming far more aware of supply chain risks and the trade-offs between alternative textiles, and
- Safety initiatives.

See SETS Committee Report on page 118 and Our global 2020 sustainability goals on page 40 for more information.

**Stakeholders**
The SETS Committee has a broad spread of stakeholders for which it helps to protect or create value: suppliers, customers, employees, regulators, shareholders and society.

**Risks**
The SETS Committee has focused on the following of the top 10 risks:

1. Employee safety
2. Project implementation
3. Evolving technologies and consumer preferences
4. Natural resource constraints
5. Market share and customer concentration
6. Employee relations

See Our key relationships on page 32 for more information.

See Risk management on page 60 for more information.
Management committees

The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees. The management committees are a key component of Sappi’s second line of defence and assurance. See Risk management on page 60 for additional details of Sappi’s approach to risk, controls and assurance.

Executive Committee

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

Disclosure Committee

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

Taxation Committee

The Taxation Committee meets monthly to discuss and address global taxation matters.

Project Steering Committees

For key strategic projects, steering committees are established to oversee successful execution of the project.

Technical Committees

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

Group Risk Management Committee

The committee is known as the Group Risk Management Team (GRMT) and is mandated by the board 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 and Risk Committee and the board. Risk management software is used to support the risk management process.

Control and Assurance 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. One of the main focus areas for 2018 was to formulate plans for expanding the scope of the committee to include, in a more thorough manner, oversight of the combined assurance process and coordination of assurance providers at Sappi. In its expanded role, this revised committee, which will be known as the Control and Assurance Committee (CAC), will be accountable to the Group Risk Management Team (GRMT) and the Audit and Risk Committee.

The committee will, among other things, oversee the activities of control and assurance workgroups (CAW) established to review key risks, identify risk mitigations and controls, assurance provision and identification of any gaps and subsequent remediation activities. The first working group will meet in the first financial quarter of 2019 and will focus on IT security risks, fibre certification risk as well as our periodic review and streamlining of the group’s risk and control framework, which is the foundation for Sappi’s first line of defence and assurance.

IT Steering Committee

The 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 and Risk Committee and the board. An IT governance framework and IT feedback reports are presented to the Audit and Risk Committee and the board. Sappi has implemented a standardised approach to IT risk management through a groupwide risk framework supported by the use of risk management software. The committee has helped to create value for shareholders in 2018 by its oversight of:

- The SAP S/4HANA project which forms part of Sappi’s Global Business Systems project in support of the One Sappi strategy to achieve cost advantages, and
- The negotiation of an enterprise licence agreement with Microsoft, which included migration to Office 365.

Oversight by the committee will continue in 2019 for these IT initiatives, as well as

- The integration of the SAP systems of the recently acquired operating units in Italy into Sappi’s SAP environment, and
- The implementation of COBIT 2019.

Ensuring leadership through ethics and integrity

Sappi is committed to doing business the right way. Trust is created by operating from a commonly accepted set of values, enhancing and protecting our reputation. We require our directors and employees to act with integrity, to be courageous, to make smart decisions and to execute with speed, in all transactions and in their dealings with all business partners and stakeholders.

Corporate governance continued
A key element of combined assurance at Sappi is derived from the annual control self-assessments completed by control owners, which helps to protect value to stakeholders by providing management and the board with assurance in the state of controls throughout the group. Control gaps identified through this process are recorded and remediation progress is monitored by management, relevant committees, auditors and the board.

The Audit and Risk Committee advises the board on the state of risk management and controls, as well as assurance, in Sappi’s operating environment. This information is used as the basis for the board’s review, sign-off and reporting to stakeholders. In the integrated report and annual financial statements, on risk management and the effectiveness of internal controls and assurance within Sappi.

As part of combined assurance in respect of reported information, Sappi has obtained assurance on the data in the integrated report from the following sources:

- Financial data is independently audited by KPMG
- External sustainability assurance was obtained from KPMG for direct emissions (Scope 1) CO₂e and indirect emissions (Scope 1 in CO₂e) information as well as specific safety information.

Sappi’s operating environment is subject to external review of sustainability information, to ensure Sappi’s sustainability disclosed to stakeholders is relevant. The external assurance process is undertaken by KPMG, tax authorities, internal audit and other assurance providers.
During 2018, apart from the ongoing focus on financial controls, which includes supporting Sappi’s strategy to maintain a healthy balance sheet, internal audit helped to create and protect value by completing reviews in support of the following strategic objectives:

- Achieve cost advantages: Advisory services to the global business systems projects (regulation to pay, sales order to cash, SAP S/4 HANA, shared service centre optimisation)
- Rationalising declining businesses: Assurance reviews of contractors and capital expenditure for project balance in Sappi North America, and
- Accelerate growth in high margin products: Integration and control onboarding reviews of the newly acquired operating units in the UK and Italy.

In 2019, internal audit will continue to create and protect value for shareholders, management, several management committees, as well as the Audit and Risk Committee by:

- Undertaking further advisory or assurance assignments for strategic projects
- Implementing a more agile approach to establishing the audit plan and to streamline our way of working, and spearheading Sappi’s enhanced focus on combined assurance by playing a leading role in co-ordinating the efforts of control and assurance workgroups (CAW) which will address key risks, provision of assurance and identification of gaps, with feedback to the Control and Assurance Committee (CAC), the GRMT and the Audit and Risk Committee, and
- Capital expenditure and contractor reviews for the Vulindlela project in Sappi Southern Africa.

Internal audit maintains an internal quality assurance programme. An external quality assurance review is undertaken periodically. The most recent review was in 2015, conducted by the Institute of Internal Auditors (IIA). A generally conforms rating was received, which is the highest of the three levels of conformance to the IIA’s standards. The 2018 review was performed internally and highlighted a need for greater agility as well as more comprehensive combined assurance reporting to the Audit and Risk Committee. Both these opportunities will be addressed in 2019.

Board assessment of the company’s risk management, compliance function and effectiveness of internal controls and combined assurance

This 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, independent reviews by internal audit, external 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 2018. 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, Annual Integrated Report and other reports used internally for management decision making.

Company secretary

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

Remuneration Report

This Remuneration Report details 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 as per the recommendation by the Human Resources and Compensation Committee.

The report is split into three sections: Section A details our remuneration background statement disclosures, Section B provides an overview of our remuneration policy and Section C addresses the implementation of the remuneration policy in 2018.

Section A: Remuneration background statement disclosures

I am pleased to present the committee’s report on remuneration. Our report and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. This report is aligned to the principles and recommended practices of the King IV Report on Corporate Governance of South Africa (King IV). This demonstrates our continued commitment to good corporate governance.

Sappi Limited Annual General Meeting (AGM) was held on 27 February 2018 and the requisite ordinary resolutions enshrining the remuneration policy and the implementation reports were passed. These resolutions were passed by a 99% and 92% majority respectively. This vote by our shareholders is an endorsement for our ongoing commitment to good governance and disclosure.

Our shareholders also gave us some guidance on areas where we can improve and to ensure clear disclosure on key items. For 2018 our performance criteria on the Management Incentive Scheme (MIS) has been reviewed and an increased score has been allocated to safety. Page 60 for more information. We value the input of our shareholders and will continue to seek their input to ensure good disclosure.

