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2018 King IV

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King IV principles	Sappi
<p>General comments</p>	<p>Corporate governance</p> <p>Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business.</p>
	<p>Sappi endorses the governance outcomes of ethical culture, good performance, effective control and legitimacy, promoted by the King IV Report on Corporate Governance for South Africa (released November 2016).</p> <p>The purpose of this register is to provide an overview of Sappi's application of the principles contained in King IV. The register should be read in conjunction with the Sappi Annual Integrated Report.</p>
<p>LEADERSHIP Principal 1: The governing body should lead ethically and effectively</p>	<p>The directors hold one another accountable for decision-making based on integrity, competence, responsibility, fairness and transparency through their commitment to lead Sappi. The chairman oversees as this process on an ongoing basis.</p>
<p>ORGANISATIONAL ETHICS Principal 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture</p>	<p>The board sets the example and tone for an ethical culture in Sappi based on our core values of doing business with integrity and courage; making smart decisions, which we execute with speed. The board is assisted with ongoing oversight of ethics management through the Social, Ethics, Transformation and Sustainability (SETS) Committee and the Audit and Risk Committee.</p> <p>Sappi's ethics values and norms are clearly articulated in the Code of Ethics and supporting policies. There are processes in place to ensure that employees, business associates, contractors and suppliers are familiar with Sappi's ethics norms as set out in the Codes of Ethics. These include:</p> <ul style="list-style-type: none"> • Reference to the Code of Ethics in employment and supply contracts • Publication of the Code of Ethics online on external (www.sappi.com/code-of-ethics) and Sappi Net, and • Ongoing training and induction of employees. <p>Other arrangements to manage ethics include:</p> <ul style="list-style-type: none"> • Annual fraud and ethics and fraud risk assessments (with due consideration for stakeholders) • Safe reporting (hotline) mechanisms are in place, and • Periodic employee control environment surveys.
<p>RESPONSIBLE CORPORATE CITIZENSHIP Principal 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen</p>	<p>The board, assisted by the SETS Committee, provides strategic direction for Sappi to be a responsible corporate citizen and to respond appropriately to the economic, social and environmental outcomes of its activities. Sappi is committed to the United Nations Global Compact. Our key corporate citizenship considerations include:</p> <ul style="list-style-type: none"> • Protecting people and the environment underpins our approach to sustainability. Sappi places the highest priority on the health and safety of our workforce and on the protection of the environment, and • Human rights: Sappi is committed to the principles of the United Nations Global Compact, the Universal Declaration of Human Rights, and the International Labour Organisation. <p>The board reviews annually the corporate responsibility strategy, priorities, and action plans of the company.</p>

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STRATEGY AND PERFORMANCE

Principal 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process

Sappi's strategic direction, mission and vision together with our value statement are described in our Annual Integrated Report. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead.

Sappi's approach to sustainable development – Prosperity, People and Planet – is aligned with the International Integrated Reporting Council's (IIRC)* six capitals model. Currently, natural capital, financial capital and human capital are the most important in our drive to position Sappi as a profitable and cash-generative, diversified woodfibre group.

REPORTING

Principal 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects

The Audit and Risk Committee is responsible for the integrity and transparency of reporting and oversees the issue of the Group Annual Financial Statements and Annual Integrated Report. The Annual Integrated Report aims to present material information in an integrated manner and provide users with holistic, clear, and concise information about Sappi's performance, measured against its objectives and Sappi's short-, medium- and long-term prospects.

PRIMARY ROLE OF THE BOARD

Principal 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation

The board is the focal point and custodian of corporate governance. The board's role and responsibilities and the way it executes its duties and decision making are set out in the board charter and the terms of reference and work plans of its various committees.

COMPOSITION OF THE BOARD

Principal 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

The Nomination and Governance Committee, considers, on an annual basis, the board and committee compositions in terms of balance of skills, experience, diversity, independence and knowledge. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.

The King IV requirements for director independence, board composition, chair and lead independent director, induction and training, managing conflicts and nomination and appointment are met.

See **Corporate governance** in the Annual Integrated Report for further information about board members.

COMMITTEES OF THE BOARD

Principal 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties

The board may delegate to individual members, groups of members, standing or ad hoc committees. The standing committees of the board comprise the Audit and Risk Committee, the Nomination and Governance Committee, the Human Resources and Compensation Committee and the Social, Ethics, Transformation and Sustainability (SETS) Committee.