As described in the respective reports by our Chairman, Sir Nigel Rudd, and CEO, Steve Binnie, Sappi’s performance in the year under review was in line with last year. This year continued the ongoing improved performance of the last five years, as reflected in the recent Sunday Times business awards. The group’s EBITDA excluding special items was US$762 million, being US$33 million less than the previous year when comparing on a like-for-like basis after adjusting US$210 million for the additional accounting week. Implementing the strategy developed, management planned major capital projects in all three regions in order to transition the business to expand in the growing markets of packaging and dissolving wood pulp. The resultant reduction of available capacity to facilitate the capital projects restricted sales volumes and profitability during the current year, but has laid the foundation for improved returns in the year ahead. The major projects are set to deliver on the expected returns which is supported by the growth in earnings demonstrated in the 2019 budget targets.

These projects include the acquisition of the Chumm Paper Group (CPG), conversion of paper machine 1 at our Somerset Mill, the conversion of the paper machine at Maastricht Mill and various dissolving wood pulp debottlenecking projects at Saiccor and Ngodwana Mills in Southern Africa.

With product now successfully flowing from these investments and the successful integration of CPG, the market response has been very encouraging, strongly supporting the strategic direction of Sappi.

Bonus performance outcome, against the targets that were set, are outlined in this report. Performance outcomes are reflected in the remuneration received by executive directors.

The performance period for the 2014 PSP ended on 30 September 2018. Half of this award was based on cash flow return on net assets (CFRONA) and the other half on total shareholder return (TSR) performance. Sappi’s performance on CFRONA, when measured against the peer group for the above four-year performance period, ranked third. The peer group is detailed on page 114 and represents industry players in printing and writing papers, dissolving wood pulp and specialties and packaging papers. In terms of the vesting schedule, 100% on the CFRONA portion vested. In terms of the TSR performance condition, Sappi ranked fourth. Thus, 100% on the TSR portion vested. The result has been a net vesting of 100% of the 2014 share awards.

For 2019, the focus for Steve and his leadership team will be:

- Drive the ‘Own Safety, Share Safety’ theme
- Continue living the Sappi values (integrity, speed, courage and smart)
- Transition the business towards higher margin growth segments and away from the declining coated woodfree paper
- Discipline in the execution of all projects
- Drive One Sappi initiatives across all the regions
- Reward and the development of our people
- Sustain the environment and improve Sappi’s footprint
- Operate machines as efficiently and effectively as possible, and
- Stay focused to achieve our 2020/201 Vision goals and targets an EBITDA of US$1 billion.

Our remuneration policy is continuously benchmarked against the relevant industry peers to ensure that it motivates our senior team to achieve the group’s objectives and delivers sustained returns and value creation for our stakeholders. The committee also believes that the remuneration of executives during 2018 reflects our successes to date in the delivery of our strategy. I trust that you will support the remuneration resolutions at this year’s Annual General Meeting.

Mike Fallon
Chairman
Human Resources and Compensation Committee
The purpose of the committee is to oversee remuneration matters for all controlled subsidiaries of Sappi Limited. Its key objectives are to:

- Make recommendations on remuneration policies and practices, including Sappi’s employee share schemes
- Ensure effective executive succession planning, and
- Review compliance with all statutory and best practice requirements on labour and industrial relations management.

At the end of the year, the committee consisted of four independent non-executive directors: Mr MA Fallon (Chairman), Mr NP Mageza, Mr JD McKenzie and Mr PJ Pensters. The Chairman of the company, Sir Nigel Rudd, attends committee meetings ex-officio while the group’s Chief Executive Officer, Mr SR Binnie, together with Group Head Human Resources, Mr Fergus Marupen attend meetings by invitation.

Mrs A Mahendranath, Group Company Secretary, attends the meeting as secretary to the committee.

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

Attendance at meetings by individual members is detailed on page 94.

None of the committee members has any significant 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 relating to 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. The policy also enables the attraction, retention and motivation of executives and all employees.

The key activities of the committee during 2018 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the performance share plan awards which were awarded on 04 December 2014.
- Approved the allocation of 2018 performance share 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 for 2019.
- Recommended fee levels for non-executive directors of the Sappi Limited board for consideration and recommendation to shareholders for approval.
- Approved the allocation model and the comparator peer group for the 2018 performance share plan.
- Reviewed the Remuneration 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 2018.
- Approved the 2019 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan.
- Reviewed the succession, retirement and development plans for key management positions, and
- Review the group’s industrial relations policy and implementation.

Independent advice

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

- Mercer Kepler (United Kingdom)
- Korn Ferry (South Africa)
- PricewaterhouseCoopers Tax Services (South Africa).

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 King IV Report on Corporate Governance for South Africa 2016 (King IV). Our remuneration approach and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate.

The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

The Human Resources and Compensation Committee, together with the Human Resources and Compensation Committee of the group, the Sefate scheme that will vest in 2021, and the group’s strategy and performance goals.

Areas of focus for 2019

Key activities for the committee in 2019 will be, inter alia, the approval of the remuneration and bonuses for executive directors and senior management.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, also be visiting key shareholders to discuss issues of mutual concern. The committee will also consider options available for a future Sappi empowerment scheme to replace the Sefate scheme that will vest in August 2019.

At the February 2016 and 2017 AGMs, the results for the requisite ordinary resolution endorsing the remuneration policy were 81.2% and 94.7% respectively.

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.

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<thead>
<tr>
<th>Purpose</th>
<th>Fixed</th>
<th>Opportunity</th>
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<tbody>
<tr>
<td>Component – Base salary</td>
<td>Paid monthly in cash</td>
<td>Increases are applied in line with outcomes of performance discussions with the individuals concerned</td>
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<tr>
<td>Component – Benefits</td>
<td>Private medical insurance</td>
<td>None</td>
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<tr>
<td>Purpose</td>
<td>Operations</td>
<td>Opportunity</td>
</tr>
<tr>
<td>To provide protection and market competitive benefits to aid recruitment and retention</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>To attract and retain key talent</td>
<td>Paid monthly in cash</td>
<td>Increases are applied in line with outcomes of performance discussions with the individuals concerned</td>
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<tr>
<td>Component – Incentives</td>
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</table>

Section B: Overview of the Remuneration Policy

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

Areas of focus for 2019

Key activities for the committee in 2019 will be, inter alia, the approval of the remuneration and bonuses for executive directors and senior management.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, also be visiting key shareholders to discuss issues of mutual concern. The committee will also consider options available for a future Sappi empowerment scheme to replace the Sefate scheme that will vest in August 2019.


corporate governance and compensation

Remuneration Report continued
## Remuneration Report

### Purpose

**Operations**

- Make ongoing company contributions during employment
- To provide market related benefits
- Facilitate the accumulation of savings for post-retirement years

**Opportunity**

- 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

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### Fixed

**Component – Pension**

- 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**

- All measures and objectives are reviewed and set at the beginning of the financial year
- Payments are reviewed and approved at year-end by the committee based on performance against the targets
- Threshold is required to be met for any bonus payment to occur
- Target level of bonuses varies from 65% to 85% of base salary
- Weightings for 2018 were: EBITDA (50%); working capital (20%); safety (10%); and individual performance (20%)
- Bonuses are paid in cash. The group Chief Executive Officer and other key senior managers may earn a maximum bonus of up to 95% 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
- Non-pensionable

**Component – Service contracts**

- 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

---

### Variable

**Component – Long-term share incentive plans**

- Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company
- Performance is measured relative to a peer group of 16 other industry-related companies
- The number of conditional shares allocated varies from 142,000 conditional share awards to the Chief Executive Officer, and between 39,000 and 79,000 conditional share awards to Executive Committee members
- Measures for 2018 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (CFRONA) – 50%

**Component – Broad-based black economic empowerment**

- 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

**Component – Service contracts**

- 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

---

### Purpose

**Operations**

- Provide an appropriate level of protection to both the executive and to Sappi

**Opportunity**

- Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company
- Performance is measured relative to a peer group of 16 other industry-related companies
- The number of conditional shares allocated varies from 142,000 conditional share awards to the Chief Executive Officer, and between 39,000 and 79,000 conditional share awards to Executive Committee members
- Measures for 2018 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (CFRONA) – 50%

---

### Purpose

**Operations**

- 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. The company outperforms the peer group

**Opportunity**

- Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company
- Performance is measured relative to a peer group of 16 other industry-related companies
- The number of conditional shares allocated varies from 142,000 conditional share awards to the Chief Executive Officer, and between 39,000 and 79,000 conditional share awards to Executive Committee members
- Measures for 2018 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (CFRONA) – 50%
Service contracts

Messrs Binnie and Pearce 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. 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.

Choice of performance measures and approach to target setting

Short-term incentive

The table below shows the metrics for 2018, why they were chosen and how targets are set.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage (%)</th>
<th>Relevance</th>
<th>How do we set the targets?</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>50</td>
<td>A key indicator of the underlying profit performance of the group, reflecting both revenues and costs. Aligns closely with our strategic goals of achieving cost advantages and growth. More efficient water, energy and raw material usage is also encouraged.</td>
<td>Targets and ranges are set each year by the board taking account of required progress towards strategic goals, and the prevailing market conditions.</td>
</tr>
<tr>
<td>Working capital</td>
<td>20</td>
<td>A key indicator of accounts payable, accounts receivable and stock levels. Achieving optimum working capital levels in the business requires efficient use of resources throughout the supply chain and influences cash management, a key pillar of our strategy.</td>
<td>Targets and ranges are set each year by the board taking account of the required progress towards strategic goals, and the prevailing market conditions.</td>
</tr>
<tr>
<td>Safety</td>
<td>10</td>
<td>One of the key indicators of whether the business is meeting its sustainability goal of zero harm.</td>
<td>The committee considers input from the SETS Committee, and sets appropriate standards and goals.</td>
</tr>
<tr>
<td>Individual performance</td>
<td>20</td>
<td>An indicator of the contribution of each executive director. Individual performance for relevant managers includes several key non-financial targets in relation to sustainability (environment, energy consumption, water usage and waste management), living the Sappi values, discipline in executing all projects and operating machines as efficiently and effectively as possible, and BBBEE in the case of South Africa.</td>
<td>Targets and ranges are set each year by the committee, based on the specific priorities, and areas of responsibility of the role.</td>
</tr>
</tbody>
</table>

Performance Share Plan (PSP)

The table below shows the metrics for 2018 grants, why they were chosen and how targets are set.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Relevance</th>
<th>How do we set the targets?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shareholder return (TSR)</td>
<td>TSR measures the total returns to Sappi’s shareholders, so provides close alignment with shareholder interests.</td>
<td>The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.</td>
</tr>
<tr>
<td>Cash flow return on net assets</td>
<td>A key indicator of the effective use of capital</td>
<td>The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.</td>
</tr>
</tbody>
</table>

Remuneration scenarios at different performance levels

The charts below illustrate the total potential remuneration (base pay and short-term incentives) for executive director at different performance levels.

Performance Share Plans (PSPs) are excluded from these scenarios as their vesting depends on performance conditions being met. Vesting is based on a linear vesting schedule.

Approach to remuneration benchmarks

Executive compensation is benchmarked on 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. Sappi participates in global remuneration surveys and uses data from global remuneration surveys and does not use any data from this survey results.

Approach to remuneration benchmarks

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At the time that salary increases are considered the committee additionally receives a report on the approach management proposes to adopt for general staff increases. Both these reports are taken into account in the committee’s decisions about the remuneration of executive directors and other senior executives.

In some countries where the group operates, more formal consultation arrangements with employee representatives are in place relating to employment terms and conditions, in accordance with local legislation and practice. The group also conducts employee engagement surveys every two years which gauge employees’ satisfaction with their working conditions. The Sappi board is given feedback on these survey results.

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Remuneration policy for non-executive directors (fees)

### Element

- **Non-executive chairman (fees)**
  - To attract and retain high-calibre chairman, with the necessary experience and skills
  - To provide fees which take account of the time commitment and responsibilities of the role
  - The chairman receives an all-inclusive fee
  - The chairman’s fees are reviewed periodically by the committee
  - Fees are set by reference to market median data for companies of similar size and complexity to Sappi

- **Other non-executive directors (fees)**
  - To attract and retain high-calibre non-executives, with the necessary experience and skills
  - To provide fees which take account of the time commitment and responsibilities of the role
  - The non-executives are paid a basic fee
  - Attendance fees are also paid to reflect the requirement for non-executive directors to attend meetings in various international locations
  - The chairman of the main board committees and the lead independent director are paid additional fees to reflect their extra responsibilities
  - Non-executives’ fees are reviewed periodically by the chairman and Human Resources and Compensation Committee
  - Fees are set by reference to market median data for companies of similar size and complexity to Sappi

### Compensation mix

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

The term ‘target’ in terms of short-term incentive refers to the annual bonus award if all performance criteria were met at target level.

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2017 (share price at date of allocation: ZAR95.64 December 2017).

For 2018, Mr Binnie received a salary increase of 5.5% on the South African portion of his salary and 1.5% on the off-shore portion of his salary. His salary with effect from 01 January 2018 was USD$558,318 per annum.

Mr Pearce 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 Pearse’s salary with effect from 01 January 2018 was USD$22,878 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 each.

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 2018 financial year, the financial business performance criteria were: EBITDA (50%), working capital (20%) 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-target bonus</td>
<td>85%</td>
</tr>
<tr>
<td>Stretch target</td>
<td>116%</td>
</tr>
</tbody>
</table>

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 2017.

The group’s performance for the 2018 financial year:

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>2018 Target</th>
<th>2018 Actual achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>50</td>
<td>58.5</td>
</tr>
<tr>
<td>Working capital</td>
<td>20</td>
<td>29.3</td>
</tr>
<tr>
<td>Safety</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>87.8</td>
</tr>
</tbody>
</table>

* The group and regional safety performance improved, zero was allocated to the Executive Committee and applicable regions due to the tragic fatalities.
Mr Binnie will receive a bonus award of US$525,830 and Mr Pearce will receive a bonus award of US$303,971 to be paid in December 2018.

The terms and conditions of the annual incentive scheme for executive directors and Executive Committee members afford 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

The percentage values of the performance criteria were changed as follows for 2018:
- EBITDA from 48% to 20%.
- Working capital from 24% to 20%, and
- Safety from 8% to 10%.

Long-term incentive

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

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

The peer group for the 2018 PSP award will consist of the following 16 industry-related companies:
- Fortescue
- Iberdrola
- Alstom
- Borrogaard
- Domtar
- UPM
- Verso Paper
- Mondi Plc
- Metsa Board
- Resolute Forest Products.

Employee Share Ownership Plan (Broad-based black economic empowerment)

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

There are two schemes which make up Sappi’s Employee Share Ownership Plan, namely the ESOP (Employee Share Ownership Plan) and MSOP (Management Share Ownership Plan). There were 5,807 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.

For the four-year period ending September 2018, Sappi’s performance relative to the peer group measured on TSR was ranked fifth, which meant that 100% TSR component shares vested on the due date in December 2018.

The determination of the vesting of the shares was provided by Mercer, 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 third place. The determination of the vesting of this portion of the shares was verified by KPMG South Africa auditors.

In aggregate, therefore 100% of the total 2014 awards vested.