The composition of the board and its committees are in line with King IV. There is a clear balance of power to ensure that no individual has undue decision-making powers. Each committee has formal terms of reference, approved by the board, recording the responsibilities delegated to it. Each committee has sufficient capability and capacity to function effectively.

Refer to the Annual Integrated Report (www.sappi.com/annual-reports) for information on the members of each committee and attendance and to our website for the terms of reference for each committee of the board.

*International Integrated Reporting Council (IIRC) is a global not-for-profit organisation, incorporated in England and Wales.

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BOARD PERFORMANCE EVALUATION

Principal 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

The Nominations and Governance Committee evaluates the performance of the board and the board committees annually. The performance of individual directors is normally evaluated prior to reappointment. The chairman's performance is evaluated by the board annually under the leadership of the lead independent director.

APPOINTMENT AND DELEGATION TO MANAGEMENT

Principal 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

The board is satisfied that key functions are appropriately resourced and that the board's delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.

The Board Charter provides direction on the powers reserved for the board: matters that have specifically been reserved for board decision making or consent and the approval authority of board committees in respect of the company and its subsidiaries are contained in the limits of authority document adopted by the board.

The Chief Executive Officer (CEO) is appointed by and reports to the board and is responsible for leading the implementation of strategy and policy. The King IV requirements for the CEO in terms of appointment, roles and responsibilities, succession planning, and performance evaluation are complied with.

Sappi has a Group Company Secretary with the necessary experience, expertise and qualifications, as well as at the appropriate level of seniority to discharge the role effectively. The King IV recommendations for Company Secretary in respect of appointment, reporting lines, independence, duties and performance evaluation are met.

RISK GOVERNANCE

Principal 11: The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives

The Audit and Risk Committee assists the board with the governance of risk. For more detail on Sappi's risks and the management thereof, refer to **Risk management** in Annual Integrated Report.

TECHNOLOGY AND INFORMATION GOVERNANCE

Principal 12: The governing body should govern technology and information in a way that supports the organisation in setting and achieving strategic objectives

Sappi's 2020Vision (and associated strategy, performance, and sustainability) is highly dependent on technology and information.

The board is accountable for the governance of technology and information management. Management committees have been established to assist the CEO and board by implementing policy on technology and information management:

- Group Technical Committees focus on global technical alignment, performance and efficiency measurement as well as new product development.
- Group IT Steering Committee promotes IT governance throughout the group. Sappi has adopted COBIT (Control Objectives for Information and Related Technologies) – the global good-practice framework for IT management and IT governance.

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<p>COMPLIANCE GOVERNANCE Principal 13: The governing body should govern compliance with applicable laws, and adopted non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen</p>	<p>Sappi's commitment to act as a responsible corporate citizen includes compliance with all laws and regulations in the countries and jurisdictions where Sappi operates.</p> <p>A Group Legal Compliance Programme is in place to mitigate the risk of non-compliance with the laws and also to ensure appropriate responses to changes and developments in the regulatory environment.</p> <p>Significant legal and regulatory matters and compliance risks are reported to the Audit and Risk Committee.</p> <p>During 2018, there were no material penalties, sanctions or fines for contraventions of, or non-compliance with, statutory and regulatory obligations.</p>
<p>REMUNERATION GOVERNANCE Principal 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term</p>	<p>The Human Resources and Compensation Committee ensures that directors, executives and employees are remunerated fairly and responsibly so as to promote the delivery of strategic objectives and the creation of value in a sustainable manner. See Remuneration Report in Annual Integrated Report for further information.</p>
<p>ASSURANCE Principal 15: The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision making and of the organisation's external reports</p>	<p>The Audit and Risk Committee is responsible for oversight of assurance on the effectiveness of governance, risk management and control at Sappi. Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal and external assurance providers, on the risk areas affecting the group.</p> <p>See Corporate Governance in Annual Integrated Report for more information on Sappi's Combined Assurance Framework including external audit, internal audit and the provision of assurance over external reports.</p>
<p>STAKEHOLDERS Principal 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time</p>	<p>The board has adopted a stakeholder-inclusive approach and the One Sappi strategy is built on collaborating and partnering with stakeholders. Sappi strives to understand, be responsive to, and balance stakeholder legitimate and reasonable needs, interests, and expectations. Key stakeholders have been identified. A Group Stakeholder Engagement Policy has been established. Information on how we have approached our stakeholder relations can be found in Our key relationships in the Annual Integrated Report.</p>
<p>RESPONSIBILITIES OF INSTITUTIONAL INVESTORS Principle 17: The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests</p>	<p>Not applicable – Sappi is not an institutional investor.</p>