In December 2014, Mr Pearce was granted 175,000 conditional performance plan shares of which 175,000 will vest in December 2018.

In December 2014, Mr Binnie was granted 85,000 conditional performance plan shares of which 85,000 will vest in December 2018.

Remuneration disclosure of executive directors and prescribed officers

Executive directors’ emoluments for 2018 (US$)

<table>
<thead>
<tr>
<th></th>
<th>Salary</th>
<th>Performance-related remuneration</th>
<th>Sum paid by way of expense allowance</th>
<th>Contributions paid under pension and medical aid schemes</th>
<th>Share based payment benefit</th>
<th>Total 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR Binnie</td>
<td>558,318</td>
<td>525,830</td>
<td>14,907</td>
<td>85,129</td>
<td>701,472</td>
<td>1,885,656</td>
</tr>
<tr>
<td>GT Pearce</td>
<td>322,878</td>
<td>303,971</td>
<td>8,473</td>
<td>63,461</td>
<td>292,857</td>
<td>991,640</td>
</tr>
</tbody>
</table>

Executive directors’ emoluments for 2017 (US$)

<table>
<thead>
<tr>
<th></th>
<th>Salary</th>
<th>Performance-related remuneration</th>
<th>Sum paid by way of expense allowance</th>
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<th>Share based payment benefit</th>
<th>Total 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR Binnie</td>
<td>464,563</td>
<td>440,139</td>
<td>12,344</td>
<td>76,680</td>
<td>561,959</td>
<td>1,550,821</td>
</tr>
<tr>
<td>GT Pearce</td>
<td>302,683</td>
<td>283,986</td>
<td>8,295</td>
<td>61,090</td>
<td>212,657</td>
<td>868,711</td>
</tr>
</tbody>
</table>

Remuneration Report

Mr Binnie was awarded 137,000 conditional performance plan shares in December 2017 in line with the plan rules.

Mr Pearce was awarded 63,000 conditional performance plan shares in December 2017, in line with the plan rules.

Changes to the long-term incentive scheme

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

<table>
<thead>
<tr>
<th>Position</th>
<th>Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>80%</td>
</tr>
<tr>
<td>7</td>
<td>65%</td>
</tr>
<tr>
<td>8</td>
<td>45%</td>
</tr>
<tr>
<td>9</td>
<td>25%</td>
</tr>
<tr>
<td>10 – 17</td>
<td>0%</td>
</tr>
</tbody>
</table>
Non-executive directors’ fees

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 more than 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 plants 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 ZAR/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 Human Resources and Compensation Committee, recommended by the board and approved at the AGM by the shareholders. The non-executive directors’ fees for 2018 financial year were approved by shareholders. The table below sets out the remuneration for non-executive directors for 2018:

### 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 2018 (US$).

<table>
<thead>
<tr>
<th>Salary</th>
<th>Performance-related remuneration</th>
<th>Performance-related remuneration</th>
<th>Sums paid by way of expense allowance</th>
<th>Contributions paid under pension and medical aid schemes</th>
<th>Share based payment benefit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>B Wiersum 779,507</td>
<td>511,203</td>
<td>3,109</td>
<td>2,976</td>
<td>261,304</td>
<td>353,023</td>
<td>1,908,013</td>
</tr>
<tr>
<td>M Gardnor 548,690</td>
<td>442,734</td>
<td>–</td>
<td>–</td>
<td>56,125</td>
<td>353,023</td>
<td>1,400,572</td>
</tr>
<tr>
<td>A Thiel 336,451</td>
<td>230,261</td>
<td>9,435</td>
<td>61,199</td>
<td>384,436</td>
<td>1,021,872</td>
<td></td>
</tr>
<tr>
<td>A Rossi 84,049</td>
<td>43,391</td>
<td>–</td>
<td>2,460</td>
<td>275,868</td>
<td>1,141,566</td>
<td></td>
</tr>
<tr>
<td>M van Hoven 173,061</td>
<td>123,824</td>
<td>4,994</td>
<td>279,116</td>
<td>628,082</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G Bowles 251,038</td>
<td>134,788</td>
<td>5,250</td>
<td>196,818</td>
<td>575,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F Marupon 185,705</td>
<td>134,788</td>
<td>5,250</td>
<td>196,818</td>
<td>575,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M Mansoor 205,370</td>
<td>152,653</td>
<td>115,083</td>
<td>66,188</td>
<td>612,684</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Salary</th>
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<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>B Wiersum 713,361</td>
<td>522,618</td>
<td>2,764</td>
<td>2,764</td>
<td>233,429</td>
<td>275,868</td>
<td>1,748,064</td>
</tr>
<tr>
<td>M Gardnor 534,626</td>
<td>276,294</td>
<td>–</td>
<td>–</td>
<td>54,754</td>
<td>275,868</td>
<td>1,141,566</td>
</tr>
<tr>
<td>A Thiel 315,836</td>
<td>224,665</td>
<td>9,237</td>
<td>56,039</td>
<td>968,936</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Rossi 325,062</td>
<td>212,220</td>
<td>9,682</td>
<td>497,264</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M van Hoven 161,408</td>
<td>115,370</td>
<td>4,888</td>
<td>220,367</td>
<td>546,924</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G Bowles 204,902</td>
<td>160,033</td>
<td>6,254</td>
<td>235,990</td>
<td>694,846</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F Marupon 176,692</td>
<td>125,925</td>
<td>5,140</td>
<td>125,608</td>
<td>481,952</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M Mansoor 205,370</td>
<td>152,653</td>
<td>115,083</td>
<td>66,188</td>
<td>612,684</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Statement by the board regarding compliance with the remuneration policy

The board annually receives a report from the Human Resources and Compensation Committee on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation.

The board endorses the Human Resources and Compensation Committee position that Sappi’s remuneration policy is set taking appropriate account of remuneration and employment conditions of other employees in the group and external factors. It is the view of the board that this policy as detailed herein, drives business performance and value creation for all stakeholders.
Social, Ethics, Transformation and Sustainability (SETS) Committee Report

Introduction
The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2018. 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 the 2012 financial year in response to the requirements of section 72(4) of the South African Companies Act 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a Social and Ethics Committee, to which were added the Transformation and Sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

Multi-functional regional sustainability councils provide strategic and operational support to a Group Sustainability Council which in turn provides support to the SETS Committee in dealing with key sustainability issues.

During the financial year the committee formally met three times at which meetings it deliberated on all aspects relating to its terms. A 100% attendance record was achieved by board committee members for 2018.

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 the 2018 financial year were:
• Mr MV Moosa (Chairman from 01 March 2016)
• Mr SH Brinne
• Mr PJ deKock (until August 2018)
• Dr B Mehlonakulub (from 01 March 2017), and
• Dr R Thummer (until December 2017).

Three members of the committee were 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, the Executive Vice President Disolving Wood Pulp 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.
• Reviewed the UN sustainable development goals most relevant to Sappi.
• Sappi’s standing in terms of:
  – The principles set out in the United Nations Global Compact Principles
  – The OECD recommendations regarding corruption
  – The Employment Equity Act, and
  – The Broad-based Black Economic Empowerment Act (BBBEE).
• Reviewed the Code of Ethics, ethics programme and their effectiveness.
• Obtained feedback from the ethics reporting hotline.
• 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 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, safety performance and actions being taken to improve the safety performance of the group.
• Reviewed the Group Sustainability Charter and Group Environmental Policy.
• Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2018.
• Approved the revised Group Woodfibre Procurement Policy and the new Supplier Code of Conduct.
• In-depth review on the group’s energy and emissions profile and future strategies in this regard.
• In-depth review of Saccor Mill’s environmental footprint and improvements resulting from the proposed 110,000 tons expansion project.
• In-depth review of community and government engagement in South Africa and global corporate citizenship activities.
• Reviewed the SETS Committee Report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

At each meeting a topic is selected for an in-depth review, typically matters which in the view of the committee represent key risks or opportunities for the business. In the past year the three focus areas were energy production and opportunities to lower cost and emissions through increased self-generation, particularly from renewable energy. Secondly, the planned investment at Saccor Mill, which not only results in increased production but importantly would also lead to improved energy and water efficiency as well as lower specific emissions and improved air and water quality. These improvements align with the growing emphasis on sustainability in the textile value chain. Lastly, the committee reviewed the company’s engagement with governments and communities within which they operate as part of the corporate citizenship programme.

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. In fulfilling their mandate, the committee has sought to ensure the needs of a wide set of stakeholders, including employees, local communities, customers and shareholders are considered and that key sustainability risks are identified and managed.

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
Cash generated from operating activities

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>6,806</td>
<td>6,296</td>
<td>5,141</td>
<td>5,390</td>
<td>6,061</td>
</tr>
<tr>
<td>Variable manufacturing and delivery costs</td>
<td>3,021</td>
<td>3,147</td>
<td>3,061</td>
<td>3,414</td>
<td>3,887</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>1,767</td>
<td>1,601</td>
<td>1,571</td>
<td>1,613</td>
<td>1,837</td>
</tr>
<tr>
<td>Sundry expenses (income)1</td>
<td>38</td>
<td>22</td>
<td>22</td>
<td>6</td>
<td>(9)</td>
</tr>
<tr>
<td>Operating profit excluding special items</td>
<td>480</td>
<td>526</td>
<td>487</td>
<td>357</td>
<td>346</td>
</tr>
<tr>
<td>Special items – (gains) losses</td>
<td>(9)</td>
<td>(57)</td>
<td>(54)</td>
<td>(32)</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>479</td>
<td>526</td>
<td>544</td>
<td>411</td>
<td>314</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>68</td>
<td>80</td>
<td>121</td>
<td>182</td>
<td>177</td>
</tr>
<tr>
<td>Profit (loss) before taxation</td>
<td>421</td>
<td>446</td>
<td>423</td>
<td>229</td>
<td>137</td>
</tr>
<tr>
<td>Taxation charge</td>
<td>596</td>
<td>108</td>
<td>104</td>
<td>62</td>
<td>2</td>
</tr>
<tr>
<td>Profit (loss) for the year</td>
<td>323</td>
<td>338</td>
<td>319</td>
<td>167</td>
<td>135</td>
</tr>
<tr>
<td>EBITDA excluding special items</td>
<td>762</td>
<td>785</td>
<td>739</td>
<td>625</td>
<td>658</td>
</tr>
</tbody>
</table>

Balance sheet

- Total assets: 5,670
- Non-current assets: 3,766
- Current assets: 1,904
- Current liabilities: 1,173
- Shareholders’ equity: 1,947
- Net debt: 1,568
- Gross interest-bearing debt: 1,931
- Cash: 1,141
- Capital employed: 3,414

Cash flow

- Cash generated from operations: 709
- Cash received from operating activities: 410
- Net cash generated (utilised): (254)
- Cash effects of financing activities: 68
- Capital expenditure (gross): 541
- To maintain operations: 167
- To expand operations: 374

Exchange rates

- US$ per one EUR exchange rate – closing: 1.161
- US$ per one EUR exchange rate – average (financial year): 1.190
- ZAR to one US$ exchange rate – closing: 14.147
- ZAR to one US$ exchange rate – average (financial year): 13.052

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.
Share statistics
for the year ended September 2018

Shareholding

Ordinary shares in issue

<table>
<thead>
<tr>
<th>Number of shareholders</th>
<th>%</th>
<th>Number of shares</th>
<th>% of shares in issue</th>
</tr>
</thead>
</table>
| 1 – 5,000              | 5,214 | 79.1             | 2,779,842             | 0.5
| 5,001 – 10,000         | 203   | 3.1              | 1,471,336             | 0.3
| 10,001 – 50,000        | 472   | 7.2              | 12,161,136            | 2.3
| 50,001 – 100,000       | 234   | 3.6              | 16,598,775            | 3.1
| 100,001 – 1,000,000    | 383   | 5.8              | 120,020,729           | 22.3
| Over 1,000,000         | 83    | 1.2              | 3,862,222,299         | 71.5
|                       | 6,589 | 100.0            | 539,254,117           | 100.0

1 The number of shares excludes 17,948,456 treasury shares held by the group.

Shareholder spread

Type of shareholder

<table>
<thead>
<tr>
<th>% of shares in issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-public</td>
</tr>
<tr>
<td>Sappi Limited directors and prescribed officers</td>
</tr>
<tr>
<td>Associates of group directors</td>
</tr>
<tr>
<td>Trustees of the company’s share and retirement funding schemes</td>
</tr>
<tr>
<td>Share owners who, by virtue of any agreement, have the right to nominate board members</td>
</tr>
<tr>
<td>Share owners interested in 10% or more of the issued shares</td>
</tr>
<tr>
<td>Public (the number of public shareholders as at September 2018 was 6,578)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

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 of America. 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 2018, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder

<table>
<thead>
<tr>
<th>Shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Investment Corporation</td>
<td>81,263,256</td>
</tr>
</tbody>
</table>

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 2018, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager

<table>
<thead>
<tr>
<th>Shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Investment Corporation</td>
<td>71,469,658</td>
</tr>
<tr>
<td>Prudential Investment Managers</td>
<td>56,429,600</td>
</tr>
<tr>
<td>Allan Gray Proprietary Limited</td>
<td>32,328,109</td>
</tr>
<tr>
<td>Investment Asset Management</td>
<td>31,763,927</td>
</tr>
<tr>
<td>BlackRock Inc</td>
<td>27,683,095</td>
</tr>
</tbody>
</table>
You’d think the sheer weight of polar bears would send them plunging through the ice, and the fact is, it can, if the ice is too thin. But polar bears have adapted through the size of their feet, how they walk on ice and instinct to safely traverse and live on ice, even when their bodyweight increases by more than 50 percent after the spring/summer hunting season.

In a similar way, acting with integrity helps to keep a company and its employees from falling through the proverbial ‘ice’ into ethical trouble. It is not something we take for granted at Sappi.

It begins with questioning our motivations every step of the way. Are we delivering the best product and/or service we can at the best value? Are we truly developing our people? Are our shared value initiatives achieving their goals? Are we really living up to our aim of producing more with less and consuming more wisely?

Doing the right thing the right way underpins everything we do at Sappi.

Not because integrity is easy—in fact, it’s often the more difficult path to follow—but because we will not do otherwise. Because it draws on the best of our energies and skills and is our most valuable asset; and because we know it adds value to us as individuals, as teams, as a society and as an organisation.

It’s how we ensure that future generations, not just our own, flourish and thrive.
Glossary

General definitions

AGM – Annual General Meeting
AF&PA – American Forest and Paper Association.
air dry tons (ADT) – Meaning dry solids content of 90% and moisture content of 10%.
biochemicals – Enzymes, hormones, pharmigens etc, which either occur naturally or are manufactured to be identical to naturally occurring substances. Biochemicals have many environment-friendly applications, such as natural pesticides that work in non-lethal ways as repellents or by disrupting the mating patterns of the pests.
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.
biomaterials – New developments in wood processing supports the move to a bioeconomy that utilises materials that are renewable and biodegradable and that do not compete with food sources.
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.
CEPI – Confederation of European Paper Industries.
Cham Paper Group Holding AG (CPG) – Specialty paper business acquired by Sappi, which included CPG’s Camignano and Condino Mills (Italy) and its digital imaging business located in Cham (Switzerland) as well as all brands and know-how.
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 woodfibres that has been produced in a chemical process.

coated mechanical paper – Coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material.
coated paper – Papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filter to improve the printing surface of the paper.
coated woodfree paper – Coated paper made from chemical pulp which is made from woodfibres that has been produced in a chemical process, primarily used for high-end publications and advertising material.
corrugating medium – Paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced.
CSI and CSR – Corporate social investment and corporate social responsibility.
CSW – Corporate shared value involves developing profitable business strategies that deliver tangible social benefits.
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.
EIA – Environmental impact assessment.
energy – Is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy.
fibre – Fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process.
finer paper – Paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper.

FMCG – Fast-moving consumer goods. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter medicines and many other consumables.
Forestry SA – Largest forestry organisation representing growers of timber in South Africa.
Forest Stewardship Council® (FSC®) – Is a global, not-for-profit organisation dedicated to the promotion of responsible forest management worldwide. (FSC-C015022) [https://fsc.org/en]
full-time equivalent employee – The number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law.
greenhouse gases (GHG) – The GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
hemicellulose sugars – The biorefinery process for second generation hemicellulose sugars involves recovering them from the prehydrolysate liquor, and then separating them.
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 – Paperboard made from chemical and semi-chemical 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 that commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990.
lignosulphonate – Lignosulphonate is a highly soluble lignin derivative and a product of the sulphite pulping process.
linerboard – The grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes.
liquor – White liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals.
lost-time injury frequency rate (LTIFR) – Number of lost time injuries x 200,000 divided by man hours.
managed forest – Naturally occurring forests that are harvested commercially.
market pulp – Pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill.
mechanical pulp – Pulp produced by means of the mechanical grinding or refining of wood or woodchips.
nanocellulose – Cellulose is the main component of plant stems, leaves and roots. Traditionally, its main commercial use was in producing paper and textiles. Nanocellulose opens up opportunities for advanced, planet-friendly solutions in place of environmentally harmful products.
natural/indigenous forest – Pristine areas not used commercially.
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.
newsprint – Paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper.
NGO – Non-governmental organisation.
NPO – Non-profit organisation.
OHSAS – Is an international health and safety standard aimed at minimizing 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.
Programme for the Endorsement of Forest Certification™ (PEFC™) – Is an international non-profit, non-governmental organisation dedicated to promoting sustainable forest management (SFM) through independent third-party certification. PEFC works by endorsing national forest certification systems and is represented in 49 countries through national organisations such as SFI® in North America. [https://www.pefc.org]
plantation – Large scale planted forests, intensively managed, highly productive and grown primarily for wood and fibre production.
PM – Paper machine.
printing and writing papers – a generic term for a group of papers intended for commercial printing use such as coated woodfree paper, coated mechanical paper, uncoated woodfree paper and newsprint.

power – The rate at which energy is used or produced.

pulpwood – Wood suitable for producing pulp—usually not of sufficient standard for saw milling.

release paper – Based paper used in the production of making release liners, the backing paper for self-adhesive labels.

sackkraft – Kraft paper used to produce multi-wall paper sacks.

Sappi Biotech – The business unit within Sappi which drives innovation and commercialisation of biomaterials and biochemicals.

Sappi Europe (SEU) – The business unit within Sappi which oversees operations in the European region.

Sappi Dissolving Wood Pulp – The business unit within Sappi which oversees the production and marketing of dissolving wood pulp (DWP).

Sappi North America (SNA) – The business unit within Sappi which oversees operations in the North American region.

Sappi Southern Africa (SSA) – The business unit within Sappi which oversees operations in the Southern Africa region.

Scope 1 and 2 GHG emissions – The business unit within which oversees operations in the North American region.

Scope 1 and 2 GHG emissions – The business unit within which oversees operations in the European region.

Scope 1 and 2 GHG emissions – The business unit within which oversees operations in the Southern Africa region.

Scope 1 and 2 GHG emissions – The business unit within which oversees operations in the North American region.

Scope 2 GHG emissions – The business unit within which oversees operations in the European region.

Scope 2 GHG emissions – The business unit within which oversees operations in the Southern Africa region.

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) – Is a solutions-oriented sustainability organisation that collaborates on forest-based conservation and community initiatives. The SFI forest management standard is the largest forestry certification standard within the PEFC™ program. (http://www.sfiprogram.org)

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

ton – Tonnage used in this report to denote a metric ton of 1,000 kg.

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

tons per annum (TPA) – Tonnage used in this report to denote tons per annum (tons a year). Capacity figures in this report denote tons per annum at maximum continuous run rate.

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.

United Nations Global Compact (UNGC) – A principle-based framework for businesses, stating 10 principles in the areas of human rights, labour, environment and anti-corruption.

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

woodfree paper – Paper made from chemical pulp.

World Wildlife Fund (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 – Is 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 – Is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive.

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

disposable 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 – Is the functional 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.

key management costs – Includes compensation for services rendered.

market participants – Market participants at the measurement date.

net asset value – This is the pre-tax interest rate that reflects the after-tax cost of capital to the entity.

noble forest certification standard within the PEFC™ program. The SFI forest management standard is the largest forestry certification standard within the PEFC™ program. (http://www.sfiprogram.org)

original acquisition date – Is the original acquisition date for disposal purposes.

outcome – The actual outcome at the report date.

pay out ratio – determined as earnings before interest and taxes (EBIT) divided by cash interest cover.

financial liabilities – The sum of the current and non-current financial liabilities.

SFI forest management standard is the largest forestry certification standard within the PEFC™ program. (http://www.sfiprogram.org)

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

key management costs – Includes compensation for services rendered.

market participants – Market participants at the measurement date.

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pay out ratio – determined as earnings before interest and taxes (EBIT) divided by cash interest cover.

financial liabilities – The sum of the current and non-current financial liabilities.

SFI forest management standard is the largest forestry certification standard within the PEFC™ program. (http://www.sfiprogram.org)
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.

GAAP – Generally accepted accounting principles.

headline earnings – As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in April 2018, 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 cash (utilised) generated – Cash flows from operating activities less cash flows from investing activities.

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 the earnings per share.

revolving credit facility (RCF) – A variable line of credit used by public and private businesses.

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 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 adviser immediately.

Sappi Limited
(Registration number: 1936/008963/06)
(Sappi or the company)

The eighty-second Annual General Meeting (AGM) of Sappi will be held at Sappi’s registered office, in the Oxford Room, Ground Floor, 108 Oxford Road (entrance on Ninth Street), Houghton Estate, Johannesburg, 2196, Republic of South Africa on Wednesday, 06 February 2019 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 AGM is Friday, 01 February 2019.

1. Ordinary resolution number 1: Presentation of annual financial statements

Ordinary resolution number 1 is proposed to present the Group Annual Financial Statements of the company for the year ended September 2018, including the Directors’ Report, the Auditor’s Report (see Group Annual Financial Statements) and the Audit and Risk Committee Report on www.sappi.com/annual-reports.

Abridged or summarised financial statements are contained in the Chief Financial Officer’s Report of the Annual Integrated Report (see page 68).

The complete Group Annual Financial Statements for the year ended September 2018 are available on www.sappi.com/annual-reports.

“Resolved that the Group Annual Financial Statements for the year ended September 2018 of the company, including the Directors’ Report, Auditors’ Report and the Audit and Risk Committee Report, 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 AGM and entitled to exercise voting rights on the resolution is required.

2. Ordinary resolution number 2: Approval and confirmation of appointment of directors appointed subsequent to the last AGM and subsequent to the financial year-end

“Resolved that the appointment of Mrs ZN Malinga with effect from 01 October 2018 is approved and confirmed as required in terms of Sappi’s Memorandum of Incorporation.”

The board recommends and supports the approval and confirmation of her appointment. For Mrs Malinga’s brief biographical details, see note 1 in Notice to shareholders on page 131.

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 AGM and entitled to exercise voting rights on the resolution, is required.

3. Ordinary resolutions numbers 3.1 to 3.2: 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, see note 2 in Notice to shareholders on page 131.

It is intended that all the directors who retire by rotation will, if possible, attend the AGM, 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 AGM and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1

“Resolved that Mr RJAM Renders is re-elected as a director of Sappi.”

Ordinary resolution number 3.2

“Resolved that Mr AUAM Renders is re-elected as a director of Sappi.”

Ordinary resolution number 3.3

“Resolved that Mrs KR Osar is re-elected as a director of Sappi.”
Ordinary resolution number 4: Election of Audit and Risk Committee members

Ordinary resolution number 4 is proposed to elect the members of the Audit and Risk Committee in terms of section 94(2) of the South African Companies Act, 71 of 2008 (as amended) (the Companies Act) and the King IV Report on Corporate Governance for South Africa 2016 (King IV).

Section 94 of the Companies Act requires that, at each AGM, shareholders of the company must elect an Audit and Risk Committee comprising at least three members.

The Nomination and Governance Committee assessed the performance and independence of each of the directors proposed to be members of the Audit and Risk 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 IV 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 and Risk 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.

Brief biographical details of each member of the Audit and Risk Committee are included in the biographies of all directors contained under Our leadership of the Annual Integrated Report (see page 96).

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

4.1 Mr NP Mageza Chairman
4.2 Mr MA Fallon Member
4.3 Mrs ZN Malinga Member
4.4 Mrs KR Osar Member
4.5 Mr RJAJ Rengers Member

In order for these resolutions 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 AGM and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 5: Appointment of auditors

The board has evaluated the performance of KPMG Inc. and recommends their re-appointment as auditors of Sappi.

Resolved that KPMG Inc. (with the designated registered auditor to be Mr Coenie Basson) be re-appointed as the auditors of Sappi for the financial year ending September 2019 and to remain in office until the conclusion of the next AGM.

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 AGM and entitled to exercise voting rights on the resolution is required.

Ordinary resolution numbers 6.1 and 6.2: The provision of Sappi Limited shares as required by the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust

The passing of resolutions 6.1 and 6.2 will enable the directors to continue to meet the share requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust (collectively the Schemes), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited (JSE). The passing of resolution 6.2 will provide directors with the ability to utilise shares repurchased from time to time by a wholly owned subsidiary of Sappi and held in treasury by such 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.

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 AGM and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 7: Remuneration policy

Resolved as an ordinary resolution, that the company’s remuneration policy as contained under Remuneration Report of the Annual Integrated Report (see page 105), 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 IV.

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 AGM and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 8: Remuneration implementation report

Resolved as an ordinary resolution, that the company’s remuneration implementation report under Remuneration Report of the Annual Integrated Report (see page 105), be and is hereby endorsed by way of a non-binding advisory vote.

This further non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

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 AGM and entitled to exercise voting rights on the resolution is required.
9. Special resolution number 1: Non-executive directors’ fees
Resolved that, with effect from 01 October 2018 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

Fee structure

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>£307,520</td>
<td>£315,210*</td>
</tr>
</tbody>
</table>

1. Sappi board fees

<table>
<thead>
<tr>
<th>Role</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>£307,520</td>
<td>£315,210*</td>
</tr>
<tr>
<td>Lead independent director</td>
<td>£67,350</td>
<td>£69,030</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>£67,350</td>
<td>£69,030</td>
</tr>
<tr>
<td>If South African resident</td>
<td>ZAR616,430</td>
<td>ZAR644,790</td>
</tr>
<tr>
<td>If United States of America resident</td>
<td>US$101,120</td>
<td>US$103,950</td>
</tr>
<tr>
<td>If European resident</td>
<td>£90,580</td>
<td>£92,120</td>
</tr>
<tr>
<td>If South African resident</td>
<td>ZAR411,980</td>
<td>ZAR430,930</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>£44,860</td>
<td>£45,980</td>
</tr>
<tr>
<td>If South African resident</td>
<td>ZAR427,190</td>
<td>ZAR447,470</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>£45,550</td>
<td>£46,980</td>
</tr>
<tr>
<td>If United States of America resident</td>
<td>US$67,400</td>
<td>US$69,290</td>
</tr>
<tr>
<td>If European resident</td>
<td>£60,340</td>
<td>£61,370</td>
</tr>
</tbody>
</table>

2. Audit and Risk Committee fees

<table>
<thead>
<tr>
<th>Role</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>£307,520</td>
<td>£315,210*</td>
</tr>
<tr>
<td>Lead independent director</td>
<td>£67,350</td>
<td>£69,030</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>£67,350</td>
<td>£69,030</td>
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<td>If United States of America resident</td>
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<td>US$103,950</td>
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<td>If United Kingdom resident</td>
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<td>£46,980</td>
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<td>If United States of America resident</td>
<td>US$67,400</td>
<td>US$69,290</td>
</tr>
<tr>
<td>If European resident</td>
<td>£60,340</td>
<td>£61,370</td>
</tr>
</tbody>
</table>

3. Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/video-conference

<table>
<thead>
<tr>
<th>Role</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>£4,450</td>
<td>£4,560</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>£4,450</td>
<td>£4,560</td>
</tr>
<tr>
<td>If United States of America resident</td>
<td>US$6,740</td>
<td>US$6,930</td>
</tr>
<tr>
<td>If European resident</td>
<td>€5,980</td>
<td>€6,080</td>
</tr>
</tbody>
</table>

4. Travel compensation

<table>
<thead>
<tr>
<th>Role</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>If South African resident</td>
<td>US$3,600</td>
<td>US$3,700</td>
</tr>
<tr>
<td>If United Kingdom resident</td>
<td>US$3,600</td>
<td>US$3,700</td>
</tr>
<tr>
<td>If United States of America resident</td>
<td>US$3,600</td>
<td>US$3,700</td>
</tr>
<tr>
<td>If European resident</td>
<td>US$3,600</td>
<td>US$3,700</td>
</tr>
</tbody>
</table>

* Inclusive of all board committee fees. If a future Chairperson is not United Kingdom domiciled, appropriate benchmark information in relation to his/her domicile will be used to determine fees payable.

1 Fees per annum unless otherwise indicated.
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 approximately 1.7% and 4.6% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2018. The fees were last increased with effect from 01 October 2017 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 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 2018 onwards. Initially the December 2018 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 2018 payment will be made up in the March 2019 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 AGM and entitled to exercise voting rights on the resolution is required.

11. Ordinary resolution number 9: 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 AGM held on 06 February 2019 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 AGM and entitled to exercise voting rights on the resolution is required.

12. To receive a report from the Social, Ethics, Transformation and Sustainability (SETS) Committee
Shareholders are referred to the Social, Ethics, Transformation and Sustainability (SETS) Committee Report (see page 118).

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 who have dematerialised their shares (ie have replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and are recorded in the sub-register in own name dematerialised form (ie shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) or broker to hold their shares in their own name on Sappi's sub-register).

Shareholders who have dematerialised their shares and who are not registered as own name dematerialised shareholders and who wish to:
- Attend the AGM 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 AGM, 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 AGM to be held on 06 February 2019 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 AGM 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 under Administration (see page 140), to be received by the transfer secretaries at least five business days prior to the AGM 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 AGM 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 AGM. 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, 01 February 2019 at:

108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

or

PO Box 52264
Saxonwold, 2132
South Africa

or

By email to Ami.Mahendranath@sappi.com

Group Company Secretary
Ami Mahendranath

Secretaries
Sappi Southern Africa Limited
108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

07 December 2018

glossary and notice to shareholders
1. Approval and confirmation of appointment of directors appointed since the last AGM and subsequent to the year-end

Zola Nwabisa Malinga (41) (Independent)
Qualifications: BCom, BAcc, CA(SA), MBA
Nationality: South African
Appointed: October 2018
Sappi board committee memberships
• Audit and Risk Committee

Other board and organisation memberships
• Gerindod Limited
• South African Property Owners Association

Skills, expertise and experience
Mrs Malinga, a Chartered Accountant, has over 10 years’ experience in investment banking and corporate finance. She is the founder and Executive Director of Jade Capital Partners, a women-owned investment company which invests in the property and industrial sectors. She was previously a director in the Real Estate Finance Division of Standard Bank where she was also a member of the Executive and Deal Approval Committees. Prior to this, she was an Investment Banker at Standard Bank and a Corporate Finance Consultant at Investec Bank Limited. Mrs Malinga previously served as a non-executive director on Sasol Inzalo Limited and Hospitality Property Fund Limited.

2. Directors retiring by rotation who are seeking re-election

Stephen Robert Bottis (Steve) (51) (Chief Executive Office)
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 Bottis 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.

Karen Rohn Osar (69) (Independent)
Qualifications: MBA (Finance)
Nationality: American
Appointed: May 2007
Sappi board committee memberships
• Audit and Risk Committee

Other board and organisation memberships
• Innophos Holdings Inc (Audit Committee and Nominating and Governance Committee)
• Webster Financial Corporation (Chairperson of the Audit Committee, and also serves on the Risk and Executive Committees)

Skills, expertise and experience
Mrs Osar was Executive Vice President and Chief Financial Officer of specialty 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 Termeco, 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. During her tenure at JP Morgan, Mrs Osar provided advice to Fortune 100 companies on financial management in Brazil and other high inflation countries, advised Fortune 50 companies on financing their major foreign investments, including foreign currency and US Dollar bond financings, cross-border leases, long-term currency hedges and long-term interest-rate and currency swaps.

At Termecco, then a US$12 billion conglomerate, she oversaw the financing of eight spin-off companies, in packaging, chemical, shipping, auto parts, gas pipeline systems, farm equipment and other industries, in each case arranging new debt financing, handling rating agency and bank financings and managing the efforts of the various banks involved, including overseeing financial projections for the new standalone entities. At Westvaco, then a US$54 billion paper and packaging company, she managed all financial aspects of its 2002 merger of equals with Mead Corporation, also a US$54 billion paper and packaging company, and, as Chief Financial Officer of the merged entity, handled all aspects of the financial integration of the companies. She oversaw the delivery of tens of millions of merger savings and a US$100 million reduction in inventory.

At Chemtura, then a US$4 billion specialty chemicals company, Mrs Osar oversaw the refinancing of the balance sheet and financial recovery of a company beset by troubled earnings, and lawsuits arising from anti-trust actions, and managed the subsequent merger of equals with Great Lakes Chemical Company, and as Chief Financial Officer of the combined companies handled all financial aspects of the integration. As a director, Mrs Osar has chaired the Audit Committee of numerous New York Stock Exchange and NASDAQ companies, including Alergan, a major global pharmaceutical company, a mutual fund company, a medical device company, a specialty chemical company, and a major regional bank in the United States of America.

Robertus Johannes Antonius Maria Renders (Rob Jan) (65) (Independent)
Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015
Sappi board committee memberships
• Human Resources and Compensation Committee
• Audit and Risk Committee

Other board and organisation memberships
• Waki Group Oy (Chairman)

Skills, expertise and experience
Currently a business consultant, Mr Renders was a member of the board of Dunpack GmbH from 2012 until the end of May 2015, as well as Chief Executive Officer of Dunpack from May 2013 until May 2015. From 2006 to 2010, he served as Chairman 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 MI 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 and is also the Chairman of the Supervisory Board of Waki Group Oy based in Espoo (Finland), a company specialising in extrusion coating.
## Shareholders’ diary

### Annual General Meeting

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>First quarter results released</td>
<td>February 2019</td>
</tr>
<tr>
<td>Second quarter and half-year results released</td>
<td>May 2019</td>
</tr>
<tr>
<td>Third quarter results released</td>
<td>August 2019</td>
</tr>
<tr>
<td>Financial year-end</td>
<td>September 2019</td>
</tr>
<tr>
<td>Preliminary fourth quarter and year results</td>
<td>November 2019</td>
</tr>
<tr>
<td>Annual Integrated Report posted to shareholders and posted on website</td>
<td>December 2019</td>
</tr>
</tbody>
</table>

### 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)

<table>
<thead>
<tr>
<th>Resolution Number</th>
<th>Resolution Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Receipt of acceptance of 2018 Group Annual Financial Statements, including Directors' Report, Auditors' Report and Audit and Risk Committee Report</td>
</tr>
<tr>
<td>2</td>
<td>Re-appointment of directors: Mr S J Malinga and Mr M R J Renders as directors of Sappi</td>
</tr>
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### Administration

**Sappi Limited**  
Registration number: 1936/008963/06  
JSE code: SAP  
ISIN code: ZAE000006284  
Registration number: 1936/008963/06  
JSE code: SAP  
ISIN code: ZAE000006284

**Group Company Secretary**  
Am Mahendranath

**Secretaries**  
Sappi Southern Africa Limited  
108 Oxford Road  
Houghton Estate  
Johannesburg, 2198  
South Africa

**Transfer secretaries**  
Computershare Investor Services Proprietary Limited  
Rosebank Towers  
15 Biemann Avenue  
Rosebank, 2196  
South Africa

**Group Head Investor Relations**  
Graeme Wild

**Group Head Corporate Affairs**  
André Oberholzer

**Investor relations**  
Graeme Wild

**Sponsors**  
UBS South Africa Proprietary Limited  
64 Wierda Road East  
Sandton, 2196  
South Africa

**Circulars**  
PO Box 61051  
Marshalltown, 2107  
South Africa

**Corporate affairs**  
André Oberholzer

**Corporate secretaries**  
André Oberholzer

**Secretary**  
Graeme Wild

**General meeting notices**  
Computershare Investor Services Proprietary Limited  
PO Box 53000  
Louisville, KY 40233-5000  
United States of America

**Proxy form for the Annual General Meeting**

**Proxy form for the Annual General Meeting**

For Against Abstain

Number of shares

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<tr>
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**Sponsoring organisation**  
Computershare Investor Services Proprietary Limited  
PO Box 53000  
Louisville, KY 40233-5000  
United States of America

**Signed at**

on

**Assisted by**

(more 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.
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 initialed. Any alteration must be signed, not initialed.

2. The chairman shall be entitled to decline to accept the authority of the signatory:
   - under a power of attorney, or
   - on behalf of a company.

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 Biemann Avenue, Rosebank, 2196, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa, or

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.

- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.